



**NATCO**



**Withstanding Challenges,  
Focused on Future**

2019-20  
37<sup>TH</sup> Annual Report  
**NATCO PHARMA LIMITED**

## Key highlights of the year

**₹20,224 million**

Total revenue

**₹4,608\* million**

Profit After Tax

**₹6,900 million**

EBITDA

\*attributable to owners of the company

### Disclaimer

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

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# Withstanding challenges, focused on future

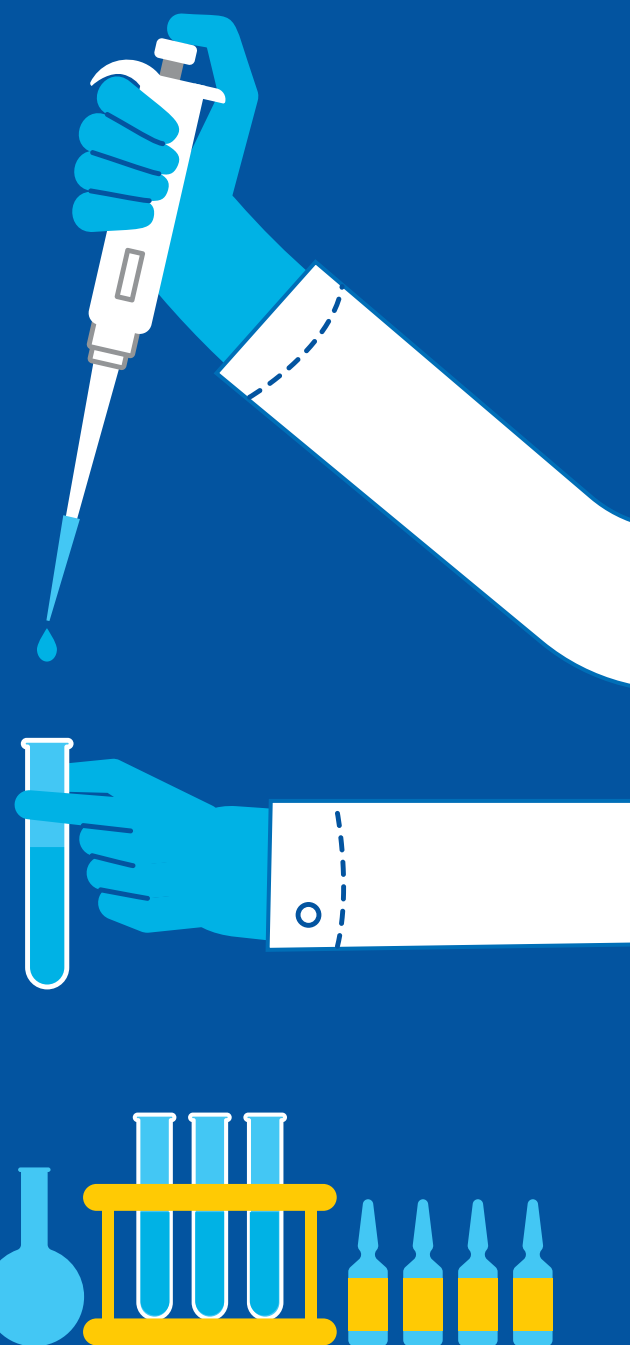
At NATCO, we manufacture niche pharmaceutical products, enabling patients to access medicines used to treat complex conditions as well as chronic diseases. We have charted a unique journey of innovation and business growth of over 30 years that showcases our ability to take risks and execute them successfully.

We have done this by being flexible and determined to overcome obstacles. During the mid-90s and early 2000s, our Company faced significant business challenges. We overcame them by repositioning ourselves and successfully foraying into the oncology segment in India. There was no looking back since then in terms of sustainable growth. Over the past decade, our Company has continued to grow in the international markets, especially the US, despite being new to the region. All along, the Company has shown resilience and an ability to withstand challenges while being strategically focused on future.

It is not new for NATCO to face unique challenges. During the year under review, as we faced difficulties in the form of regulatory and pricing issues we have successfully mitigated the impact to our prospects. In spite of macro headwinds, we stayed on course: by remaining a leading player in oncology, in meeting our target launches and by delivering continued growth in our key products in the US.

During the last quarter of the year under review, COVID-19 sprung new barriers to our business. We saw most cancer patients postponing their elective procedures, affecting the sales of our oncology medicines. This was an unprecedented situation, which was compounded by supply chain issues, leading to a decline in domestic sales. We dug in our heels and ensured that business priorities - be it continuity of operations, inventory and stock management or employee safety were not hindered. We intensified our efforts in research and development, maintained high level of regulatory standards in our plants, kept on track with new product filings and continued building new capacities at our manufacturing facilities.

We remain focused on future.



# Creating value, poised to grow

NATCO Pharma Limited (NATCO) is a vertically integrated, research and development focused pharmaceutical company engaged in developing, manufacturing, and marketing of complex products for niche therapeutic areas.

Focused research runs deep in our DNA and quality is a true marker of our products - the reasons for our success in key regulated markets worldwide.

Our products comprise Finished Dosage Formulations (FDF), sold in India, the US, and the Rest of the World (RoW) as well as Active Pharmaceutical Ingredients (APIs) that are primarily used for captive consumption in the manufacturing of FDF. Our APIs are also sold to customers for various international markets such as Brazil, Europe and the US. Our API manufacturing capabilities include multi-step synthesis, semi-synthetic fusion technologies, high-potency APIs and peptides.

We cater to pharmaceutical companies under select contracts to manufacture and supply pharmaceutical products. Leveraging our skills and expertise in organic chemistry, we are diversifying into the business of crop health sciences.

We market and distribute our products in more than 40 countries; we have operations in certain key geographies through our subsidiaries.

## Key achievements of FY 2019-20

### Filings

**4**  
ANDAs

**4**  
USDMFs

### Patents Applications

**221**  
Indian patents  
filed

**90**  
Indian  
patents  
granted

**239**  
International  
patents filed

**160**  
International  
patents granted

### Manufacturing Assets

#### Pharma

**6**  
Formulations

**2**  
Active  
ingredients

**2**  
Research  
centres

#### Crop Health Sciences

**1**  
Formulations

**1**  
Active  
ingredients

### Our mission

Making specialty  
medicines accessible to all

### Our values

Integrity  
Respect  
Openness  
Collaborative  
Quality

# 35 years+

Of rich experience in the  
ever-evolving pharma industry



## Our business segments<sup>#</sup>

### Domestic FDF

We have 50+ products in our Oncology and non-oncology business segments.

Revenue for FY 2019-20

**₹5,405 million**

Revenue contribution for FY 2019-20

**27%**

### API (Domestic and exports)

We have 39 active DMFs across therapies such as Central Nervous System, pain management and Cardiovascular care.

Revenue for FY 2019-20

**₹3,552 million**

Revenue contribution for FY 2019-20

**18%**

### International FDF

We have our business in over 40 countries, some of these are through our subsidiaries such as NATCO FARMA DO BRASIL (since 2011), NATCO PHARMA CANADA INC. (since 2012), NATCO PHARMA Asia Pte. Ltd. (since 2012) and NATCO Pharma Australia PTY Ltd. (since 2014). We have collectively over 30 products across these geographies.

Revenue for FY 2019-20

**₹9,334 million**

Revenue contribution for FY 2019-20

**46%**

### Other operating and non-operating income

This income includes job works, export incentives, budgetary support, interest income.

Revenue for FY 2019-20

**₹1,933 million**

Revenue contribution for FY 2019-20

**9%**

## Our manufacturing facilities

### FDF

Location/Capability	Key product categories	Major approvals
<b>Kothur, Telangana</b> Oral solid dosages, including Cytotoxic Orals and Cytotoxic Injectables	<b>Oncology, Gastroenterology, Central Nervous System, Antiviral and Cardiology</b>	<b>USFDA, GMP (DCA), German Health Authority, Australia TGA, ANVISA (Brazil)</b>
<b>Nagarjunasagar, Telangana</b> Lyophilised Injectables, Liquid Injectables, Dry Powder Injectables and Large Volume Parenterals	<b>Oncology, Antibiotics and Antiviral</b>	<b>WHO GMP and Kenya MOH</b>
<b>Pharma City, Dehradun, Uttarakhand</b> Oral solid dosages including Cytotoxic Orals Cytotoxic Injectables	<b>Oncology and Antiviral</b>	<b>WHO GMP</b>
<b>UPSIDC Industrial Area, Dehradun, Uttarakhand</b> Oncology Oral Solid Dosages	<b>Oncology</b>	<b>WHO GMP and EU GMP</b>
<b>Guwahati, Assam</b> Oral Solid Dosages	<b>Gastroenterology</b>	<b>GMP</b>
<b>Visakhapatnam, Andhra Pradesh</b> Oral solid dosages	<b>Oncology, Gastroenterology and Antivirals</b>	<b>USFDA</b>

### APIs

Location/Capability	Key product categories	Major approvals
<b>Mekaguda, Telangana</b> Active Pharmaceutical Ingredients (APIs) & API Intermediaries	<b>Antineoplastic, Hepatitis C, Antiemetic, Antidepressant, Antimigraine, Antiulcerative, Immunomodulator, Multiple sclerosis and Hyperphosphatemia</b>	<b>USFDA, PMDA (Japan), COFEPRIS (Mexico), EDQM (Europe), MFDS (Korea), TGA (Australia), EU GMP (Germany), WHO GMP (CDSCO)</b>
<b>Manali, Chennai, Tamil Nadu</b> APIs & API Intermediaries	<b>Oncology, Immunosuppressants and High potent Antivirals</b>	<b>USFDA and WHO GMP (CDSCO)</b>

### R&D centres

Location	Team size	Capability
<b>Hyderabad, Telangana</b>	<b>350+</b>	<b>API</b>
<b>Kothur, Telangana</b>	<b>150+</b>	<b>FDF</b>

Two units are under construction under Crop Health Sciences: Technical and Formulation units at Attivaram, Andhra Pradesh

<sup>#</sup>  
 • Figures regrouped wherever necessary  
 • The revenues includes certain operating and non-operating incomes not related to major segments mentioned above  
 • Percentages calculated based on total consolidated revenues

## Key Performance Indicators

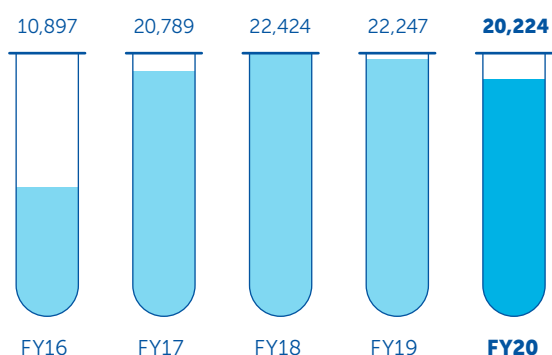
# Leading with resilience and confidence



### Revenue

(₹ in million)

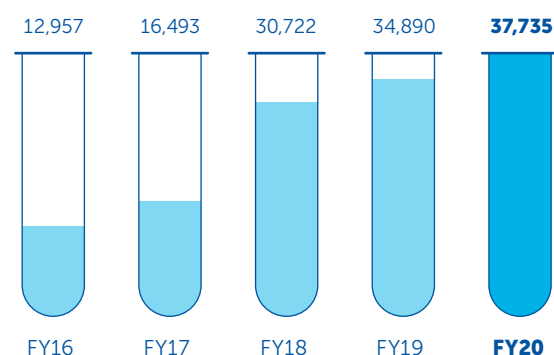
● **16.7%** (4-year CAGR)



### Net worth

(₹ in million)

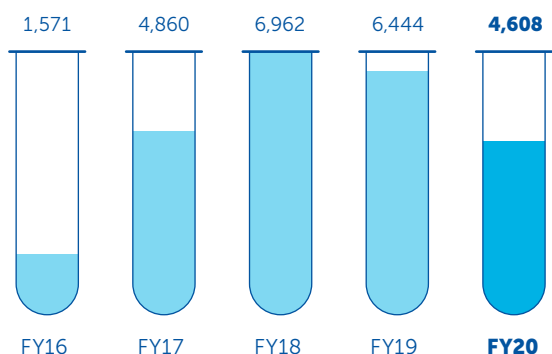
● **31%** (4-year CAGR)



### PAT

(₹ in million)

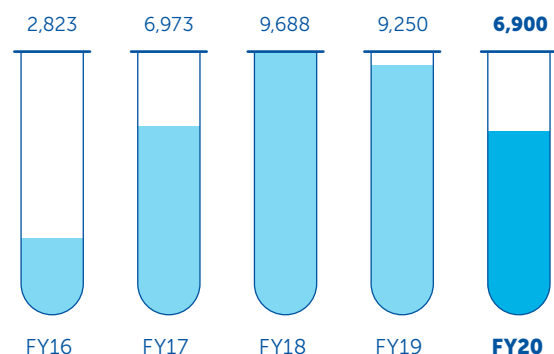
● **30.9%** (4-year CAGR)



### EBITDA

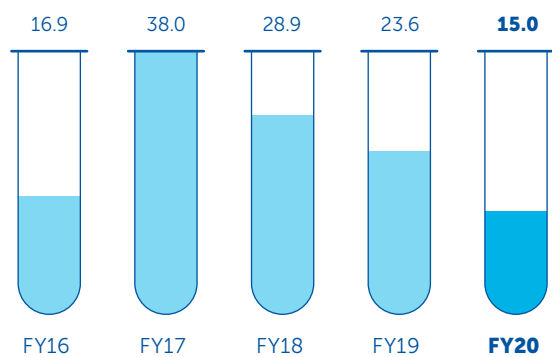
(₹ in million)

● **25.04%** (4-year CAGR)

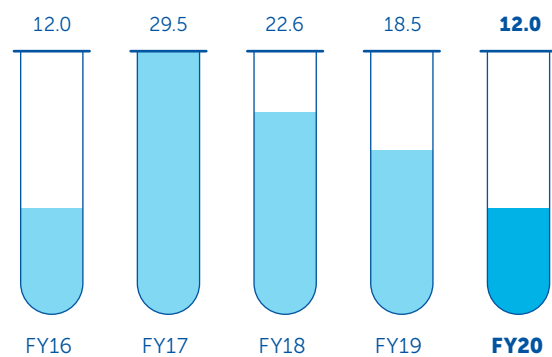




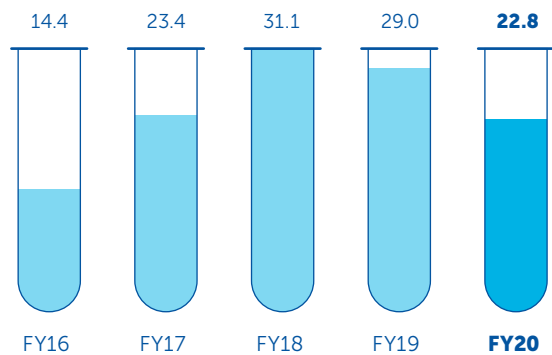
## ROCE (%)



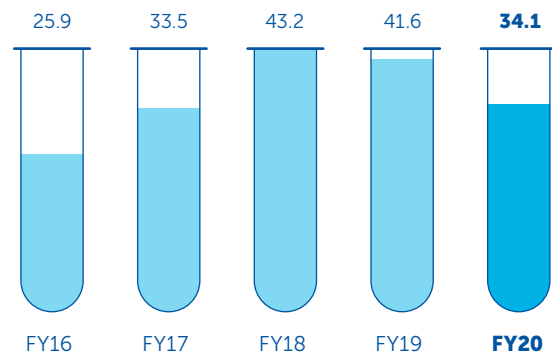
## ROE (%)



## PAT Margin (%)



## EBITDA Margin (%)





# Believing in our vision, committed to our growth

Dear Shareholders,

We are in continuous pursuit of increasing access to medicines at affordable prices to serve the needy. We have achieved this mission yet again during the year under review by launching several products at competitive rates in the Indian and international markets.

FY 2019-20 started with macroeconomic challenges and ended with the Covid-19 outbreak that had the world facing a massive threat to lives and livelihoods. In such a year, we can say with confidence that what mattered most to NATCO was employee safety, fiscal discipline, and securing our business.

During FY 2019-20, the Company faced intense competition, pricing pressures, and delays in product launches in international markets. In spite of such headwinds, we kept the top line of the Company stable. While our PAT dropped during the year, we remain upbeat about our performance for the coming years due to several high-value launches across our business segments.

At NATCO, we understand the pathology of fear and uncertainty that COVID-19 poses. We took utmost care to steer our employees to follow safer work practices and minimise exposure to health hazards while conducting business in a sustainable manner. We ensured to conduct tests for our people when necessary, provided them an additional insurance cover as well as a safe working environment. We prioritised the safety and lives of employees, even as we incurred additional expenses to meet their medical requirement.



**V.C. NANNAPANENI**  
*Chairman and Managing Director*



**RAJEEV NANNAPANENI**  
*Vice-Chairman and CEO*



## Our contribution to the fight against COVID-19

As a responsible corporate, we played our part in the nation's fight against COVID-19 by contributing to the relief and response efforts made by the governments of Andhra Pradesh and Telangana.



### The road was tough: Domestic Market

It was a hard year for NATCO on a few fronts of the domestic business. Our oncology segment suffered due to pricing controls from the government and our Hepatitis-C business continued to decline due to reduction in market size. On top of this, during Q4, COVID-19 outbreak resulted in cancer patients postponing their hospital visits and chemotherapy procedures. All these factors collectively pushed the business to decline during the year. Growth witnessed in C&D segment could not offset the losses made in our core products.

In spite of these factors that caused the domestic business downturn, we launched eight products during the year and continued to retain our market position in key segments. The last quarter of the year witnessed the outbreak of COVID-19; we acted decisively to mitigate the impact on our supply chain by securing our supplies of Key Starting Materials (KSM) from China well in advance. Thus, we made sure operations could continue.

**We are planning for new product launches in the non-Oncology segment to mitigate the impact of Hep-C market decline.**

On the domestic business front, the Company is cautiously optimistic on its commercial foray of the Crop Health Sciences division in the near future.

### Business was strong: International markets

During the year under consideration, our US-based business remained strong despite pricing pressures and competition for our antiviral flu medicine, Oseltamivir. Revenue contribution from Glatiramer acetate and Liposomal doxorubicin continued to grow in the year, aided by a strong exchange rate. We did not see any compliance issues for our facilities, which cater to international markets. NATCO continued to file ANDAs, some of which we believe to be First to File (FTF). We also observed a more stabilised pricing scenario in the US market.

We are excited about our product pipeline for launch over the next few years, including our blockbuster product Lenalidomide for the US that would catapult us to the next trajectory of growth. Our business in Canada has done well during the year while our efforts in Brazil show potential for growth. We continue to lay good foundation for business growth in the Asia-Pacific region.

**We have also made it a strategic priority to concentrate more of our efforts in 'Rest of the World' market to improve our revenues and profitability. We see good growth potential in Canada and Brazil going forward, among other markets.**

### Overcoming hurdles to grow sustainably

Sustainability comes from putting our mission first, consistently doing what we do best, learning to manage resources prudently, and building trusting relationships with key stakeholders.

During 2019-20, the Company faced business challenges along with the pandemic pressures towards the last phase of the year. Despite these, the Company moved with agility to re-prioritise activities and opportunities. Additionally, the Company filed four niche ANDAs and DMFs each in the US.

On the domestic business front, we met patient needs with eight product launches, out of which four were first-to-launch branded generic products across oncology, cardiology, and diabetology therapeutic segments in India.

As constraints due to the pandemic continue, we are focused on employee health, reenergising the practice of keeping the work environment cleaner and safer.

## Management Message

In the midst of COVID-19 we were able to enable USFDA inspections at our Kothur and Visakhapatnam facilities which is a testimony of our effective and safe operational management.

Learning to adapt to the new environment reminds us of the essence of being flexible and agile, which is core to our DNA. Year after year, we deepen sustainability in the business as we bring more drugs at an affordable price to meet unmet needs of the patient. To make this happen, we navigate around patent limitations, improve our product development capabilities and partnership strengths.

We remain optimistic that we will continue to focus and act upon sustainability initiatives, creating value and developing opportunities for our stakeholders

### Investing in future

Our strategy remains intact as we invest prudently in our research, manufacturing plants and enriching of skill sets. We are on track on our goal to launch 8-10 new products every year across our business segments in India. We also have some interesting filings and high-value launches in our International markets in the coming years.

In line with our business approach of picking molecules that have high entry barriers, the Company has further increased focus on R&D catering to requirements in both pharma and agri sectors.

We continue to expand our skill sets in agrichemicals sector. We continue to place emphasis on chemistry and niche molecule development for pest management.

During the year, we incurred capital expenditure of ₹ 3,492.85 million, a majority of which was used to enhance our capabilities in our manufacturing facilities. A significant portion of this capex was done at our Vizag facility. The remaining part was primarily used in our formulation facilities across the country. We also spent 8.65% of our standalone revenue towards R&D, which is one of the core pillars of the Company's growth.

The Vizag facility, which is certified by USFDA is a part of the Special Economic Zone (SEZ) and is intended to cater to the US and other international markets. From capability perspective, this facility will focus mostly on oral solid dosages (tablets and capsules), including a cytotoxic block for products in the oncology segment.



An overview of our Vizag formulations facility

With diversification and sustainability in mind, the Company has invested in Crop Health Sciences division to launch niche high-value products. The greenfield project in Nellore district of Andhra Pradesh is close to completion and expected to be commissioned in FY 2020-21. We have disclosed one key product, Chlorantraniliprole (CTPR) and plan to launch other unique products which will be a part of the Integrated Pest Management (IPM) solutions. We are building a strong team of personnel in product development, manufacturing, sales and marketing to bring NATCO's products to farmers in the country and other growers across the world.

### Reiterating our commitment

At NATCO, we built a strong portfolio of products at high quality and affordable pricing over the past several decades. We are steadfast in our commitment to our end-user and our customer, as well as our partners and associates, especially our investors, towards creating value. Our innovation and our quality are the strengths of our brand, serving to fulfil our mission, which is to make specialty medicines available to all.

The use of renewable energy is an area of sustainable operations which we pivot to meet energy requirements in an environmentally responsible manner. We are continuing to source Renewable Energy (RE) from our captive projects and third-party providers. Our continued effort to enhance renewable energy would be tied to limitations in government policies and our own internal energy consumption requirements.

During FY 2019-20, we have installed 0.80 MW capacity rooftop solar power plant at our Kothur facility. Installation of an additional 0.80 MW capacity solar power plant at Nagarjunasagar unit and 0.50 MW capacity solar power plant is in progress at Visakhapatnam unit. As of March 31, 2020, NATCO's total renewable energy (RE) capacity is 4.2 MW in wind and 5.2 MW in solar onsite in addition to renewable power through third party purchase agreements.

During the year, we gave four interim dividends amounting to ₹1,229 million and dividend distribution tax amounted to ₹215 million. The interim dividend resulted in total pay-out of 25.9% of the standalone profit after tax of Company for the year under review.

### **Making a difference**

Our tradition of empowering our people, living our values, and building trustful relationships holds us in good stead as we navigate challenging times.

The work with the communities, ranging from education, health, and livelihoods showcase our commitment to the society. Schools run by NATCO Trust are a significant value-add in the communities. We see tangible benefits of investing in infrastructure upgradation in our schools and government schools and simultaneously upgrading the facilities.

Our healthcare service programmes and farm-based livelihood programme have gained community trust and confidence.

This year NATCO High School, Kothur has completed 25 years of existence while we helped the ZP High School, Indiranagar, Siddipet in Telangana to build a block named, 'NATCO Trust block'. The facilities which were developed with the help of the Trust include additional classrooms, renovation of the existing building, roof water tanks, borewell and CCTV surveillance system among others.

In July, 2020, Comprehensive NATCO Cancer Centre was inaugurated at the Guntur General Hospital. Spread over 80,000 sq ft it is a state-of-the-art facility in the city.



An overview of the Comprehensive NATCO Cancer Centre

### **Being thankful**

It is heartening to see that we are succeeding in our mission each day as we touch millions of lives through our medicines. This has been possible primarily due to the efforts of our employees, partners, and other key stakeholders. Together, we make one strong team. We are grateful to our investors for their continued trust and support.

#### **V.C. NANNAPANENI**

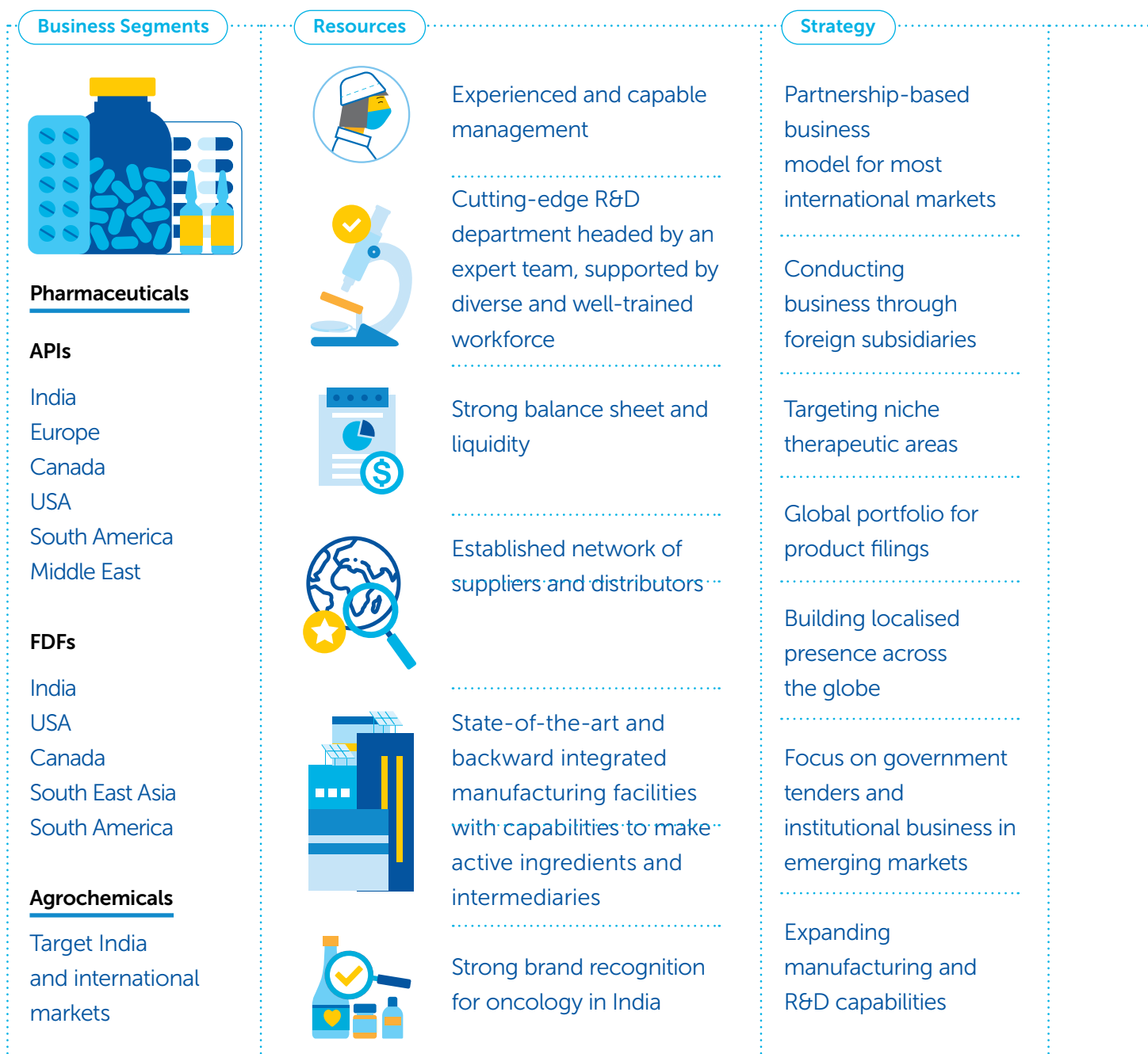
*Chairman and Managing Director*

#### **RAJEEV NANNAPANENI**

*Vice-Chairman and CEO*

# How we create value

Among our stakeholders, it is the patient who is our priority. We are committed to ensuring that people have easy access to drugs that are crucial in their fight against several complex illnesses and diseases. In making these drugs available, we ensure world-class quality and efficacy.



The success of our business model can be seen in the way that we have grown our business. From starting as a pharmaceutical concern in Hyderabad, we now have a global presence with a wide range of essential products. We are set to grow next year, despite the concerns that the pandemic poses. We have developed meaningful relationships and a strong supply network that will ensure our products reach the desired end-consumers.

### Growth drivers

Recognition for quality and delivery, backed by strong technical and operational expertise

Export demand for niche and high-value APIs and formulations

Superior product quality with affordable pricing

Reputation established with over three decades of expertise in pharma industry

Increasing spectrum of new diseases and demand for unique and affordable solutions

Increasing demand for pest management solutions and food security

### Value we create



#### Patients

Access to potentially life-saving medicines

World-class medicines at affordable price



#### Partners

Essential products

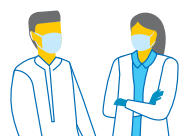
Industry expertise

Proven track record



#### Government

Crucial medicinal aid that governments can purchase directly from NATCO



#### Society

Promoting health

Increasing life expectancies



#### Shareholders

Strong business

Sustainable growth

### Impacted fields of study

Orthopaedics and Gastro hepatology

Cardiology and Diabetology

Oncology

Other therapeutic areas

Agricultural Pest Management

# Waking up to a world focused on better health outcomes

The past decade has witnessed an increase in the consumption of medicines globally. Research in healthcare is improving every day, making medicine increasingly efficient in treating a variety of conditions and diseases. The pharmaceutical industry has responded with a faster pace of innovation and shorter time to market. This growth is set to accelerate with the extensive use of intelligent technologies and breakthrough therapies.

World over, governments are invested in providing their people with greater access to therapies that are innovative, effective and affordable. They are working towards policies that supplement the growth of pharmaceuticals as a means to enable the healthcare industry to improve health outcomes for patients.

Global spending has steadily increased from 2009–2019 at a CAGR of 4.2% and spending reaching \$955 billion in 2019. This reflects a 23% jump from \$777 billion in 2014. Over the near and the long - term, patients can expect better access to medicines, in particular specialty medicines. Costs may remain a barrier to access in some cases, however. NATCO's growth and success are centered on being able to deliver on three key aspects of price, access, and availability.



At NATCO, this means that the market for generics, which is our key offering, is set to expand consistently. Moreover, the disease burden of Non-Communicable Diseases is growing (NCDs). In 2018, priority NCDs represented 35% of global Defined Daily Doses (DDD) volume, growing at 4.7% CAGR since 2008. Therapy areas comprising most of the use include diabetes, respiratory, cardiovascular, Losses Of Exclusivity (LOE) and cancer treatments and account for 71% of deaths due to NCDs worldwide.

NATCO has established expertise in these therapies, which points to positive outlook for future growth. We are closely monitoring new trends in medicine usage that are due to impact the future of this industry.

### Developed markets

Developed countries, while expected to witness growth in spending on medicines, will witness greater brand Losses of Exclusivity (LOE) in specialty medicine. The impact of brand LOEs on sales is expected to touch US\$139 billion between 2020 and 2024. Consequently, competition in the generics space is set to grow. At NATCO, we are aggressively pursuing strategies of localisation and geographical diversification to grow profitably.

#### US

#### Focus on generics to continue, pressure on margins is increasing

The US spending on the pharmaceutical sector for 2019 was \$510.3 billion and is expected to grow at a CAGR of 3-6% for the period from 2020 to 2024. Due to the sheer size of the market, pharmaceutical concerns of all proportions are looking to establish a presence here.

As a result, pricing pressure on manufacturers is set to intensify as products face increasingly greater scrutiny over production costs, and increase in competition. Thus, margins are set to decline across the board.

Our revenue growth in the US market for the year primarily came from the sale of Glatiramer Acetate and Liposomal Doxorubicin. We believe that the products that the Company has in the pipeline for the near future will command a premium

(Source: Evaluate Pharma: World Preview 2019, Outlook to 2024 - June 2019 Edition)



in the market due to either exclusivity or limited competition. In addition to this, most of our manufacturing facilities have the approval of the USFDA and other global agencies.

### Canada

#### Growing demand for generics but pricing pressure from policies

In terms of value, Canada has grown to become the world's ninth largest market for generic drugs. This is because of massive growth in the generics segment over the past few decades led by factors such as constant expiration of patents and an increasingly ageing population. Chronic diseases are on the rise as well with governments and healthcare providers looking for cheaper alternatives.

However, even as the generic use in Canada is increasing, the share of sales is showing a downward trend on account of provincial pricing policies. Generic prices in Canada have decreased by ~60% over the decade between 2007 and 2018.

For us at NATCO, having a local presence through our subsidiary is key to growth in this market. We have developed front-end capabilities and are working to demonstrate greater efficiency in filings. Through our subsidiary, we have a total of 12 active products and 18 approvals.

### Pharmerging markets

Markets in developing economies have witnessed higher GDP growth, along with the growth in population. These comprise emerging markets, which have seen the highest growth over the past decade: 12.2% CAGR from 2009 to 2014 before dropping to 7.7% CAGR between 2014 and 2019. In 2019, pharmerging markets comprised 26% of global spending, which is expected to rise to ~30% of spending in 2024. Global growth, however, is expected to moderate to 2–5% through 2019 to 2024, as the dynamics in both the markets are comparable.

At NATCO, we are targeting several pharmerging markets backed by innovative capabilities and attractive pricing proposition, supported by local presence. We are steadily growing its presence in markets across South East Asia, including Thailand, Vietnam, the Philippines, Indonesia, Singapore and Malaysia.

### Brazil

#### Access to breakthrough medicines

The largest healthcare market in Latin America, Brazil spends 9.1% of its GDP on healthcare. It accounts for more than a 3.5% share of the world market for pharmaceutical drugs. Healthcare is a constitutional right in Brazil, which puts the government in complete control.

(Source: Scrip Informa - Drug Pricing Update: Strategies and Trends)

We have established a robust presence in Brazil through our step-down subsidiary NATCO FARMA DO BRASIL. Most of our sales in the country come from the government and regional tenders. We have a total of nine product filings with good business growth prospects. Brazil is one of the markets where we are looking towards expansion and growth in the coming years. We are looking to provide high-quality products at competitive pricing.

### India

#### Opportunities continue to grow

India happens to be the largest producer of drugs globally, supplying over 50% of the world's demand for vaccines. While the country's pharmaceutical exports stood at \$20.7 billion during FY 2019-20, there was a cumulative FDI inflow of \$16.5 billion into India's drugs and pharmaceutical industry. Of this, branded generics make up ~80% of the retail market.

The Government of India, through Ayushman Bharat-Pradhan Mantri Jan Aarogya Yojana (AB-PMJAY), has accelerated its efforts to improve healthcare delivery in the country through various schemes. It is now looking at digital interventions for the same. This will improve health awareness and access to medicines.

NATCO stands out in this market on the basis of specialty medicines in the fields of oncology, cardiology, and diabetics, among the biggest killer diseases affecting the population. Our established R&D centres and manufacturing facilities enable us to cater to pan-India demand.

The market in India will continue to grow. At NATCO, we are focused on bringing several products across different therapies ahead of competition.

### China

#### Demand growth set to continue

China is the second-largest pharmaceutical market in the world and is estimated to reach \$161.8 billion by 2023. Growth has slowed from a 19% CAGR during 2008–2013 to an 8% CAGR during 2013–2018, the trend is set to continue.

This growth has largely been supported by favourable government policies. Recent trends indicate increased efforts towards ensuring better governance and quality control measures, which presents an opportunity for Indian players. At NATCO, we are watching this market closely and have already initiated filing of products in cancer therapy.



# The NATCO advantage

NATCO has earned a reputation for its products' quality and reliability. We have pioneered several key products into the Indian market by focusing on our mission to make specialty medicines available to all. Thus, we offer, quality, efficacy, and value.



NATCO stands for several attributes, that lend an edge in the regulated and highly competitive markets that we operate in.

### **1. Strategic portfolio selection criteria**

We select molecules that are difficult to manufacture, have unique chemistries, or have to navigate through several patent restrictions. Thus, we take up product lines that pose high entry barriers, giving us a distinct edge over competition.

### **2. Assurance of quality**

We compete on the back of our product quality. We have consistently invested in backward integration and strategic partnership with third-party manufacturers, which gives us strong control over the quality and supply.

### **3. R&D as an attitude**

We have been successful in breaking through several complex chemistries and processes. This is thanks to our innovation culture and an entrepreneurial attitude with leadership commitment.

### **4. Adoption of new technologies**

We have been able to increase our efficiency while tackling environmental concerns, which is a direct result of adopting new technologies. We are constantly evaluating cutting edge technologies to reduce costs and expand our portfolio with difficult formulations.

### **5. Diversification**

NATCO diversifies its risk through different business verticals, geographies, and varied portfolio of products. Our recent foray into Crop Health Sciences is an example, as is our presence across markets with a diverse product range in the oncology, cardiology, diabetology and hepatology segments.



# Growing amidst challenges

This has been a challenging year for NATCO on the domestic front. While our oncology and Hep-C segments are leaders in the domestic market, the business suffered due to contraction in the market for Hep-C drugs, as well as pricing pressures in the oncology sector. Despite this, we met our target launches and are well positioned for growth.

### Oncology

Oncology continues to be our most important segment in the Indian market. At present, we have 33 products in the oncology segment. We've also been more aggressive in introducing novel medicines for cancer patients. Competition and price erosion were the two biggest factors impacting business.

We have an attractive pipeline of products covering most of the unmet therapy needs in the field of Oncology. Most of these products fall in a segment where NATCO is already present with a basket of products. This is expected to insulate us from price erosion and also to consolidate in the segments where we are already present.

We have a portfolio of 33 brands across two segments: hematology (14 brands) and solid tumors (19 brands). We intend to build a full-fledged Bone Marrow Transplant (BMT) portfolio in India and have already launched Thiotepa, India's first generic BMT product.

Our portfolio's existing products continue to support patients by reducing the cost burden considerably.

### Increasing focus on treatment for Multiple Myeloma

Our focus on oncology is evident from the robust portfolio of more than half a dozen products for Multiple Myeloma treatment. Multiple Myeloma (MM) is a cancer of the plasma cells, accounting for 15% of all hematological malignancies. MM poses a significant healthcare challenge from the perspective of both the cost and quality of care. The Age Standardized Rate (ASR) for MM's incidence as per the GLOBOCAN/IARC in India is 0.7/100,000 population amounting to about 6,800 new cases a year.

There has been a remarkable improvement in the survival rate of MM patients over the past few decades. This clinical progress is attributed to the availability of novel and target specific approaches to treatment. Our strong brands of generic alternatives of immunomodulatory drugs and proteasome inhibitors for the treatment of MM meets the unmet needs of cancer patients by increasing access and contributing to improved survival rate.

### Non-Oncology

#### Specialty pharma

These are products related to orthopaedics and gastroenterology, including virology, Osteo & ICU, and neurology.

- The orthopaedics range covers all the important Bisphosphonates, including oral and injectables. All of them are segment-first introductions.
- The Gastroenterology range deals with the products of Hepatitis-B and Hepatitis-C, which has the complete range for both the therapies.



During FY 2019-20, at NATCO we had eight launches in the domestic market, five in cardiology and diabetology segment, and three in the oncology segment. We follow guidelines for pricing the drugs affordably, enabling us to reach more patients who need these therapies.

### Cardiology and diabetology

Our Cardiology and Diabetology division (CnD) has performed well this year and is growing rapidly. The segment is set to become a major domestic sales contributor in the years to come.

Apigat (Generic Apixaban) is a drug used in the prevention and treatment of blood clots. The pool of patients served is vast as the medication is prescribed across specialties of cardiology, neurology, pulmonary, orthopedic, haematology, including antithrombotic therapy in COVID-19. The drug is safer than other anticoagulants without the side effect of gastric bleeding. Our goal of creating access for a large patient base at a third of the innovator's price fulfils our mission.

We launched a combination drug Vildanat M (Vildagliptin and Metformin) for diabetes, which has considerable potential to achieve better blood glucose control and improve therapy compliance. Despite being a new entrant in this segment in the domestic market, we were the first to launch the combination drug.

### DDD: Diabetes Detection Drive

Diabetes currently affects more than 70 million people in India which is more than 7.2% of the adult population. Nearly 98 million people in India may have Type-II diabetes by 2030. We are also actively conducting patient education through Diabetes Detection Drive (DDD) programme across the country, covering ~25,000 patients every year promoting HbA1c testing as a useful longer-term gauge of blood glucose control.



**₹5,405 million**

Domestic formulation sales

### ₹100 MILLION BRANDS IN FY 2019-20

Indication	Molecule	Innovator Brand	NATCO Brand*
Chronic Myeloid Leukemia	Imatinib Mesylate	Gleevec	Veenat
Multiple Myeloma	Lenalidomide	Revlimid	Lenalid
Multiple Myeloma	Carfilzomib	Kyprolis	Carfilnat
Lung & Pancreatic Cancer	Erlotinib	Tarceva	Erlonat
Liver & Kidney Cancer	Sorafenib	Nexavar	Sorafenat
Lung Cancer	Gefitinib	Iressa	Geftinat
Chronic Hepatitis	Sofosbuvir/Velpatasvir	Epclusa	Velpanat
Chronic Hepatitis	Sofosbuvir/Daclatasvir	-	Hepcinat Plus

\*Brands in litigation are not part of this list



# Market-driven diversification

When it comes to international business, we continue to focus on enhancing our market reach and manufacturing capabilities. We are rapidly expanding into newer markets worldwide based on a partnership-driven approach.

As a globally recognised pharmaceutical conglomerate, NATCO has made a foothold in almost a fifth of the total countries in the world. Our operational presence is predominant in North America, Latin America and the South East Asian regions.

During the year, NATCO continued its growth trajectory in Canada, expanded the number approvals in Brazil and progressed well towards the approval of oncology products in China. We believe we have positioned ourselves to grow in all of these regions in the near future.

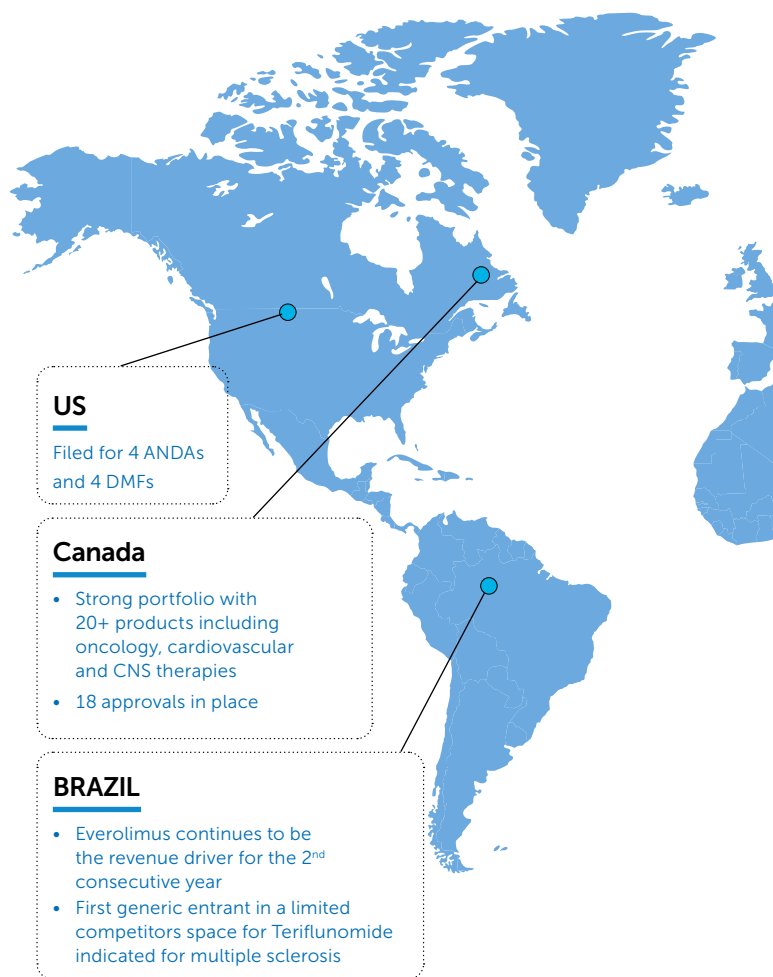
To expand our operations, we have partnered with corporations across the globe. For instance, for the US markets, we handle the development and manufacturing of products while our partners take care of the marketing. This not only allows us to conserve our resources but gain from the advantage of working with a regional partner that has a pre-established presence and market knowledge. In this regard, we work with both multinational and local players on a case by case basis.

### **A differentiated strategy for customising product portfolios**

NATCO has witnessed several changes in the pharmaceuticals market over the past few years, including growing competition and pricing pressures. These also pose challenges to our ability to grow. Taking these into account we have arrived at the following priorities in terms of our international business:

#### **Presence in the US**

At present, our filings in the US are for intricate and niche products (either on our own or in collaboration with global pharmaceutical companies). Our FDF business is primarily focused on high-entry-barrier products that are either difficult to formulate and/or manufacture, typically resulting



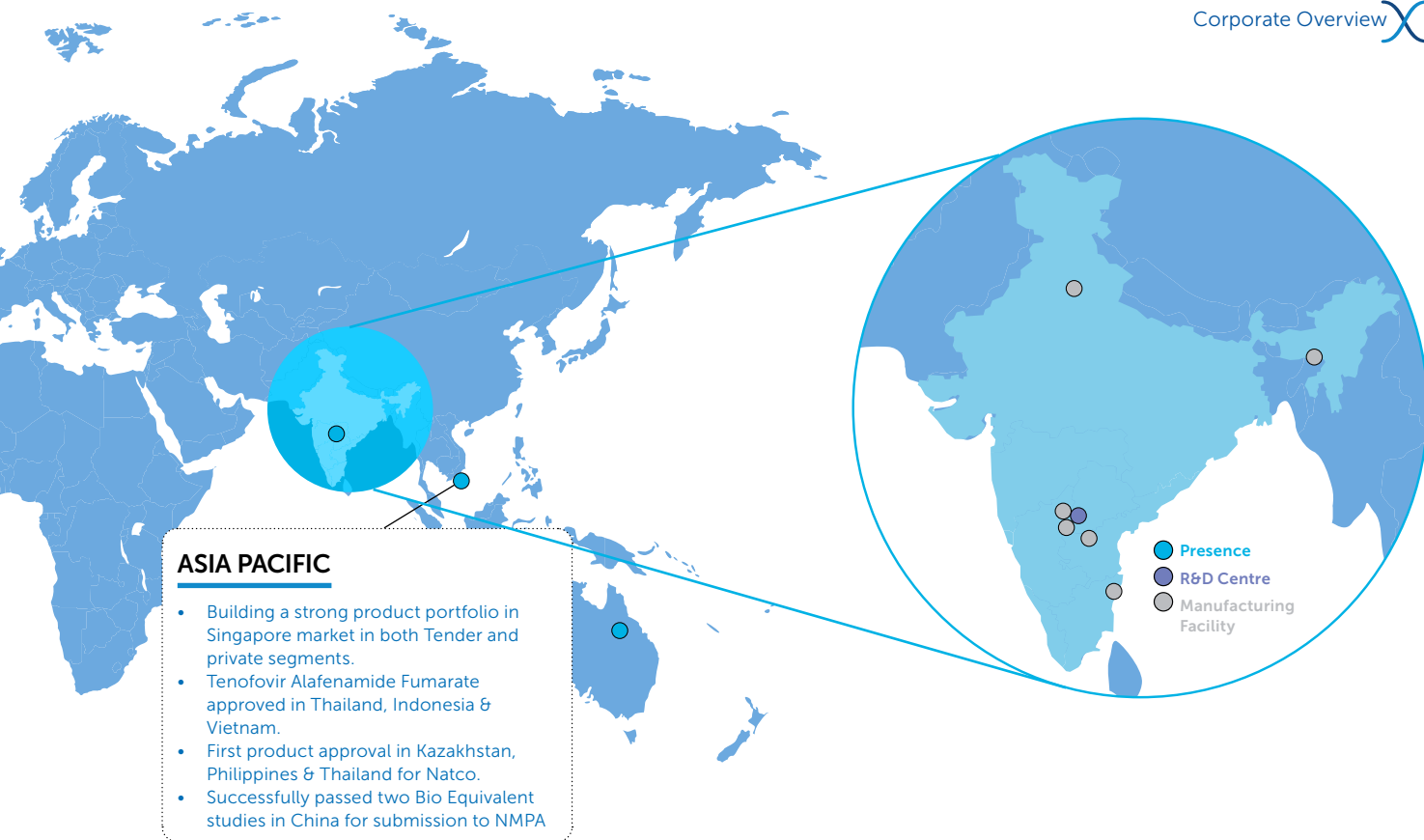
in limited competition in the market. In addition to having a strong supply from our manufacturing base in India, we associate with strong partners in the US, some of them with local manufacturing presence, which positions us well for expanding our business.

#### **Focusing on other geographies**

In the recent past, we have been increasingly turning our focus to non-US markets. In the US, profitability is a growing concern for pharma players due to the rising demand for generics, a space which witnesses extreme competition. The highest number of FDA-approved facilities are in India. This means that pharmaceutical concerns of all sizes are aiming to build a presence in the US. Hence, we have chosen to expand into other markets across the world. To do this successfully, we are partnering with local players. We are also building our marketing presence and filing for products with greater frequency, while we navigate localized regulatory processes and nuances of business.

#### **Leveraging positive performance in Brazil and Canada**

Brazil and Canada are two markets that have a very positive outlook based on NATCO's performance in these countries. Both countries offer significant sales opportunities for us. In Brazil, majority of sales are institutional or government sales. We are constantly looking at building strategies and local partnerships to access the market with our competitively priced products.



We are one of the leading generic oncology medicine suppliers in Canada. In addition to this, we're planning to bring affordable products through innovative ways around intellectual property constraints. We have a strong pipeline of products for the coming years. Our local presence in both these countries has grown, providing us with a stronger base for our operations. Essentially, we're positioning ourselves for future growth.

### Intensifying efforts in pharmerging markets

We've been sharpening our focus on pharmerging markets through aggressive filings. We have improved our quality and efficiency of filings and have seen faster approval times thus, enabling reduced time to market. Our focused approach has helped us grow into markets such as Thailand, Vietnam, the Philippines, Indonesia, and more. Having positioned ourselves in the generics space, we're now an established entity in Singapore, both in government procurement and procurement by private hospitals.

### A global approach to filings

We are ensuring make the most of opportunities available in various markets around the world. We have changed our approach from sequential filing to simultaneous filing in US and other pharmerging markets. We are increasingly working to tap the market potential of China and Australia. We are optimizing our ways to create a global dossier to spontaneously file in several territories across the globe.

## ₹9,334 million

Revenue from formulation exports, including subsidiary and profit share revenue

### RoW

Our reach into the RoW markets is done through the following key channels - our subsidiaries and direct collaboration with local partners.

### Partnerships

We have several strategic partners across the supply chain who are either API suppliers, or collaborations for co-development and marketing. One such partnership that is strategic to business growth and mission-led for us is with Alvogen.

**“ Natco and Alvogen share a true partnership in every sense as we complement and supplement each other's capabilities. One of our key flagship product launches, Oseltamivir, in the US market resulted in blockbuster revenues for both companies. We continue to share a strong and strategic partnership that spans over several high value products in the pipeline. Alvogen is very glad to have NATCO as a strong supply partner for niche products that are valued highly in the US market. ”**

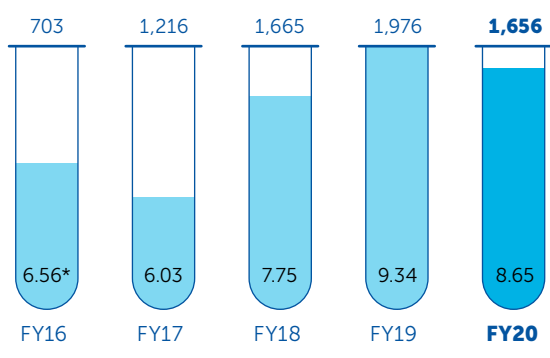
- Alvogen

# Solving problems of the future, today

Our business operates in a highly regulated space; therefore, quality is paramount. We have over 40 R&D laboratories in two research and development facilities with a talent pool of over 500 scientists. Our capabilities span synthetic chemistry of small molecules, peptide chemistry, oligonucleotides, nanopharmaceuticals and new drug discovery.

### Expenditure on R&D

(₹ in million)



\* Total R&D expenditure as a percentage of standalone revenue

### A culture of innovation

The reason behind the success of our R&D department is the ability and willingness of NATCO to take up new challenges. We constantly adopt new technologies and processes even as we focus on minimizing their environmental impact. We have enhanced our capabilities with technologies like liposomal, that are not only complex processes but also cater to therapeutic segments that generally require adherence to strict containment standards of manufacturing.

With the environment in mind, we have improved our capability in solid dispersion technology and built efficient processes that use less solvent. Our manufacturing with hot-melt extrusion is one such example.

### Managing complex processes and supplier network

Our core strength is in identifying unique products where the API may not be easily available, where the formulation is challenging or where the clinical data may need several patient studies.

NATCO focuses on vaulting higher with every success using such criteria. This naturally reduces competition as we focus on growth. We generally start development for highly regulated markets and expand it to other potential opportunities.

Over the past few years, we have placed more emphasis on increasing our network of third-party suppliers in addition to our own backward integration. This has enabled us to target more complex processes with significantly greater number of steps to manufacture.





## Technology focus

Technology is a barrier to developing and producing complex drug products. We consistently invest in systematic evaluation, thorough experimentation, IP study, and on time regulatory submission. We also address challenges to scaling up as well as product variability, which helps to make our technology more robust.



## APIs

For over two decades, we have demonstrated technical and operational expertise in developing and commercialising more than 40 niche APIs. We continue to add complex molecules to this list, which serves as a testament to our research and development, and manufacturing capabilities.

We have a successful track record of regulatory inspections by the USFDA; Therapeutic Goods Administration (TGA), Australia; Hamburg Health Agency; Pharmaceuticals and Medical Devices (PMDA), Japan; Ministry of Food and Drug Safety, South Korea, Federal Commission for the Protection against Sanitary Risk (Cofepris), Mexico; and European Directorate for the Quality of Medicines (EDQM), EU.

Our key therapeutic domain is oncology and we are extending our expertise to include CNS and pain management.

# 49

Cumulative DMFs filed

# 39

Active DMFs

## Key technology breakthroughs for manufacturing complex drugs

We present four examples of our flagship complex drug products that exemplify how we persist with technology-based solutions, both at the level of complex API development and drug delivery mechanisms.

### Glatiramer acetate

A complex peptide used in the treatment of multiple sclerosis is manufactured with specific controls of critical process parameters, enabling us to produce quality product effectively.

The finished dosage, sold in pre-filled syringes, is an example of developing a complex API, tying up with manufacturing partner and drug delivery device provider.

### Liposomal doxorubicin

The liposomal-based product delivers the medicine in a targeted manner. Liposome drug products are complex formulations where physical and chemical stability is vital, including the need for sophisticated physicochemical testing and very narrow particle size management.

### Hepatitis-C portfolio of products

The Hepatitis franchise of molecules require to be made suitable for dissolution for increased bioavailability, which is achieved through our internally optimized solid dispersion process. The bioavailability of APIs depends on its solubility in water. Making water-insoluble drugs more soluble presents a significant challenge in drug development. Hot-melt technology is a proven method for bioavailability enhancement of poorly soluble APIs.

### Lanthanum carbonate

We are the only generic player for this product. The novelty is in the API development of a stable dihydrate form of an inorganic salt for use by patients with end-stage renal disease. The technology breakthrough and IP together have made it possible for us to launch this molecule, accessed mainly by geriatric patients.

## Crop Health Sciences

We are leveraging our expertise in organic chemistry to expand into the agrichemicals space. We have identified unique set of molecules for the Indian market, aimed at crop protection. We believe our agribusiness will be a key area of growth in the coming years as we target molecules that carry immense business potential in both domestic and foreign markets. Our key products in the pipeline include Chlorantraniliprole (CTPR) as well as other niche molecules.

# Guiding our way



**V.C. NANNAPANENI**  
*Chairman & Managing Director*



**G.S. MURTHY**  
*Independent Director*



**T.V. RAO**  
*Independent Director*



**RAJEEV NANNAPANENI**  
*Vice Chairman & CEO*



**D.G. PRASAD**  
*Independent Director*



**DR. LEELA DIGUMARTI**  
*Independent Director*



**P.S.R.K. PRASAD**  
*Director and Executive  
Vice President Corp  
Engineering Services*



**DR. M.U.R. NAIDU**  
*Independent Director*



**DR. LINGA RAO  
DONTINENI**  
*Director and President -  
Technical Affairs*



**SRIDHAR  
SANKARARAMAN**  
*Non-Executive and  
Non-Independent Director*

## Key Management Team

# Leading us through

**ADINARAYANA M.**

Company Secretary & Vice President -  
Legal & Corporate Affairs

**APPA RAO S.V.V.N.**

Chief Financial Officer

**DR S.S APTE**

Vice President - R&D, NDDS

**DR. GOPALAKRISHNAN VAIDYANATHAN**

Vice President - Analytical R&D

**DR. K.DURGA PRASAD**

Vice President - R&D, Chemical Synthesis

**DR. K SATYANARAYANA**

Vice President - R. & D.

**LAKSHMINARAYANA ARE**

Vice President - HR & OD

**DR. M. PULLA REDDY**

Executive Vice President - R. & D.

**DR. PAVAN BHAT GANAPATI**

Executive Vice President - Technical Operations

**RAJESH CHEBIYAM**

Vice President - Acquisitions, Institutional Investment  
Management and Corporate Communications

**RAMAKRISHNA SRIDHAR REDDY**

Vice President - Q. A

**DR. RAMESH DANDALA**

Executive Vice President - Technology Transfer,  
Intellectual Property Rights and Regulatory Affairs (API)

**DR. RAMI REDDY BHIMAVARAPU**

Director - FDF

**SADASIVA RAO N.**

Vice President - Corporate Affairs, Legal & Secretarial,  
Estate Management

**DR. SHANKAR REDDY BUDIDETI**

Vice President - R&D, Chemical Synthesis

**SRINIVAS CH.**

Vice President - Demand and Supply Planning

**SRIVATSAVA K.**

Vice President - Marketing & Sales, Domestic

**SUBBA RAO MENTE**

Vice President - Global Generics

**SUNIL KOTARU**

Vice President - Supply Chain Management

**SURESH PRABHAKAR KAMATH**

Vice President - Operations (Visakhapatnam Unit)

**VENKATA RAO TUMMALA**

Vice President - Manufacturing, Chemical Division

# Foresight, the key to effective risk management

At NATCO, we maintain an entrepreneurial mindset towards developing new products and marketing them. Our success depends on our ability to realise our goals. Our top leadership has consistently provided direction and decision-making to guide us into the market-leading position we enjoy today.

While we have been facing several challenges, these have only served to strengthen our focus on solving them and emerging from them greater and stronger. We are constantly in touch with key players in our ecosystem to help us understand the evolving scenario, including direct engagement with the end-users of our products. We are being foresighted in tailoring our strategies to manage risks and to achieve our goals.



### Nature of risk

#### **COVID-19**

The COVID-19 pandemic has caused disruptions to employee safety, supply chain, operations and patient readiness to undergo non-COVID-19 treatment.

### Control and action

We undertook quick and aggressive action to prioritise employee safety. A task force was formed to address outbreak of the disease and treatment of those affected. Operations were prioritised and organised with strict social-distancing norms. Inventory management and supply chain actions were quickly taken to avoid major customer requirement disruptions. Non-critical civil construction work and capital expenditures were postponed. Strict controls over cash management and expenditure were instituted.



### Nature of risk

#### **Regulatory risk**

An unfavourable facility inspection from USFDA or other major regulatory body can lead to a significant delay in product exports.

### Control and action

We ensured that all our facilities were in good standing for approvals. During the year, our Kothur and Vizag facilities were reinspected by USFDA.



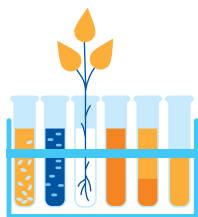
### Nature of risk

#### **Currency volatility risk**

Fluctuations in foreign currency could result in variations in margins for NATCO.

### Control and action

During the year, we gained due to strong dollar exchange rate.



#### Nature of risk

##### **Business portfolio risk**

NATCO is exposed to the risk of revenue generation from limited therapeutic segments. This could have an impact on our financial viability.

#### Control and action

NATCO's pharma business is diversified into multiple therapeutic segments which include oncology, hepatology, cardiology and diabetology. During the year under review, eight products were launched across the segments to minimise product concentration risk. In the Crop Health Sciences division, we are working on a portfolio of diverse products. We have been aggressively launching products across these segments. In the US and many other markets, we have chosen molecules independent of therapy segment.



#### Nature of risk

##### **Geographical risk**

Being excessively dependent on the domestic and US markets could affect sustainability in the long run.

#### Control and action

As of FY 2019-20, our products reach a fifth of the countries across the globe. We have expanded beyond our dominant focus in India and the US with business growth in Canada, South America, the Middle-East and the Asia Pacific.



#### Nature of risk

##### **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.

#### Control and action

FY 2019-20 was an attestation to our policy and care towards employees and human capital. There was no compromise on employee compensation in spite of the difficult business environment.



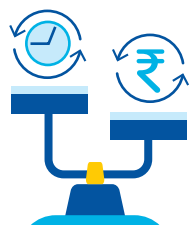
#### Nature of risk

##### **Health, safety and environment risk**

Being in the business of healthcare, it is imperative for NATCO to ensure 'no risk' in regard to the health and safety of our stakeholder fraternity. Non-compliance with domestic and international regulations may lead to business disruptions.

#### Control and action

In addition to providing a well-balanced working environment, we instituted flexible policies during the pandemic and enhanced the coverage of healthcare benefits of every employee.



#### Nature of risk

##### **Price control risk**

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

#### Control and action

We usually set our prices at competitive levels. Any impact of price control would be felt to a similar extent by our competitors, thereby making us indifferent to the situation.



#### Nature of risk

##### **Patent risk**

Our inability to defend patent challenges could prevent NATCO from selling products or may result in financial liabilities.

#### Control and action

We enter strategic partnerships for product launches with major distributors and renowned pharma companies, wherein the downside risks (legal costs) are shared. For domestic markets, certain products entail risks but we carefully assess them before any launch.



# Empowering communities, improving lives

The NATCO Trust is the Corporate Social Responsibility (CSR) arm of NATCO Pharma Limited. A non-profit organisation, it was founded in 1995, and is based in Hyderabad. It serves communities in Hyderabad, Nalgonda, Jogulamba Gadwal, Siddipet and Rangareddy in Telangana as well as in Guntur and Vishakapatnam districts of Andhra Pradesh. It also conducts various activities in Tamil Nadu.

NATCO Trust believes that living and learning must go hand in hand if true development is to actualise. It concentrates on programmes under three key focus areas of education, healthcare and livelihood.

### Our Belief

NATCO Trust strongly believes that a true society can be built by strong minds and committed hearts

### Our Vision

To facilitate self-sustained development in the communities being served

### Our Mission

To provide such support and service to the society which would have long-standing impact on improving the lives of individuals benefiting thereof.

### CSR policy

CSR has been an integral part of the way we have been doing our business since inception. For more than 20 years, our CSR initiatives have played a pivotal role in improving the lives of the communities and society at large and in and around our manufacturing sites. Our efforts are aimed at facilitating self-sustained development among the communities being served.

The CSR policy clearly states NATCO's responsibilities towards each of our key stakeholder groups. The policy is governed by the CSR Committee of Board of Directors, which also maintains a keen oversight on NATCO's activities thus undertaken.

### The main objectives of NATCO's CSR policy are:

- To lay down guidelines to make CSR a key business process for sustainable development of the society
- To directly/indirectly implement projects/programmes, which will enhance the socio-economic wellbeing of the communities surrounding our manufacturing sites and society at large.
- To generate goodwill and recognition among all stakeholders of NATCO

### Community-driven engagement

NATCO Trust has a strong history of working with communities. We listen to our stakeholders and engage with them for a two-way conversation. The Trust takes forward critical actions in the areas of Education, Health, and Livelihoods. Our work keeps us connected to grassroot realities, across three states, seven districts, 48 villages, and one urban slum. Thereby, we work to address the fundamental challenges faced by the community through timely actions and the provision of adequate infrastructural and skilled human resources.

## Education



**35+**  
Schools

**45+**  
Anganwadis

**~9,000**  
Children reached

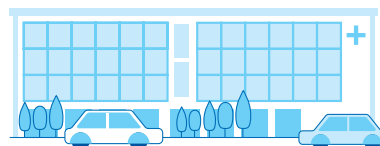
## Outreach healthcare



**100+**  
Villages

**~50,000**  
Beneficiaries

## Institutional



**5**  
Hospitals

**~7,75,000**  
Beneficiaries

## Cancer screening



**300+**  
Women  
beneficiaries  
across 25 villages

## Livelihoods

**~475**  
Beneficiaries  
trained

## Nutritional and backyard kitchen garden



**30+**  
Centres with nearly  
500 beneficiaries

**600+**  
Families benefited

## Potable water



**2**  
Villages

**1,300+**  
Families benefited

## Rural sports



**950+**  
Sportspersons  
took part in  
different games

## Veterinary



**4,500+**  
Animals benefited



# Corporate Social Responsibility

## EDUCATION

### Education to empower communities



Our Education programme includes independent ventures comprising NATCO High School, established in 1995 at Rangapur Village, Ranga Reddy district, Telangana and NATCO School of Learning, established in 2011 at Gollamudipadu, Guntur District, Andhra Pradesh. Our schools mainly serve the communities in the neighborhood of our manufacturing sites. It is a long-term commitment that we are living by for over 25 years now. There are also collaborative programmes with government-run institutions and Integrated Child Development Services (ICDS) project. With government-run programmes, our value addition is in generating community dialogue, enhancing the services with creative solutions, and making these places for children at-par with similar privately-run institutions.

### Making formal education inspirational

Aksharabhyasam is a Sanskrit word meaning initiation of a child into the world of learning by his parents and teacher inspirational for the children of government Anganwadis which are run by the ICDS. The programme was held in the presence of the parents, panchayat representatives, key leaders, and ICDS functionaries. Around 800 people and the children witnessed the programme, enabling us to promote formal education and develop their pride and participation.



# ~9,000

Children benefited across 35 schools and 45 anganwadis including day-care and pre-primary centres

## HEALTH

### A holistic view of nutrition and health



Our programmes in this area include community-based and institutional healthcare services. Our community outreach programmes emphasise prevention, early screening, and primary medical care. The services include health education, basic health investigations, the doctor at the door-step, NCD investigation, cancer screening and referral through mobile units, and digital primary health centre. The NATCO Trust also runs nutrition centers in villages, providing much-needed counseling support to pregnant women and young parents. We focus on installing facilities for the provision of clean drinking water in the vicinity of our manufacturing sites and donate water treatment units to villages where we undertake other developmental activities.

### Making a difference where it matters most

The digital primary health centre at Kothur, Telangana is a community asset, supporting ~100 patients every day, mostly geriatric, offering a host of free services — diagnostic tests, medicines, and doctor consultation over videoconference. Operating for the past three years, the centre has built trust in its services by being a reliable partner in meeting rural communities' healthcare needs. Besides providing medical services, the centre has automated patient records, making the patient's experience seamless and secure.

Our work in healthcare institutions is toward offering counselling assistance to patients who go to government hospitals and need timely help with accessing medical facilities while they are in the hospital.

# ~7,75,000

Patients serviced across five hospitals and over 50,000 people within the communities

## Providing timely support to improve health outcomes

The Comprehensive NATCO Cancer Centre at Guntur General Hospital, Andhra Pradesh, is a state-of-the-art facility built in a spacious area of 80,000 sq. ft. The Cancer Centre started in July 2020, has 10 Outpatient Consultation Rooms, Comprehensive Laboratory, Pathology Lab, a large library and a conference hall with a capacity to host 200 people. It comes with Brachy Therapy Facility, CT Simulator Facility and two bunkers which can accommodate the first medical linear accelerator (LINAC) facility among Government Hospitals in the state. It provides medical, surgical and radiation oncology services free of cost.



Rambabu Dondapati, chose to opt for a government hospital for his baby's birth - an unconventional choice. Moreover, Rambabu and his wife, Vijayalakshmi, wanted to ensure a normal delivery as much as possible, while the private hospitals were more inclined to do a surgery due to a few minor complications.

The NATCO Trust patient counseling team took the parents-to-be in confidence, and offered them end-to-end support, even as Rambabu's wife was in the eighth month of her pregnancy. Initially, she had to spend a week in the hospital, during which, Rambabu's concerns were laid to rest, by the quality of care, treatment and supervision she received from NATCO's representatives at Niloufer Hospital in Hyderabad.

Later, the couple went on to have a healthy and happy girl child (weighing 2.6 kg) born on July 18, 2019, through normal delivery.

## LIVELIHOODS

### Enabling livelihoods with sustainable agriculture



Our primary focus in the farm segment is Zero Budget Natural Farming (ZBNF) and Non-Pesticide Management (NPM). We have trained over 300 farmers on Zero Budget Natural Farming (ZBNF) and Non-Pesticide Management (NPM). Over 100 farmers are practicing ZBNF and NPM farming, covering 8.75 acres and 29.6 acres, respectively.

## Making way for sustainable agriculture

Anantha Reddy, a farmer with 16 acres of land in Nellihal village in Nagarjunasagar, Telangana, grows chili, cotton, and paddy, but struggled to make a substantial livelihood because of the high input costs and low yields. His farmland was completely dependent on rains as groundwater is not available all year round. Our team at NATCO Trust helped him understand the importance of chemical-free agriculture.

Soon after, he started getting better yields from the farm, which is now profitable. Today, he has successfully implemented NPM with the help of NATCO Trust by practicing the use of botanical extracts for pest protection and bio-based plant growth promoter, reducing input costs and increasing yield. He is also an active member participating in all meetings, training programmes and exposure visits to learn more about NPM practices and has organised Farmer Field Schools too at his own plant supported by NATCO Trust.



# Strengthening sustainable operations and employee engagement

NATCO is moving in the direction of increasing activity on the sustainability front. We believe in taking a holistic view of our operations and work in being efficient and increasing the use of renewable energy. We are committed to increasing the green cover at all our facilities.

## Resource conservation

Our sustainable operations philosophy includes the way we minimize waste conserve water and electricity, with a special focus on renewable energy use. We completed an energy audit in all our manufacturing sites and have identified critical measures for its conservation.



Japanese Garden at our Mekaguda facility

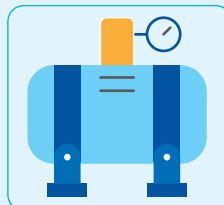
## Energy audit

The energy audit has identified a range of energy-saving schemes in all the manufacturing sites encompassing no-cost, low-cost and medium-cost measures and the payback period can be categorised into immediate-term, short-term, medium-term and long-term measures.



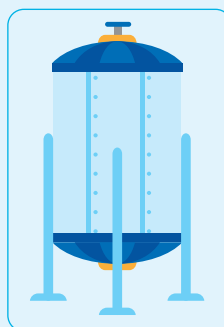
### Pumps

- Replacement of inefficient pumps with energy-efficient smart pumps
- Change of impellers for pumps



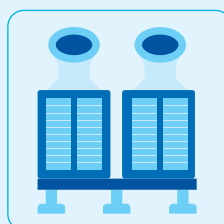
### Compressors

- Arresting of compressed air leakages
- Optimum pressure set points for air compressors



### Steam-related

- Optimisation of combustion air supply for boilers and hot water generators
- Change of steam traps
- Arresting steam leakages
- Waste heat recovery
- Condensate recovery enhancement



### Others

- Cooling tower fan optimisation
- Cold and hot insulation improvement
- Power factor improvement





Aerial view of the solar power plant at our Mekaguda facility

Special attention has been paid in the energy audits to the Heating Ventilation and air conditioning (HVAC) area for identifying energy conservation schemes, as it accounts for over two-thirds of total energy consumption by utilities.

Similarly, we have piloted a water audit in one of our manufacturing facilities, which has given us valuable insights about points of use where water consumption can be reduced in operations. For example, reuse of reject water from fresh water RO plant for toilet flushing etc instead of draining to effluent treatment plant (ETP). We are also integrating our work with water savings and energy savings by standardising the implementation of ISO 14001 and ISO 45001 in the manufacturing facilities.

### Renewable Energy\*

4.2MW      5.2MW

Wind power

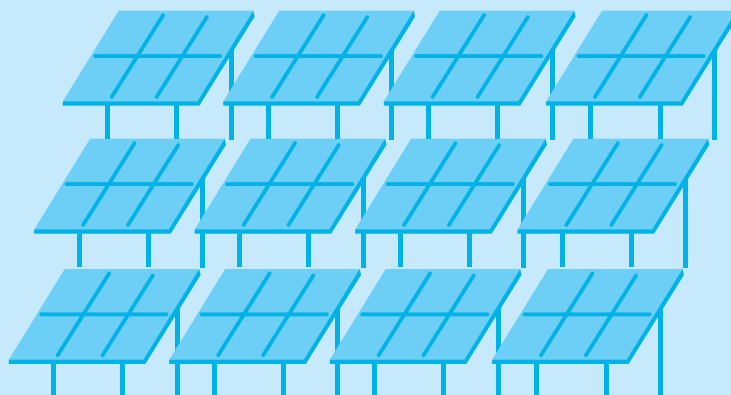
Solar power



### Facilities added during the year

- 1 Installed 0.80 MW (0.5 MW + 0.3 MW) capacity rooftop solar power plant at Kothur unit and is in operation since October 2019.
- 2 Installation of 0.5 MW capacity solar power plant is in progress at Visakhapatnam unit
- 3 Installation of additional 0.80 MW capacity solar power plant is in progress at Nagarjunasagar unit

\*Installed capacity as of March 31, 2020



# Sustainable Growth

## Continual improvement

Continual improvement is a management philosophy to create step-change in specific operational requirements that are a keystone in making us sustainable. Here are our key continual improvement projects:

### Preventive Maintenance (PM)

An essential element of our continual improvement programme is instituting a maintenance process that ensures equipment availability, reliability, and safety. Our PM programme, which we continually improve for execution rigour, targets higher equipment efficiency, reduction in energy consumption and positive environmental impact.

In one of the APIs divisions, we maintain over 4,000 equipment. The selection of equipment is based on the criticality of the operation and safety aspect of the reaction process undertaken in the equipment. Our keen focus on preventive maintenance allows us to sustain rigour in operations and, at the same time, contribute to a culture of safety.

Process equipment	Utility equipment	ETP equipment
2,845	1,064	277

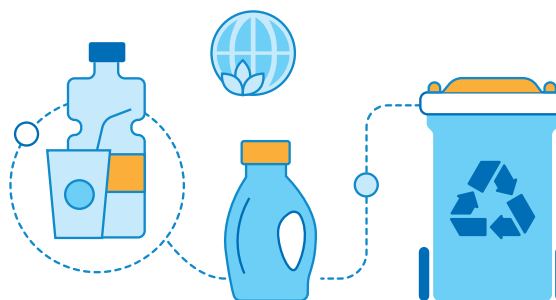
■ Area ■ Total number of equipment

We monitor the PM programme's effectiveness and have ensured incidence reporting of process breakdown due to equipment failure, which has substantially reduced. Further, by adapting the predictive maintenance on MCC panel using thermography, we have eliminated the electrical system's sudden breakdown.

### Fugitive emissions control

The continual improvement emphasis is directed towards identification and control of fugitive emissions in our API manufacturing sites. We have identified the sources of fugitive emissions in the process area and storage area. The approach involves periodical monitoring of workplaces for Volatile Organic Chemicals (VOC) concentrations in the process area and storage areas.

The implementation step has achieved the following changes in the workplace: closed transfer of solvents, vent condensers followed by two stage scrubbers, Local Exhaust Ventilation (LEV) connected to two stage scrubbers, nitrogen blanketing with breather valve arrangement for all solvent storage tanks, vent condensers with chilled water circulation system to eliminate/minimise the fugitive emission from the workplace.



### Waste management

At one of our API manufacturing sites, we have sent 232 Tons of solid waste only to secured landfill in FY 2019-20, achieving a reduction of 57%, by installing paddle dryer for sludge cake drying. We have also obtained regulatory approval to dispose of solid waste to cement industries as supplemental fuel safely.

### Green cover

We have embarked on an initiative – Eco Green Cover, a project using the Miyawaki concept invented and named after Japanese botanist Akira Miyawaki a unique technique to grow multi-layered dense green cover with native species. The Eco Green Cover is developed in ~3,000 sq mt with 7,600 plants of 45 native species and another 500 sq mt area with 1,800 plants with 45 native species along the boundary of the manufacturing site. In this practice, several native species are planted close to each other (at 60 cm distance). The plant growth is ten times faster, and the resulting plantation is 30 times denser than usual.

### Safety culture

Our focus on proactive action for safety is supported by strengthening the near-miss reporting process. We have rooted the process in three areas: designing a simple process that people can implement, periodic communication, and campaigning to promote prompt near-miss reporting and recognising people who speak-up regarding near misses. These steps and a regular review of reported near-miss for corrective and preventive action by the plant head give us early heads-up on safety matters.



Safety Day Celebration at our Mekaguda Facility

## Employee engagement

In developing our ability to withstand challenges, while generating hope for the future, our people are essential pillars. In strengthening our relationship with our people, we listen and actively create a culture of learning.

### Stakeholder connect

We set up a platform NATCONNECT for leaders, functional heads, and teams across the manufacturing sites to connect and discuss sustainability dimensions, drawing from our inaugural sustainability report titled ***Making complex simple, Responsibly***, published for FY 2018-19.

### Creating a culture of learning

Inculcating a culture of learning is about enabling our people to develop new competencies, unleash their potential, and become partners in creating value. In this process, we have stabilised functional and leadership training and learning platforms that offer courses in cGMP, quality management, EHS management, personal effectiveness and language learning.

### Safety training

For safety, across all our manufacturing sites, we offer safety training in topics ranging from chemical reaction hazards, behaviour-based safety, hazard identification and control, emergency preparedness, health and hygiene, and first aid.

One of our flagship programmes Safety in Pharmaceutical Industry prepares our team members to incorporate safety in the manufacture of FDFs. The programme has learning materials ranging from videos, case studies about incidents, and in-house Standard Operating Procedures (SOP).

## Average hours of training\*

24

Workmen

30

Middle management  
(Executive to Deputy Managers)

30

Supervisors

42

Managers and above

## Quality management training

Another significant training emphasis is on cGMP and quality management. We continue to build the foundation and knowledge about new trends with sessions on ICH guidelines, CAPA management, audit and compliance, quality metrics, and regulatory guidelines.

### Personal effectiveness and leadership

On the personal effectiveness dimension, which is an essential factor of leadership, both in the front-line and the middle, we have invested in a unique programme 'Unleash your potential'. The programme introduces building blocks of leading a team, unleashing team members' discretionary effort, and focus on their own physical and mental vitality. The mindset to appreciate, recognise, involve, and give importance to team members is shared with powerful metaphors and role-plays. A safe space of empathy is created so that the leaders can be vulnerable and, therefore, more willing to challenge the conventional mindset with a more empowering one.

### Field-force training

We introduced Virtual Classroom Training (VCT) for the field force. The VCT is used for skill training supported with engaging polls, chat, break out rooms, and whiteboard activity. The field force underwent 199 hours, 218 hours, and 252 hours of brand and skills training in oncology, cardiology and diabetology, and pharma specialties divisions, respectively. For field coaching, managers undertook 240 days of collaborative work, including observation of doctor calls and feedback for improvement.



Training in progress

\*Specific to manufacturing locations and R&D centres





# Management Discussion and Analysis

## Economic overview

### Global economy

The year under review witnessed rising trade tensions across several major economies and imbalances caused by geopolitical forces. It also faced unrestrained deficit spending in the developed world as well as low rates of growth in all the major economies. As a result, the second-half of the year moved steadily towards a slowdown.



In this scenario, the COVID-19 outbreak and pandemic dealt a major blow to the system, affecting populations around the world. Markets and economies came to a standstill as countries were forced to respond with lockdowns over extended periods of time in order to flatten the infection curve and reduce the risk of transmission, while grappling with the fallout of overburdened health infrastructure. Thus, economic growth for 2020 and 2021 has come under severe risk as nations try to recover from the impact of the pandemic.

The lockdown has hit discretionary spending. It has also resulted in loss of work opportunities which has impacted consumer confidence and overall stability.

The demand for goods and services continues to drop globally, the impact of which has been felt across almost all sectors. China, which is a key link in the global supply chains and heavily impacted by the pandemic is making efforts to revive its manufacturing. Simultaneously, major economies are trying to review the current situation, with a view to de-risk these supply chains from being localised in one single country.

### GDP growth rates

Region	Projections (%)		
	2019	2020	2021
World output	2.9	-3.0	5.8
United States	2.3	-5.9	4.7
China	6.1	1.2	9.2
India	4.2	1.9	7.4
Japan	0.7	-5.2	3.0
Europe region (includes Germany, France, Italy, Spain)	1.2	-7.5	4.7

(Source – World Economic Outlook, April 2020 by International Monetary Fund (IMF))

The global economy is projected to contract sharply by 3% in 2020, majorly an after-effect of the COVID-19 pandemic. If the forecasts turn out to be true, the scenario would be more concerning than during the 2008–09 financial crisis.

As per IMF's World Economic Outlook revision post COVID-19 pandemic in April, 2020, the projected world output growth of 5.8% in 2021 would be possible if industrial

operations resume with gradual normalisation of economic activities, along with policy support aided further by international, multi-lateral cooperation by governments across the globe.

(Source – KPMG, March 19, 2020; Franklin Templeton – Global Investment Outlook; IMF report on global economy)

### Indian economy

During FY 2019-20, the Indian economy went through a downturn largely due to low rate of growth of rural income, a fall in domestic demand and the unavailability of affordable credit from Non-Bank Financial Companies (NBFCs).

While the government took steps to support the underperforming sectors, particularly NBFC and manufacturing, the drop in private investment could not be compensated for. As a result, the economy witnessed a stark fall in manufacturing and construction and private investment slackened. Thus, GDP continued to fall. However, signs of recovery marked the beginning of the fourth quarter after the government led with some bold fiscal measures. That is when the COVID-19 outbreak took place and the pandemic gripped the Indian economy.

India declared nationwide lockdown on 25<sup>th</sup> March, 2020, which while necessary to control the transmission of the virus and prepare systems for providing support to citizens, also brought to a halt 70% of industrial activity and discretionary consumption. This has severely impacted cashflows across sectors while plunging smaller businesses into a fight for survival.

Adding to these existing problems, there has been a continued weakness in the rupee amid negative consequence of lower remittances from the Middle East, a result of the fall in crude oil prices. The IMF, as a result in April 2020, slashed India's expected growth rate for FY 2020-21 to 1.9% as against 5.6% earlier. Simultaneously, rising healthcare costs and concerns will have to be factored into any planning for recovery. With a spotlight shone on the global pharma industry due to the pandemic, the unique positioning and inherent strengths of the Indian pharma industry have also been brought to light. (Source: KPMG, Potential impact of COVID-19 on the Indian economy, ET, Business Line).

# Management Discussion and Analysis

## Global pharmaceutical market review

Global spending on medicine has increased steadily at a 10-year CAGR of 4.2% from 2009 to 2019, reaching \$955 billion in 2019. This growth is expected to exceed \$1.1 trillion by 2024, driven by the increased use of specialty and innovative drugs and formulations reaching the market.

Specialty medicines account for 36% of global spending, with projections to touch 40% by 2024. New product growth too is projected to contribute \$165 billion over the next five years, up from \$126 billion. The rise in global pharmaceutical spending would be due to increased usage and because of changes in the specialty and innovative product composition of new brands coming up in the market. However, factors countering this growth may include, to an extent, overall pricing pressures and patent expiry in the developed markets.

While the developed markets currently include 10 countries with pharmaceutical spending greater than \$10 billion, namely the US, Japan, Germany, France, Italy, Spain, the UK, Canada, South Korea and Australia, pharmerging markets include countries with per capita income below \$30,000 per year and five-year absolute growth in pharmaceutical spending greater than \$1 billion. India, China, Russia, South Africa, Saudi Arabia, Thailand, Turkey and Vietnam are key pharmerging markets, among others.

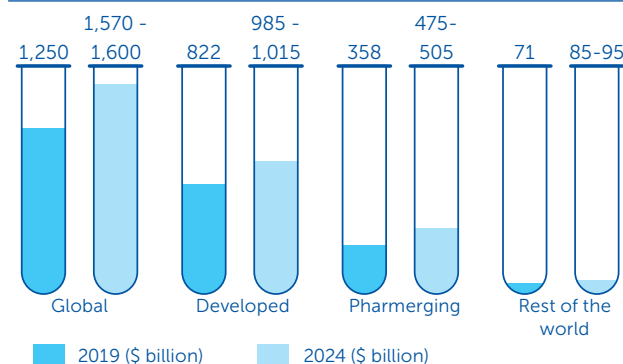
The pharmerging market is expected to reach \$345 billion by 2024, and this would be majorly driven by expansion in market accessibility, leading to usage in greater volumes and adoption of more specialty medicines. The developed markets are likely to reach a market size of \$695 billion by 2024, supported by pricing and market access controls.

Markets	2014-2019 CAGR	2020-2024 CAGR
Global	4.7%	3-6%
Developed	3.8%	2-5%
Pharmerging	7.0%	5-8%
Rest of the world	4.8%	2-5%

(Source: IQVIA Institute, Mar 2020 - Global Medicine Spending and Usage Trends)



## Global pharmaceutical market growth

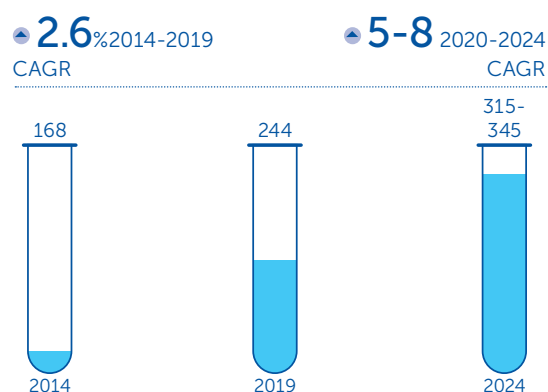


### US

The US continues to be the largest pharmaceutical market, capturing ~41% of global pharmaceutical spending. It also dominates pharmaceutical trends, both in consumption and development. During the period from 2014 to 2019, the US has recorded CAGR of ~4% in its spending on medicines. According to estimates, prescription drug spending stood at \$500 billion in 2019. The probability of this touching \$600 billion by 2023 is high. Despite it being a mature market for years, the US pharmaceutical industry is still ranked fourth in the overall growth potential, trailing high-growth emerging markets like China, India and Germany.



### Growth of pharmerging market (\$ billion)



(Source: IQVIA Market Prognosis, Sep 2019; IQVIA Institute, Dec 2019)

#### Outlook

Among the different sections of pharmaceutical industry, pharmerging seems to be the most promising because of the expected growth rate of 5-8% CAGR till 2024, much higher than the developed markets. By 2024, ~31% of global pharmaceutical spending is expected to come from these markets.

A major driver of demand will be the consumption of branded generics and pure generic medicines. Higher volumes will aid this growth. Positive trends include acceptance of newly introduced medicines even as high costs may restrict growth in volumes.

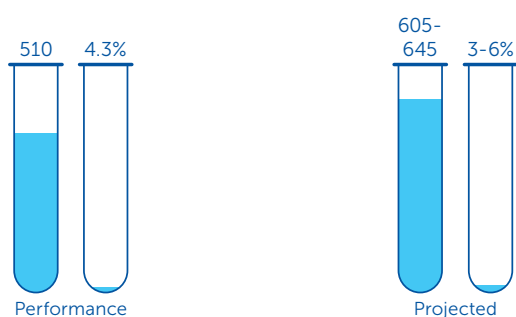
Countries like India, China and Brazil have huge pharma spending. With all three nations focusing on improving their healthcare facilities, pharmerging markets will continue to witness increased spending.

#### India

India commands a strong position in the global pharmaceuticals sector. Being the largest manufacturer of generic drugs globally, catering to ~40% of the demand for generic medicines in the US and 25% of all medicinal requirements in the UK. Indian pharmaceutical sector meets more than 50% of the world's demand for vaccines.

Indian pharmaceuticals domestic market sales reached \$20.03 billion in 2019, from \$18.12 billion in 2018, a growth of 9.8%. India's pharmaceutical exports stood at \$13.69 billion in FY 2019-20 (up to January 2020). By 2020, these are expected to touch \$100 billion, whereas the medical device market is expected to be valued at \$25 billion.

### Growth of US pharmaceutical industry (\$ billion)



(Source: IQVIA Market Prognosis, September 2019; IQVIA Institute, December 2019)

#### Outlook

The US pharmaceutical market is expected to touch \$645 billion by the end of 2024, growing at a CAGR of 3-6%. The development and launch of new innovative specialty drugs for oncology and some other niche treatments are being considered as the major drivers of growth, some of which might be offset by the expiry of a few major patents.

#### Pharmerging markets

Pharmerging markets have seen the greatest growth, with a 12.2% CAGR between 2009 and 2014 and 7.7% CAGR between 2014 and 2019. In 2019, pharmerging markets comprised 26% of spending, which is expected to rise to 28-30% of that in 2024. Most of this growth has been driven by expansion of access to drugs and healthcare, leading to greater volume use and increasing adoption of novel therapies. This is expected to lead to rise in consumption of specialty medicines.

# Management Discussion and Analysis

The Indian government has been proactive in encouraging the pharmaceuticals sector. It accounted for allocation of ₹650.12 billion under the Union Budget 2020-21 by the Ministry of Health and Family Welfare, boosting the confidence of the industry. The government also unveiled the 'Pharma Vision 2020' aimed at making India a global leader in end-to-end drug manufacturing.

Focus is on the speedy introduction of generic drugs into the market, which will greatly benefit the Indian pharmaceutical companies. Also, the time required for approval of new facilities stands reduced, which will help to boost investments. Pharmaceutical companies are also encouraged by the strong focus on rural health programmes, life-saving drugs and preventive vaccines. Medicine spending in India is projected to grow 9-12% over the next five years, which would make India count among the top 10 countries in terms of medicine spending.

(Source: IBEF)

## Business overview

NATCO Pharma Ltd. is a vertically integrated and R&D focused enterprise, engaged in developing, manufacturing and marketing FDF and active pharmaceutical ingredients (APIs) and intermediates. The Company has also initiated plans to diversify into niche agrichemical business.

The Company focuses on niche therapeutics areas and complex products, which gives it a unique positioning in the market, spread over 40 countries. It sells FDF products in the US, India, Europe and Rest of the World (RoW); with substantial clientele in Canada and Brazil as well. It holds a leading market share in the domestic oncology segment.

In India, NATCO sells its products through its own salesforce and branding whereas, in the US and RoW markets, business is done through local partnerships or subsidiaries. The Company's pharma segment has eight manufacturing facilities, which include six FDF and two API facilities that offer several advantages and help to optimise costs.

FY 2019-20 has witnessed significant improvement in the cardiology and diabetology product segments with sales doubling against those recorded in FY 2018-19. Regarding RoW markets, Canada and Brazil, the Company has done much better than expected and has higher growth prospects going forward. It is also looking at further expansion in markets like Singapore, Vietnam, Thailand, Taiwan, and more.

The Company is applying its technical expertise and scientific knowhow in organic chemistry into agrichemicals business. It has been aggressively investing in setting up the technical as well as the formulation facilities and operations are expected to begin from the second half of FY 2020-21.

NATCO's growth is backed by strong fundamentals. Despite a challenging year in FY 2019-20, the Company is confident of growing well in FY 2020-21 and beyond.

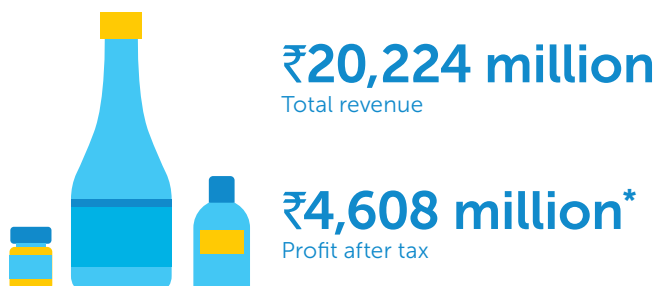
## Business segments

NATCO operates in two business categories, FDF and APIs. Its formulations business caters to international markets, with key focus on the US and Europe while increasing foothold in Brazil and Canada, and domestic markets, with products in oncology, pharma specialties and cardiology and diabetology (CnD). NATCO's API business leverages its unique capabilities that include multi-step synthesis, semi-synthetic fusion technologies, high-potency APIs and peptides. NATCO is also into contract manufacturing. The Company is leveraging its expertise in organic chemistry to drive its foray into agrichemicals to help improve crop health.

### Domestic formulations

NATCO has a strong domestic formulations business led by its presence in the oncology segment and a strong portfolio of products in its non-Oncology segment including Hepatitis C portfolio products. The Company made significant progress in its cardiology and diabetology segment through the launch of five niche products during the year. Overall, during FY 2019-20, the Company launched eight products across the three key business segments. Oncology as well as the pharma speciality business faced downward revenue trends in FY 2019-20 on account of tepid demand. Despite the challenges, the Company was able to launch products catering to different therapies and segments. NATCO has established its presence in all three business segments and is geared up to launch 8-10 products every year across all its segments in the near future.

During the year, NATCO's domestic business faced multiple macro headwinds, including channel pricing controls for the oncology products and continued decline in the patient pool for the acute disease caused by Hepatitis-C leading to a decline in our pharma specialty segment. Lastly, there was COVID-19-related business decline during the fourth quarter of the year.



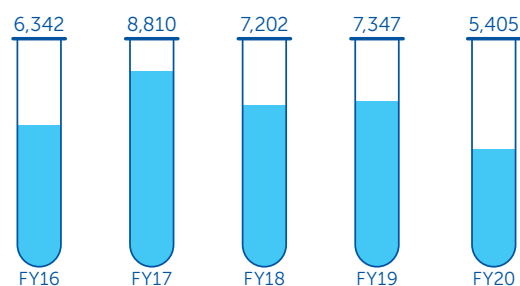
\*Attributable to owners of the company



**Domestic FDF sales**

(₹ in million)

▼ (4)% (4-year CAGR)

**Oncology**

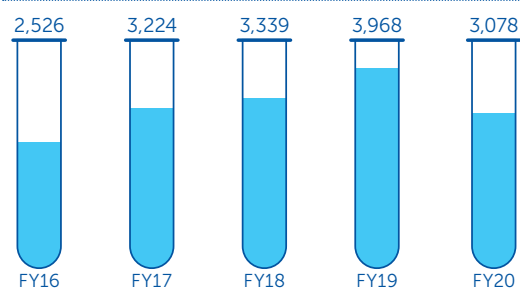
NATCO's product portfolio is among the most extensive in the Indian oncology market, with 33 active products as on 31<sup>st</sup> March, 2020. During the year, the Company launched three products with several more launches expected in the future. The company has 10 brands which have recorded sales over ₹100 million during FY 2019-20.

The oncology segment is core to NATCO's base business and is expected to continue its growth trajectory over the next several years. The Company's revenues from this business segment fell from ₹3,968 million in FY 2018-19 to ₹3,078 million in FY 2019-20, primarily due to certain macro pressures. These include new pricing controls by National Pharmaceutical Pricing Authority (NPPA), which impacted the margin along the sales channels and the pressures surrounding COVID-19 during the fourth quarter. We expect to regain growth momentum for the segment going forward.

**Oncology sales**

(₹ in million)

▼ 5% (4-year CAGR)

**Non-Oncology business**

This comprises of products from our pharma specialty and C&D divisions apart from third party manufactured products. The Company's revenues from the non-oncology business fell from ₹3,379 million in FY-2018-19 to ₹2,327 million in FY 2019-20.

**Pharma Specialties**

NATCO has 18 active products in its pharma specialties portfolio that caters largely to gastroenterology, hepatology, orthopaedics, neurology and critical care. The gastroenterology range deals with the novel drugs for chronic Hepatitis-B and Hepatitis-C and the orthopaedics range covers all the important bisphosphonates, including the oral and injectable ones.

Over 90% of the business in this segment is contributed by the Hep-C portfolio products. The primary reason for the decline in the Hep-C portfolio is the shrinkage of the market size as more patients got treated from this acute disease. We have an interesting list of gastro-hepatology products to be launched in the ensuing years.

**Cardiology and diabetology**

Since its launch in 2017, NATCO has gradually built the portfolio of products in the segment but FY 2019-20 was a defining year with the launch of five notable products. Of these, Vildagliptin was the first to launch after the innovator in spite of a plethora of competitors.

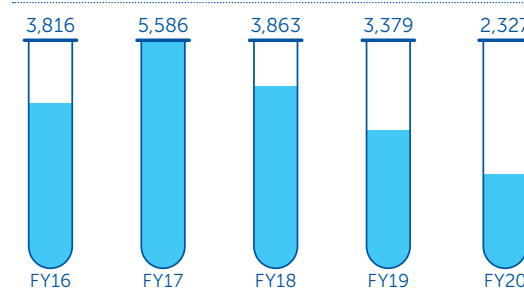
**Third Party manufacturing**

Contract manufacturing of products for third party companies is the revenue component for this segment.

**Non-Oncology revenue\***

(₹ in million)

▼ (12)% (5-year CAGR)



\*includes third party





# Management Discussion and Analysis

The segment grew exponentially in revenue terms, garnering ₹150 million during FY 2019-20 as compared to ₹70 million during the previous year. NATCO is working to develop a pipeline of products, which will help to distinguish the Company's products from those of its competitors.

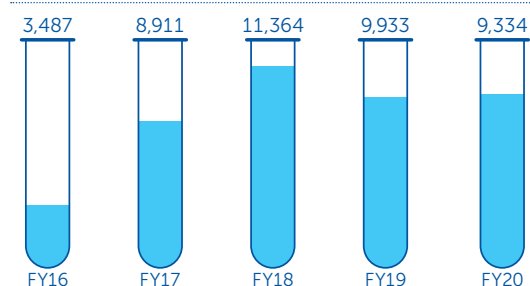
## International formulations

It's been more than a decade that NATCO established a presence in the US and other international markets. In the US, it follows a partnership-driven business model, wherein, NATCO brings the manufacturing strength and know-how while its partner brings the marketing strength. In Canada, Singapore and Brazil, NATCO functions through its subsidiaries.

During FY 2019-20, the Company's revenue from international business stood at ₹9,334 million, as compared to ₹9,933 million in FY 2018-19. Of this, earnings from exports from India stood at ₹8,249 million, whereas subsidiaries contributed ₹1,085 million of net revenue.

## International formulations (₹ in million)

📈 **28%** (5-year CAGR)



### US

The exports (including FDFs and APIs) to the US clocked revenue of ₹7,834 million in FY 2019-20. NATCO is positioned strongly in its business in the US, which is primarily driven by the continued growth of revenue coming from Glatiramer Acetate and Liposomal Doxorubicin. The revenues from Oseltamivir continue to be appreciable in spite of competition and the launch of the product over three years ago. During the year, the Company filed for four niche ANDAs with several others in the pipeline.

All NATCO's manufacturing facilities which cater for the US business continue to be in good standing from USFDA. NATCO's Vizag facility, which is part of an SEZ for the export market was also successfully inspected during the financial year by USFDA.

We continue to face pricing pressures for older drugs in the NATCO US portfolio. Despite these challenges, we have managed good revenue from the US markets.

## Key Para-IV products in the pipeline

Key Brand	Molecule	Therapeutic Segment / Primary Indication
Nexavar	Sorafenib	Cancer/Kidney and Liver
Tykerb	LapatinibDitosylate	Cancer/Breast
Revlimid	Lenalidomide	Cancer/Multiple myeloma
Afinitor	Everolimus (higher strength)	Cancer/Breast
Zortress	Everolimus (lower strength)	ImmuneSupression/ OrganTransplant
Aubagio	Teriflunomide	CNS/Multiple sclerosis
Kyprolis	Carfilzomib	Cancer/Multiple myeloma
Pomalyst	Pomalidomide	Cancer/Multiple myeloma
Sovaldi	Sofosbuvir	Antiviral/Hep-C
Imbruvica	Ibrutinib	Cancer/Leukaemia
Lonsurf	Trifluridine/Tipiracil	Metastatic colorectal cancer
TracleerTFO	Bosentan	Pulmonary Arterial Hypertension

## RoW markets

### Canada

During FY 2019-20, NATCO Pharma Canada Inc. did a business of ₹1,283 million, as against ₹960 million in FY 2018-19. In spite of global headwinds, our subsidiary in Canada has shown resilience and growth. NATCO had total 12 active products with 18 approvals as of 31<sup>st</sup> March, 2020. As of Q1 FY21 Board meeting, the Company has disclosed a settlement with Celgene (now part of Bristol-Myers Squibb) for the product Lenalidomide Capsules in Canada. The Company is excited about its growth in the next few years in Canada.

### Brazil

In Brazil, the government and regional tenders account for most of the medicine sales. NATCO services this market through its subsidiary NATCOFARMA Do Brasil. During the year, the Company witnessed four filings. As on 31<sup>st</sup> March 2020, NATCO had nine filings in Brazil. During FY 2019-20, it has registered a business of ₹390 million. Regulatory factors remain a key challenge in this market apart from the tender to sale conversion challenges. The Company expects incremental growth in the coming years.

	Total filed	Total number of approvals	Total number of active products
Brazil	9	3	3
Canada	28	18	12

## Other RoW markets

NATCO is venturing into newer territories in RoW markets, apart from strengthening its presence in markets where it already operates.

The Company has gradually gained market in Singapore with its generic branded products in spite of the strong affiliation towards innovator brands prevalent in the market.

FY 2019-20, however, turned out to be the year of a breakthrough and NATCO won a major tender worth more than SGD\$1 million.

The Company has been gradually increasing its presence in the Philippines, Thailand, Vietnam, China and Australia.

#### Active Pharmaceutical Ingredient (API)

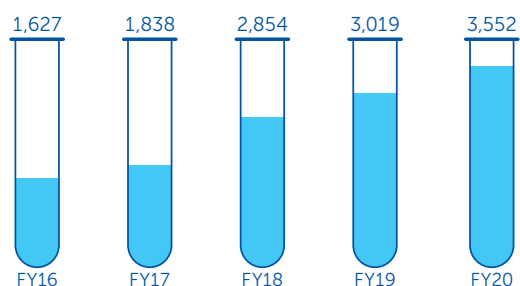
NATCO enjoys a strong reputation for its API products. Generally, the Company focuses on the manufacture of niche APIs to support its formulation business.

The Company's move to vertically integrate its API facility helps to ensure business sustainability both in periods of margin pressure as well as disruption in raw material supply.

Revenues from the API division during FY 2019-20 stood at ₹3,552 million as compared to ₹3,019 million in FY 2018-19. As of 31<sup>st</sup> March, 2020, NATCO has a total of 49 active DMFs with the USFDA for products in the areas of oncology, cardiology and orthopaedic therapies. We filed for four DMFs for the US market in FY 2019-20.

#### Gross API revenues (₹ in million)

◆ **22%** (5-year CAGR)



#### Segmental Breakdown

Revenue division	(₹ in million)*			
	FY 17	FY 18	FY 19	FY 20
API Revenue (total)	1,838	2,854	3,019	3,552
<b>Formulations</b>				
Domestic	8,810	7,202	7,347	5,405
International (including subsidiaries)	8,911	11,364	9,933	9,334
Other operating and non-operating incomes	1,230	1,004	1,948	1,933
<b>Total revenue</b>	<b>20,789</b>	<b>22,424</b>	<b>22,247</b>	<b>20,224</b>

\*Figures regrouped wherever appropriate



#### Crop Health Sciences

NATCO has forayed into the agrichemical space through its Crop Health Sciences Division recently. Currently it is in the process to complete the manufacturing facilities for both technical (active ingredient) and formulations. NATCO is targeting the release of a key technical product from its CHS division for Chlorantraniliprole (CTPR), a broad-spectrum insecticide used in several crops, and is hoping to bring formulations based on this product with affordability and accessibility to farmers across the country. NATCO is awaiting regulatory approval for the CTPR product and litigation outcome.

The Company also has other niche products in the pipeline, to differentiate itself from other agrichemical companies.



### Financial overview

During FY 2019-20, NATCO's consolidated revenue from operations stood at ₹20,224 million, growing at a CAGR of 16.7% over the last four years. The EBITDA for the year was ₹6,900 million, with an EBITDA margin of 34.1%. The Company's EBITDA has been growing steadily at a CAGR of 25% over the past four years. Profit After Tax (PAT) stood at ₹4,608 million, with the PAT margin being 22.8%. CAGR of NATCO's PAT over the past four comes to 30.9%.

The market capitalisation of the Company as on 31<sup>st</sup> March 2020 stood at ~₹92 billion. For the year ending March 31<sup>st</sup> 2020 NATCO has declared an equity dividend of 337.50%, amounting to ₹6.75 per share (face value of each share being ₹2). Altogether, dividends worth ₹1,536 million (including dividend distribution tax) have been paid to the

shareholders in FY 2019-20, as compared to ₹1,108 million (including dividend distribution tax) in FY 2018-19.

Moreover, even in such tough and challenging market, the Company has been able to maintain its Return on Equity (ROE) at 12% and Return on Capital Employed (ROCE) at 15% for its shareholders during FY 2019-20. Based on the business prospects for the coming years, we expect both metrics to make appreciable improvements.

#### Threats, risks and concerns

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

#### Environment, health and safety

At NATCO, we recognise the importance of a clean environment and it is our constant endeavour to go beyond regulatory compliance to contribute to it. Compliance is our cornerstone. Every employee is encouraged to be an environment custodian.

This consciousness underpins our strategy and business model, which are focused not just on mitigating the environmental after-effects of business, but on containing them from the very start.







As we continually seek new and more effective ways of minimising our impact on the environment, we are keenly aware of the correlation between global warming and the incidence of infectious diseases.

In an effort towards continuous improvement in Safety, Health and Environment, we have reviewed and improved our various processes:

- Enhancement of Zero Liquid Discharge capacity at Mekaguda is completed, required permissions obtained and is ready for operation to handle additional loads and to produce more products to reach out the more unmet medical needs
- Upgradation of ETP is in progress at Nagarjuna Sagar and at Kothur unit
- Energy audits conducted across the group units to assess the energy efficiency and to identify the opportunities for improvement
- Monitoring the Scope-I and Scope-II GHG emissions to assess the performance of our carbon footprint and to roll out action plans for further mitigation
- Developed an Eco-Forest by using 'Miyawaki' concept along the boundary at Mekaguda unit
- Implemented the 'Behaviour Based Safety' management system to inculcate the safety culture among the employees at Kothur unit in association with Administrative Staff College of India

# Board's Report

The Board takes pleasure in presenting the 37<sup>th</sup> Annual Report of the Company along with the Audited Financial Statements and other reports for the year ended March 31, 2020.

## Company Overview

Your company is a vertically integrated pharmaceutical company having presence in multiple speciality therapeutic segments. Over the years, the Company has developed an innate ability to deliver molecules, which are complex and hard to manufacture. The Company has constantly innovated and manufactured speciality medicines and niche pharmaceutical products. The Company has its corporate headquarters at Hyderabad.

## Financial Summary

A summary of the Company's financial results for the Financial Year 2019-20 is as under:

Particulars	Standalone		Consolidated	
	Year ended March 31, 2020	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2019
Net Revenue /Income	19140	21161	20224	22247
Gross profit before interest and depreciation	7018	9463	6900	9250
Finance Cost	206	188	215	193
Profit before depreciation and amortisation - (Cash Profit)	6812	9275	6685	9057
Depreciation and Amortisation	981	801	998	810
PBT before exceptional items	5831	8474	5687	8247
Exceptional items	-	-	-	-
Profit before Tax (PBT)	5831	8474	5687	8247
Provision for Tax –Current	1251	1863	1271	1883
Income Tax for earlier years	40	-	40	-
Provision for Tax –Deferred	(205)	(60)	(205)	(60)
Profit after Tax	4745	6671	4581	6424
Other comprehensive income (OCI)	(64)	(91)	(145)	(76)
Total Comprehensive income for the period	4681	6580	4436	6348

(₹ in Millions)

The details of the Company's operations have been further discussed in detail in the Management Discussion and Analysis Report.

## Impact of Covid-19

In March, 2020, the World Health Organisation declared COVID-19 to be a pandemic. The Company has adopted measures to curb the spread of infection in order to protect the health of its employees and ensure business continuity with minimal disruption. The Company has considered internal and external information while finalising various estimates and recoverability of assets in relation to its financial statement captions up to the date of approval of the financial statements by the Board of Directors. Considering the Company is in the business of manufacturing and supplying of pharmaceutical products which is categorised under essential goods, there has been a minimal disruption with respect to operations including production and distribution activities. The actual impact of the global health pandemic may be different from that which has been estimated, as the COVID-19 situation evolves in India and globally. The Company will continue to closely monitor any material changes to the future economic conditions.

## Dividend

The Company declared four interim dividends for the FY 2019-2020, the details of which are as follows:

S. No.	Date of Board Meeting	Date of payment	Interim Dividend Declared per equity share of face value ₹ 2/- each
1.	August 9, 2019	August 27, 2019	1.25
2.	November 12, 2019	November 27, 2019	1.00
3.	February 12, 2020	February 27, 2020	3.50
4.	June 17, 2020	July 3, 2020	1.00
TOTAL			6.75

The total dividend pay-out for the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> & 4<sup>th</sup> Interim dividend amounted to ₹ 1,229 million and dividend distribution tax amounted to ₹ 215 million. Thus the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> & 4<sup>th</sup> Interim dividend resulted in total pay-out of 25.9% of the standalone profit after tax of the Company for the year under review.

The three Interim Dividends have been paid to all eligible shareholders and the fourth interim dividend is declared on June 17, 2020 which is due for payment on or before

July 3, 2020. Accordingly your Directors recommend that the above four interim dividends be treated as the final dividend of the Company for the Financial Year 2019-20. The Dividend Distribution Policy of the company is annexed to this report as **"Annexure VIII"** and is also available on the Company's website [www.natcopharma.co.in](http://www.natcopharma.co.in).

### Transfer to Reserves

The Company has not transferred any amount to the general reserve for the financial year ended March 31, 2020.

### Share Capital

During the year under review, 3,05,840 equity shares were issued and allotted under Employee Stock Option Schemes (ESOP- NATSOP 2015, NATSOP 2016 & NATSOP 2017) and a total of 9,84,344 shares were bought back by the Company through open market route under the SEBI (Buy-back of Securities) Regulations, 2018 and the same were extinguished. Accordingly, the issued and subscribed share capital of the Company as on March 31, 2020 stood at ₹ 364 million divided into 18,20,67,975 equity shares of ₹ 2/- each as against ₹ 365 million divided into 18,27,46,479 equity shares of ₹ 2/- each as on March 31, 2019.

### Buyback

During the year ended March 31, 2020, the Company bought back and extinguished 984,344 equity shares of ₹ 2 each for an aggregate purchase value of ₹ 536 million at an average price of ₹ 544 per share, excluding transaction costs under the buy-back of equity shares plan approved by the Board of Directors on November 5, 2018.

### Deposits

During FY 2019-20, the Company did not accept any fixed deposit within the meaning of Sections 73 and 74 of the Companies Act, 2013 read together with the Companies (Acceptance of Deposits) Rules, 2014 and therefore no amount of principal or interest was outstanding, as on the date of balance sheet.

### 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 seven (7) subsidiaries as on March 31, 2020. The consolidated financial statement of the Company and all its subsidiaries prepared under Indian Accounting Standards (Ind AS) specified under Section 133 of the Companies Act, 2013 form part of the annual report. Further, a statement containing the salient features of the financial statement of our subsidiaries in the prescribed Form AOC-1, is attached as **"Annexure I"** to the Board's Report. This statement also provides the details of the performance and financial position of each subsidiary. In accordance with Section 136 of the Companies Act, 2013,

the audited financial statements and related information of the subsidiaries, where applicable, will be available for inspection during regular business hours i.e., from 9:00 AM to 5:30 PM at the Company's registered office in Hyderabad, Telangana, 21 days before the schedule date of Annual General Meeting.

### Particulars of Loans, Guarantees and Investments

The Company provides investments, loans and guarantees to its subsidiaries for its business purpose. Details of investments, loans, and guarantees 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

Pursuant to the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), a detailed report on the Corporate Governance systems and practices of the Company is given under Corporate Governance Report which is part of this Annual Report. Similarly, other detailed information for shareholders is provided in the chapter Additional Shareholders' Information.

A certificate from Mrs. D Renuka, Company Secretary in Practice (C.P. No. 3460) on the compliance with the conditions of Corporate Governance is part of the Corporate Governance Report. A certificate from her that none of the Directors on the Board of the Company are disqualified from being appointed or continuing as a Director(s) of Company by the Ministry of Corporate Affairs or any to the effect statutory authority is attached to this Annual Report.

### Management Discussion and Analysis

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

### Board of Directors

In accordance with the provisions of the Companies Act, 2013, Sri Sridhar Sankararaman (DIN: 06794418) is liable to retire 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 as amended from time to time, an evaluation of the performance of the Board was undertaken. The contribution and impact of individual Director(s) were reviewed through a peer evaluation on parameters such as level of engagement and participation in Board/ Committee meetings, flow of information, independence of judgment, conflicts resolution, managing relationships



# Board's Report

within the Board and their contribution in enhancing the Board's overall effectiveness. The feedback obtained from the interventions was discussed in detail and, where required, independent and collective action points for improvement put in place.

## Appointment of Directors and Remuneration Policy

The assessment and appointment of members to the Board is based on a combination of criterion that includes ethics, personal and professional stature, domain expertise, gender diversity and specific qualification required for the position. The Independent Board member is also assessed on the basis of independence criteria defined in Section 149(6) of the Companies Act, 2013 and Regulation 16(1)(b) of the Listing Regulations.

In accordance with Section 178(3) of the Companies Act, 2013, and on recommendations of Nomination and Remuneration Committee, the Board adopted a remuneration policy for Directors, Key Management Personnel (KMPs) and Senior Management which is available on the website of the Company [www.natcopharma.co.in](http://www.natcopharma.co.in).

Upon recommendation of the Nomination and Remuneration Committee, the Board of Directors at their meeting held on February 12, 2020 approved the re-appointment of Dr. M.U.R. Naidu (DIN: 05111014), Independent Director for a further term of five (5) years i.e., up to 42<sup>nd</sup> Annual general Meeting to be held in the Calendar year 2025 in terms of the provisions of the Companies Act, 2013, subject to the consent of the Members of the Company at the ensuing Annual General Meeting.

The Board at its meeting held on June 17, 2020 has framed the Scheme for giving of Loan(s) to Non-Promoter Working Director(s), the same is subject to the consent of the Members of the Company at the ensuing Annual General Meeting.

## Registration of Independent Directors in Independent Directors Databank

All the Independent Directors have been registered and are members of Independent Directors Databank maintained by Indian Institute of Corporate Affairs and whoever be required to qualify the Online Proficiency Self-Assessment Test will be complied in due course of time.

## Confirmation from the Board

All the Independent Directors of the Company have given their respective declaration/disclosures under Section 149(7) of the Act and Regulation 25(8) of the Listing Regulations and have confirmed that they fulfill the independence criteria as specified under Section 149(6) of the Act and Regulation 16 of the Listing Regulations and have also confirmed that they are not aware of any

circumstance or situation, which exist or may be reasonably anticipated, that could impair or impact their ability to discharge their duties with an objective independent judgment and without any external influence. Further, the Board after taking these declaration / disclosures on record and acknowledging the veracity of the same, concluded that the Independent Directors are persons of integrity and possess the relevant expertise and experience to qualify as Independent Directors of the Company and are Independent of the Management.

## Opinion of the Board

The Board opines that all the Independent Directors of the Company strictly adhere to corporate integrity, possesses requisite expertise, experience and qualifications to discharge the assigned duties and responsibilities as mandated by the Companies Act, 2013 and Listing Regulations diligently.

## Number of Meetings of the Board and its Committees and other Committees

The Board currently has nine Committees, namely, Audit Committee, Stakeholders Relationship Committee, Nomination and Remuneration Committee, Compensation Committee, Allotment Committee, Corporate Social Responsibility Committee, Risk Management Committee, Buyback Committee, Committee dealing with Land Property.

A detailed update on the Board, its composition, detailed charter including terms of reference of various Board Committees, number of Board and Committee meetings held during FY 2019-20 and attendance of the Directors is provided in the Corporate Governance Report, which forms part of the Annual report.

All the recommendations made by the Committees of Board including the Audit Committee were accepted and implemented by the Board.

## Meeting of Independent Directors

A separate meeting of the Independent Directors was held on February 12, 2020, inter-alia, to discuss evaluation of the performance of Non-Independent Directors, the Board as a whole, evaluation of the performance of the Chairman, taking into account the views of the Executive and Non-Executive Directors and the evaluation of the quality, content and timeliness of flow of information between the management and the Board that is necessary for the Board to effectively and reasonably perform its duties.

The Independent Directors expressed satisfaction with the overall performance of the Directors and the Board as a whole.

### 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 was discussed in detail in the Management Discussion and Analysis section of this Annual Report.

### Material changes and commitments affecting financial position between end of financial year and date of report

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

### Business Responsibility Report

As mandated by the Securities and Exchange Board of India (SEBI), the Business Responsibility Report (BRR) forms part of this Annual Report. The BRR contains a detailed report on business responsibilities vis-à-vis the nine principles of the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business framed by the Ministry of Corporate Affairs.

### Internal Financial Controls

The Company has in place adequate Internal Financial Controls commensurate with the business operations of the Company which are operating effectively. Your Company has adopted policies and procedures for ensuring the orderly and efficient conduct of its business, including adherence to the Company's policies, the safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of the accounting records, and timely preparation of reliable financial disclosure.

### Insurance

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

### Directors Responsibility Statement

Pursuant to Section 134(3)(c) of the Companies Act, 2013 in relation to Financial Statements of the Company for the year ended March 31, 2020, the Board of Directors state that:

- a) In the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- b) The Directors had selected such accounting policies and applied them consistently and made judgments

and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the Financial Year and of the profit and loss of the Company for that period;

- c) The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) The Directors had prepared the annual accounts on a going concern basis;
- e) The Directors had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- f) The Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems 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(s) or arrangement(s) entered into by the Company with related parties referred to in Section 188(1) in Form AOC-2 is attached as "Annexure II" to this Board's Report.

The details of related party disclosures form part of the notes to the Financial Statements provided elsewhere in this Annual Report.

### Vigil Mechanism/Whistle Blower Policy

The Company believes in upholding professional integrity and ethical behavior in the conduct of its business. To uphold and promote these standards, the Company has a Vigil Mechanism / Whistle Blower Policy which serves as a mechanism for its Directors and employees to report genuine concerns about unethical behavior, actual or suspected fraud or violation of the Code of Conduct without fear of reprisal. The policy also provides employee(s) access to the Chairperson of the Audit Committee under certain circumstances. The details of the procedures are also available on the website of the Company <https://www.natcopharma.co.in/investors/shareholder-information/corporate-governance-policies/>

A brief note on the Whistle Blower Policy is also provided in the Report on Corporate Governance, which forms part of this Annual Report.

# Board's Report

## Internal Complaints Committee

The Company has Internal Complaints Committees in place in all the units in line with the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013. A brief note on the same is provided in the Report on Corporate Governance, which forms part of this Annual Report.

Details are available in the principle 3 of the Business Responsibility Report forming a part of this Annual Report.

## Auditors

### Statutory Auditors

The members of the Company at their Annual General Meeting held on September 5, 2019 appointed M/s. B S R & Associates LLP (Firm Registration No. 116231W/W-100024) as the Statutory Auditors of the Company to act as such from the conclusion of 36<sup>th</sup> Annual General Meeting (AGM) held for the financial year 2018-19 till the conclusion of the AGM to be held for the FY 2023-24.

### Secretarial Auditor

Pursuant to Section 204 of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014, CS B. Kiran Kumar with Certificate of Practice (CP) No. 15876, M/s. BK Associates, a Practicing Company Secretary conducted the Secretarial Audit of the Company for FY 2019-20. The Secretarial Audit Report in form No. MR-3 is attached as **"Annexure III"** to this Board's Report.

Upon recommendation of the Audit Committee, the Board has re-appointed CS B. Kiran Kumar (CP No. 15876), M/s. BK Associates, a Practicing Company Secretary as Secretarial Auditor of the Company for the FY 2020-21.

### 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) Rules, 2014, the Company maintains the Cost Audit records in respect of its pharmaceutical business. The Board has, on the recommendation of the Audit Committee, appointed M/s. S.S. Zanwar & Associates (Firm Registration No.:100283) as Cost Auditors of the Company for FY 2020-21. 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 for their ratification in the ensuing AGM. The Cost Audit report for the FY 2019-20 will be filed with the Central Government within the stipulated timeline and the relevant Cost Audit reports for FY 2018-19 were filed within the due date to the Central Government.

## Auditors' Qualifications/ reservations/ adverse remarks/ Frauds reported

There are no Auditors' Qualifications or reservations or adverse remarks on the financial statements of the Company. The Auditors have not reported any frauds to the Audit Committee as prescribed under Section 143(12) of the Companies Act, 2013.

## Significant and Material Orders Passed by the Courts/ Regulators

During FY 2019-20, there were no significant and/or material orders, passed by any Court or Regulator or Tribunal, which may impact the going concern status or the Company's operations in future.

## Corporate Social Responsibility Initiatives

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

The details about the CSR initiatives taken during the FY 2019-20 are discussed in a separate head which forms a part of this Annual Report.

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

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

Pursuant to the provisions of Section 124(5) of the Companies Act, 2013, the declared dividends which remained unpaid or unclaimed for a period of seven years, have been transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 125 of the said Act, the details of which are disclosed in the notice of ensuing Annual General Meeting of the Company.

## Employees Stock Option Scheme

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

## Credit Rating

ICRA Limited has reaffirmed their rating **"AA"** (which means high degree of safety regarding timely servicing of financial obligations and has very low credit risk) for various banking facilities enabling your Company to avail facilities from banks at attractive interest rates indicating a very strong degree of safety for timely payment of financial obligations such as payment of interest and repayment of principal, if any.

### Particulars of Employees

The information as required under Section 197 of the Act read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are given in "**Annexure V**" which forms part of this report.

The information required under Rule 5(2) and (3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, is provided in an Annexure forming part of this Report. In terms of the second proviso to Section 136 of the Act, the Report and Accounts are being sent to the Members excluding the aforesaid Annexure. The said annexure is open for inspection at the Registered Office of the Company and any member interested in obtaining the same may write to the Company Secretary at the Registered Office of the Company.

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

The details of Energy Conservation, Research and Development, Technology Absorption and Foreign Exchange Earnings and Outgo as required under Section 134(3)(m) of the Companies Act, 2013, read with Rule 8(3) of the Companies (Accounts) Rules, 2014 is annexed to this report as "**Annexure VI**".

### Extract of Annual Return

As required under Sections 92(3) and 134(3)(a) of the Companies Act, 2013 read with Rule 12 of Companies (Management and Administration) Rules, 2014, the extract of Annual Return in Form MGT-9 forms part of this report as "**Annexure VII**".

### Compliance with Secretarial Standards

The Company has complied with Secretarial Standards issued by the Institute of Company Secretaries of India.

### Green Initiative

To preserve environment, the Company has undertaken number of green initiatives which not only reduce burden on environment but also ensure secured dissemination of information. Such initiatives include energy saving, water conservation and usage of electronic mode in internal processes and control, statutory and other requirement.

### Acknowledgements

The Board wish to place on record their appreciation to shareholders, government authorities, banks, business partners, medical practitioners and other stakeholders for the assistance, co-operation and encouragement extended to the Company. The Board also commend the continuing commitment and dedication of the employees at all levels, which has been critical for the Company's success. The Board look forward to their continued unstinted support in future also.

For and on behalf of the Board of Directors

**V.C. Nannapaneni**

Chairman and Managing Director

DIN: 00183315

Place: Hyderabad  
Date: June 17, 2020

# Board's Report

## Annexure-I to the 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	Natcofarma Do Brasil Ltda	Natco Pharma Asia Pte.Ltd	Natco Pharma Australia Pty Ltd	Natco Lifesciences Philippines Inc
Share Capital	41.85	146.55	890.95	53.81	101.88	52.89	36.01
Reserves & Surplus	263.30	182.69	3.59	-99.32	-91.48	-51.65	-27.65
Total Assets	439.04	670.2	51.26	573.41	137.72	1.8	12.02
Total Liabilities	133.90	340.96	296.85	618.92	127.32	0.56	3.66
Investments	-	-	1140.13	-	-	-	-
Turnover	-	1283.22	-	389.98	25.81	-	-
Profit before taxation	1.15	75.11	-10.45	-290.11	-13.03	-2.28	-13.55
Provision for taxation	0.24	19.44	0	15.01	0	0	4.12
Profit after taxation	0.91	55.67	-10.45	-275.1	-13.03	-2.28	-9.43
Proposed Dividend							
Report Currency	USD	CAD	USD	BRL	SGD	AUD	PESO
Closing exchange rate	74.74	52.74	74.74	14.38	52.48	45.89	1.47
Average exchange rate	70.78	53.21	70.78	17.27	51.59	48.23	1.38
% of Shareholding	100%	99.04%	90.44%	90.89%*	99.76%	100%	100%**

\* effective shareholding

\*\* Includes the shares held by the nominee shareholders of the subsidiaries on behalf of the Company.

For and on behalf of the Board of Directors

Place: Hyderabad  
Date: June 17, 2020

**V.C. Nannapaneni**  
Chairman and Managing Director  
DIN: 00183315

## 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 (1) of Section 188 of the Companies Act, 2013 including certain arm's length transactions under third proviso thereto.

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

Sl. No.	Name(s) of the related party and nature of relationship	Nature of Contract / arrangements / transaction	Duration of the contracts / arrangements / transactions	Salient terms of the contracts or arrangements or transactions including the value, if any in ₹ Million	Date(s) of approval by the Board if any:	Amount paid as advances, if any in ₹
1.	Mr. V.C. Nannapaneni, Chairman & Managing Director	Renewal of Lease Agreement	2 years	To locate Mumbai Administrative, Marketing and Distribution office of the Company. ₹ 2.4 million p.a.	12 <sup>th</sup> February, 2019	Nil
2.	Mr. Rajeev Nannapaneni, Vice Chairman & CEO	Renewal of Lease Agreement	1 year	To locate Chennai Marketing and Distribution Office – Rent payable ₹ 2.4 million p.a.	27 <sup>th</sup> May, 2019	Nil
3.	Mr. Rajeev Nannapaneni, Vice Chairman & CEO	Renewal of Lease Agreement	1 year	To locate Chemical Division, Chennai City Administrative office Rent payable ₹ 0.24 million p.a.	12 <sup>th</sup> February, 2019	Nil
4.	M/s. Time Cap Pharma Labs Ltd Shareholding of Mr. V. C. Nannapaneni and Mr. Rajeev Nannapaneni	Renewal of Lease Agreement	2 years	To locate Delhi Administrative, Marketing and Distribution Office Rent payable ₹ 2.4 million p.a.	12 <sup>th</sup> February, 2019	Nil
5.	M/s. Time Cap Pharma Labs Ltd Shareholding of Mr. V. C. Nannapaneni and Mr. Rajeev Nannapaneni	Renewal of Lease Agreement	1 year	To locate godown at Kothur Mandal, Rangareddy Dist. Rent payable - ₹ 1.5 million p.a.	27 <sup>th</sup> May, 2019	Nil
6.	M/s. Time Cap Pharma Labs Ltd Shareholding of Mr. V. C. Nannapaneni and Mr. Rajeev Nannapaneni	Renewal of Lease Agreement	1 year	To locate Company's Solar Panel Production at Kothur, Rangareddy Dist. Rent payable - ₹ 1.5 million p.a.	27 <sup>th</sup> May, 2019	Nil
7.	Natco Pharma (Canada) Inc. Subsidiary	Sales	1 year	To sell finished goods to Natco Pharma (Canada) Inc. ₹ 156.1 million p.a.	12 <sup>th</sup> February, 2019	Nil



## Board's Report

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 in ₹ Million	Date(s) of approval by the Board if any:	Amount paid as advances, if any in ₹
8.	Natco Pharma Asia Pte. Ltd. Subsidiary	Sales	1 year	To sell finished goods to Natco Pharma Asia Pte Ltd. ₹ 13.5 million p.a.	12 <sup>th</sup> February, 2019	Nil
9.	Natcofarma Do Brasil Ltda Step-down Subsidiary	Sales	1 year	To sell finished goods to Natco Pharma Do Brasil Ltda ₹ 281.1 million p.a.	12 <sup>th</sup> February, 2019	Nil

**Note:**

All the above transactions were entered by the Company with Related Parties in the ordinary course of business at prevailing market rates.

For and on behalf of the Board of Directors

**V.C. Nannapaneni**

Chairman and Managing Director  
(DIN: 00183315)

Place: Hyderabad  
Date: 17<sup>th</sup> June, 2020

## Annexure-III to the Board's Report

### Form MR-3 SECRETARIAL AUDIT REPORT

(For the financial year ended 31<sup>st</sup> March, 2020)

[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 read with Regulation 24A of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]

To  
The Members  
**Natco Pharma Limited**  
Natco House, Road No.2  
Banjara hills, Hyderabad.  
Telangana – 500034.

I have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by **Natco Pharma Limited**, CIN: L24230TG1981PLC003201 (hereinafter called the Company). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

Based on my verification of the Company's 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 authorized representatives during the conduct of secretarial audit, I hereby report that in my opinion, the Company has, during the audit period covering the financial year ended on 31<sup>st</sup> March, 2020, complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on 31<sup>st</sup> March, 2020 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, Qualified Institutional Placement 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 and amendments thereto;
  - (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 and amendments thereto;
  - (c) The Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014;
  - (d) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 in relation to the Companies Act and dealing with client, and amendments thereto;
  - (e) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and amendments thereto;
  - (f) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 and amendments thereto;
  - (g) The Securities and Exchange Board of India (Buy-back of securities) Regulations, 2018 and amendments thereto;
  - (h) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 and amendments thereto;
  - (i) The Securities and Exchange Board of India (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 and amendments thereto; and

# Board's Report

- (j) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009.

And the circulars/guidelines issued thereunder;

- (vi) Other laws applicable specifically to the Company namely:

- (a) The Drugs and Cosmetics Act, 1940 and The Drugs and Cosmetics Rules, 1945.
- (b) The Narcotic Drugs and Psychotropic Substances Act, 1985 and the Narcotic Drugs and Psychotropic Substances Rules, 1985 and amendments thereof.
- (c) The Drugs (Prices Control) Order, 2013 made under Essential Commodities Act, 1955.
- (d) Drugs and Magic Remedies (Objectionable Advertisement) Act, 1954 and the rules made thereunder;
- (e) The Air (Prevention and Control of Pollution) Act, 1981
- (f) The Water (Prevention and Control of Pollution) Act, 1974
- (g) The Environment Protection Act, 1986.
- (h) The Hazardous and other wastes (Management, Handling and Transboundary Movement) Rules, 2016 and amendments thereof.
- (i) The Public Liability Insurance Act, 1991.

- (vii) Labour Laws applicable to the Company:

- (a) The Factories Act, 1948
- (b) The Code on Wages, 2019
- (c) The Payment of Gratuity Act, 1972
- (d) Employees Provident Fund and Miscellaneous Provisions Act 1952
- (e) Employees State Insurance Act, 1948 and Employees State Insurance (General) Regulations, 1950.
- (f) The Employees Exchanges (Compulsory notification of vacancies) Act, 1959 and Rules, 1960
- (g) The Contract Labour (Regularisation and Abolition) Act, 1970

- (h) The Maternity Benefit Act, 1961 and amendments thereto;

- (i) Telangana Shops and Establishment Act, 1988.

- (viii) 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 Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

I report that, during the year under review, the Company has complied with all the provisions of the Acts, Rules, Regulations, Guidelines and Standards etc., mentioned above.

I further report that, there were no events/actions in pursuance of:

- a) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009;
- b) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008
- c) The Securities and Exchange Board of India (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013.

**I hereby report that:**

- (a) The Company has, in my opinion, complied with the provisions of the Companies Act, 2013 and the Rules made under the Act as notified by Ministry of Corporate Affairs and the Memorandum and Articles of Association of the Company in all respects.
- (b) The Company has complied with the provisions of the Securities Contracts (Regulation) Act, 1956 and the Rules made under that Act, with regard to maintenance of minimum public shareholding.

- (c) The Company has complied with the provisions of the Depositories Act, 1996 and the Byelaws framed thereunder by the Depositories with regard to dematerialisation / rematerialisation of securities and reconciliation of records of dematerialised securities with all securities issued by the Company.
- (d) The Company has complied with the provisions of the FEMA, 1999 and the Rules and Regulations made under that Act, to the extent it is applicable.
- (e) The Company has complied with the requirements under the Equity Listing Agreements entered into with BSE Limited, National Stock Exchange Limited and regulations of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and amended from time to time to the extent applicable.
- (f) The Company has complied with the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and the Rules and Regulations made under the Act, to the extent it is applicable.
- (b) Adequate notice is given to all the Directors about schedule of 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 duly approved and no dissenting views have been observed so as to record.
- (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;

**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, 2015 including the provisions with regard to disclosures and maintenance of records required under the said Regulations;
- (c) The Company has complied with the provisions of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 including the provisions with regard to disclosures and maintenance of records required under the said Regulations;

**I further report that:**

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

With reference to the compliance of Industry Specific Acts applicable to the Company, I relied upon Management Representation letter issued by the Compliance Officer of the Company. 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 Labor and Financial Laws, I relied upon Management Representation Letter issued by the Compliance Officer, Chief Financial Officer, Head of Human Resources of the Company and also report of Statutory 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:**

- i) The Buy Back Committee of the Board at its meeting held on 16<sup>th</sup> May 2019 considered closure of Buy Back

## Board's Report

(approved by Board on 05<sup>th</sup> November, 2018) with effect from closing market hours on May 16, 2019 as the Company had utilized approximately 74.56% of the Maximum Buy-Back Size aggregating to approx. ₹ 1,864 Millions for buying back equity shares which exceeded minimum buy-back size (i.e., 50% of Maximum Buy-back size) pursuant to SEBI Buy-Back Regulations.

- ii) The Board of Directors at its meeting held on 9<sup>th</sup> August, 2019, pursuant to Clause 18.2 of the Investment Agreement entered with CX Securities Limited on 28<sup>th</sup> November, 2013 recommended the shareholders for their approval for deletion of existing Part II of Articles of Association of the Company which were incorporated as per the Investment agreement and the same was approved by the Shareholders at their 36<sup>th</sup> Annual General Meeting of the Company held on 5<sup>th</sup> of September, 2019.
- iii) The Compensation Committee of the Company at its meeting held on 28<sup>th</sup> September, 2019 pursuant to Natco Employees Stock Option Scheme 2015 (NATSOP 2015) approved the allotment of Fourth tranche of the options entitling 1,25,215 equity shares of ₹ 2/- (Rupees Two Only) to eligible employees, which was earlier approved by the Shareholders at the Extra Ordinary General Meeting held on 27<sup>th</sup> June, 2015.
- iv) The Compensation Committee of the Company at its meeting held on 27<sup>th</sup> January, 2020 pursuant to Natco Employees Stock Option Scheme 2016 (NATSOP 2016) approved the allotment of third tranche of the options entitling 48,170 equity shares of ₹ 2/- (Rupees Two Only) to eligible employees, which was earlier approved

by the Shareholders at the 33<sup>rd</sup> Annual General Meeting held on 30<sup>th</sup> September 2016.

- v) The Compensation Committee of the Company at its meeting held on 27<sup>th</sup> January, 2020 pursuant to Natco Employees Stock Option Scheme 2017 (NATSOP 2017) approved the allotment of second tranche of the options entitling 1,32,455 Equity Shares of ₹ 2/- (Rupees Two Only) to eligible employees, which was earlier approved by the Shareholders at the 34<sup>th</sup> Annual General Meeting held on 28<sup>th</sup> September 2017. Also the Compensation Committee granted 7,200 Stock Options to the employees conferring a right to apply for one equity share of ₹ 2/- each of the Company in accordance with terms and conditions stipulated in the Natco Employees Stock Option Scheme 2017 (NATSOP 2017).

And there were no specific events /actions in pursuance of the above referred laws, rules, regulations, guidelines, etc., having a major bearing on the Company's affairs.

For **BK & Associates**  
Company Secretaries

**CS Kiran Kumar Bodla**  
Proprietor  
ACS No.: 29116  
C P No.: 15876  
PR No.: 717/2020  
UDIN: A029116B000349381

Place: Hyderabad  
Date: 17.06.2020

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



**Annexure to Form MR-3**  
(For the financial year ended 31st March, 2020)

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.

For **BK & Associates**  
Company Secretaries

**CS Kiran Kumar Bodla**  
Proprietor  
ACS No.: 29116  
C P No.: 15876  
PR No.: 717/2020  
UDIN: A029116B000349381

Place: Hyderabad  
Date: 17.06.2020

## Annexure-IV to the Board's Report

### ANNUAL REPORT ON CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES FOR THE FINANCIAL YEAR ENDED MARCH 31, 2020

1. A brief outline of the Company's CSR policy, including overview of Projects or Programs undertaken with a reference to the web-link to the CSR policy and projects or programs are given under:

Your company as a responsible corporate entity framed CSR policy as stipulated by the Companies Act, 2013 to undertake all or any of the objectives contained in Schedule VII of the Companies Act, 2013. Your company intends to actively contribute to the social and economic development of the communities in which it operates by participating actively in building a better, sustainable way of life for the weaker sections of society. The CSR Policy can be accessed on the Company's website at the link: [www.natcopharma.co.in](http://www.natcopharma.co.in):

2. The Composition of CSR Committee:

The CSR Committee comprises of the Directors namely Sri G.S. Murthy, Independent Director, Chairman, Sri V.C. Nannapaneni and Sri Rajeev Nannapaneni.

3. Average net profits of the Company for last three financial years: ₹ 7,823.91 Million.
4. Prescribed CSR Expenditure (two per cent of the amount as in item 3 above): ₹ 156.48 Million.
5. Details of CSR spent during the financial year:
  - a) Total amount spent for the financial year 2019-20: ₹ 157.20 Million
  - b) Amount unspent, if any: Not Applicable.
  - c) Manner, in which the amount spent during the financial year is detailed below:

			(₹ in Millions)	
CSR Project / Activity	Sector	Location of the project / Programme	Amount spent on the projects / programs	Amount spent direct / implementing agency
<b>A. Expenditure on Projects / Programs</b>				
1 Natco Trust Managed School:				
a. Natco High School	Education	Rangapur Village, Kothur Mandal, Ranga Reddy District, Telangana	19.00	Natco Trust
b. Natco School of Learning	Education	Gollamudipadu Village, Ponnur Mandal, Guntur District, A.P.	6.00	Natco Trust
2 Support to Sports	Education	Sports authority of Telangana State, prize money distribution to the winners	0.60	Natco Trust
3 Infrastructure and manpower support to Anganwadi centres	Early childhood Education	Support to Anganwadi centres at Kothur and Nandigam mandals in Ranga Reddy, Nagarjuna Sagar, Nalgonda district in Telangana state and Andar Kuppam village, Manali, Chennai, Tamil Nadu	4.00	Natco Trust
4 After school Tuition Centres	Education	Pedavoor Mandal, Nalgonda District, Telangana, Govt Primary School, Borabanda, Hyderabad, Kothur and Nandigam mandals of Rangareddy Dist., Ponnur Mandal, Guntur district	0.30	Natco Trust
5 Construction and renovation of government schools and other required infrastructures like furniture, water, sanitation, computer / science lab, library, capacity building etc. to government schools	Education	ZPHS, Mekaguda and Nandigama villages in Nandigama mandal, ZPHS Kothur village, Kothur mandal, in Ranga Reddy District and ZPHS, Indira Nagar, Siddipet, Siddipet districts in Telangana state and MPP School, Gollamudipadu village, Ponnur mandal, Guntur district, Andhra Pradesh, Government primary school, Andar Kuppam village, Manali, Chennai, Tamil Nadu	10.30	Natco Trust

(₹ in Millions)

CSR Project / Activity	Sector	Location of the project /Programme	Amount spent on the projects / programs	Amount spent direct / implementing agency
6 Natco Mobile Health Clinics and community health camps	Health	Hyderabad, Ranga Reddy and Nalgonda Districts, Telangana State, Guntur district, Andhra Pradesh, and Manali , Chennai, Tamil Nadu	7.20	Natco Trust
7 Nutrition Centre	Health	Ranga Reddy and Nalgonda District, Telangana	1.65	Natco Trust
8 Patient Counselling	Health	Hyderabad & Rangareddy , Hyderabad District, Telangana	3.10	Natco Trust
9 Construction of cancer block at Govt General Hospital, Guntur	Health	Guntur district, Andhra Pradesh	89.93	Natco Trust
10 Digital PHC and consumables	Health	Mekaguda, Ranga Reddy District	4.10	Natco Trust
11 Natco Career Counselling and Guidance Centre	Livelihood	Ranga Reddy, District, Telangana,	1.60	Natco Trust
12 Potable water plants	Water and sanitation	Hyderabad, Ranga Reddy, Jogulambha Gadwal districts, Telangana State and Guntur district Andhra Pradesh	2.30	Natco Trust
13 Minerals and medicines support to Veterinary healthcare	Veterinary	Ranga Reddy district, Telangana state	0.80	Natco Trust
14 Infrastructure support to departments	Infra support to government	Creation of dining hall, washroom facilities at district Fire office, Visakhapatnam and public wash rooms for public at Ponnur, Guntur district	1.10	Natco Trust
15 Cameras support	World wild foundation	Cameras support to world wild foundation, Hyderabad (WWF)	0.02	Natco Trust
<b>Total (A)</b>			<b>152.00</b>	
<b>B. Administrative expenses</b>				
Implementing expenses	Education		3.05	Natco Trust
Implementing expenses	Health		1.75	Natco Trust
Implementing expenses	Livelihoods		0.40	Natco Trust
<b>Total (B)</b>			<b>5.20</b>	
<b>Total (A+B)</b>			<b>157.20</b>	

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: Not Applicable.
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 directors report that your company has complied with its CSR Policy along with the provisions of the Companies Act, 2013 and rules made there under and the implementation and monitoring of CSR Policy is in compliance with the CSR objectives and Policy of the Company".

For and on behalf of the Board of Directors

**V.C. Nannapaneni**

Chairman and Managing Director  
(DIN: 00183315)

Place: Hyderabad  
Date: 17<sup>th</sup> June, 2020

## 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, the percentage increase in remuneration of each Director, CEO, CFO and CS, for FY 2019-20 and comparison of the remuneration of each Key Managerial Personnel (KMP) against the performance of the Company:

Name	Designation	Ratio of Remuneration of each Director/KMP to the median remuneration of employees	% increase in remuneration during FY 2019-20
Sri V. C. Nannapaneni	Chairman and Managing Director	53	10.25
Sri Rajeev Nannapaneni	Vice Chairman and CEO	48	10.83
Sri P.S.R.K Prasad	Whole Time Director	49	28.88
Dr. D Linga Rao	Whole Time Director	49	28.88
Sri M. Adinarayana	Company Secretary	13	16.59
Sri S.V.V.N. Appa Rao	Chief Financial Officer	25	66.87

Median remuneration of employees for the FY 2019-20 is Rs.4,07,952/-

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

- (ii) The median remuneration of employees increased by 10.06% in FY2019-20.
- (iii) The number of permanent employees on the rolls of Company as on March 31, 2020 is 5026.
- (iv) The average increase in remuneration paid to employees is 10.03% for FY 2019-20 as compared to FY 2018-19. Compared to FY 2018-19 the standalone revenue in FY 2019-20 fell by 9.55% and profit before tax fell by 31.19 %

It is hereby affirmed that the remuneration paid during FY 2019-20 is as per the remuneration policy of the Company

## Annexure-VI to the Board's Report

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

#### Conservation of Energy, Technology Absorption

##### A) Conservation of Energy –

a) During the year, the Company has implemented energy conservation projects across its various business units. A few of the key initiatives include:

1) Installation of Energy efficient equipment & optimization of processes consuming energy:

a) Installed new high efficiency Utility equipment & Improve the existing utility system during the last fiscal and achieved significant saving of INR 0.5 million in various utility areas.

b) Conversion of CFL based lighting to LED lighting has been taken up during FY 2019-20 and completed the replacement at continuous use area.

2) Identifying cheaper power sources both in-house and external and Utilizing the alternate sources of energy:

a) Installed 1.15 Mw Solar plant at Chemical Division, Mekaguda, which lead to savings of approximately INR 0.8 million for part of the year since installation. Expected saving per annum is approximately INR 10 million.

b) Steps in progress for increasing the utilization of alternate renewable sources of energy.

3) Steps in progress for increasing the utilization of alternate renewable sources of energy:

a) Propose to install 0.5 MW Solar plant at Vizag Plant. Expected saving per annum is approximately INR 3.5 million.

b) Propose to install 0.2 MW at Nagarjuna Sagar Plant. Expected saving per annum is approximately INR 1.5 million

c) Work under progress for Commissioning of waste energy plant at chemical division, Mekaguda. Expected saving is INR 6 Million

##### (B) Technology Absorption

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

Disclosure of particulars with respect to conservation of energy.

A: Power and Fuel Consumption	Year ended March 31, 2020	Year ended March 31, 2019
1. Electricity		
a) Purchased Units	65212042	67600362
Total amount (₹ million)	419.26	401.12
Rate / Unit (₹)	6.43	5.93
b) Own Generation:		
i) Through Diesel		
Generator Units	1461409	1637558
Units / ltr. Of Diesel Oil	3.52	3.51
Cost / Unit (₹)	20.20	20.28
ii) Through Windmill		
Generator Units	4189923	4050102
Total Cost Per Year (₹ million)	7.04	7.03
Cost / per Unit (₹)	1.68	1.74



# Board's Report

A: Power and Fuel Consumption	Year ended March 31, 2020	Year ended March 31, 2019
iii) Through Solar		
Generator Units	6285758	4940174
Total Cost Per Year (₹ million)	11.36	7.42
Cost / per Unit (₹)	1.81	1.50
2. Coal D/C grade		
Quantity (Tonnes)	4912	5368
Total amount (₹ million)	40.42	42.02
Average rate per tonne (₹)	8229	7828
3. Furnace Oil		
Quantity (Ltr)	2531730	2275037
Total amount (₹ million)	78.94	94.15
Average rate per Ltr (₹)	31.18	41.38

	Amount (₹ in Million)	
(C) Expenditure on R&D	Year ended March 31, 2020	Year ended March 31, 2019
R&D Expenditure	1656	1976
Total R&D Expenditure as percentage of standalone revenue	8.65%	9.34%

## (D) Foreign Exchange Earnings and Outgo

The Company earned foreign exchange amounting to ₹ 8736.06 million and used foreign exchange amounting to ₹ 1817.76 million during the year ended 31<sup>st</sup> March, 2020

For and on behalf of the Board of Directors

Place: Hyderabad  
Date: 17<sup>th</sup> June, 2020

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

## Annexure-VII to the Board's Report

### Form No.MGT-9 Extract of Annual Return

as on Financial year ended on 31.03.2020

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

#### I. Registration & other Details

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

#### 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	21005	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., Address : C/o Save Mart, 241W, Roseville Road, Suite:6, Lancaster, PA 17601	SRV 060928109-4232479	Subsidiary	100.00	2(87)
2	Timecap Overseas Limited, Address: C/o IQ EQ Fund Services (Mauritius) Ltd, 33 Edith Cavell Street, Port Louis 11324 Mauritius.	098889-C2/GBL	Subsidiary	90.44	2(87)
3	Natco Pharma (Canada) Inc., Address: PLAZA 1, SUITE # 200, 2000 ARGENTIA RD, MISSISSAUGA, ON.L5N 1P7.	834474-4	Subsidiary	99.04	2(87)
4	Natco Pharma Asia Pte. Ltd, Address: 62, UBI Road 1, #03-21, Oxley Bizhub 2, Singapore 408734	201230076Z	Subsidiary	99.76	2(87)
5	Natco Pharma Australia Pty Ltd, Address: Level 1, 313 Burwood Road,Hawthron, VIC,Australia 3122	601 572 301	Subsidiary	100.00	2(87)
6	Natcofarma Do Brasil Ltda, Address: Av. Nossa Senhora dos Navegantes N° 955 Edif. Global Tower sala 1702	08.157.293/0001-27 MATRIZ	Step down Subsidiary	90.89*	2(87)
7	NATCO Lifesciences Philippines Inc. Address: Unit-1-B Ground Floor, Manor Building 2629 Taft Avenue Brgy, 719 Zone 78 Malate Manila, Philippines	CS201803730	Subsidiary	99.99	2(87)

\* effective shareholding

# Board's Report

## IV. Shareholding Pattern

### (i) Category-wise Shareholding

Category of Shareholders	No. of Shares held at the beginning of the Financial year 1st, April, 2019)				No. of Shares held at the end of the Financial year (31st March, 2020)				% of Change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
<b>A. Promoters</b>									
(1) Indian									
a) Individual / HUF	4,89,25,885	-	4,89,25,885	26.75	4,89,25,885	-	4,89,25,885	26.87	*0.12
b) Central Govt.	-	-	-	-	-	-	-	-	-
c) State Govt.(s)	-	-	-	-	-	-	-	-	-
d) Bodies Corporate	3,30,34,470	-	3,30,34,470	18.06	3,30,34,470	-	3,30,34,470	18.14	0.08
e) Banks / FI	-	-	-	-	-	-	-	-	-
f) Trust	46,82,750	-	46,82,750	2.56	46,86,150	-	46,86,150	2.58	0.02
<b>Sub-Total (A)(1):</b>	<b>8,66,43,105</b>	<b>-</b>	<b>8,66,43,105</b>	<b>47.37</b>	<b>8,66,46,505</b>	<b>-</b>	<b>8,66,46,505</b>	<b>47.59</b>	<b>0.22</b>
(2) Foreign									
a) NRIs – Individuals	24,38,540	-	24,38,540	1.33	24,38,540	-	24,38,540	1.34	0.01
b) Other – Individuals	-	-	-	-	-	-	-	-	-
c) Bodies Corporate	-	-	-	-	-	-	-	-	-
d) Banks / FI	-	-	-	-	-	-	-	-	-
e) Any Other....	-	-	-	-	-	-	-	-	-
<b>Sub-Total (A)(2):</b>	<b>24,38,540</b>	<b>-</b>	<b>24,38,540</b>	<b>1.33</b>	<b>24,38,540</b>	<b>-</b>	<b>24,38,540</b>	<b>1.34</b>	<b>0.01</b>
<b>Total Shareholding of Promoters (A) = (A)</b>	<b>8,90,81,645</b>	<b>-</b>	<b>8,90,81,645</b>	<b>48.71</b>	<b>8,90,85,045</b>	<b>-</b>	<b>8,90,85,045</b>	<b>48.93</b>	<b>0.22</b>
<b>(1)+(A)(2)</b>									
(1) Institutions									
a) Mutual Funds / UTI	1,07,63,368	500	1,07,63,868	5.89	1,54,75,646	500	1,54,76,146	8.50	2.61
b) Venture Capital Funds	-	-	-	-	-	-	-	-	-
c) Alternate Investment funds	4,77,645	0	4,77,645	0.26	11,57,158	-	11,57,158	0.64	0.38
d) Foreign Portfolio Investors – Corporate (FPI)	3,91,12,525	0	3,91,12,525	21.39	3,94,48,676	-	3,94,48,676	21.66	0.27
e) Banks / FI	18,12,725	1,000	18,13,725	0.99	19,27,977	1,000	19,28,977	1.06	0.07
e) Venture Capital Funds	-	-	-	-	-	-	-	-	0
f) Insurance Companies	-	-	-	-	-	-	-	-	0
h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	0
i) Foreign Nation	-	-	-	-	-	-	-	-	0
j) Qualified Institutional Buyers	-	-	-	-	6,89,645	-	6,89,645	0.03	0.03
<b>Sub-Total (B)(1):</b>	<b>5,21,66,272</b>	<b>1,500</b>	<b>5,21,67,763</b>	<b>28.52</b>	<b>5,86,99,102</b>	<b>1,500</b>	<b>5,87,00,602</b>	<b>32.24</b>	<b>3.72</b>
(2) Non-Institutions									
<b>a) Bodies Corporate</b>									
i) Indian	53,33,167	17,400	53,50,567	2.93	46,28,505	17,400	46,45,905	2.55	(0.38)
ii) Overseas	-	-	-	-	-	-	-	-	-
<b>b) Individuals</b>									
i) Individual Shareholders holding nominal share capital upto ₹ 2 lakh	2,14,73,120	8,97,108	2,23,70,228	12.23	2,07,35,968	7,30,978	2,14,66,946	11.79	(0.44)
ii) Individual Shareholders holding nominal share capital in excess of ₹2 lakh	1,13,80,477	-	1,13,80,477	6.22	57,78,092	-	57,78,092	3.17	(3.05)

Category of Shareholders		No. of Shares held at the beginning of the Financial year 1st, April, 2019)				No. of Shares held at the end of the Financial year (31st March, 2020)				% of Change during the year
		Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
c) Others (specify)										
i)	Non-Resident Indians	15,25,270	11,600	15,36,870	0.84	16,83,538	11,600	16,95,138	0.93	0.09
ii)	Clearing Members	3,66,836	-	3,66,836	0.20	82,546	-	82,546	0.04	(0.16)
iii)	Trusts	5,108	-	5,108	0.00	100	-	100	0.00	(0.05)
iv)	Investor Education Protection Fund	6,25,001	-	6,25,001	0.34	6,13,601	-	6,13,601	0.33	0.01
Sub-Total (B)(2):		4,07,08,979	9,26,108	4,16,35,087	22.77	3,35,22,350	7,59,978	3,42,82,328	18.83	(3.94)
Total Public Shareholding (B)=(B)(1)+(B)(2)		9,38,02,850	9,27,608	9,38,02,850	51.29	9,22,21,452	7,61,478	9,29,82,930	51.07	(0.21)
C. Shares held by Custodian for GDRs		-	-	-	-	-	-	-	-	-
Grand Total (A+B+C)		18,19,56,887	9,27,608	18,28,84,495	100.00	18,13,06,497	7,61,478	18,20,67,975	100.00	

## (ii) Shareholding of Promoters:

Sl. No.	Name of the Promoter	No. of Shares held at the beginning of the Financial year 1st, April, 2019)			No. of Shares held at the end of the Financial year (31st March, 2020)			% 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	
A	Promoter							
1	V C NANNAPANENI	35311270	19.31	Nil	22587930	12.41	NIL	(7.00)**
2	VENKAIAH CHOWDARY NANNAPANENI HUF	5440045	2.97	Nil	5440045	2.99	Nil	0.02
3	DURGA DEVI NANNAPANENI	3539100	1.94	Nil	3539100	1.94	Nil	0.00
4	VISTARA ITC INDIA LTD A/c DURGA DEVI TRUST	600000	0.33	Nil	600000	0.33	Nil	0.00
5	RAJEEV NANNAPANENI	1128000	0.62	Nil	1128000	0.62	Nil	0.00
6	NEELIMA SITA NANNAPANENI	182960	0.10	Nil	182960	0.10	Nil	0.00
7	VISTARA ITC INDIA LTD A/c Neelima Nannapaneni Trust	4082750	2.23	Nil	4082750	2.24	Nil	0.01
8	SAU FAMILY TRUST	-	-	Nil	1700	0.00	Nil	0.00
9	Vistra ITCL India Limited A/C VCN Family Trust	-	-	Nil	1700	0.00	Nil	0.00
B	Promoter Group							
1	N RAMAKRISHNA RAO	746910	0.41	Nil	746910	0.41	Nil	0.00
2	T ANILA	629920	0.34	Nil	629920	0.34	Nil	0.00
3	T ANANDA BABU	473205	0.26	Nil	473205	0.26	Nil	0.00
4	VIDYADHARI TUMMALA	442200	0.24	Nil	442200	0.24	Nil	0.00
5	JHANSI TUMMALA	77100	0.04	Nil	77100	0.04	Nil	0.00
6	ALAPATI BAPANNA	18300	0.01	Nil	18300	0.01	Nil	0.00
7	DEVENDRNTH ALAPATI	15000	0.01	Nil	15000	0.01	Nil	0.00
8	VENKTA SATYA SWATHI KANTAMANI	3260000	1.78	Nil	15983340	8.78	Nil	7.00
9	T BAPINEEDU	415	0.00	Nil	415	0.00	Nil	0.00
10	KANTAMANI RATNAKUMAR	100000	0.05	Nil	100000	0.05	Nil	0.00
11	TIME CAP PHARMA LABS LTD	17157220	9.38	Nil	17157220	9.42	Nil	0.04
12	NATSOFT INFORMATION SYSTEMS PVT LTD	15767500	8.62	Nil	15767500	8.66	Nil	0.04
13	NATCO AQUA LTD	16000	0.01	Nil	16000	0.01	Nil	0.00
14	NDL INFRA TECH PVT LTD	93750	0.05	Nil	93750	0.05	Nil	0.00
	Total	89081645	48.70	Nil	89085045	48.93	Nil	0.23

\*\*Interse transfer of shares between Promoters of the Company

# Board's Report

## (iii) 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 of the company	No of shares	% of Total Share of the company
1	At the beginning of the year	8,90,81,645	48.71	0	0
	Less: Off Market Transfer by V C Nannapaneni			1,27,23,340	7.00
				7,63,58,305	41.71
	Add: Off Market Transfer to Mrs. Venkata Satya Swathi Kantamani	-	-	1,27,23,340	7.00
				8,90,81,645	48.71
	Marekt purchase by SAU Family Trust	-	-	1,700	0.00
	Marekt purchase by VCN Family Tust	-	-	1,700	0.00
2	At the ending of the year	-	-	8,90,85,045	48.93

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

Sl. No	Particulars	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No of shares	% of Total Share of the company	No of shares	% of Total Share of the company
1	DILIP.S.SHANGHVI	57,28,460	3.13	5,85,375	0.32
2	PLENTY PRIVATE EQUITY FII I LIMITED	31,66,178	1.73	31,66,178	1.74
3	NOMURA SINGAPORE LIMITED	30,87,500	1.69	30,87,500	1.70
4	MATTHEWS INDIA FUND	29,22,192	1.6	7,66,373	0.42
5	NOMURA INDIA INVESTMENT FUND MOTHER FUND	25,48,756	1.39	-	-
6	FRANKLIN TEMPLETON MUTUAL FUND A/C FRANKLIN INDIA FOCUSED EQUITY FUND	23,00,000	1.26	20,00,000	1.10
7	ADITYA BIRLA SUN LIFE TRUSTEE PRIVATE LIMITED A/C ADITYA BIRLA SUN LIFE EQUITY ADVANTAGE FUND	19,48,397	1.07	19,62,297	1.07
8	STICHTING DEPOSITARY APG EMERGING MARKETS EQUITY POOL	19,24,105	1.05	19,24,105	1.05
9	STEADVIEW CAPITAL MAURITIUS LIMITED	18,06,109	0.99	-	-
10	TATA AIA LIFE INSURANCE CO LTD-WHOLE LIFE MID CAP EQUITY FUND-ULIF 009 04/01/07 WLE 110	15,59,454	0.85	15,59,454	0.85
11	EAST BRIDGE CAPITAL MASTER FUND I LTD	-	-	63,79,272	3.50
	MIRAE ASSET EMERGING BLUECHIP FUND	-	-	18,31,729	1.01
	HYPNOS FUND LIMITED	-	-	16,56,658	0.91
	TEACHER RETIREMENT SYSTEM OF TEXAS - SELF MANAGED 4	-	-	18,81,470	1.07

Note: 1. The Shares of the Company are actively traded on a daily basis on the National Stock Exchange and Bombay Stock Exchange hence date wise increase / decrease shareholding is not provided.

2. The details of date-wise increase / decrease will be provided at the request of shareholder



**V. Shareholding of Directors and Key Managerial Personnel:**

Sl. No	For Each of the Directors	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No of shares	% of Total Share of the company	No of shares	% of Total Share of the company
1	<b>V C Nannapaneni (including HUF) Chairman &amp; Managing Director</b>				
	At the beginning of the year	4,07,51,315	22.29		
	At the end of the year			2,80,27,975	15.39
2	<b>Rajeev Nannapaneni (including NRI) Vice Chairman &amp; Chief Executive officer</b>				
	At the beginning of the year	11,28,000	0.62		
	At the end of the year			11,28,000	0.62
3	<b>P S R K Prasad Director &amp; Executive Vice President (Corp. Engineering Services)</b>				
	At the beginning of the year	48,650	0.03		
	At the end of the year			48,650	0.03
4	<b>D Linga Rao Director &amp; President (Technical Affairs)</b>				
	At the beginning of the year	56,655	0.03		
	At the end of the year			56,655	0.03
5	<b>Dr M U R Naidu Director - Independent</b>				
	At the beginning of the year	15,000	0.01		
	At the end of the year			15,000	0.01
6	<b>M Adinarayana Company Secretary &amp; Vice president (Legal &amp; Corp Affairs)</b>				
	At the beginning of the year	33,250	0.02		
	At the end of the year			33,450	0.02
7	<b>S V V N Appa Rao Chief Financial Officer</b>	1,750	0.00		
	At the beginning of the year			1,750	0.00
	At the end of the year				

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

**VI. Indebtedness:**

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

(₹ in lakhs)

	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
Indebtedness at the beginning of the financial year				
i) Principal Amount	10,212	28,233	-	38,445
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	-	60	-	60
<b>Total (i+ii+iii)</b>	<b>10,212</b>	<b>28,293</b>	<b>-</b>	<b>38,506</b>
Change in Indebtedness during the financial year				
Addition	3,192	-	-	3,192
Reduction	-	-10,465	-	-10,465
Net Change	3,192	-10,465	-	-7,273
Indebtedness at the end of the financial year				
i) Principal Amount	13,404	17,829	-	31,233
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	-	-	-	-
<b>Total (i+ii+iii)</b>	<b>13,404</b>	<b>17,829</b>	<b>-</b>	<b>31,233</b>

\* Doesn't include lease liability as per IND AS-116

# Board's Report

## VII. Remuneration of Directors and Managerial Personnel

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

S. No.	Particulars of Remuneration	Name of MD/WTD/Manager				Total Amount (₹ In Lakhs)
		Sri V C Nannapaneni	Sri Rajeev Nannapaneni	Sri P S R K Prasad	Dr. D Linga Rao	
1	Gross Salary	180.82	165.82	142.44	142.44	631.52
	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* -% of profits	-	-	-	-	-
5	Others, (PF + LTA)	21.26	19.39	18.32	18.32	77.29
6	Arrears	4.18	4.18	3.04	3.04	14.44
7	Incentive	-	-	32.76	32.76	65.52
8	El's Cash	8.86	8.08	4.50	4.50	25.94
	<b>TOTAL (A)</b>	<b>215.12</b>	<b>197.47</b>	<b>201.06</b>	<b>201.06</b>	<b>814.71</b>
	Ceiling as per the Act	₹ 5,005.68/- (being 10% of the net profits of the Company calculated as per Section 198 of the Companies Act, 2013)				

### B. Remuneration to other Directors:

S. No.	Particulars of Remuneration	Name of the Independent directors					Total Amount (₹ In Lakhs)
		Sri G S Murthy	Sri T V Rao	Sri D G Prasad	Dr. Leela Digumarti	Dr M U R Naidu	
1	Fee for attending Board / Committee Meeting	4.60	2.80	2.10	1.00	3.10	13.60
2	Commission	-	-	-	-	-	-
3	Other, please specify (Incidental fees)	-	-	-	-	-	-
	<b>TOTAL (B)</b>	<b>4.60</b>	<b>2.80</b>	<b>2.10</b>	<b>1.00</b>	<b>3.10</b>	<b>13.60</b>
	Ceiling as per the Act	₹ 500.57/- (being 1% of the net profits of the Company calculated as per Section 198 of the Companies Act, 2013)					
	<b>TOTAL MANAGERIAL REMUNERATION (A+B)</b>						<b>828.31</b>
	<b>OVERALL CEILING AS PER THE ACT</b> (being 11% of the net profits of the Company calculated as per Section 198 of the Companies Act, 2013)						<b>5,506.25</b>

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

Note: Sri Sridhar Sankararaman, Non-Executive and Non-Independent Director is not taking any Sitting fees.

**C. Remuneration to Key Managerial Personnel**

Sl. No.	Particulars of Remuneration	Name of KMP		Total Amount ₹ lakhs
		CS M Adinarayana	Mr. S V V N Appa Rao	
1	Gross Salary	44.08	56.04	100.12
	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	8.73	7.87	16.60
6	Arrears	0.47	0.59	1.06
7	Incentive	-	33.68	33.68
8	El's Cash	1.52	1.94	3.46
	<b>Total (A)</b>	<b>54.80</b>	<b>100.12</b>	<b>154.92</b>

**VIII. Penalties / Punishment / Compounding of Offences:**

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

## Annexure-VIII to the Board's Report

### NATCO Dividend Distribution Policy

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

#### Effective Date

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

#### Purpose

To help the investors in taking well informed investment decisions.

#### Definitions

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

#### Statutory Provisions:

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

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

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

#### A. General Policy of the Company and other Considerations as Regards Dividend

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

##### 1. Statutory requirements

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

##### 2. Prudential requirements

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

##### 3. Extent of realized profits as a part of the IND AS profits of the Company

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

##### 4. Expectations of stakeholders, including small shareholders

The Board, while considering the decision of dividend pay-out or retention of a certain amount or entire profits of the Company, shall, as far as possible, consider the expectations of the stakeholders including the small shareholders of the Company who generally expects for a regular dividend payout.

#### B. Other Financial Parameters

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

- 1) Current earnings of the Company
- 2) Operating cash flow of the Company

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

### C. Interim/Final Dividend Payout

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

### D. Classes of Shares

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

### E. Disclosures

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

### F. Amendment

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

### G. Declaration of Dividend on Parameters not Mentioned in the Policy

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

### H. Limitations

The Policy shall not apply to:

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



# Corporate Governance Report

## Philosophy on Corporate Governance

NATCO Pharma Limited (Natco) believes that transparency in the form of disclosures, presence of strong Board with adequate composition of Independent Directors, compliance of law in letter and spirit, responsible corporate conduct 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.

At Natco, we consider stakeholders as our partners in success, and we remain committed to maximising stakeholder value and their interest is taken into account before taking any business decision(s).

Your Company is a law abiding responsible corporate citizen and believes that to achieve success in business, highest standard of Corporate Governance behaviour is required. This is our road path to consistent, competitive, profitable and responsible growth which creates a long term value to our shareholders/stakeholders.

## Board of Directors

The Board of your Company is a combination of ten (10) eminent personnel from varied fields having immense knowledge in the relevant subjects which provides strategic

guidance to the Company in arriving at judicious decisions by exercising independent judgement.

### (a) Board Meetings

Proper decision-making is vital for the success of any Company and we at Natco believes that the Board Meetings are of high significance to achieve this.

During the financial year 2019-20, four (4) Board Meetings were held on May 27, 2019, August 9, 2019, November 12, 2019 and February 12, 2020 within the time limits stipulated under the Companies Act, 2013 ("Act") and the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 ("Listing Regulations") as amended from time to time. However, proper care is being taken to see that adequate time is provided for the meetings for thorough discussions for arriving at consensus and better decision making. Prior intimation and outcome of Board Meeting is duly informed to the Board and statutory agencies in compliance with the Act and the Listing Regulations.

### (b) Board Composition

The Composition of the Board is made keeping in view the growth of the Company and compliance with the statutory requirement under the Act and the rules made thereunder and the Listing Regulations.

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

Sl. No.	Name of the Director	DIN	Category	Number of Board meetings during FY 2019-20		Attendance at the last AGM held on September 5, 2019	No. of Directorships in other Companies	Name of other listed entities holding directorship	Category of directorship in other listed entities	No. of Committee positions held in other listed entities	
				Held	Attended					Chairman	Member
1.	Sri V.C. Nannapaneni (a)	00183315	Executive Director	4	4	Yes	3	NIL	NIL	NIL	NIL
2.	Sri G.S. Murthy	00122454	Independent Director	4	4	Yes	NIL	NIL	NIL	NIL	NIL
3.	Sri T.V. Rao	05273533	Independent Director	4	4	Yes	8	Ladderup Finance Ltd.	Independent Director	2	5
4.	Sri Rajeev Nannapaneni(a)	00183872	Executive Director	4	4	No	2	NIL	NIL	NIL	NIL
5	Sri D.G. Prasad	00160408	Independent Director	4	3	Yes	3	Gokak Textiles Limited	Independent Director	1	NIL
								Moschip Technologies Limited	Independent Director	NIL	2
								Suven Pharmaceuticals Limited	Independent Director	2	NIL
6.	Dr. Mrs. Leela Digumarti	06980440	Independent Director	4	2	No	NIL	NIL	NIL	NIL	NIL
7.	Sri P.S.R.K. Prasad	07011140	Executive Director	4	3	Yes	NIL	NIL	NIL	NIL	NIL
8.	Dr. M.U.R. Naidu	05111014	Independent Director	4	3	No	NIL	NIL	NIL	NIL	NIL

Sl. No.	Name of the Director	DIN	Category	Number of Board meetings during FY 2019-20		Attendance at the last AGM held on September 5, 2019	No. of Directorships in other Companies	Name of other listed entities holding directorship	Category of directorship in other listed entities	No. of Committee positions held in other listed entities	
				Held	Attended					Chairman	Member
9.	Dr. D. Linga Rao	07088404	Executive Director	4	3	Yes	NIL	NIL	NIL	NIL	NIL
10.	Sri Sridhar Sankararaman	06794418	Non-Executive and Non-Independent Director	4	4	No	NIL	NIL	NIL	NIL	NIL

Note: (a) Sri V.C. Nannapaneni and Sri Rajeev Nannapaneni are related to each other.

(b) The Company doesn't have pecuniary relationship with any of the Non-Executive Director(s).

### (c) Independent Directors

Natco is always of the belief that an independent eye makes a 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 best safeguarded. There is no instance of resignation of Independent Director(s) during the financial year before the expiry of their term. Your Company is in strict compliance of the several conditions in respect of Independent Directors prescribed under the Act and the Listing Regulations.

#### Separate Meeting for Independent Directors

The Independent Directors of your Company met on February 12, 2020 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.

#### Familiarisation Programme for Independent Directors

The Company has organised Familiarisation Programmes for the Independent Directors of the Company to familiarise them with the Company vis-a-vis their roles, rights, responsibilities in the Company, nature of the industry in which the Company operates, business model of the Company etc. The details regarding the programme is available on our website at <https://www.natcopharma.co.in/wp-content/uploads/2020/05/FAMILIARIZATION-PROGRAM-FOR-INDEPENDENT-DIRECTORS.pdf>

### (d) Board Evaluation

A formal annual evaluation has been made by the Board of its own performance, Chairman of the Board, 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. 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, Non-Independent Directors and the Board as a whole.

### (e) The following is the Criteria for evaluation of performance of Independent Director:

#### I. Participation at Board/ Committee Meetings:

- Director comes well prepared and informed for the Board / committee meeting(s)
- Director demonstrates a willingness to devote time and effort to understand the Company and its business and a readiness to participate in events outside the meeting room, such as site visits?
- Director has ability to remain focused at a governance level in Board/ Committee meetings.
- Director's contributions at Board / Committee meetings are of high quality and innovative.
- Director's pro-actively contributes in to development of strategy and to risk management of the Company.

#### II. Managing Relationship:

- Director's performance and behaviour promotes mutual trust and respect within the Board / Committee.
- Director is effective and successful in managing relationships with fellow Board members and senior management?

#### III. Knowledge and Skill:

- Director understands governance, regulatory, financial, fiduciary and ethical requirements of the Board / Committee.

# Corporate Governance Report

- b) Director actively and successfully refreshes his/her knowledge and skills and up to date with the latest developments in areas such as corporate governance framework, financial reporting and the industry and market conditions.
- c) Director is able to present his/ her views convincingly yet diplomatically.
- d) Director listens and takes on Board the views of other members of Board.
- e) Director exercises objective independent judgment in the best interest of Company.
- f) Director has effectively assisted the Company is implementing best corporate governance practices and then monitors the same.
- g) Director helps in bringing independent judgment during board deliberations on strategy, performance, risk management etc.
- h) Director keeps himself/ herself well informed about the Company and external environment in which it operates.
- i) Director acts within his/her authority and assists in protecting the legitimate interest of the Company, Shareholders and employees.
- j) Director adheres to the applicable code of conduct for independent directors.

## (f) Key skills/expertise/competence identified by the Board:

Leadership & Management	Leadership experience, strategic decision making, risk management. Skilled and expertise in driving change, planning succession and long term growth.
Finance/Accounting Knowledge	Knowledge on financial reporting, accounting principles, internal controls, auditing process and related considerations and issues.
Governance	Experience as a board member and aware of corporate governance principles.
Industry knowledge	Knowledge of one or more important business lines of the organisations in the same industry.
Legal/Regulatory knowledge	Experience in working in legal firms, regulatory organisations and Aware of legal matters relevant to the industry.
Sales, Distribution & Brand Marketing	Experience in developing strategies to grow sales, and market share, create distribution models and build brand awareness to enhance company's reputation.
International / Global Knowledge	Awareness about relevant markets at global level and diversification of Company's business, global trends.
Operations	Expertise in managing the operations of the Company
Technology	Experience with information technology systems and developments and recent trends in technology.

The key skills/expertise/competence stated above are adequate to function efficiently and effectively in managing the affairs of the Company.

## Committees

### (i) Committees of Board

In order to take decisions effectively and for better Corporate Governance the Board of your Company had constituted Seven (7) Committees viz. Audit Committee, Stakeholders Relationship Committee, Nomination and Remuneration Committee, Compensation Committee, Allotment Committee, Corporate Social Responsibility Committee and Risk Management Committee. The membership in Committees is decided based on the traits of the Directors keeping in view the statutory requirement of composition of Directors

in the Committees. The brief description of terms of reference, composition, meetings and attendance of the Committee(s) during the financial year 2019-20 are provided below:

### (a) Audit Committee

The Audit Committee is vested with the responsibility to review, inter alia, the financial reporting, internal control systems, risk management systems and the internal and external audit functions. The qualifications of the Directors, composition, quorum, frequency of meetings and the terms of reference of the Audit Committee are in line with the requirements under the Act and the Listing Regulations.

Details of Composition of the Audit Committee and attendance at the meetings held on May 27, 2019, August 9, 2019, November 12, 2019 and February 12, 2020 are given below:

Sl. No.	Name of the Director	Category	Audit Committee attendance	
			Held	Attended
1.	Sir G.S. Murthy (Chairman)	Independent Director	4	4
2.	Sri T.V. Rao	Independent Director	4	4
3.	Sri D.G. Prasad	Independent Director	4	3
4.	Sri V.C. Nannapaneni	Executive Director	4	4
5.	Dr. M.U.R. Naidu	Independent Director	4	3
6.	Sri Sridhar Sankararaman	Non-Executive and Non- Independent Director	4	4

**(b) Stakeholders Relationship Committee**

The Stakeholders Relationship Committee is constituted by the Board to consider and resolve the grievances of security holders of the Company. The qualifications of the Directors, composition, quorum,

frequency of meetings and the terms of reference of the Stakeholders Relationship Committee are in line with the requirements under the Act and the Listing Regulations.

Details of composition of the Stakeholders Relationship Committee and attendance of the meetings held on May 27, 2019 and November 12, 2019 are as given below:

Name of the Director	Category	Stakeholders Relationship Committee Attendance	
		Held	Attended
Sri G.S.Murthy (Chairman)	Independent Director	2	2
Sri V.C. Nannapaneni	Executive Director	2	2
Sri Rajeev Nannapaneni	Executive Director	2	2
Dr. M.U.R. Naidu	Independent Director	2	2

**(c) Nomination and Remuneration Committee**

The Nomination and Remuneration Committee is empowered to oversee the Company's policies relating to the nomination and evaluation of every Director's performance and to determine the Company's policies relating to remuneration of the Directors,

Senior Management of the Company who are one level below the Board of Directors. The qualifications of the Directors, composition, quorum, frequency of meetings and the terms of reference of the Nomination and Remuneration Committee are in line with the requirements under the Act and the Listing Regulations.

The details of composition of Nomination and Remuneration Committee and attendance of the meeting held on May 27, 2019 and February 12, 2020 are given below:

Name of the Director	Category	Nomination and Remuneration Committee Attendance	
		Held	Attended
Sri G.S.Murthy (Chairman)	Independent Director	2	2
Sri Sridhar Sankararaman	Non-Executive and Non-independent Director	2	2
Sri V.C. Nannapaneni	Executive Director (Chairman of the Board)	2	2
Dr. M.U.R. Naidu	Independent Director	2	2

**(d) Compensation Committee**

The Compensation Committee is constituted, inter alia, to consider recommendation of any share based employee benefit schemes for the approval of the Board and for grant of options / allotment of shares approved under such schemes.

reference of the Compensation Committee are in line with the requirements under the Act, the Listing Regulations and the SEBI (Share Based Employee Benefits) Regulations, 2014 and consists of Sri G.S. Murthy (Chairman), Sri V.C. Nannapaneni, Sri Rajeev Nannapaneni and Dr. M.U.R. Naidu as members of the Compensation Committee.

The qualifications of the Directors, composition, quorum, frequency of meetings and the terms of

# Corporate Governance Report

During the financial year 2019-20 the Compensation Committee meetings were held on September 28, 2019 and January 27, 2020.

Except Dr. M.U.R. Naidu for the meeting held on September 28, 2019 all the members had attended the meeting wherein it had allotted 1,25,215 equity shares to the eligible employees of the Company towards the fourth tranche of options under Natco Employee Stock Option Scheme, 2015 (NATSOP 2015). All the members had attended the meeting held on 27<sup>th</sup> January, 2020 wherein it had allotted 48,170 equity shares to the eligible employees of the Company towards third tranche of options under Natco Employee Stock Option Scheme, 2016 (NATSOP 2016) and 1,32,455 equity shares to the eligible employees of the Company towards second tranche of options under Natco Employee Stock Option Scheme 2017 (NATSOP 2017).

## (e) Allotment Committee

The Allotment Committee is constituted to facilitate allotment of securities of the Company after obtaining requisite approvals, if any. There was no Allotment Committee meeting held during the financial year 2019-20. Sri V.C. Nannapaneni, Sri G. S. Murthy, Dr. M.U.R. Naidu and Sri Rajeev Nannapaneni are the members of the Allotment Committee.

## (f) Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee is vested with the responsibility to, inter alia, monitor the compliance of Corporate Social Responsibility Policy of the Company and to recommend any changes to the same.

The qualifications of the Directors, composition, quorum, frequency of meetings and the terms of reference of the Corporate Social Responsibility Committee are in line with the requirements under the Act and the Listing Regulations.

The details of composition of Corporate Social Responsibility Committee and attendance of the meetings that were held on May 27, 2019 and November 12, 2019 are given below:

Name of the Director	Category	Corporate Social Responsibility Committee attendance	
		Held	Attended
Sri G.S. Murthy	Independent Director	2	2
Sri V.C. Nannapaneni	Executive Director	2	2
Sri Rajeev Nannapaneni	Executive Director	2	2

## (g) Risk Management Committee

The Board has constituted Risk Management Committee in the Board meeting held on May 27, 2019 and reconstituted the Committee at the Board meeting held on August 9, 2019 according to Listing Regulations as amended from time to time. The terms of the reference, quorum, and frequency of the Committee meeting etc., are in line with the requirements of the Listing Regulations. The Risk Management Committee meeting was held on March 11, 2020 during the year. The composition of the Committee is as follows:

### Directors

- 1) Sri V.C. Nannapaneni (DIN: 00183315), Chairman & Managing Director
- 2) Sri Rajeev Nannapaneni (DIN: 00183872), Vice Chairman & Chief Executive Officer
- 3) Sri P.S.R.K. Prasad (DIN: 07011140), Director & Executive Vice President (Corporate Engineering Services)

- 4) Dr. D. Linga Rao (DIN: 07088404), Director & President (Technical Affairs)

- 5) Dr. M.U.R. Naidu (DIN: 05111014), Independent Director

### Other Members

- 6) Sri A. Lakshminarayana, Vice President – HR & OD
- 7) Sri S.V.V.N. Appa Rao, Chief Financial Officer
- 8) Dr. B. Rami Reddy, Director – Formulations
- 9) Dr. M. Pulla Reddy, Executive Vice President – R&D

Company Secretary of the Company shall act as the Secretary to the Risk Management Committee to facilitate convening and conducting of the meetings of the Committee as per law Except Dr. M.U.R. Naidu and Dr. M. Pulla Reddy, all the members of Risk Management Committee were present at the meeting of the Committee held on March 11, 2020.



**(ii) Other Committees****(a) Buyback Committee**

Buyback Committee is constituted by the Board to deal with matters relating to the Buyback of equity shares of the Company. The Buyback Committee comprises of Sri V.C. Nannapaneni, Chairman and Managing Director, Sri Rajeev Nannapaneni, Vice Chairman and Chief Executive Officer, Sri M. Adinarayana, Company Secretary and Vice President (Legal & Corp. Affairs) and Sri S.V.V.N Appa Rao, Chief Financial Officer as its members. The details of the meetings of the Buy-back committee are as follows:

S. No.	Date of the Meeting	Purpose
1	16 <sup>th</sup> May, 2019	Public Announcement for Closure of Buyback

**(b) Committee dealing with Land Property**

The Committee dealing with Land Property was constituted by the Board of Directors at their meeting held on May 27, 2019 with Sri V. C. Nannapaneni, Chairman and Managing Director, Sri Rajeev Nannapaneni, Vice Chairman and Chief Executive Officer, Sri M. Adinarayana, Company Secretary & Vice President (Legal & Corp. Affairs) and Sri S.V.V.N. Appa Rao, Chief Financial Officer as members of the Committee.

The details of composition of Committee dealing with Land Property and attendance of the meetings that were held on June 11, 2019 and October 21, 2019 are given below:

Name of the Director	Category	Committee dealing with Land Property Meeting attendance	
		Held	Attended
Sri G.S. Murthy	Independent Director	2	1
Sri V.C. Nannapaneni	Executive Director	2	2
Sri Rajeev Nannapaneni	Executive Director	2	2
Sri M. Adinarayana	Company Secretary & Vice President (Legal & Corp. Affairs)	2	1
Sri S.V.V.N. Appa Rao	Chief Financial Officer	2	1

**(c) 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. As SEBI has banned the transfer of physical shares, the Company accepts transfer of physical shares lodged for transfer in special circumstances 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/ proper in all respects. All requests for dematerialisation of shares are processed and the confirmation(s) thereto are given to depositories within 15 days of the receipt of request.

The Board of Directors at their meeting held on August 9, 2019 had reconstituted the Committee dealing with Land Property with Sri V. C. Nannapaneni, Chairman and Managing Director, Sri Rajeev Nannapaneni, Vice Chairman and Chief Executive Officer and Sri G.S. Murthy, Independent Director as members of the Committee. The Committee dealing with Land Property is constituted by the Board of Directors of the Company in order to do the following transactions not involving related parties:

1. To approve purchase / sale of land property for / by the Company.
2. To approve mortgage of land property owned by the Company.
3. To approve execution of Agreement of Sale, Memorandum of Understanding, Sale Deed, Exchange Deed, Gift Settlement Deed, Mortgage Deed and such other documents as may be required and necessary.
4. To do all such things that are necessary and incidental thereto.

During the financial year 2019-20, 3 (Three only) instruments of transfer for 800 (Eight hundred equity shares only) and 16 (Sixteen only) instruments of transmission for 6560 (Six thousand five hundred sixty only) equity shares were received and the same were duly effected.

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

Your Company has in place Internal Complaints Committee at each of its offices and units /factories to resolve any issues related to Sexual Harassment of Women at Workplace. The composition of the Committees are strictly as per the statutory requirement in the Sexual Harassment of Women at

# Corporate Governance Report

Workplace (Prevention, Prohibition and Redressal) Act, 2013. During the financial year 2019-20, there were no complaints received.

The Committee comprises of one Presiding Officer who is a woman employed at a Senior Level, two members

from amongst the employees and one member from a non-governmental organisation at each place of work. It was ensured that the Committee constitutes with 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:

Year	Date of the AGM	Venue	Time	Special Resolution(s) passed, if any
2018-19	5 <sup>th</sup> September, 2019	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033	10.30 A.M.	10
2017-18	15 <sup>th</sup> September, 2018	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033	10.30 A.M.	4
2016-17	28 <sup>th</sup> September, 2017	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033	10.30 A.M.	7

### (b) Postal ballot

No resolution was passed through postal ballot for the financial year 2019-20.

## Remuneration of Directors

### Executive Directors

The remuneration of Executive Directors of the Company is fixed based on the Remuneration Policy of the Company and as recommended by Nomination and Remuneration Committee and the remuneration paid to them for the financial year 2019-20 is as below and are in line with the applicable provisions of the Act, Rules and Listing Regulations made thereunder as amended from time to time:

Sl. No.	Name	Designation	Total amount (₹ in Lakhs per annum)
1	Sri V. C. Nannapaneni	Chairman & Managing Director	₹ 215.12
2	Sri Rajeev Nannapaneni	Vice Chairman & CEO	₹ 197.47
3	Sri P.S.R.K. Prasad	Director & Executive Vice President (Corp. Engg. Services)	₹ 201.06
4	Dr. D. Linga Rao	Director & President (Tech. Affairs)	₹ 201.06
<b>Total</b>			<b>₹ 814.71</b>

### Non-Executive Directors

Sitting fees are paid to the Non-Executive Directors for attending the Board Meetings and the Committee Meetings and such amounts are paid within the ceiling limits under Act. The details of the sitting fees paid to Non-Executive Directors of the Company for the Financial Year 2019-20 is given below:

Sl. No.	Name	Designation	Sitting Fee (in ₹)
1.	Sri G.S. Murthy	Independent Director	4,60,000
2.	Sri T.V. Rao	Independent Director	2,80,000
3.	Sri D.G. Prasad	Independent Director	2,10,000
4.	Dr. Mrs. Leela Digumarti	Independent Director	1,00,000
5.	Dr. M.U.R. Naidu	Independent Director	3,10,000
6.	Sri Sridhar Sankararaman*	Non-Executive Non-independent Director	Nil
<b>Total</b>			<b>13,60,000</b>

\* Sri Sridhar Sankararaman has voluntarily opted not to take any sitting fee.

### Shareholding of Non-Executive Directors

Dr. M.U.R Naidu, Independent Director is holding 15,000 equity shares of ₹ 2/-each which amounts to 0.008% of

equity shares of the Company as on March 31, 2020. None of the other Non-Executive Directors are holding any shares of the Company.

### Prevention of Insider Trading

Your Company has in place Code of Conduct to Regulate, Monitor and Report Trading by Designated Persons and Code of Practices and Procedures for Fair Disclosure of Unpublished Price Sensitive Information which is in adherence to the SEBI (Prohibition of Insider Trading) Regulations, 2015 as amended from time to time. The policy on Insider trading was amended during the Financial Year 2019-20 in line with SEBI (Prohibition of Insider Trading) (Amendment) Regulations, 2018. The disclosures received pursuant to this Code and the regulations are disseminated to the Stock Exchanges within the prescribed time limit. Report of Compliance Officer was duly placed before the Board meetings. The Code is available on the Company's website at the following link:

[https://www.natcopharma.co.in/wp-content/uploads/2019/04/Code-of-Conduct-\\_PIT-2015-Natco.pdf](https://www.natcopharma.co.in/wp-content/uploads/2019/04/Code-of-Conduct-_PIT-2015-Natco.pdf)

### Compliances

#### a. Reconciliation of Share Capital Audit Report

The Reconciliation of Share Capital Audit Report was prepared on a quarterly basis by Mrs. P. Renuka, Practising Company Secretary (ACS No. 11963; CP No. 3460) as required under Regulation 76 of SEBI (Depositories and Participants) Regulations, 2018 and the same were filed with the Stock Exchanges within the statutory time limits.

#### b. Compliance Report on Corporate Governance

Your Company submits compliance report on Corporate Governance to the Stock Exchanges on quarterly, half-yearly and annual basis within the statutory time limits.

#### c. Secretarial Standards

Your Company's practices and procedures meet with the Secretarial Standards issued by the Institute of Company Secretaries of India (ICSI).

#### 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 / customs matters, and such other related matters during the last three years.

#### Whistle Blower Policy

The Company has a Whistle Blower Policy to deal with instances of fraud and mismanagement, if any. The policy ensures that strict confidentiality is maintained whilst dealing with concerns and also that no discrimination will be meted out to any person for a

genuinely raised concern. Pursuant thereto, anyone can directly approach the Chairman of the Audit Committee or through Company Secretary to report any suspected or confirmed incident of fraud / misconduct. It is affirmed that no personnel has been denied access to the Audit Committee.

#### Environmental Policy

Your Company complies with all the applicable environmental legislations and regulations, by incorporating suitable modern techniques for combating the environmental pollutants and to ensure the compliance. We have adopted state of the art technologies for treatment and recycling of effluents, recycling of wastes, converting wastes to by-products and energy, conservation of natural resources, energy efficiency, rain water harvesting, etc. A number of initiatives and programs conducted to create awareness among our employees & all our stakeholders. Our well defined EHS policy over the year built a frame work for setting and reviewing of environmental objectives and targets for continual improvement.

#### Renewable Energy:

We are continuing our efforts to utilize the renewable energy in our operations. During the year FY2019-20, our overall renewable energy contribution reached to 28.60% (i.e. 5.13% increase from the previous FY2018-19 (23.47%)).

During the year FY2019-20:

- Enhanced the onsite solar power plant capacity to 3.25MW at Mekaguda unit. During the year FY2019-20, about 39.80% of energy requirement for Mekaguda unit is met from renewable energy sources.
- Installed and commissioned the 0.80MW Roof top solar power plant at Kothur unit.
- Continuing the usage of solar energy for boiler feed water preheating by using a parabolic Solar Dish concentrator at the Sagar unit. Continued the usage of solar power from onsite solar power plant. During the year FY2019-20, about 15.49% of energy requirement for Nagarjunasagar unit is met from renewable energy sources.
- Installed wind power plants at Tamilanadu & Andhra Pradesh with a total capacity 4.2MW. During the year FY2019-20, about 33,153GJ of green energy generated from wind power plants.
- Proposed to install 0.80MW solar power plant at Nagarjunasagar unit and 0.5MW Roof top solar power plant at Vizag unit.

# Corporate Governance Report

## Non-Mandatory Requirements

### • Separate posts of Chairperson and Chief Executive Officer

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

### Related Party Transactions

All related party transactions with related parties during the financial year 2019-20 were done in accordance with the provisions of the Act and 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-Working Directors have any pecuniary material relationship or material transactions with the Company for the year ended March 31, 2020. The Company had formulated a Related Party Transactions Policy which is available on the Company's Website at the following link:

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

## Employee Stock Option Schemes

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

Scheme	Particulars	No of Options
NATSOP2015	Opening Balance as on April 1, 2019	2,97,980
	Options vested and Exercised during the year	1,25,215
	Closing Balance of Options as at March 31, 2020	1,72,765*
NATSOP2016	Opening Balance as on April 1, 2019	1,47,280
	Options vested and Exercised during the year	48,170
	Closing Balance of Options as at March 31, 2020	1,00,560
NATSOP2017	Opening Balance as on April 1, 2019	4,89,730
	Options vested and Exercised during the year	1,32,455
	Closing balance of Options as at March 31, 2020	3,57,275

\* includes forfeited shares

## Unclaimed Dividend

Section 124 of the Companies Act, 2013 read with Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 ("the Rules"), mandates that Companies transfer dividend that has remained unclaimed for a period of seven years from the unpaid dividend account to the Investor Education and Protection Fund (IEPF). Further, the Rules mandate that the shares on which dividend has not been paid or claimed for seven consecutive years or more also be transferred to the IEPF.

The following table provides list of years for which unclaimed dividends would become eligible to be transferred to the IEPF on the dates mentioned below:

Year	Type of Dividend	Dividend per share(₹)	Date of declaration	Due date of transfer	Balance Amount (₹) as on 31-3-2020**
2013-14	Interim	5.00*	February 13, 2014	March 22, 2021	1346135.00
2014-15	Interim	5.00*	February 11, 2015	March 20, 2022	1193430.00
2015-16	Interim	1.25	February 11, 2016	March 19, 2023	1558940.00
2016-17	1 <sup>st</sup> Interim	0.75	August 9, 2016	September 15, 2023	936376.00
	2 <sup>nd</sup> Interim	6.00	February 14, 2017	March 23, 2024	5462718.00
2017-18	1 <sup>st</sup> Interim	1.25	August 7, 2017	September 13, 2024	1502908.75
	2 <sup>nd</sup> Interim	7.00	February 6, 2018	March 15, 2025	4382924.00
2018-19	1 <sup>st</sup> Interim	1.50	August 8, 2018	September 14, 2025	1082584.50
	2 <sup>nd</sup> Interim	3.50	February 12, 2019	March 15, 2026	2424793.00
	3 <sup>rd</sup> Interim	1.25	May 27, 2019	July 6, 2026	963266.25
2019-20	1 <sup>st</sup> Interim	1.25	August 9, 2019	September 7, 2026	886073.75
	2 <sup>nd</sup> Interim	1.00	November 12, 2019	December 11, 2026	737835.00
	3 <sup>rd</sup> Interim	3.50	February 12, 2020	March 12, 2027	2270775.50

\*On Equity share of ₹ 10/- each

\*\*The amount does not include the Unclaimed dividend amount of shares held in Unclaimed Suspense Account of the Company

The Company sends intimation to the shareholder(s) concerned, advising them to lodge their claims with respect to unclaimed dividends. Shareholder(s) may note that both the unclaimed dividend and corresponding shares transferred to IEPF, including all benefits accruing on such shares, if any, can be claimed from IEPF by following the procedure prescribed in the Rules which were available in the website of the Company at <https://www.natcopharma.co.in/investors/shareholder-information/iepf/>. No claim (s) of whatsoever nature shall lie in respect thereof with the Company.

### Dividend Remitted to IEPF During the Last Five Years

Year	Dividend declared on	Amount transferred to IEPF (₹)	Date of Transfer
2008-2009	May 25, 2009	5,79,399.00	June 21, 2016
2009-2010	January 27, 2010	9,18,554.00	February 28, 2017
2010-2011	February 14, 2011	7,80,368.00	March 9, 2018
2011-2012	February 9, 2012	10,68,983.00	March 14, 2019
2012-2013	February 13, 2013	15,71,108.00	March 20, 2020

### Transfer of Shares to IEPF

Pursuant to Section 124(6) all shares in respect of which dividend has not been paid or claimed for seven consecutive years or more shall be transferred by the Company in the name of Investor Education and Protection Fund (IEPF). During the year ended March 31, 2020, there is no transfer of equity shares to IEPF made by the Company.

of the conclusion of the Board Meeting to the Stock Exchanges and publication of the same in both Vernacular and National newspapers and disclosure of presentations on Financial Results made to Institutional investors / analysts to the Stock Exchanges. The same disclosures are also published on the website of the Company ([www.natcopharma.co.in](http://www.natcopharma.co.in)).

### Means of Communication

At NATCO, dissemination of information is considered crucial since many stakeholders are interested in the state of affairs of the Company. The Company is in strict compliance of the Listing Regulations pertaining to disclosure of Audited/Unaudited quarterly, half-yearly and annual financial results of the Company both on stand-alone and consolidated basis within thirty (30) minutes

It is ensured that any material information under Regulation 30 of the Listing Regulations is promptly intimated to the Stock Exchanges and updated on the Company's website ([www.natcopharma.co.in](http://www.natcopharma.co.in)) as well as made part of press releases. Any price sensitive information is brought to the notice of both the Stock Exchanges (NSE and BSE), Press and Electronic Media in order to avoid any possible insider trading practices with such information.

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

For Quarter ended	Date of Board meeting	Date of Publication	Name of the English Daily	Name of the Regional Daily
June 30, 2019	August 9, 2019	August 10, 2019	• Business Line	• Eenadu
September 30, 2019	November 12, 2019	November 13, 2019	• Business Standard • Financial Express	• Eenadu
December 31, 2019	February 12, 2020	February 13, 2020	• Business line	• Eenadu
March 31, 2020	June 17, 2020	NA	Not required as per SEBI Circular No. SEBI/HO/CFD/CMD1/CIR/P/2020/79 dated May 12, 2020	

### General Shareholder Information

#### (a) Details regarding Annual General Meeting

Date	October 15, 2020
Time	11.00 a.m.
Venue	Annual General Meeting through Video Conferencing / Other Audio Visual Means facility [Deemed Venue for Meeting: Registered Office: NATCO House, Road No. 2, Banjara Hills, Hyderabad - 500034, Telangana, India.]
Book Closure Dates	October 13, 2020 to October 15, 2020, (both days inclusive)

#### (b) Financial Year

The Company adopted the financial year beginning on April 1 of every year and ending on March 31 of the following year. Accordingly, all the quarterly, half yearly and annual compliance are taken care of in accordance with the Act, Listing Regulations and other applicable Acts, rules and regulations.

# Corporate Governance Report

## (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

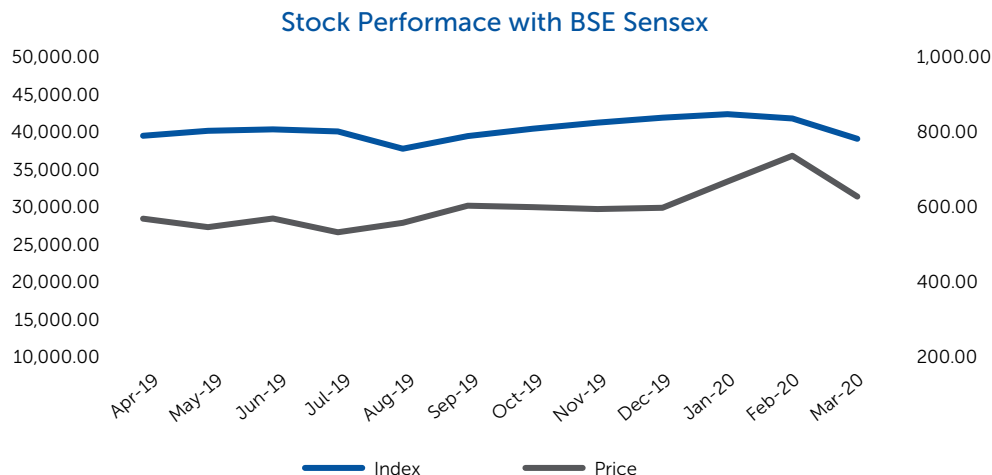
The Company confirms that it has duly paid the annual listing fee for the year 2019-20 to the above mentioned Stock Exchanges and the custodial fee for the year 2019-20 to both the Depositories, namely National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL).

## (d) Market Price Data

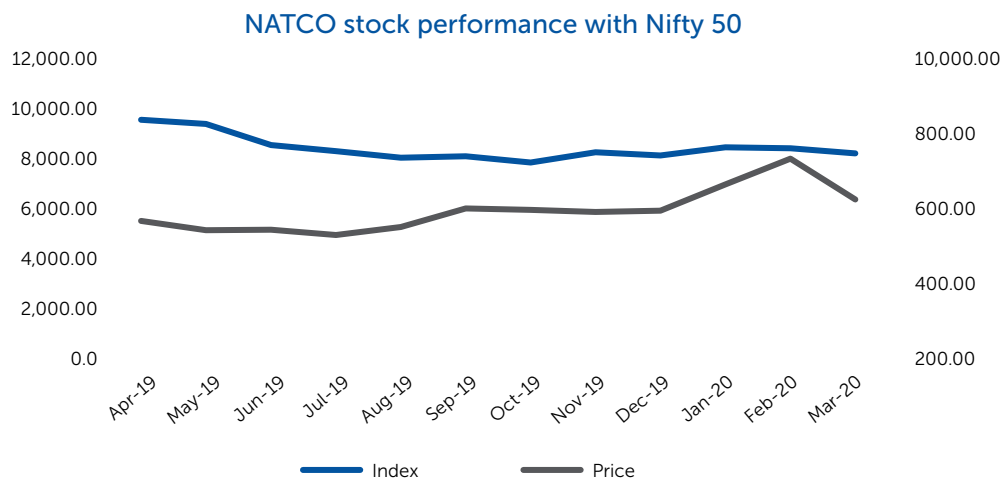
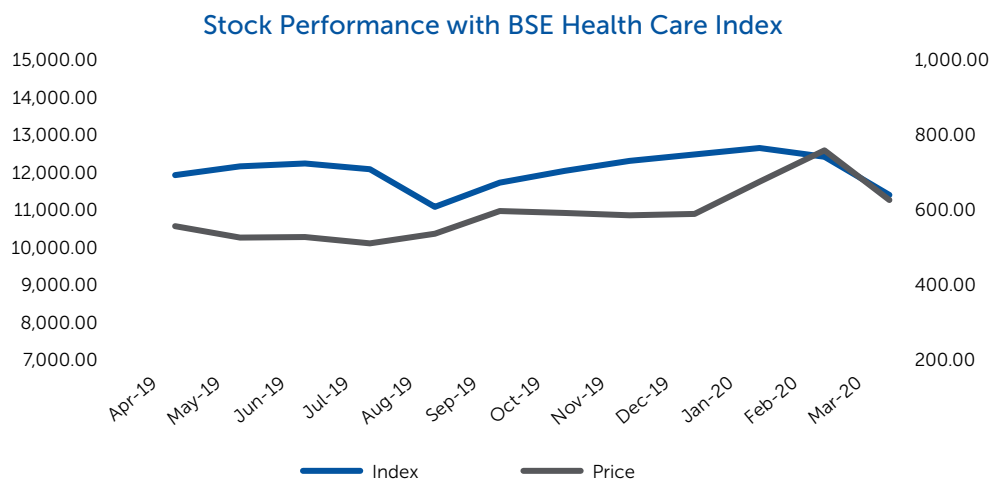
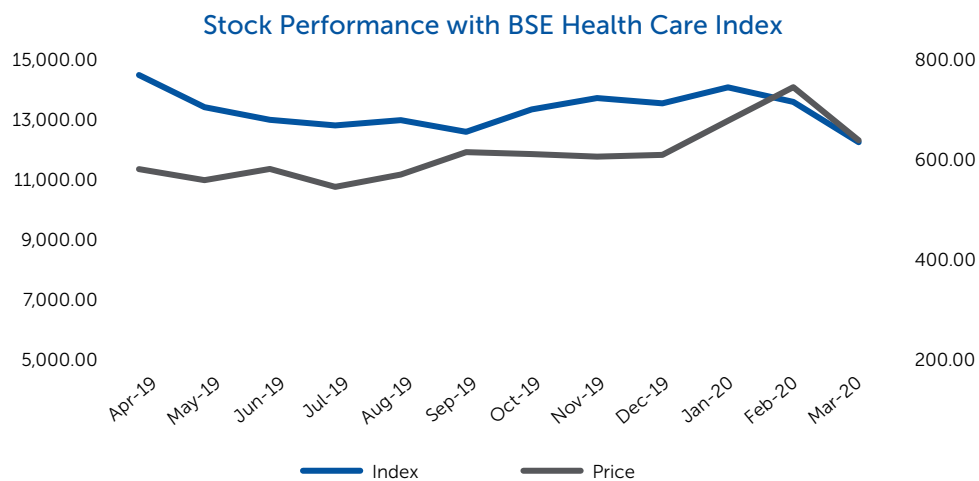
The market price data (high and low closing prices during each month) for the financial year 2019 -20 is as below:

Month	Bombay Stock Exchange		National Stock Exchange	
	High ₹	Low ₹	High ₹	Low ₹
April, 2019	575.55	520.00	577.90	520.20
May, 2019	553.95	482.00	553.75	480.00
June, 2019	576.05	503.00	555.00	501.60
July, 2019	540.50	492.00	541.55	490.00
August, 2019	565.00	504.05	561.95	503.10
September, 2019	609.35	538.60	610.00	535.00
October, 2019	605.55	535.00	606.00	548.00
November, 2019	600.45	541.50	601.00	547.00
December, 2019	604.00	568.00	603.95	560.00
January, 2020	671.50	594.00	671.80	592.00
February, 2020	737.80	587.65	738.10	586.45
March, 2020	632.70	450.00	633.15	402.55

## (e) Performance in comparison to broad-based indices







# Corporate Governance Report

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

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

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

Tel Nos.: 040-23818475/23818476/23868023

Fax No.: 040-23868024

Contact Person: Mr. P V Srinivas / Mr. E V S N Murthy

Email: info@vccilindia.com

## (g) Dematerialisation of shares and liquidity

As on March 31, 2020, 99.58% of the shares of your Company were dematerialised. As the trading of your Company's shares are being conducted only in electronic form all other members holding physical shares are requested to convert their shareholdings to electronic form at the earliest.

## (h) Distribution of Shareholding as on 31-03-2020

Nominal Value ₹	Shareholders		Amount ₹	
	Number	% to Total	In ₹	% to Total
Upto - 5000	69864	97.58	23391936	6.42
5001 - 10000	798	1.11	6029996	1.66
10001 - 20000	410	0.57	5899244	1.62
20001 - 30000	120	0.17	2991560	0.82
30001 - 40000	72	0.1	2527674	0.69
40001 - 50000	46	0.06	2093784	0.58
50001 - 100000	95	0.13	6636380	1.82
100001 and above	189	0.26	314565376	86.39
<b>Total</b>	<b>71594</b>	<b>100.00</b>	<b>364135950</b>	<b>100.00</b>

## (i) 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, are given below:

Particulars	No of Shareholders	No of Shares
Aggregate number of shareholders and outstanding shares held in the Unclaimed Suspense Account as on April 1, 2019	1,713	2,45,900
Number of shareholder and shares transferred to IEPF	0	0
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 2019-20	53	22,600
Aggregate number of shareholders and outstanding shares held in the Unclaimed Suspense Account as on March 31, 2020	1,660	2,23,300

## (k) Plant Locations

<b>i) Pharma Division</b> Kothur Post & Mandal, Rangareddy District -509 228 Telangana, India	<b>ii) Pharma Division - Parenterals</b> Vijayapuri North, Nagarjunasagar, Peddavura Mandal, Nalgonda Dist.-508 202 Telangana, India
<b>iii) Chemical Division</b> Mekaguda, Nandigama Mandal Rangareddy District - 509 228 Telangana, India	<b>iv) R &amp; D Division (Natco Research Centre)</b> B-11, B-13 & B-14, Industrial Estate, Sanathnagar, Hyderabad - 500 018, Telangana, India.
<b>v) Formulations Division</b> Plot No.19, Pharma City Selaqui Industrial Area Vikas Nagar, Dehradun 248 197 Uttarakhand, India	<b>vi) Formulations Division</b> Plot No. A3, UPSIDC, Selaqui Industrial Area Dehradun 248 197. Uttarakhand, India

<b>vii) Chemical Division, Chennai</b> No.74/7B, Vaikkadu TPP Salai, Manali Chennai - 600 103, Tamilnadu, India.	<b>viii) Pharma Division</b> DAG No.749, 750 Kokjhar Village, Revenue Circle - Mirza Kamrup (Rural), Guwahati Dist. 781 125, Assam, India.
<b>ix) Formulations Division</b> UNIT-10, Parawada, JNPC, Ramky SEZ Visakapatnam-531 019, Andhra Pradesh, India	<b>x) Crop Health Science (CHS) – Chemical Unit</b> No. 29, Industial Park-Attivaram, Ozili Mandalam, SPSR Nellore DT, Andhra Pradesh -524421, India
<b>xi) Crop Health Science (CHS) – Formulations Unit</b> No. 3,8/1, Industial Park-Attivaram, Ozili, Mandalam, SPSR Nellore DT, Andhra Pradesh – 524421, 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 at Registered Office:**

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

**(n) Credit Ratings**

The Company's credit ratings from ICRA on long term borrowings is "AA" and on short term borrowings is "A1+"

**(o) Qualified Institute Placement (QIP) utilisation:**

Your Company had raised a sum of ₹915 crores by allotment of 100,00,000 (One Crore only) equity shares of ₹ 2/- each at a premium of ₹ 913 per share through Qualified Institutional Placement (QIP) pursuant to approval accorded by the shareholders in their Extra-ordinary Meeting held on November 29, 2017. Following are the details of the utilisation of funds raised through QIP as on March 31, 2020:

Particulars	Amount in Crores (₹)
Amount received on allotment of 1,00,00,000 (One Crore Only) equity shares through QIP (A)	₹ 915
<b>Utilisation of Funds:</b>	
Amount paid to lead Bankers including TDS	( 18.50)
Loans Repaid to Bankers	(209.07)
Payments made legal advisors, NSE, BSE etc. including TDS	(2.73)
<b>Total (B)</b>	<b>(230.30)</b>
<b>(C) Balance left (A - B)</b>	<b>684.70</b>
<b>(D) Capital expenditure incurred up to FY 18-19</b>	<b>(452.43)</b>
<b>(E) Capital expenditure incurred up to FY 19-20</b>	<b>(232.27)</b>
<b>(F) Balance of funds</b>	<b>----</b>

**(p) Details of the fees paid to Statutory Auditors**

The details of the total fees for all services paid by the Company and its subsidiaries, on a consolidated basis, to the Statutory Auditor for the financial year ended March 31, 2020 as follows:

Particulars	Amount (₹)
Audit Fees	₹ 47,00,000
Out of pocket expenses	₹ 97,837
<b>Total</b>	<b>₹ 47,97,837</b>

**(q) The Company has complied with Corporate Governance requirements specified in Regulation 17 to 27 and clauses (b) to (i) of sub-regulation (2) of Regulation 46 of SBIE (Listing Obligations and Disclosure Requirement) Regulations, 2015.**

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# Corporate Governance Report

## CERTIFICATE ON COMPLIANCE WITH CODE OF CONDUCT

The Members of  
NATCO Pharma Limited

As required under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, I hereby confirm that the Company has adopted a Code of Conduct for all Board Members and Senior Management and the same has been placed on the Company's Website at <https://www.natcopharma.co.in/investors/shareholder-information/corporate-governance-policies/>. All Board Members and Senior Management personnel have affirmed compliance with the Code of Conduct in respect for the Financial Year ended March 31, 2020.

For NATCO Pharma Limited

Place: Hyderabad  
Date: June 17, 2020

**V.C. Nannapaneni**  
Chairman and Managing Director  
DIN: 00183315

**CEO / CFO CERTIFICATION TO THE BOARD**

(as per 17(8) of Listing Regulations)

The Board of Directors,  
NATCO Pharma Limited

- A. We have reviewed the Financial Statements and the Cash Flow Statement for the year ended March 31, 2020 and that to the best of our knowledge and belief:
- i. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - ii. 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
- i. significant changes in internal control over financial reporting during the year;
  - ii. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
  - iii. 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: June 17, 2020

**Rajeev Nannapaneni**  
Vice Chairman & CEO  
DIN: 00183872

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

# Corporate Governance Report

## CERTIFICATE OF COMPLIANCE

The Members of  
NATCO Pharma Limited

I have examined the compliance of conditions of Corporate Governance by M/s. NATCO Pharma Limited, for the year ended March 31, 2020 as per the relevant provisions of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations').

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

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

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

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

**D. Renuka**

Company Secretary in Practice

C P No.3460

UDIN: A011963B000348112

Place: Hyderabad

Date: June 17, 2020



**CERTIFICATE OF NON-DISQUALIFICATION OF DIRECTORS**

(pursuant to Regulation 34(3) and Schedule V Para C clause (10)(i) of the SEBI  
(Listing Obligations and Disclosure Requirements) Regulations, 2015)

To  
The Members of  
M/s. NATCO Pharma Limited  
NATCO HOUSE, ROAD # 2  
Banjara Hills, Hyderabad 500 034

I had examined the relevant registers, records, forms, returns and disclosures received from the Directors of M/s. NATCO Pharma Limited having CIN: L24230TG1981PLC003201 and having registered office at NATCO House, Road # 2, Banjara Hills, Hyderabad 500 034 and (hereinafter referred to as 'the Company'), produced before me by the Company for the purpose of issuing this Certificate, in accordance with Regulation 34(3) read with Schedule V Para-C Sub clause 10(i) of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

In my opinion and to the best of my information and according to the verifications (including Directors Identification Number (DIN) status at the portal [www.mca.gov.in](http://www.mca.gov.in) as considered necessary and explanations furnished to me by the Company & its officers, I hereby certify that none of the Directors on the Board of the Company as stated below for the Financial Year ended on March 31, 2020 have been debarred or disqualified from being appointed or continuing as Directors of Companies by the Securities and Exchange Board of India, Ministry of Corporate Affairs, or any such other Statutory Authority

Sl No.	Name of Director	DIN	Date of Appointment in Company
1	VENKAIAH CHOWDARY NANNAPANENI	00183315	September 19, 1981
2	SREERAMA MURTHY GUBBALA	00122454	January 31, 2000
3	GOVINDA PRASAD DASU	00160408	February 14, 2014
4	VENKATESWARA RAO THALLAPAKA	05273533	April 18, 2014
5	UMAMAHESHWARRAO NAIDU MADIREDDI	05111014	February 11, 2015
6	RAJEEV NANNAPANENI	00183872	November 30, 2005
7	LEELA DIGUMARTI	06980440	September 22, 2014
8	POTLURI PRASAD SIVARAMAKRISHNA	07011140	November 12, 2014
9	LINGARAO DONTINENI	07088404	February 11, 2015
10	SRIDHAR SANKARARAMAN	06794418	May 23, 2018

Ensuring the eligibility of for the appointment / continuity of every Director on the Board is the responsibility of the management of the Company. My responsibility is to express an opinion on these based on my verification. This certificate is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

**D. Renuka**

Company Secretary in Practice

C P No.3460

UDIN: A011963B000348112

Place: Hyderabad

Date: June 17, 2020

# Business Responsibility Report

## Section – A: General Information about the Company

1. Corporate Identity Number (CIN) of the Company	L24230TG1981PLC003201
2. Name of the Company	NATCO Pharma Limited
3. Registered Address	NATCO House Road # 2, Banjara Hills, Hyderabad - 500034, Telangana, India
4. Website	www.natcopharma.co.in
5. E-mail id	sustainability.report@natcopharma.co.in
Financial Year Reported	1 <sup>st</sup> April, 2019 to 31 <sup>st</sup> March, 2020
6. Sector(s) that the Company is engaged in (industrial activity code-wise)	NIC Code of product/service: 210 Description: Pharmaceuticals
7. List three key products/services that the Company manufactures/provides (as in balance sheet)	Imatinib, Oseltamivir, Liposomal doxorubicin
8. Total number of locations, where business activity is undertaken by the Company	Our business activity spreads over 40 countries through either sales or alliances. Our major products include Finished Dosage Formulations (FDF) and Active Pharmaceutical Ingredients (API).  Number of locations in India (National) - eight manufacturing units, two R&D centres in addition to several distribution/ warehouse locations across India.  International locations - The Company has 6 subsidiaries and one Step-down subsidiary
9. Markets served by the Company – Local/ State/ National/ International	The Company sells its products in India, USA, Europe and several other emerging countries, totalling over 40 countries.

## Section – B: Financial Details of the Company

1. Paid-up Capital (INR)	₹ 364 million (As on 31 <sup>st</sup> March, 2020).
2. Total Turnover (INR)	Gross turnover of ₹ 20,224 million on a consolidated basis (as on 31 <sup>st</sup> March 2020).
3. Total profit after Taxes (INR)	₹ 4,608 million on a consolidated basis (as on 31 <sup>st</sup> March 2020).
4. Total Spending on Corporate Social Responsibility (CSR) as percentage of profit after tax (%)	Total percentage on CSR as a percentage of Profit after Tax of FY 2019-2020 is 3.31% on standalone basis. The Company spent over 2% of its average Profit before Tax of preceding 3 financial years. Additionally, the Company also made donations for CSR activities.
5. List of activities in which the above expenditure has been incurred	The Company has undertaken several CSR Projects / Programmes during FY 2019-20: majority of the focus being in Education and Healthcare sectors. The detailed list of activities where the CSR expenditure was incurred is included in the Board's Report which forms a part of this Annual Report.

## Section – C: Other Details

- Does the Company have any Subsidiary Company/ Companies?  
Yes, the Company has six subsidiaries and one step-down subsidiary, all are located overseas.
- Does the Subsidiary Company/ Companies participate in the Business Responsibility (BR) initiatives of the parent Company? If yes, then indicate the number of such subsidiary Company(s):  
The parent company undertakes majority of the BR initiatives.
- Do any other entity/entities (e.g. suppliers, distributors etc.) that the Company does business with, participate in the BR initiatives of the Company? If yes, then indicate the percentage of such entity/ entities? [Less than 30%, 30%-60%, More than 60%]:  
Entities like suppliers, distributors did not participate in the Company's BR initiatives in the reporting period.

## Section – C: Other Details

### 1. Details of Director/Directors responsible for BR

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

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

#### (b) Details of the BR Head

Sr. No.	Particulars	Details
1	DIN Number (if applicable)	07011140
2	Name	Mr. P. S. R. K. Prasad
3	Designation Director	Director and Executive VP, Corporate Engineering Services
		VP-Acquisitions, Institutional Investor Management and Corporate Communications
4	Telephone number	+91 8542 226611
5	E-mail ID	psrk@natcopharma.co.in
		rajesh.chebiyam@natcopharma.co.in

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

<b>01 Principle</b> <b>Ethics, Transparency &amp; Accountability</b> Businesses should conduct and govern themselves with Ethics, Transparency and Accountability	<b>02 Principle</b> <b>Product Life Cycle Sustainability</b> Businesses should provide goods and services that are safe and contribute to sustainability throughout their lifecycle	<b>03 Principle</b> <b>Employee Well-Being</b> Businesses should promote the well-being of all employees
<b>04 Principle</b> <b>Stakeholder Management</b> Businesses should respect the interests of and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised	<b>05 Principle</b> <b>Human Rights</b> Businesses should respect and promote human rights	<b>06 Principle</b> <b>Environment</b> Businesses should respect, protect and make efforts to restore the environment
<b>07 Principle</b> <b>Policy Advocacy</b> Businesses, when engaged in influencing public regulatory policy, should do so in a responsible manner	<b>08 Principle</b> <b>Equitable Development</b> Businesses should support inclusive growth and equitable development	<b>09 Principle</b> <b>Customer Value</b> Businesses should engage with and provide value to their customers and consumers in a responsible manner

# Business Responsibility Report

Table: Principle-wise (as per NVGs) BR Policy/policies (Reply in Y/N)

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

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

NA

### 3. Governance related to BR

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

Half yearly

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

The Company's Annual Report includes a Business Responsibility Report which is available on the website. Last year, we brought out our first Sustainability Report. The copy of the same is available on the website of the Company at [www.natcopharma.co.in](http://www.natcopharma.co.in)

## Principle 1 Ethics, Transparency and Accountability

1. Does the policy relating to ethics, bribery and corruption cover only the Company? Yes/No. Does it extend to the Group/ Joint Ventures/ Suppliers/ Contractors/ NGOs/ Others?  
Yes. The Company firmly believes and adheres to transparent, fair and ethical governance practices to foster professionalism, honesty, integrity and ethical behavior. The company extends the policy with respect to ethics, bribery and corruption to the Subsidiaries, Associates.
2. How many stakeholder complaints have been received in the past financial year and what percentage was satisfactorily resolved by the management?  
The company encourages all its stakeholders to freely share their concerns and grievances. The Company has received 10 complaints from various stakeholders during the FY 2019-20, which were 100% promptly resolved.

## Principle 2 Products Life Cycle Sustainability

1. List up to 3 of your products or services whose design has incorporated social or environmental concerns, risks and/or opportunities.
  1. Doxorubicin Liposomal Injection
  2. Lanthanum Carbonate Tablets
  3. Letrozole Tablets

For all the above mentioned products, NATCO has done continuous improvement programs which has resulted in yield improvement without compromising on compliance requirements.

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

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

The company strives to improve its energy and water footprints by reducing the power and fuel consumption

1. At formulation units, increased the batch size of Lanthanum carbonate tablets and Letrozole tablets in existing equipment for enhancing productivity, reducing analysis and frequency of change over. Thereby utilities consumption per unit reduced.
  2. Automised filter cleaning machine installed, which reduced water consumption for filter cleaning.
  3. Improved the yield and reduced consumption of primary packaging materials of Doxorubicin liposomal injection, which reduced the consumption of utilities per unit.
  4. New water cooled chiller, air compressor and APFC panel installed at one of the formulation unit and resulting in reduction in power consumption.
2. Does the Company have procedures in place for sustainable sourcing (including transportation)?  
Sustainable sourcing, production and distribution practices are followed ensuring quality and safety of raw materials and packaging materials procured from suppliers as well as of products manufactured, stored and distributed throughout the value chain. The Company has in place a robust vendor selection and vendor evaluation mechanism and promotes local suppliers, where adequate. The Company lays emphasis on safe transportation, optimisation of logistics, lowering of transportation costs, and reduction of vehicular air emission.

# Business Responsibility Report

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

The Company consciously endeavours to source its procurement of goods and services from medium and small vendors from local areas where feasible and if it meets the quality standards of the Company. For example, Local vendors were developed and vendor qualification activities are initiated for development of suitable cost effective materials of primary, secondary and tertiary packing material.

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

The company is committed to recycle wastes - both process and non-process. The initiatives around recycling are:

1. At API units, the waste water is treated in an elaborate treatment system, including the Reverse Osmosis (RO) system and the permeate is reused. This resulted in less requirement of fresh water consumption
2. Made arrangements for recycling of dry waste such as shippers, cartons, bottles with M/s ITC Limited and sent 18585 kgs and return got bundles of A4 paper used for photocopying, resulting in reduced consumption of fresh paper at NRC Unit
3. Installed solar dish heating system to Boiler Feed water, resulting reduced fuel consumption at Sagar Unit

In the pharmaceutical business, it is not recommended to recycle products and therefore, we responsibly destroy products that do not meet quality requirements.

## Principle 3 Employee Well-Being

1. Please indicate the total number of employees.

The total number of employees is 5026 as on 31<sup>st</sup> March, 2020.

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

The total number of employees hired on temporary/ contractual/casual basis is 429 as on 31<sup>st</sup> March, 2020.

3. Please indicate the number of permanent women employees.

The total number of permanent women employees is 551 as on 31<sup>st</sup> March, 2020.

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

The total number of permanent employees with disabilities is 5 as on 31<sup>st</sup> March, 2020.

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

Yes. The Company does have employee associations at certain manufacturing locations, which encourage the employees to participate freely in constructive dialogue with the management. Moreover, workers' wages are decided through Collective Bargaining System.

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

32% of permanent employees at our manufacturing locations are members of employee associations.

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

The Company does not employ any child labor. No case of sexual harassment at work place was reported during the year 2019-20 and we have an Internal Complaints Committee at all our locations under SHWW Act, 2013.

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

We continue to devote resources and efforts to continuously upgrade the skills of employees and they are given regular safety training. All Employees including casuals working in manufacturing facilities are given regular safety training, conflict management and Learning Development programs.



**Principle 4 Stakeholder Management**

1. **Has the Company mapped its internal and external stakeholders? Yes/No.**  
Yes, we recognise stakeholders relevant to the Company's operations.
2. **Out of the above, has the Company identified the disadvantaged, vulnerable & marginalised stakeholders?**  
Yes.
3. **Are there any special initiatives taken by the Company to engage with the disadvantaged, vulnerable and marginalized stakeholders. If so, provide details thereof, in about 50 words or so.**  
Various initiatives have been taken by the Company to engage with marginalised stakeholders at locations in and around its operations in the areas of: Community Health Care, Sanitation and Hygiene, Education and Knowledge Enhancement. For details of projects undertaken during the FY 2019-20, please refer the 'Annual Report on CSR Activities' titled 'Empowering communities, improving lives'

**Principle 5 Human Rights**

1. **Does the policy of the Company on human rights cover only the Company or extend to the Group/Joint Ventures/Suppliers/Contractors/NGOs/Others?**  
The Company's policy is extended only to the Group.
2. **How many stakeholder complaints have been received in the past financial year and what percent was satisfactorily resolved by the management?**  
No complaints were received during the year in this regard.

**Principle 6 Environment**

1. **Does the policy related to Principle 6 cover only the Company or extends to the Group/Joint Ventures/Suppliers/Contractors/NGOs/others.**  
NATCO's EHS policy is applicable to all subsidiaries and manufacturing locations within the group. For suppliers and contractors, we include EHS requirements as part of the contract and service agreement. We also ensure that contractor staff deployed on our premises are part of safety training and safety pep talks. While sourcing critical raw materials, we select suppliers keeping in perspective their environmental compliance.
2. **Does the Company have strategies/ initiatives to address global environmental issues such as climate change, global warming, etc.? Y/N. If yes, please give hyperlink for webpage etc.**  
The company is proactive in addressing greenhouse gas emissions. We have installed solar energy facility in 3 of our manufacturing facilities with a total capacity of 5.2 MW and have also invested in a 4.2 MW wind energy facility in Tamil Nadu & Andhra Pradesh
3. **Does the Company identify and assess potential environmental risks? Y/N**  
We continually identify and assess potential environmental risks in our manufacturing process. We ensure that the risks are addressed through environment management programs and continual improvement initiatives. In two of our API facilities, we have instituted the Environment Management Systems which periodically have a mechanism to identify and address environmental risks
4. **Does the Company have any project related to Clean Development Mechanism? If so, provide details thereof, in about 50 words or so. Also, if Yes, whether any environmental compliance report is filed?**  
Yes. We have invested in renewable energy capacities in the past few years. Currently two of the API facilities and three of the Formulation facilities have renewable energy plants (solar/ wind). A solar roof top facility was commissioned at a formulations facility in the current year. However, we have not applied these project as per CDM.

# Business Responsibility Report

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

The following are efforts taken towards renewable energy:

1. 3.25MW solar power plant at our API Mekaguda facility
2. 1.15 MW solar power plant at our Formulation Nagarjuna Sagar facility
3. 0.80MW roof top solar power facility at our formulation's facility at Kothur
4. 2.1MW wind power plant at Tamil Nadu
5. 2.1 MW wind power plant at Anantapur, Andhra Pradesh

In addition, we have initiatives driving the message on energy conservation through all our facilities:

1. At Dehrudun facility, installed new water cooled chiller, air compressor and APFC panel towards energy saving initiatives.
  2. At Sagar facility the 11 KV line was upgraded to 33 KV, resulting in the reduction of line losses
  3. LED based lighting instead of CFL based lighting.
6. Are the Emissions/Waste generated by the Company within the permissible limits given by CPCB/SPCB for the financial year being reported?  
Yes, All the emissions or waste generated by the company are within the permissible limits given by CPCB/SPCB and we have made all the mandatory submissions in this regard.
7. Number of show cause/legal notices received from CPCB/SPCB which are pending (i.e. not resolved to satisfaction) as on end of Financial Year.  
During the FY 2019-20, the Company has not received any show cause/ legal notices from CPCB / SPCB.

## Principle 7 Policy Advocacy

1. Is your Company a member of any trade and chamber or association? If Yes, Name only those major ones that your business deals with:  
Yes. The Company is a member of various trade/industry associations like Federation of Indian Chambers of Commerce & Industry (FICCI), Federation of Telangana Chambers of Commerce and Industry (FTCCI), Bulk Drug Manufacturers Association (India) (BDMA), Indian Pharmaceutical Alliance (IPA), Indian Drug Manufacturing Association (IDMA), Confederation of Indian Industry (CII), Pharmaceuticals Export Promotion Council of India (PHARMEXCIL), Hyderabad Management Association (HMA), etc.
2. Have you advocated/lobbied through above associations for the advancement or improvement of public good?  
Yes, we have advocated for reforms through these associations for the advancement of public good.

## Principle 8 Equitable Development

1. Does the Company have specified programmes/ initiatives/projects in pursuit of the policy related to Principle 8? If yes details thereof.  
Yes, the Company has identified specified programmes / projects in the pursuit of the policy related to Principle 8. For details of projects undertaken during the FY 2019-20, please refer the 'Annual Report on CSR Activities' under "Strengthening our community connect".

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

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

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

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

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

During the year under review the Company had contributed ₹ 157 million to various community development programmes / projects as part of its CSR initiatives. The details of projects undertaken are mentioned in the Annexure IV of the Board's Report.

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

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

## Principle 9 Customer Value

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

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

2. Does the Company display product information on the product label, over and above what is mandated as per local laws? Yes/No/N.A./Remarks (additional information).

The Company displays all the product information on the product label, which is mandatory. Besides, the Company also displays general information for patients in order to guide them with respect to usage of the certain products.

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

No.

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

The marketing and sales team of the Company regularly interacts with doctors and other Healthcare professionals, usually on a quarterly basis and takes their feedback on the Company's products.

# Sustainability Performance

Disclosures as per GRI	UNIT	2019-20
<b>ECONOMIC PERFORMANCE<sup>1</sup></b>		
Revenue	Rs. Million	20224
Operating cost	Rs. Million	10396
Employee compensation	Rs. Million	3750
Payments to provider of capital	Rs. Million	215
Payments to Govt. (Tax)	Rs. Million	1106
Community investments	Rs. Million	176
Economic Value retained (PAT)*	Rs. Million	4581
Financial assistance received from Govt.	Rs. Million	279
Payments to provider of capital (Dividend)	Rs. Million	1274
Payments to Govt. (Dividend Tax)	Rs. Million	262
<b>ENVIRONMENT PERFORMANCE<sup>2</sup></b>		
<b>Materials</b>		
Raw materials used in API <sup>3</sup>	Tonnes	1078
Raw materials used in formulations <sup>4</sup>	Tonnes	215
<b>Energy</b>		
Total fuel consumption from non-renewable sources	GJ	341925
Total fuel consumption from renewable sources	GJ	70669
Percentage of Renewable Energy Contribution	%	28.60%
<b>GHG emissions<sup>5</sup></b>		
Direct (Scope 1) emissions	t CO <sub>2</sub> eq.	12931
<b>Water</b>		
Total water withdrawal	KL	163292
Total volume of planned discharges	KL	75623
<b>Waste</b>		
Hazardous waste		
Recovery <sup>6</sup>	Tonnes	189
Landfill	Tonnes	958
Incineration	Tonnes	47
Recycle	Tonnes	546
Non-hazardous waste		
Composting <sup>7</sup>	Tonnes	85
<b>EMPLOYEE DATA<sup>8</sup></b>		
<b>Total workforce-gender wise</b>		
Male	%	89.08
Female	%	10.92
<b>Total workforce - age wise</b>		
<30	%	24.31
30-50	%	67.81
>50	%	7.88
<b>Total workforce - employee type</b>		
Managerial	%	27.54
Supervisory	%	35.54
Workmen	%	19.62
Contract workers	%	17.3
<b>New employee hire - gender wise</b>		
Male	%	9.07
Female	%	0.97
<b>New employee hire - age wise</b>		

Disclosures as per GRI	UNIT	2019-20
< 30	%	6.23
30-50	%	3.70
>50		0.12
Employee turnover rate %	%	9.05
<b>Average hours of training</b>		
Workmen	Hours	24
Supervisory	Hours	30
Middle management (Executive to Deputy Manager)	Hours	30
Managers and above	Hours	42
<b>Individuals within the organization's governance bodies</b>		
Gender		
Male		9
Female		1
Individuals within the organization's governance bodies		
< 30		0
30-50		2
>50		8
<b>SAFETY PERFORMANCE</b>		
<b>For all employees &amp; contractors<sup>9</sup></b>		
Number of fatalities		0
Rate of fatalities		0
Rate of recordable work-related injuries		0
Reportable Incidents – Employees & Contractors (Fatalities/LTI <sup>10</sup> /Dangerous occurrences)		1
RWC <sup>11</sup> /LWC <sup>12</sup>		1
MTC <sup>13</sup>		11
First Aid Cases		193
All data as of 31 <sup>st</sup> March for the respective financial year		

- 1 Economic performance data covers all geographies and contains consolidated figures
- 2 Environment data - comprises 7 Manufacturing Facilities; 2 Active Pharmaceutical Ingredient Facilities and 5 Finished Dosage Formulation Facilities
- 3 All raw materials consumed for API manufacturing are being considered
- 4 All the APIs and excipients consumed for formulations are being considered
- 5 Emission factors provided in the IPCC Guideline for National Greenhouse Gas Inventories of 2006 were used to calculate GHG emissions from stationary combustion sources. Emission factors for purchased electricity are calculated as per Central Electricity Authority's CO<sub>2</sub> Baseline Database for the Indian Power Sector, User Guide Version 13 June 2018
- 6 The recovered gypsum is upcycled and sent to cement industry for consumption. Spent Catalyst, Spent Aluminum Chloride, Spent Formic Acid sent back to manufacturers for recovery.
- 7 The non-process organic waste is converted into compostable material and used onsite for gardening. The organic waste converter was installed and is in operation since 2018-19
- 8 Employee data covers India operations
- 9 The safety performance data is reported combined for the employees and contractors
- 10 LTI - Lost Time Injury
- 11 RWC - Restricted Workday Case - Post incident, the injured person(s) unable to perform the full range of normally assigned duties and reassigned to other duties.
- 12 LWC - Lost Workday Case-Post incident, the injuries are sufficiently severe to require the injured person to miss at least one full day of work, not including the day of injury occurred. The injured person returns to normal work within 48hrs from date of incident.
- 13 MTC - Medical Treatment Case - Post incident the person(s) injury is sufficiently severe requiring medical care beyond first aid. Requiring treatment and/ or prescription medication by medical professional but does not prevent the injured person from performing his or her normal function.

\* Before OCI(Other Comprehensive income) and NCI (Non Controlling Interest)

# Independent Auditors' Report

To the Members of  
NATCO Pharma Limited

Report on the Audit of the Standalone Financial Statements

## Opinion

We have audited the standalone financial statements of NATCO Pharma Limited ("the Company"), which comprise the standalone balance sheet as at 31 March 2020, and the standalone statement of profit and loss (including other comprehensive income), standalone statement of changes in equity and standalone statement of cash flows for the year then ended, and notes to the standalone financial statements, including a summary of the significant accounting policies and other explanatory information.

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 Companies Act, 2013 ("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 2020, and profit and other comprehensive income, changes in equity and its cash flows for the year ended on that date.

## Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under Section 143(10) of the Act. Our responsibilities under those SAs are further described in the Auditor's Responsibilities for the Audit of the Standalone Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the Standalone financial statements.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
<p><b>Revenue recognition:</b></p> <p>Refer to Note 3(d) of the summary of significant accounting policies to the standalone financial statements.</p> <p>Revenue is recognised when the control of the products being sold has transferred to the customer. The Company has a large number of customers operating in various geographies and sale contracts with customers have a variety of different terms relating to the recognition of revenue. Control is usually transferred upon shipment/ delivery to/ upon receipt of goods by the customer, in accordance with the delivery and acceptance terms agreed with the customers.</p> <p>We identified the recognition of revenue from sale of products as a key audit matter because the Company and its external stakeholders focus on revenue as a key performance indicator. There could be a risk that revenue is recognised in the incorrect period or before the control has been transferred to the customer.</p>	<p>In view of the significance of the matter we applied the following audit procedures in this area, among others to obtain sufficient and appropriate audit evidence:</p> <ol style="list-style-type: none"><li>1. Evaluated the appropriateness of the revenue recognition accounting policies by comparing with applicable accounting standards.</li><li>2. Tested design, implementation and operating effectiveness of the Company's controls over measurement and recognition of revenue in accordance with customer contracts which includes control over transaction pricing, including discounts and correct timing of revenue recognition.</li><li>3. Performed substantive testing (including year-end cut-off testing) by selecting samples of revenue transactions recorded during the year (and before and after the financial year end), including one off sales to customers, by verifying the underlying documents, which included sales invoices/ contracts and shipping documents.</li><li>4. Performed testing by selecting samples relating to revenue transactions, recorded during the year with relevant underlying documents and we read, analysed and identified the distinct performance obligations in these contracts.</li><li>5. We scrutinised manual journals posted to revenue to identify unusual items.</li></ol>



The key audit matter	How the matter was addressed in our audit
<p><b>Assessment of recoverability of the carrying value of investment in a subsidiary:</b></p> <p>Refer note 7 to the standalone financial statements for carrying value of investments in the subsidiaries as at 31 March 2020.</p> <p>The Company through its subsidiary Timecap Overseas Limited ("Timecap") has made investments in NATCO farma Do Brasil Ltda. ('NATCO Brazil'), which is engaged in marketing of pharmaceutical products in Brazil. The Company holds 90.89% stake in NATCO Brazil as at 31 March 2020.</p> <p>The Company through Timecap has invested ₹ 647 million in NATCO Brazil. NATCO Brazil has reported loss of ₹ 275 million for the year ended 31 March 2020 and as at that date its accumulated losses aggregating ₹ 1,172 million have significantly eroded its equity.</p> <p>We identified assessing potential impairment of investment in the subsidiary as a key audit matter because of the significance of carrying value of investment in NATCO Brazil through Timecap to the financial statements and because of the degree of judgement exercised by Company in determining whether there was objective evidence of impairment of investment.</p>	<p>In view of the significance of the matter, we applied the following audit procedures in this area, among others to obtain sufficient and appropriate audit evidence:</p> <ol style="list-style-type: none"> <li>1. Tested operating effectiveness of controls over Company's review of the impairment analysis. Evaluated the accuracy of prior period cash flow forecasts of the Company by reference to actual performance.</li> <li>2. Using our knowledge of the Company and industry, challenged significant assumptions and judgements incorporated in valuation report of the subsidiary by an independent valuer, specifically in relation to forecast revenue, margins, terminal growth and discount rates with the assistance of our valuations specialists. Valuation specialists also compared significant assumptions to externally derived data in relation to key inputs such as projected economic growth, cost inflation and discount rates.</li> <li>3. Performed sensitivity analysis of the key assumptions, such as revenue growth rates, gross margins and the discount rate applied by the Company in determining value in use and considered the resulting impact on the impairment testing and whether there were any indicators of management bias in the selection of these key assumptions.</li> <li>4. Evaluated the adequacy of disclosures, including disclosures of key assumptions, judgements and sensitivities.</li> </ol>

The key audit matter	How the matter was addressed in our audit
<p><b>Deferred tax asset:</b></p> <p>The Company operates in a complex tax jurisdiction in India with various tax exemptions available. The Company has paid minimum alternate tax (MAT) under Section 115JB of the Income-tax Act, 1961. The MAT paid would be available as offset over a period of 15 years. The MAT credit is recognised as a deferred tax asset that will be available for offset when the Company pays regular taxes under the provisions of Income-tax Act, 1961. Refer note 29(E) to the standalone financial statements for unrecognised deferred tax asset amounting to ₹ 1,237 million as at 31 March 2020.</p> <p>In assessing whether the deferred tax assets will be realised, Company considers whether some portion or all of the deferred tax assets will not be realised. The ultimate realisation of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible.</p> <p>The extent of recognition of deferred tax asset on account of MAT credit requires significant judgment regarding the Company's future taxable income which will result in utilisation of the MAT credit within the time limits available under the applicable Income tax laws.</p>	<p>In view of the significance of the matter, we applied the following audit procedures in this area, among others to obtain sufficient appropriate audit evidence:</p> <ol style="list-style-type: none"> <li>1. Tested the operating effectiveness of controls over Company's review of deferred tax asset recognition.</li> <li>2. We analysed origination of MAT credit entitlement and reviewed Company's assessment and conclusion in relation to its utilisation within the period allowed for carry forward and set off against foreseeable forecast taxable income streams.</li> <li>3. We evaluated appropriateness of taxation disclosures in note 29 to the standalone financial statements, including the enhanced disclosures made in respect of the utilisation period of deferred tax assets in relation to MAT credit entitlement.</li> </ol>

## Other Information

The Company's management and the Board of Directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the standalone financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take actions as per applicable laws and regulations.

### **Management's and the Board of Directors' Responsibility for the Standalone Financial Statements**

The Company's Management and the Board of Directors are responsible for the matters stated in Section 134(5) of the Act with respect to the preparation of these standalone financial statements that give a true and fair view of the state of affairs, profit/loss and other comprehensive income, changes in equity and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under Section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for 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 accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, the Management and the Board of Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is also responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Standalone Financial Statements**

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under Section 143(3) (i) of the Act, we are also responsible for expressing our opinion on whether the Company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures in the standalone financial statements made by the Management and the Board of Directors.
- Conclude on the appropriateness of the Management and the Board of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's

report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Other Matter

The comparative financial information of the Company for the year ended 31 March 2019 included in these standalone financial statements are based on the previously issued statutory financial statements audited by the predecessor auditor whose report for the year ended 31 March 2019 dated 27 May 2019 expressed an unmodified opinion on those financial statements.

Our opinion is not modified in respect of this matter.

### Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditors' Report) Order, 2016 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, we give in the "Annexure A" a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

2. 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 purposes of our audit.
- b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
- c) The standalone balance sheet, the standalone statement of profit and loss (including other comprehensive income), the standalone statement of changes in equity and the standalone statement of cash flows dealt with by this Report are in agreement with the books of account.
- d) In our opinion, the aforesaid standalone financial statements comply with the Ind AS specified under Section 133 of the Act.
- e) On the basis of the written representations received from the directors as on 31 March 2020 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2020 from being appointed as a director in terms of Section 164(2) of the Act.
- f) With respect to the adequacy of the internal financial controls with reference to financial statements of the Company and the operating effectiveness of such controls, refer to our separate Report in "Annexure B".

3. With respect to the other matters to be included in the Auditors' 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. The Company has disclosed the impact of pending litigations as at 31 March 2020 on its financial position in its standalone financial statements - Refer Note 37(b) to the standalone financial statements;
- ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.

iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

iv. The disclosures in the standalone financial statements regarding holdings as well as dealings in specified bank notes during the period from 8 November 2016 to 30 December 2016 have not been made in these financial statements since they do not pertain to the financial year ended 31 March 2020.

4. With respect to the matter to be included in the Auditors' Report under Section 197(16):

In our opinion and according to the information and explanations given to us, the remuneration paid by the Company to its directors during the current year

is in accordance with the provisions of Section 197 of the Act. The remuneration paid to any director is not in excess of the limit laid down under Section 197 of the Act. The Ministry of Corporate Affairs has not prescribed other details under Section 197(16) which are required to be commented upon by us.

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration No.: 116231W/ W-100024

**Vikash Somani**

Partner

Membership No.: 061272

UDIN: 20061272AAAABC2605

Place: Hyderabad

Date: 17 June 2020

## Annexure A to the Independent Auditors' Report on the standalone financial statements of NATCO Pharma Limited for the year ended 31 March 2020

With reference to the Annexure A referred to in Paragraph 1 in Report on Other Legal and Regulatory Requirements of the Independent Auditors' Report of even date to the Members of NATCO Pharma Limited ("the Company") on the standalone financial statements for the year ended 31 March 2020, we report that:

- i. a) The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.
- b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, the periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the programme, certain fixed assets were physically verified during the year and no material discrepancies were noticed on such verification.
- c) According to the information and explanations given by the Management, the title deeds of immovable properties included in fixed assets are held in the name of the Company except as for the following:

Nature of property	Total number of cases	Whether leasehold or freehold	Gross block	Net block	Remarks
Land	One	Freehold	66	66	According to the information and explanation given to us, this land parcel shall be registered in the name of the Company subsequent to fulfilment of certain conditions laid out by the Andhra Pradesh Industrial Infrastructure Corporation Limited. Also, refer Note 5 to the standalone financial statements.

- In respect of immovable properties been taken on lease and disclosed as a part of Right-of-use of assets under property, plant and equipment in the standalone financial statements, the lease agreements are in the name of the Company.
- ii. The inventory, except goods-in-transit and stocks lying with third parties, have been physically verified by the Management during the year. In our opinion, the frequency of such verification is reasonable. The discrepancies noticed on verification between the physical stock and the book records were not material and have been appropriately dealt with in the books of account. For stocks lying with third parties at the year-end, written confirmations have been obtained by the Management.
- iii. According to the information and explanations given to us, the Company has granted unsecured loans to parties (foreign subsidiaries) covered in the Register maintained under Section 189 of the Companies Act, 2013 ("the Act"). The Company has not granted any other loans, secured or unsecured to companies, firms or limited liability partnerships covered in the Register maintained under Section 189 of the Act.
- a) In our opinion and according to the information and explanations given to us, the terms and conditions on which the loans had been granted to the parties listed in the Register maintained under Section 189 of the Act were not, prima facie, prejudicial to the interest of the Company.

b) In the case of the loans granted to the parties listed in the Register maintained under Section 189 of the Act, the borrowers have been regular in the repayment of the principal and payment of interest, wherever stipulated.

c) There are no overdue amounts in respect of loans granted to parties listed in the Register maintained under Section 189 of the Act.
- iv. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 185 and 186 of the Act, with respect to the loans given and investments made. Further, the Company has not given any guarantees or provided any security to the parties covered under Section 185 and 186 of the Act.

- v. The Company has not accepted any deposits from the public within the meaning of the directives issued by the Reserve Bank of India, provisions of Section 73 to 76 of the Act, any other relevant provisions of the Act and the relevant rules framed thereunder. Accordingly, the provisions of clause 3(v) of the said Order is not applicable to the Company.
- vi. We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under Section 148 of the Act 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 records with a view to determine whether they are accurate or complete.
- vii. (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including Provident

Fund, Employees' State Insurance, Income-tax, Duty of Customs, Goods and Service Tax and other material statutory dues have generally been regularly deposited during the year by the Company with the appropriate authorities. As explained to us, the Company did not have any dues on account of Sales tax, Service tax, Duty of excise, value added tax and Cess.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income-tax, Duty of Customs, Goods and Service Tax and other material statutory dues were in arrears, as at 31 March 2020, for a period of more than six months from the date they became payable.

- (b) According to the information and explanations given to us, there are no dues in respect of Income-tax or Sales tax or Service tax or Duty of Customs or Duty of Excise or Value Added Tax which have not been deposited by the Company on account of disputes, except for the following:

Statute/ Nature of dues	Amount in Rupees millions	Period to which the amount relates	Forum where dispute is pending
Central Sales Tax Act, 1956 – Central Sales Tax	9 (3)*	Financial year 1997-98	The High Court of Telangana
The Customs Act, 1962 – Customs duty	2	July 2006 to June 2010	The Customs Excise and Service Tax Appellate Tribunal

\*Represent amounts paid under protest.

- viii. In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of loans or borrowings to banks. The Company did not have any outstanding loans or borrowings from financial institutions or government and there are no dues to debenture holders during the year.
- ix. In our opinion and according to the information and explanations given to us, the Company did not raise any money by way of initial public offer or further public offer (including debt instrument) and terms loans during the year. Accordingly, the provisions of clause 3(ix) of the said Order is not applicable to the Company.
- x. During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of material fraud by the Company or on the Company by its officers or employees, noticed or reported during the year, nor have we been informed of any such case by the Management.
- xi. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has paid/ provided for managerial remuneration in accordance with the requisite approvals mandated by the provisions of Section 197 read with Schedule V to the Act.
- xii. According to the information and explanations given to us and based on our examination of the records of the Company, the Company is not a Nidhi Company prescribed under Section 406 of the Act. Accordingly, the provisions of clause 3(xii) of the said Order is not applicable to the Company.
- xiii. According to the information and explanations given to us and based on our examination of the records of the Company, all transactions with the related parties are in compliance with Sections 177 and 188 of the Act, where applicable, and details of such transactions, have been disclosed in the standalone



financial statements as required by the applicable accounting standards.

- xiv. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year. Accordingly, the provisions of clause 3(xiv) of the said Order is not applicable to the Company.
- xv. According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not entered into any non-cash transactions with directors or persons connected with them as referred to in Section 192 of the Act. Accordingly, the provisions of clause 3(xv) of the said Order is not applicable to the Company.

- xvi. According to the information and explanations given to us and based on our examination of the records of the Company, the Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934. Accordingly, the provisions of clause 3(xvi) of the said Order is not applicable to the Company.

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No.: 116231W/ W-100024

**Vikash Somani**  
Partner  
Membership No.: 061272  
UDIN: 20061272AAAABC2605

Place: Hyderabad  
Date: 17 June 2020

# Annexure B to the Independent Auditors' Report on the standalone financial statements of NATCO Pharma Limited for the period ended 31 March 2020

## Report on the internal financial controls with reference to the aforesaid standalone financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

(Referred to in paragraph 2(f) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

### Opinion

We have audited the internal financial controls with reference to financial statements of NATCO Pharma Limited ("the Company") as of 31 March 2020 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

In our opinion, the Company has, in all material respects, adequate internal financial controls with reference to financial statements and such internal financial controls were operating effectively as at 31 March 2020, based on the internal financial controls with reference to financial statements 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").

### Management's Responsibility for Internal Financial Controls

The Company's management and the Board of Directors are responsible for establishing and maintaining internal financial controls based on the internal financial controls with reference to financial statements criteria established by the Company considering the essential components of internal control stated in 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 its 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 Companies Act, 2013 (hereinafter referred to as "the Act").

### Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls with reference to financial statements based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing, prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls with reference to financial statements.

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 internal financial controls with reference to financial statements were established and maintained and whether such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements included obtaining an understanding of such internal financial controls, 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 standalone financial statements, whether due to fraud or error.

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 internal financial controls with reference to financial statements.

### Meaning of Internal Financial controls with Reference to Financial Statements

A company's internal financial controls with reference to financial statements 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 internal financial controls with reference to financial statements include 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 with Reference to Financial Statements**

Because of the inherent limitations of internal financial controls with reference to financial statements, 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 internal financial controls with reference to financial statements to future periods are subject to the risk that the internal financial controls with reference to financial statements may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration No.: 116231W/ W-100024

**Vikash Somani**

Partner

Membership No.: 061272

UDIN: 20061272AAAAABC2605

Place: Hyderabad

Date: 17 June 2020

# Standalone Balance Sheet

as at 31<sup>st</sup> March, 2020

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

Particulars	Notes	As at 31 March 2020	As at 31 March 2019
<b>I. Assets</b>			
<b>(1) Non-current assets</b>			
(a) Property, plant and equipment	5	15,657	12,067
(b) Capital work-in-progress	39	5,178	6,375
(c) Intangible assets	6	88	82
(d) Investments in subsidiaries	7	1,025	977
(e) Financial assets			
(i) Investments	8	836	199
(ii) Loans	9	684	595
(iii) Other financial assets	10	41	65
(f) Other non-current assets	11	559	527
<b>Total non-current assets</b>		<b>24,068</b>	<b>20,887</b>
<b>(2) Current assets</b>			
(a) Inventories	12	5,244	5,084
(b) Financial assets			
(i) Investments	8	50	1,268
(ii) Trade receivables	13	5,367	4,916
(iii) Cash and cash equivalents	14	79	115
(iv) Bank balances other than (iii) above	14	462	2,512
(v) Loans	9	81	70
(vi) Other financial assets	10	8,612	6,959
(c) Other current assets	11	2,504	1,750
<b>Total current assets</b>		<b>22,399</b>	<b>22,674</b>
<b>Total assets</b>		<b>46,467</b>	<b>43,561</b>
<b>II. Equity and Liabilities</b>			
<b>(1) Equity</b>			
(a) Equity share capital	15	364	365
(b) Other equity	16	38,331	35,267
<b>Total of equity</b>		<b>38,695</b>	<b>35,632</b>
<b>(2) Liabilities</b>			
<b>(A) Non-current liabilities</b>			
(a) Financial liabilities			
(i) Borrowings	17	9	-
(ii) Other financial liabilities	18	8	8
(b) Provisions	19	902	710
(c) Deferred tax liabilities, (net)	29	256	113
<b>Total non-current liabilities</b>		<b>1,175</b>	<b>831</b>
<b>(B) Current liabilities</b>			
(a) Financial liabilities			
(i) Borrowings	17	3,131	3,845
(ii) Trade payables	21		
- Dues of micro and small enterprises		21	79
- Dues of creditors other than micro and small enterprises		2,321	1,939
(iii) Other financial liabilities	18	812	771
(b) Other current liabilities	20	122	314
(c) Provisions	19	105	90
(d) Current tax liabilities, (net)		85	60
<b>Total current liabilities</b>		<b>6,597</b>	<b>7,098</b>
<b>Total liabilities</b>		<b>7,772</b>	<b>7,929</b>
<b>Total equity and liabilities</b>		<b>46,467</b>	<b>43,561</b>
Significant accounting policies	3 and 4		

The accompanying notes form an integral part of the standalone financial statements.  
As per our report of even date attached

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

**Vikash Somani**  
Partner  
Membership Number: 061272

for and on behalf of the Board of Directors  
**NATCO Pharma Limited**  
CIN: L24230TG1981PLC003201

**V C Nannapaneni**  
Chairman and Managing Director  
DIN: 00183315

**M. Adinarayana**  
Company Secretary

**Rajeev Nannapaneni**  
Vice Chairman and CEO  
DIN: 00183872

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

Place: Hyderabad  
Date: 17 June 2020

Place: Hyderabad  
Date: 17 June 2020

# Standalone Statement of Profit and Loss

for the year ended 31<sup>st</sup> March, 2020

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

Particulars	Notes	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>1. Income</b>			
(a) Revenue from operations	22	17,902	19,863
(b) Other income	23	1,238	1,298
<b>Total income</b>		<b>19,140</b>	<b>21,161</b>
<b>2. Expenses</b>			
(a) Cost of materials consumed	24	3,290	3,331
(b) Purchases of stock-in-trade		1,239	315
(c) Changes in inventories of finished goods, work-in-progress and stock-in-trade	25	(559)	(255)
(d) Employee benefits expense	26	3,561	3,402
(e) Finance costs	27	206	188
(f) Depreciation and amortisation expense	5 and 6	981	801
(g) Other expenses	28	4,591	4,905
<b>Total expenses</b>		<b>13,309</b>	<b>12,687</b>
<b>3. Profit before tax (1-2)</b>		<b>5,831</b>	<b>8,474</b>
<b>4. Tax expense:</b>	29		
(a) Current tax		1,251	1,863
(b) Income-tax for earlier years		40	-
(c) Deferred tax		(205)	(60)
<b>Total tax expenses</b>		<b>1,086</b>	<b>1,803</b>
<b>5. Profit for the year (3-4)</b>		<b>4,745</b>	<b>6,671</b>
<b>6. Other comprehensive income</b>			
(a) Items that will not be reclassified subsequently to profit and loss			
(i) Remeasurement of defined benefit plans		(79)	(108)
Tax on remeasurement of defined benefit plans		27	23
(ii) Net gain from investments in equity instruments designated at FVTOCI		(19)	(7)
Tax impact benefit/ (expense) on equity instruments designated at FVTOCI		7	1
<b>Other comprehensive income, net of tax</b>		<b>(64)</b>	<b>(91)</b>
<b>7. Total comprehensive income for the year (5+6)</b>		<b>4,681</b>	<b>6,580</b>
<b>8. Earnings per equity share (Face value of ₹ 2 each)</b>	30		
Basic (in ₹)		26.08	36.22
Diluted (in ₹)		26.01	36.10
Significant accounting policies	3 and 4		

The accompanying notes form an integral part of the standalone financial statements.  
As per our report of even date attached

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

**Vikash Somani**  
Partner  
Membership Number: 061272

Place: Hyderabad  
Date: 17 June 2020

for and on behalf of the Board of Directors  
**NATCO Pharma Limited**  
CIN: L24230TG1981PLC003201

**V C Nannapaneni**  
Chairman and Managing Director  
DIN: 00183315

**M. Adinarayana**  
Company Secretary

Place: Hyderabad  
Date: 17 June 2020

**Rajeev Nannapaneni**  
Vice Chairman and CEO  
DIN: 00183872

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

# Standalone Statement of Cash Flows

for the year ended 31<sup>st</sup> March, 2020

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

Particulars	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Cash flows from operating activities</b>		
Profit before tax	5,831	8,474
<b>Adjustments :</b>		
Depreciation and amortisation expense	981	801
Finance costs	206	188
Share based payment expense	144	253
Interest income	(816)	(911)
Allowance for credit losses	175	-
Bad debts written off	55	20
Liabilities written back	(29)	-
Profit on sale of property, plant and equipment, net	(163)	(135)
Unrealised foreign exchange loss, net	(101)	(95)
<b>Operating profit before working capital changes</b>	<b>6,283</b>	<b>8,595</b>
<b>Working capital adjustments:</b>		
Inventories	(160)	(825)
Trade receivables	(538)	1,212
Loans	(51)	(25)
Other financial assets	72	(73)
Other assets	(732)	85
Trade payables	352	(429)
Provisions	128	254
Other financial liabilities	115	(63)
Other liabilities	(193)	6
<b>Cash generated from operating activities</b>	<b>5,276</b>	<b>8,737</b>
Income taxes paid, net of refund	(1,051)	(1,749)
<b>Net cash generated from operating activities (A)</b>	<b>4,225</b>	<b>6,988</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment (Refer note b below)	(3,524)	(4,470)
Proceeds from sale of property, plant and equipment	222	178
Acquisition of intangible assets	(29)	(48)
Investments in subsidiaries	(47)	(45)
Loans given to subsidiary companies	(11)	(398)
Loans given to others	-	(20)
Proceeds from sale of investments	1,203	200
Purchase of investments	(642)	(1,108)
Movement in other bank balances, net	2,086	(892)
Interest received	888	525
Deposits made with financial institutions	(1,796)	(374)
<b>Net cash used in investing activities (B)</b>	<b>(1,650)</b>	<b>(6,452)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	1	0
Payment on buy-back of shares, including transaction costs	(536)	(1,347)
Contribution from shareholders	474	-
Net proceeds from short-term borrowings (refer note c below)	(801)	2,115
Dividends paid (including corporate dividend tax)	(1,536)	(1,108)
Interest paid	(205)	(182)
Payment of lease liability including interest (refer note c below)	(8)	-
<b>Net cash used in financing activities (C)</b>	<b>(2,611)</b>	<b>(522)</b>



# Standalone Statement of Cash Flows (Contd.)

for the year ended 31<sup>st</sup> March, 2020

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

Particulars	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>	<b>(36)</b>	<b>14</b>
Cash and cash equivalents as at the beginning of the year	115	101
<b>Cash and cash equivalents as at the end of the year</b>	<b>79</b>	<b>115</b>
Components of cash and cash equivalents		
Cash and cash equivalents:		
Cash on hand	11	19
Balance with Banks:		
- Current accounts	68	96
	<b>79</b>	<b>115</b>

## Notes:

- The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Indian Accounting Standard (Ind AS-7) - "Statement of Cash Flows".
- Acquisition of Property, Plant and Equipment includes movements of capital work-in-progress, capital advances and capital creditors.
- Debt reconciliation in accordance with Ind AS 7:

Particulars	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Borrowings from banks:</b>		
Opening balance	3,845	1,730
(Repayment) of / proceeds from borrowings, net	(801)	2,115
Non-cash items (Foreign exchange changes)	79	-
Closing balance	<b>3,123</b>	<b>3,845</b>
Lease liability:		
Opening balance	-	-
Recognised as at 1 April 2019	20	-
Additions and interest accrued during the year	5	-
Payment of lease liability	(8)	-
Closing balance	<b>17</b>	-
Significant accounting policies	3 and 4	

The accompanying notes form an integral part of the standalone financial statements.  
As per our report of even date attached

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

**Vikash Somani**  
Partner  
Membership Number: 061272

Place: Hyderabad  
Date: 17 June 2020

for and on behalf of the Board of Directors  
**NATCO Pharma Limited**  
CIN: L24230TG1981PLC003201

**V C Nannapaneni**  
Chairman and Managing Director  
DIN: 00183315

**M. Adinarayana**  
Company Secretary

Place: Hyderabad  
Date: 17 June 2020

**Rajeev Nannapaneni**  
Vice Chairman and CEO  
DIN: 00183872

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

# Standalone Statement of Changes in Equity

for the year ended 31<sup>st</sup> March, 2020

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

Particulars	Equity share capital	Reserves and Surplus					Other equity			Total of other equity	Total equity
		Securities premium	Capital reserve	Capital redemption reserve	General reserve	Share options outstanding account	Retained earnings	Gain/(loss) on FVTOCI equity securities	Other comprehensive income		
<b>As at 1 April 2018</b>	369	15,209	207	5	595	242	14,590	37	30,885	31,254	
Profit for the year	-	-	-	-	-	-	6,671	-	6,671	6,671	
Other comprehensive income (net of taxes)	-	-	-	-	-	-	(85)	(6)	(91)	(91)	
Buyback of shares	(4)	(1,325)	-	-	-	-	-	-	(1,325)	(1,329)	
Share buyback expenses	-	(18)	-	-	-	-	-	-	(18)	(18)	
Employee stock option expense	-	-	-	-	-	253	-	-	253	253	
Dividend paid	-	-	-	-	-	-	(919)	-	(919)	(919)	
Tax on distributed profits	-	-	-	-	-	-	(189)	-	(189)	(189)	
Share options exercised	0	186	-	-	-	(186)	-	-	-	-	
Transfer from securities premium on account of buyback of equity shares	-	(4)	-	4	-	-	-	-	-	-	

# Standalone Statement of Changes in Equity (Contd.)

for the year ended 31<sup>st</sup> March, 2020

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

Particulars	Other equity							Total of other equity	Total equity
	Equity share capital	Securities premium	Capital reserve	Capital redemption reserve	General reserve	Share options outstanding account	Retained earnings	Gain/(loss) on FVTOCI equity securities	
<b>As at 31 March 2019</b>	365	14,048	207	9	595	309	20,068	31	35,267
Profit for the year	-	-	-	-	-	-	4,745	-	4,745
Other comprehensive income (net of taxes)	-	-	-	-	-	-	(52)	(12)	(64)
Buyback of shares	(2)	(534)	-	-	-	-	-	-	(536)
Transactions with shareholders (net of tax)	-	-	309	-	-	-	-	-	309
Employee stock option expense	-	-	-	-	-	144	-	-	144
Dividend paid	-	-	-	-	-	-	(1,274)	-	(1,274)
Tax on distributed profits	-	-	-	-	-	-	(262)	-	(262)
Share options exercised	1	217	-	-	-	(217)	-	-	1
Transfer from securities premium on account of buyback of equity shares	-	(2)	-	2	-	-	-	-	-
<b>As at 31 March 2020</b>	364	13,729	516	11	595	236	23,225	19	38,331
									38,695

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

As per our report of even date attached

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

for and on behalf of the Board of Directors  
**NATCO Pharma Limited**  
CIN: L24230TG1981PLC003201

**Vikash Somani**  
Partner  
Membership Number: 061272

**V C Nannapaneni**  
Chairman and Managing Director  
DIN: 00183315

**Rajeev Nannapaneni**  
Vice Chairman and CEO  
DIN: 00183872

**M. Adinaravana**  
Company Secretary

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

Place: Hyderabad  
Date: 17 June 2020

Place: Hyderabad  
Date: 17 June 2020

# Notes to standalone financial statements

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

## 1. Reporting entity information

NATCO Pharma Limited ("the Company") is a public limited company domiciled and incorporated in with its registered office situated at NATCO House, Road No. 2, Banjara Hills, Hyderabad – 500034. The equity shares of the Company are listed on the National Stock Exchange (NSE) and Bombay Stock Exchange in India (BSE).

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

## 2. Basis of preparation

### A. Statement of Compliance

These standalone financial statements of the Company have been prepared in accordance with Indian Accounting Standards (Ind AS) as per the Companies (Indian Accounting Standards) Rules 2015, as amended, notified under Section 133 of Companies Act, 2013, (the 'Act') and other relevant provisions of the Act.

The standalone financial statements for the year ended 31 March 2020 were authorized and approved for issue by the Company's Board of Directors on 17 June 2020.

New and amended standards adopted by the Company Effective 1 April 2019, the Company has applied Ind AS 116 Leases. On transition to Ind AS 116, Right-of-use of assets at 1 April 2019 for leases previously classified as operating leases were recognised and measured at an amount equal to lease liability (adjusted for related prepayments/ accruals). As a result, the comparative information has not been restated and there is no impact on retained earnings as at 1 April 2019. Overall, the application of this standard did not have any material impact on the financial statements. Refer note 40 for further details.

Details of the Company's accounting policies are included in Note 3.

### B. Functional and presentation currency

The standalone financial statements are presented in Indian Rupee ('INR' or '₹') which is also the Company's functional currency. All amounts have been rounded-off to the nearest million, unless otherwise indicated. Transactions and balances with values below the rounding off norm adapted by the Company have

been reflected as '0' in relevant notes in the standalone financial statements.

## C. Operating cycle

The Company has ascertained its operating cycle as 12 months that is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

## D. Basis of Measurement

These standalone financial statements have been prepared on the historical cost basis except for the following items:

Items	Measurement basis
Certain financial assets and liabilities	Fair value
Net defined benefit asset/ (liability)	Fair value of plan assets less present value of defined benefit obligations

## E. Use of estimates and judgements

The preparation of the financial statements in conformity with Ind AS requires management to make estimates, judgements and assumptions. These estimates, judgements and assumptions affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Accounting estimates could change from period to period. Actual results could differ from those estimates. Appropriate changes in estimates are made as and when management becomes aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made and, if material, such effects are disclosed in the notes to the financial statements.

## F. Measurement of fair values

Certain accounting policies and disclosures of the Company require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values.

The finance team regularly reviews significant unobservable inputs and valuation adjustments.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of reporting period during which the change has occurred.

### 3. Significant accounting policies

#### a. Property, plant and equipment (PPE)

##### Recognition and initial measurement

Items of property, plant and equipment, are measured at cost (which includes capitalised borrowing costs, if any) less accumulated depreciation and accumulated impairment losses, if any. Cost of an item of property, plant and equipment includes its purchase price, duties, taxes, after deducting trade discounts and rebates, any directly attributable cost of bringing the item to its working condition for its intended use and estimated costs of dismantling and removing the item and restoring the site on which it is located.

The cost of a self-constructed item of property, plant and equipment comprises the cost of materials, direct labour and any other costs directly attributable to bringing the item to its intended working condition and estimated costs of dismantling, removing and restoring the site on which it is located, wherever applicable.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

##### Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

##### Depreciation

Depreciation is calculated on cost of items of property, plant and equipment less their estimated residual value using straight line method over the useful lives of assets estimated by the Company. Depreciation rates followed by the Company coincides with rates prescribed in Schedule II to the Companies Act, 2013. Depreciation amount is recognised in the Statement of Profit and Loss. Depreciation for assets purchased / sold during the period is proportionately charged.

The estimated useful lives of items of property, plant and equipment are as follows:

Tangible assets	Estimated useful life (in years)	Companies Act life (in years)
Buildings	5 to 60	5 to 60
Plant and machinery	5 to 20	5 to 20
Computers	3 to 6	3 to 6
Vehicles	8 to 10	8 to 10
Office equipment	5	5
Furniture and fixtures	10	10

Freehold land is not depreciated.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

##### De-recognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of profit and loss, when the asset is derecognised.

##### Capital work-in-progress

Capital work-in-progress includes cost of property, plant and equipment under installation / under development as at the balance sheet date.

#### b. Intangible assets

##### Recognition and initial measurement

Intangible assets (software) are stated at their cost of acquisition. The cost comprises purchase price, borrowing cost if capitalization criteria are met and directly attributable cost of bringing the asset to its working condition for the intended use. Any trade discount and rebates are deducted in arriving at the purchase price.

# Notes to standalone financial statements

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

## Subsequent measurement (amortisation)

The cost of capitalised software is amortised over a period of 6 years, on a straight-line basis. Amortisation on the addition/disposals is charged on pro-rata basis from/until the date of such addition/disposal.

## c. Foreign currencies

Transactions in foreign currencies are initially recorded by the Company at its functional currency spot rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the functional currency spot rates of exchange at the reporting date. Exchange differences that arise on settlement of monetary items or on reporting at each balance sheet date are recognised as income or expenses in the period in which they arise. Non-monetary items which are carried at historical cost denominated in a foreign currency are reported using the exchange rates at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

## d. Revenue recognition

The Company derives revenues primarily from sale of finished dosage formulations, active pharmaceutical ingredients (APIs), including niche and technically complex molecules.

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

### Sale of goods:

Revenue from sale of goods is recognised when a promise in a customer contract (performance obligation) has been satisfied by transferring control over the promised goods to the customer. Control is usually transferred upon shipment, delivery to, upon receipt of goods by the customer, in accordance with the delivery and acceptance terms agreed with the customers. The amount of revenue to be recognised is based on the consideration expected to be received in exchange for goods, excluding trade discounts, volume discounts, sales returns, chargeback, medicaid payments, rebates, shelf stock adjustments, where applicable and any taxes or duties collected on behalf of the government which are levied on sales such as goods and services tax, etc., where applicable. Revenue is only recognised to the extent that it is highly probable a significant reversal will not occur.

The Company from time to time enters into marketing arrangements with certain business partners for the sale of its products in certain markets. Under such arrangements, the Company sells its products to the business partners at a non-refundable base purchase

price agreed upon in the arrangement and is also entitled to a profit share which is over and above the base purchase price. The profit share is typically dependent on the business partner's ultimate net sale proceeds or net profits, subject to any reductions or adjustments that are required by the terms of the arrangement. Such arrangements typically require the business partner to provide confirmation of units sold and net sales or net profit computations for the products covered under the arrangement.

Revenue in an amount equal to the base purchase price is recognised in these transactions upon delivery of products to the business partners. An additional amount representing the profit share component is recognised as revenue only to the extent that it is highly probable that a significant reversal will not occur.

At the end of each reporting period, the Company updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

### Sale of services:

Revenue from sale of dossiers/ licenses/services, includes in certain instances, certain performance obligations and based on evaluation of whether or not these obligations are in consequential or perfunctory, revenue is recognised in accordance with the terms of the contracts with the customers when the related performance obligation is completed at point in time or spread over a period of time, as applicable.

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, it does not require to adjust any of the transaction prices for the time value of money.

## e. Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of those property, plant and equipment which necessarily takes a substantial period of time to get ready for their intended use are capitalised. All other borrowing costs are expensed in the period in which they are incurred in the Statement of Profit and Loss.

## f. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.



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

When the grant relates to revenue, it is recognised in the Statement of Profit and Loss on a systematic basis over the periods to which they relate. When the grant relates to an asset, it is presented as a reduction to the carrying value of the related asset.

Export benefits available under prevalent schemes are accrued in the year in which the goods are exported and no significant uncertainty exist regarding its ultimate collection.

**g. Impairment of non-financial assets (Intangible assets and property, plant and equipment)**

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite useful life are tested annually for impairment. For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the cash generating unit to which the asset belongs. If such assets are considered to be impaired, the impairment to be recognised in the Statement of Profit and Loss is measured by the amount by which the carrying value of the assets exceeds the estimated recoverable amount of the asset. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is reversed in the Statement of Profit and Loss if there has been a change in the estimates used to determine the recoverable amount. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortization or depreciation) had no impairment loss been recognised for the asset in prior years.

**h. Financial instruments**

**i. Initial recognition and measurement**

Trade receivables and debt securities issued are initially recognised when they are originated. All other assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, that are not at

fair value through profit or loss, are added to the fair value on initial recognition.

**ii. Classification and subsequent measurement**

**Financial assets**

The Company classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") on the basis of following:

- the entity's business model for managing the financial assets and
- the contractual cash flow characteristics of the financial asset.

**Amortised Cost:**

A financial asset shall be classified and measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Fair Value through OCI:**

A financial asset shall be classified and measured at fair value through OCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Fair Value through Profit or Loss:**

A financial asset shall be classified and measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through OCI.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

# Notes to standalone financial statements

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

## Classification of investments:

- a. **Debt instruments at amortised cost** – A 'debt instrument' is measured at the amortised cost if both the following conditions are met:

- The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and
- Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method.

- b. **Equity investments** – All equity investments in scope of Ind-AS 109 are measured at fair value. Equity instruments which are held for trading are classified at fair value through profit and loss (FVTPL). For all other equity instruments, the Company decides to classify the same either as at fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL). The Company makes such election on an instrument by instrument basis. The classification is made on initial recognition and is irrevocable.
- c. **Mutual funds** – All mutual funds in scope of Ind-AS 109 are measured at fair value through profit and loss (FVTPL).

## Interest income and dividend income:

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in other income in the Statement of Profit and Loss.

Dividend income is recognised when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend.

## Financial liabilities

Financial liabilities are subsequently carried at amortised cost using the effective interest method. For trade and other payables maturing within one year from the balance sheet date, the carrying amounts approximate fair value due to the short maturity of these instruments.

## iii. De-recognition

### Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial assets are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

If the Company enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised.

### Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Company also derecognises a financial liability when its terms are modified and the cash flows under the modified terms are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and a new financial liability with modified terms is recognised in the Statement of Profit and Loss.

## iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or realise the asset and settle the liabilities simultaneously.

## v. Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified party fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the amount of expected loss allowance determined as per impairment requirements of Ind-AS 109 and the amount recognised less cumulative amortisation.

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

## i. Impairment of financial assets

The Company recognises loss allowances using the expected credit loss (ECL) model for the financial assets which are not fair valued through profit or loss. Loss allowance for trade receivables with no significant financing component is measured at an amount equal to lifetime ECL. For all other financial assets, expected credit losses are measured at an amount equal to the 12-month ECL, unless there has been a significant increase in credit risk from initial recognition in which case those are measured at lifetime ECL. The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised is recognised as an impairment gain or loss in statement of profit or loss.

## j. Inventories

Inventories are valued at the lower of cost (including prime cost, non-refundable taxes and duties and other costs incurred in bringing the inventories to their present location and condition) and estimated net realisable value, after providing for obsolescence, where appropriate. The comparison of cost and net realisable value is made on an item-by-item basis. The net realisable value of materials in process is determined with reference to the selling prices less estimated cost of completion or selling expenses of related finished goods. Cost of inventories is determined using the weighted average cost method. Raw materials, packing materials and other supplies held for use in production of inventories are not written down below cost except in cases where material prices have declined, and it is estimated that the cost of the finished products will exceed their net realisable value.

The provision for inventory obsolescence is assessed regularly based on estimated usage and shelf life of products.

Work-in-progress is valued at input material cost plus conversion cost as applicable.

Finished goods, work-in-progress and stock-in-trade are valued at the lower of net realisable value and cost (including prime cost, non-refundable taxes and duties and other costs incurred in bringing the inventories to their present location and condition), computed on a weighted average basis.

## k. Income taxes

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to an item recognised directly in equity or in other comprehensive income.

## i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax reflects the best estimate of the tax amount expected to be paid or received after considering the uncertainty, if any related to income taxes. It is measured using tax rates (and tax laws) enacted or substantively enacted by the reporting date.

## ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss at the time of transaction.
- temporary differences related to investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets recognised or unrecognised are reviewed at each reporting date and are recognised / reduced to the extent that it is probable / no longer probable respectively that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

# Notes to standalone financial statements

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

The Company offsets, the current tax assets and liabilities (on a year on year basis) and deferred tax assets and liabilities, where it has a legally enforceable right and where it intends to settle such assets and liabilities on a net basis. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss (either in other comprehensive income or in equity).

## **l. Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, demand deposits with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

## **m. Post-employment, long-term and short-term employee benefits**

### **Defined contribution plan**

A defined contribution plan is a post-employment benefit under which an entity pays a specific contribution to a separate entity and has no obligation to pay any further amounts. The Company's contribution to provident fund and employee state insurance schemes is charged to the Statement of profit and loss during the period in which the employee renders the related service. The Company's contributions towards Provident Fund are deposited with the Regional Provident Fund Commissioner under a defined contribution plan. The Company has no obligation, other than the contribution payable to these funds.

### **Defined benefit plan**

The Company has gratuity as defined benefit plan where the amount that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The liability recognised in the balance sheet for defined benefit plans is the present value of the defined benefit obligation (DBO) at the reporting date net of fair value of plan assets. Management estimates the DBO annually with the assistance of independent actuaries, by adopting the projected unit credit method. Actuarial gains and losses resulting from re-measurements of the liability are included in other comprehensive income.

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹ 2 million. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund.

## **Other long-term employee benefits**

The Company also provides benefit of compensated absences to its employees which are in the nature of long-term benefit plan. Liability in respect of compensated absences becoming due and expected to be availed more than one year after the balance sheet date is estimated on the basis of an actuarial valuation performed by an independent actuary using the projected unit credit method as on the reporting date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in the Statement of profit or loss in the year in which such gains or losses arise.

## **Short-term employee benefits**

Short-term employee benefits comprise of employee costs such as salaries, bonus etc. is recognized on the basis of the amount paid or payable for the period during which services are rendered by the employee.

## **n. Share-based payments**

Certain employees of the Company are entitled to remuneration in the form of equity settled instruments, for rendering services over a defined vesting period. Equity instruments granted are measured by reference to the fair value of the instrument at the date of grant. The fair value determined at the grant date is expensed over the vesting period of the respective tranches of such grants. The stock compensation expense is determined based on the Company's estimate of equity instruments that will eventually vest using fair value in accordance with Ind AS 102, Share based payment.

The employee benefits expense is measured using the fair value of the employee stock options and is recognised over vesting period with a corresponding increase in equity. The vesting period is the period over which all the specified vesting conditions are to be satisfied.

## **o. Provisions, contingent liabilities and contingent assets**

### **General**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the expense relating to a provision is presented in the Statement of Profit and Loss, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate

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

that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## Contingent liabilities and Contingent assets

A disclosure for contingent liabilities is made where there is a possible obligation or a present obligation that may probably not require an outflow of resources. When there is a possible or a present obligation where the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are neither recognised nor disclosed. However, when realisation of income is virtually certain, related asset is recognised.

## Onerous contracts

Provision for onerous contracts. i.e. contracts where the expected unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event based on a reliable estimate of such obligation.

## p. Earnings per share

Basic Earnings Per Share ('EPS') is computed by dividing the net profit attributable to the equity shareholders by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed by dividing the net profit by the weighted average number of equity shares considered for deriving basic earnings per share and also the weighted average number of equity shares that could have been issued upon conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless issued at a later date. In computing diluted earnings per share, only potential equity shares that are dilutive and that either reduces earnings per share or increases loss per share are included. The number of shares and potentially dilutive equity shares are adjusted retrospectively for all periods presented in case of share splits.

## q. Cash flow statement

Cash flows are reported using indirect method, whereby net profits 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 and items of income or expenses associated with investing or financing cash flows. The cash flows from regular revenue generating (operating activities),

investing and financing activities of the Company are segregated.

## r. Research and development

Expenditure on research activities are expensed as and when incurred. Development expenses which meet defined criteria for capitalisation are capitalised if its ability to generate future economic benefits is reasonably certain. All other development costs are expensed as and when incurred. Capital expenditure incurred on research and development is capitalised as property, plant and equipment and depreciated in accordance with the depreciation policy of the Company.

## s. Investments in subsidiaries

The Company's investment in its subsidiaries are carried at cost as per Ind AS 27 - Separate Financial Statements.

## t. Ind AS 116, Leases:

### Accounting as lessee

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognises right-of-use asset representing its right to use the underlying asset for the lease term at the lease commencement date. The cost of the right-of-use asset measured at inception shall comprise of the amount of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received, plus any initial direct costs incurred and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the underlying asset or site on which it is located. The right-of-use assets is subsequently measured at cost less any accumulated depreciation, accumulated impairment losses, if any and adjusted for any remeasurement of the lease liability. The right-of-use assets is depreciated using the straight-line method from the commencement date over the shorter of lease term or useful life of right-of-use asset. The estimated useful lives of right-of use assets are determined on the same basis as those of property, plant and equipment. Right-of-use assets are tested for impairment whenever there is any indication that their carrying amounts may not be recoverable. Impairment loss, if any, is recognised in the Statement of profit and loss.

The Company measures the lease liability at the present value of the lease payments that are not paid at the commencement date of the lease. The lease payments are discounted using the interest



# Notes to standalone financial statements

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

rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses incremental borrowing rate. For leases with reasonably similar characteristics, the Company, on a lease by lease basis, may adopt either the incremental borrowing rate specific to the lease or the incremental borrowing rate for the portfolio as a whole. The lease payments shall include fixed payments, variable lease payments, residual value guarantees, exercise price of a purchase option where the Company is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The lease liability is subsequently remeasured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. The Company recognises the amount of the re-measurement of lease liability due to modification as an adjustment to the right-of use asset and Statement of profit and loss depending upon the nature of modification. Where the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognises any remaining amount of the re-measurement in Statement of profit and loss.

The Company has elected not to apply the requirements of Ind AS 116 Leases to short-term leases of all assets that have a lease term of 12 months or less and leases for which the underlying asset is of low value. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Refer note 40 "Leases" of the financial statements for transition related disclosures.

## 4. Key accounting estimates and judgements

The preparation of financial statements in conformity with the Ind AS requires judgements, estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures relating to contingent liabilities as of the date of the financial statements. Although these estimates are based on the management's best knowledge of current events and actions, uncertainty about these assumptions and estimates could result in outcomes different from the estimates. Difference between actual results and estimates are recognised in the period in which the results are known or

materialise. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

Management considers the accounting estimates and assumptions discussed below to be its critical accounting estimates and, accordingly, provide an explanation of each below. The discussion below should also be read in conjunction with the Company's disclosure of significant accounting policies which are provided in Note 3 to the standalone financial statements, 'Significant accounting policies'.

### Critical judgments:

#### Taxes on income:

Significant judgments are involved in determining the provision for income taxes, including possibility of utilization of Minimum Alternate Tax (MAT) credit in future.

#### Impairment of investments:

Significant judgment is involved in determining the estimated future cash flows from the investments to determine their value in use to assess whether there is any impairment in their carrying amounts as reflected in the consolidated financial statements.

### Critical estimates:

**Recognition of deferred tax assets** – The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits.

**Evaluation of indicators for impairment of assets:** The evaluation of applicability of indicators of impairment of assets requires assessment of several external and internal factors which could result in deterioration of recoverable amount of the assets.

### Useful lives of depreciable/amortisable assets:

Management reviews its estimate of the useful lives of depreciable/amortisable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical and economic obsolescence that may change the utility of certain software, IT equipment and other plant and equipment.

**Defined benefit obligation (DBO):** Management's estimate of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of



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

future salary increases. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses.

**Fair value measurements:** Management applies valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

**Provisions:** The Company exercises judgement in measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

# Notes to standalone financial statements

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

## 5. Property, plant and equipment

Property, plant and equipment	Freehold land	Leasehold land	Buildings	Plant and equipment	Office equipment	Furniture	Vehicles	Computers	Right-of-use (Leasehold lands)	Total
<b>Gross carrying amount</b>										
<b>As at 1 April 2018</b>	1,769	262	3,583	7,692	35	150	199	160	-	13,850
Additions	363	-	789	1,547	1	39	35	18	-	2,792
Disposals	(41)	-	-	(3)	-	0	(10)	-	-	(54)
<b>Balance as at 31 March 2019</b>	<b>2,091</b>	<b>262</b>	<b>4,372</b>	<b>9,236</b>	<b>36</b>	<b>189</b>	<b>224</b>	<b>178</b>	<b>-</b>	<b>16,588</b>
Recognised on adoption of Ind AS 116 (Refer Note 40)	-	-	-	-	-	-	-	-	38	38
Reclassified on adoption of Ind AS 116 (Refer Note 40)	-	(262)	-	-	-	-	-	-	262	-
Additions	429	-	1,798	2,109	2	148	22	59	2	4,569
Disposals	(33)	-	-	(40)	-	-	(8)	-	-	(81)
<b>Balance as at 31 March 2020</b>	<b>2,487</b>	<b>-</b>	<b>6,170</b>	<b>11,305</b>	<b>38</b>	<b>337</b>	<b>238</b>	<b>237</b>	<b>302</b>	<b>21,114</b>
<b>Accumulated depreciation</b>										
<b>As at 1 April 2018</b>	-	8	723	2,715	29	52	99	128	-	3,754
Charge for the year	-	3	126	588	2	16	24	19	-	778
Disposals	-	-	-	(2)	-	-	(9)	-	-	(11)
<b>Balance as at 31 March 2019</b>	<b>-</b>	<b>11</b>	<b>849</b>	<b>3,301</b>	<b>31</b>	<b>68</b>	<b>114</b>	<b>147</b>	<b>-</b>	<b>4,521</b>
Reclassified on adoption of Ind AS 116 (Refer Note 40)	-	(11)	-	-	-	-	-	-	11	-
Charge for the year	-	-	171	714	2	25	18	20	8	958
Disposals	-	-	-	(21)	-	-	(1)	-	-	(22)
<b>Balance as at 31 March 2020</b>	<b>-</b>	<b>-</b>	<b>1,020</b>	<b>3,994</b>	<b>33</b>	<b>93</b>	<b>131</b>	<b>167</b>	<b>19</b>	<b>5,457</b>
Net book value as at 31 March 2019	2,091	251	3,523	5,935	5	121	110	31	-	12,067
Net book value as at 31 March 2020	2,487	-	5,150	7,311	5	244	107	70	283	15,657

### (i) Contractual obligations

Refer to note 37(a) for disclosure of contractual commitments for the acquisition of property, plant and equipment.

- (ii) Right-of-use assets consists of leasehold land from the State Industrial Development Corporation of Uttarakhand Limited for a period of 90 years, Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years and 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 at the option of the Company.
- (iii) Land parcels with an aggregate carrying amount of ₹ 4 (31 March 2019: ₹ 4) are under dispute pending in a court as to the ownership of the property. The management, based on available information and advice of legal counsel, is confident of favourable outcome in this case and hence, no adjustments are made in these financial statements.
- (iv) The following lands have come into the books of the Company pursuant to the merger of Natco Organics Limited and Karanth Pharma Chemical Labs Private Limited (transferor companies) with the Company in the earlier years. Hence, the name of the transferor companies are appearing in the title deeds of these lands.
- Freehold land at Sanathnagar Industrial estate, Hyderabad.
  - Freehold land at No. 74/7B, Vaikkadu TPP Salai, Manali, Chennai."
- (v) The Company was provisionally allotted a parcel of land from Andhra Pradesh Industrial Infrastructure Corporation Limited ('APIIC') in Attivaram, Nellore District, Andhra Pradesh for a consideration of ₹ 66 which shall be registered in the name of the Company based on fulfilment of certain conditions laid down by APIIC.
- (vi) Refer to note 40 for disclosure of leases under Ind AS 116.
- (vii) Refer to note 17 for disclosure of security against borrowings.

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

## 6. Intangible assets

	Computer Software	Total
<b>Gross carrying amount</b>		
As at 1 April 2018	146	146
Additions	48	48
As at 31 March 2019	194	194
Additions	29	29
As at 31 March 2020	223	223
<b>Accumulated amortisation</b>		
As at 1 April 2018	89	89
Amortisation for the year	23	23
As at 31 March 2019	112	112
Amortisation for the year	23	23
As at 31 March 2020	135	135
<b>Net carrying amount</b>		
As at 31 March 2019	82	82
As at 31 March 2020	88	88

## 7. Investments in subsidiaries

	As at 31 March 2020	As at 31 March 2019
<b>Non-current</b>		
<b>Investment in equity instruments (fully paid-up)</b>		
At cost less provision for other than temporary impairment		
<b>Unquoted</b>		
1,000 (31 March 2019: 1,000) common shares of US\$1,000 each, in Natco Pharma Inc	42	42
1,078,065 (31 March 2019: 1,061,612) equity shares of US\$10 each, in Time Cap Overseas Limited*	647	638
Share application money pending allotment in Time Cap Overseas Limited	-	2
2,783,813 (31 March 2019: 2,783,813) equity shares of Canadian Dollar 1 each, in NATCO Pharma (Canada) Inc	145	145
2,095,000 (31 March 2019: 1,845,000) equity shares of Singapore Dollar 1 each, in NATCO Pharma Asia Pte. Ltd	102	89
1,058,572 (31 March 2019: 978,572) equity shares of Australian Dollar 1 each, in NATCO Pharma Australia PTY Ltd	53	49
271,406 (31 March 2019: 103,995) equity shares of 100 PHP each, in NATCO Lifesciences Philippines Inc.	36	12
	<b>1,025</b>	<b>977</b>
Aggregate book value of unquoted investments	1,025	977
Aggregate amount of impairment in the value of investments	-	-

\*The Company through its subsidiary Time Cap Overseas Limited ("Timecap") has made investments in Natcofarma Do Brasil Ltda. ("Natco Brazil"), which is engaged in marketing of pharmaceutical products in Brazil. The Company indirectly holds 90.89% of Natco Brazil through Timecap and Natco Pharma Inc. During the year ended 31 March 2020, Natco Brazil reported a loss of ₹ 275 and as at that date its accumulated losses aggregating ₹ 1,172 have substantially eroded its net worth which indicates a possible impairment in the carrying value of the investment. Accordingly, the management with the help of a valuation specialist, has carried out an impairment assessment and concluded that the estimated recoverable amount computed using value-in-use method, is higher than the carrying value of the investment in Natco Brazil and accordingly, there is no impairment. Determination of recoverable amount using Discounted Cash Flow (DCF) valuation method by the independent valuer involved consideration of key assumptions including, but are not limited to, projections of future cash flows, growth rates, discounts rates, estimated future operating expenditure. The planning horizon reflects the assumptions for short-to-mid term market developments which are based on key assumptions such as margins, expected growth rates based on past experience and management's expectations / extrapolation of normal increase / steady terminal growth rate. Discount rate reflects the current market assessment of the risks. The discount rate is estimated based on the weighted average cost of capital for Natco Brazil. The management based on sensitivity analysis performed believes that any reasonable possible change in the key assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the investment.

# Notes to standalone financial statements

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

## 8. Investments

	As at 31 March 2020	As at 31 March 2019
<b>I. Non-current</b>		
<b>a) Investment in equity instruments of others (fully paid-up)</b>		
At fair value through other comprehensive income		
Unquoted		
139,451 (31 March 2019: 139,451) equity shares of ₹ 10 each, in OMRV Hospital Private Limited	105	105
21,769 (31 March 2019: 21,769) equity shares of ₹ 10 each, in Veda Seedsciences Private Limited	79	79
8,000 (31 March 2019: Nil) equity shares of ₹ 10 each, in Cipher Oncology Private limited	10	-
978 (31 March 2019: Nil) equity shares of ₹ 10 each, in Medplus Health Services Private Limited	75	-
4,054 (31 March 2019: 4,054) equity shares of 1USD NATIVITA Joint Limited Liability Company	0	0
30 (31 March 2019: 30) equity shares of Euro 0.5 per share of Pharnasanta B.V	0	0
750 (31 March 2019: 750) equity shares of ₹ 100 each, in Jeedimetla Effluent Treatment Limited	0	0
34,400 (31 March 2019: 34,400) equity shares of ₹ 10 each, in Pattancheru Enviro-Tech Limited	0	0
27,000 (31 March 2019: 27,000) equity shares of ₹ 10 each, in Jayalakshmi Spinning Mills Limited	0	0
Less: Provision for diminution in value of investments	0	0
	<b>269</b>	<b>185</b>
<b>b) Other investments</b>		
At fair value through other comprehensive income		
Unquoted		
1,624 (31 March 2019: 1,060) units of ₹ 10,000 each, in Endiya Trust	16	11
500,000 (31 March 2019: Nil) 0.05% compulsorily convertible preference shares (CCPS) of ₹ 100 each, in OMRV Hospitals Private Limited	50	-
	<b>66</b>	<b>11</b>
At amortised cost		
Unquoted		
National savings certificates	0	0
Application money for investment in Kotak Alternate Investment Plan	-	3
Quoted		
250,000 (31 March 2019: Nil) 9.25% non-convertible debentures (NCD) of ₹ 1,000 each, in Muthoot Finance limited	250	-
250 (31 March 2019: Nil) 8.39% Series III Perpetual Bonds of ₹ 1,000,000 each, issued by State Bank of India	251	-
	<b>501</b>	<b>3</b>
<b>Total non-current investments</b>	<b>836</b>	<b>199</b>
Aggregate book value of unquoted investments	335	199
Aggregate book value of quoted investments	501	-
Aggregate market value of quoted investments	512	-
Aggregate amount of impairment in the value of investments	0	0
<b>II. Current</b>		
<b>a) Investments in equity instruments of others (fully paid-up)</b>		
Quoted		
At fair value through other comprehensive income		
10,000 (31 March 2019: 10,000) equity shares of ₹ 10 each, in Neuland Laboratories Limited	3	7

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

	As at 31 March 2020	As at 31 March 2019
5,500 (31 March 2019: 5,500) equity shares of ₹ 1 each, in Sun Pharmaceuticals Industries Limited	2	3
778 (31 March 2019: 778) equity shares of ₹ 2 each, in Alkem Laboratories Limited	2	1
15,000 (31 March 2019: 15,000) equity shares of ₹ 1 each, in Cadila Healthcare Limited	4	5
100,000 (31 March 2019: 100,000) equity shares of ₹ 10 each, in Laurus Labs Limited	32	40
150,000 (31 March 2019: 150,000) equity shares of ₹ 1 each, in Lanco Infratech Limited	0	0
22,700 (31 March 2019: 22,700) equity shares of ₹ 1 each, in GMR Infrastructure Limited	0	0
50,400 (31 March 2019: 50,400) equity shares of ₹ 1 each, in GVK Power & Infrastructure Limited	0	0
50,000 (31 March 2019: 50,000) equity shares of ₹ 1 each, in Panacea Biotech Limited	6	10
3,176 (31 March 2019: 3,176) equity shares of ₹ 1 each, in ICICI Prudential Life Insurance Company Limited	1	1
	50	68
<b>b) Other investments (fully paid-up)</b>		
Unquoted		
At amortised cost		
Nil (31 March 2019: 12,000) non-convertible debentures of ₹ 100,000 in Citicorp Finance India Limited	-	1,200
<b>Total current investments</b>	50	1,268
Aggregate book value of unquoted investments	-	1,200
Aggregate book value of quoted investments	60	60
Aggregate market value of quoted investments	50	68

## 9. Loans

	As at 31 March 2020	As at 31 March 2019
<b>(Unsecured, considered good)</b>		
<b>Non-current</b>		
Loans to related parties (Refer note 35)	524	476
Loans to others	20	20
Security deposits	140	99
<b>Total non-current loans</b>	684	595
<b>Current</b>		
Loans to employees	81	70
<b>Total current loans</b>	81	70

# Notes to standalone financial statements

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

## 10. Other financial assets

	As at 31 March 2020	As at 31 March 2019
<b>(Unsecured, considered good)</b>		
<b>Non-current</b>		
Deposits classified at amortised cost:		
- Bank deposits with maturity beyond 12 months*	35	60
- Interest on deposits, accrued but not due	6	5
	<b>41</b>	<b>65</b>
*Bank deposits are given as margin money against bank guarantees/performance guarantees issued by banks.		
<b>Current</b>		
Deposits classified at amortised cost:		
- Deposits with financial institutions	8,112	6,316
- Interest on deposits, accrued but not due	470	553
Interest on loans to related party, accrued but not due (Refer note 35)	23	12
Other receivables	7	78
	<b>8,612</b>	<b>6,959</b>

## 11. Other assets

	As at 31 March 2020	As at 31 March 2019
<b>(Unsecured, considered good)</b>		
<b>Non-current</b>		
(i) Capital advances	547	492
(ii) Advances other than capital advances		
- Prepaid rent (Refer note 40)	-	18
- Balance with statutory authorities	12	17
	<b>559</b>	<b>527</b>
<b>Current</b>		
Advances other than capital advances		
- Advance to material/service providers	1,378	564
- Prepaid expenses	178	137
- Export incentives receivable	260	304
- Balance with statutory authorities	688	745
	<b>2,504</b>	<b>1,750</b>

## 12. Inventories

	As at 31 March 2020	As at 31 March 2019
Raw materials [including goods-in-transit of ₹ 26 (31 March 2019: ₹ 4)]	1,627	2,111
Work-in-progress	1,566	1,405
Finished goods	1,140	735
Stock-in-trade	6	13
Stores and spares [including goods-in-transit of ₹ 5 (31 March 2019: ₹ 44)]	640	562
Packing materials [including goods-in-transit of ₹ 1 (31 March 2019: ₹ Nil)]	265	258
	<b>5,244</b>	<b>5,084</b>

The write-down of inventories to net realisable value during the year amounted to ₹ 31 (March 2019, ₹ 2)



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

## 13. Trade receivables

	As at 31 March 2020	As at 31 March 2019
<b>(Unsecured)</b>		
Trade receivables, gross		
- Considered good	5,542	4,916
- Credit impaired	-	-
	5,542	4,916
Less: Allowance for credit losses	175	-
	5,367	4,916

## 14. Cash and bank balances

	As at 31 March 2020	As at 31 March 2019
<b>Cash and cash equivalents</b>		
Cash on hand	11	19
<b>Balance with banks:</b>		
- Current accounts	68	96
	79	115
<b>Bank balances other than cash and cash equivalents:</b>		
Bank deposits with maturity within 12 months	428	2,490
Unpaid dividend account	34	22
	462	2,512
	541	2,627

## 15. Equity share capital

### i. Authorised share capital

	As at 31 March 2020		As at 31 March 2019	
	Number	Amount	Number	Amount
Equity shares of ₹ 2 each	200,000,000	400	200,000,000	400

### ii. Issued, subscribed and fully paid up

	As at 31 March 2020		As at 31 March 2019	
	Number	Amount	Number	Amount
Equity shares of ₹ 2 each	182,067,975	364	182,746,479	365
	182,067,975	364	182,746,479	365

### iii. Reconciliation of number of equity shares outstanding at the beginning and at the end of the year

	As at 31 March 2020		As at 31 March 2019	
	Number	Amount	Number	Amount
<b>Equity shares</b>				
Balance at the beginning of the year	182,746,479	365	184,493,400	369
Add: Equity shares issued pursuant to employee stock option plan (Refer note 15 (viii))	305,840	1	268,735	0
Less: Bought back during the year and extinguished before balance sheet date (Refer notes given below)	(984,344)	(2)	(1,877,640)	(4)
	182,067,975	364	182,884,495	365
Less: Bought back during the year and extinguished after the balance sheet date (Refer notes given below)	-	-	(138,016)	(0)
<b>Balance at the end of the year</b>	<b>182,067,975</b>	<b>364</b>	<b>182,746,479</b>	<b>365</b>

# Notes to standalone financial statements

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

## Notes:

- (a) During the year ended 31 March 2020, the Company bought back and extinguished 984,344 equity shares of ₹ 2 each for an aggregate purchase value of ₹ 536 at an average price of ₹ 544 per share, excluding transaction costs under the buy-back of equity shares plan approved by the Board of directors on 05 November 2018.
- (b) During the year ended 31 March 2019, the Company bought back 2,015,656 equity shares of ₹ 2 each for an aggregate purchase value of ₹ 1,329 at an average price of ₹ 659 per share, excluding transaction costs under the buy-back of equity shares plan approved by the Board of directors on 05 November 2018. Out of the total shares bought back, 1,877,640 equity shares of ₹ 2 each were extinguished before 31 March 2019 and the balance 138,016 equity shares were extinguished in two tranches on 5 April 2019 and 22 April 2019.

## iv. Rights, preferences and restrictions attached to equity shares

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

## v. Details of shareholder holding more than 5% share capital

Name of the equity shareholder	As at 31 March 2020		As at 31 March 2019	
	Number	% holding	Number	% holding
V C Nannapaneni*	28,027,975	15.39%	40,751,315	22.30%
Time Cap Pharma Labs Limited	17,157,220	9.42%	17,157,220	9.39%
Natsoft Information Systems Private Limited	15,767,500	8.66%	15,767,500	8.63%
V S Swathi Kantamani	15,983,340	8.78%	3,260,000	1.78%

\*including shares held in the capacity of Karta of Hindu Undivided Family (HUF) aggregating 5,440,045 (31 March 2019: 5,440,045).

## vi. Shares reserved for issuance under Stock Option Plans of the Company

	As at 31 March 2020		As at 31 March 2019	
	Number	% holding	Number	% holding
<b>NATCO Employee Stock Option Plan:</b>				
ESOP 2015	74,810	0.04%	215,800	0.12%
ESOP 2016	87,310	0.05%	147,280	0.08%
ESOP 2017	370,525	0.20%	485,235	0.27%
	<b>532,645</b>		<b>848,315</b>	

## vii. Aggregate number of bonus shares issued, shares issued for consideration other than cash and shares bought back during the period of five years immediately preceding the reporting date:

	2019-20	2018-19	2017-18	2016-17	2015-16
Equity Shares issued under Stock Option Plans of the Company	305,840	268,735	185,600	133,555	-
Equity shares bought-back (Refer note 15(iii))	984,344	2,015,656	-	-	-

## viii. Share based payments

- (a) The Company has instituted the NATCO Employee Stock Option Plan 'ESOP-2015', NATCO Employee Stock Option Plan 'ESOP-2016' and NATCO Employee Stock Option Plan 'ESOP-2017' ("the ESOP Schemes"). The ESOP Schemes were formulated in accordance with the Securities Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 issued by the Securities and Exchange Board of India ("SEBI"). Pursuant to the terms of the ESOP Schemes, the Board of Directors of the Company have granted 750,000 options (post split), 174,330 options and 600,000 options to eligible employees on 12 August 2015, 11 November 2016 and 2 November 2017, respectively. The terms of the ESOP Schemes provide that each option entitles the holder to one equity share of

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

₹ 2 each (post split) and that the options can be settled only by way of issue of equity shares. The options vest in a phased manner ranging from 1 to 5 years from the date of grant and the options are entirely time-based with no performance conditions.

- (b) During the year ended 31 March 2020, the Company had accrued stock compensation cost of ₹ 144 (31 March 2019: ₹ 253) in respect of the ESOP Schemes.

- (c) The details of options are as follows :

ESOP 2015, ESOP 2016 and ESOP 2017	As at 31 March 2020		As at 31 March 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	848,315	2	1,144,380	2
Granted during the year	-	2	-	2
Forfeited during the year	-	2	-	2
Vested during the year	358,675	2	296,065	2
Exercised during the year	305,840	2	268,735	2
Expired during the year	15,775	2	27,330	2
Outstanding at the end of the year	526,700	2	848,315	2
Exercisable at the end of the year	43,005	2	-	-

The weighted average remaining contractual life of unvested options is 12.35 months (31 March 2019: 16.83 months).

The weighted average share price on the date of exercise of options during the years ended 31 March 2020 and 31 March 2019 was ₹ 567 and ₹ 732 per share, respectively.

There were no stock options granted by the Company for the years ended 31 March 2020 and 31 March 2019. The fair value of stock options granted in earlier years had been measured using the Black-Scholes option pricing model at the date of the grant. The Black-Scholes option pricing model includes assumptions regarding dividend yields, expected volatility, expected terms and risk free interest rates.

#### ix. Dividend paid and proposed

Dividends on equity shares were declared and paid by the Company during the year:

	2019-20		2018-19	
	Dividend per Equity share (₹)	Amount	Dividend per Equity share (₹)	Amount
First interim dividend	1.25	227	1.50	277
Second interim dividend	1.00	182	3.50	642
Third interim dividend	3.50	638	-	-
Dividend distribution tax on above		215		189
<b>Total</b>		<b>1,262</b>		<b>1,108</b>

After the reporting dates the following dividend was proposed by the directors subject to the approval at the annual general meeting; the dividends have not been recognised as liabilities. Payment of dividends would be subject to deduction of tax at source when declared or paid.

	Year ended 31 March 2020		Year ended 31 March 2019	
	Dividend per Equity share (₹)	Amount	Dividend per Equity share (₹)	Amount
Fourth interim dividend	1	182	-	-
Final dividend on equity shares	-	-	1.25	227
Dividend distribution tax on above		-		47
<b>Total</b>		<b>182</b>		<b>274</b>

# Notes to standalone financial statements

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

## 16. Other equity

### A. Reserve and surplus

	As at 31 March 2020	As at 31 March 2019
<b>Reserves and surplus</b>		
Securities premium	13,729	14,048
Capital reserve	516	207
Capital redemption reserve	11	9
General reserve	595	595
Share options outstanding account	236	309
Retained earnings	23,225	20,068
<b>Total reserves and surplus</b>	<b>38,312</b>	<b>35,236</b>
<b>Other comprehensive income</b>		
Gain on FVTOCI equity securities	19	31
<b>Total other items of OCI</b>	<b>19</b>	<b>31</b>
<b>Total other equity</b>	<b>38,331</b>	<b>35,267</b>

### B. Nature and purpose of other reserves

#### Securities premium

Securities premium is used to record the premium on issue of shares. The reserve is utilised in accordance with provisions of the Companies Act, 2013.

#### Capital reserve

Capital reserve was created on amalgamation of certain entities into the Company in the earlier years and the transactions with Shareholders. The Company uses capital reserve for transactions in accordance with the provisions of the Companies Act, 2013.

#### Capital redemption reserve

The Company had purchased its own shares and as per the provision of the applicable laws, a sum equal to the nominal value of the shares so purchased is required to be transferred to the capital redemption reserve. The Company uses capital redemption reserve for transactions in accordance with the provisions of the Companies Act, 2013.

#### General reserve

The Company generally appropriates a portion of its earnings to the general reserve to be used for contingencies. These reserves are freely available for use by the Company.

#### Share options outstanding account

This reserve represents the excess of the fair value of the options on the grant date over the strike price which is accumulated by the Company in respect of all options that have been granted. The Company transfers the proportionate amounts, outstanding in this account, in relation to options exercised to securities premium on the date of exercise of such options.

#### Fair value through other comprehensive income (FVTOCI) equity securities

The Company has elected to recognise the change in fair value of certain investments in equity shares in other comprehensive income. These changes are accumulated within the FVTOCI equity instruments reserve within equity. The Company transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.

#### Retained earnings

Retained earnings mainly represent all current and prior year profits as disclosed in the statement of profit and loss and other comprehensive income pertaining to remeasurement gains/(losses) arising from the actuarial valuation of the defined benefit plan less dividend distribution.

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

**17. Borrowings**

	As at 31 March 2020	As at 31 March 2019
<b>Non-current</b>		
Lease liabilities (refer note 40)	9	-
	9	-
<b>Current</b>		
Lease liabilities (refer note 40)	8	-
<b>Loan repayable on demand from banks:</b>		
Working capital loans (secured)	1,340	1,038
Working capital loans (unsecured)	1,783	2,807
	<b>3,131</b>	<b>3,845</b>

**Notes:**

- (i) Working capital loans (secured) represents cash credit, bills purchased and discounted with various banks. These working capital loans are secured by joint pari-passu first charge on all the current assets and property, plant and equipment of:
- Land admeasuring 17.19 acres comprised in survey no. 70 of village Nandikonda, Mandal Peddavoora, District Nalgonda in the State of Telangana together with all buildings and structures thereon and all plant and equipment attached to the earth.
  - House/premise bearing municipal no. 8-2-120/112/A/33 and 8-2-120/112/A/32 in plot no. 100 admeasuring 1166 sq. yards with all its building and fixed assets situated at Road No.2, Banjara Hills, Hyderabad - 500033.
- (ii) Working capital loans (unsecured) represents overdraft facility, bills purchased and discounted with various banks.
- (iii) The rate of interest applicable was in the range of 2.40% to 8.70%.

**18. Other financial liabilities**

	As at 31 March 2020	As at 31 March 2019
<b>Non-current</b>		
Deposits from customers	8	8
	<b>8</b>	<b>8</b>
<b>Current</b>		
Interest accrued but not due	-	6
Book overdraft	135	-
Capital creditors	403	483
Unpaid dividend *	34	22
Payroll related liabilities	240	258
Other payables	-	2
	<b>812</b>	<b>771</b>

\* Investor Education and Protection Fund shall be credited when due.

# Notes to standalone financial statements

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

## 19. Provisions

	As at 31 March 2020	As at 31 March 2019
<b>Non-current</b>		
<b>Provision for employee benefits:</b>		
Provision for gratuity (refer note (a))	564	439
Provision for compensated absences (refer note (b))	338	271
	<b>902</b>	<b>710</b>
<b>Current</b>		
<b>Provision for employee benefits:</b>		
Provision for gratuity (refer note (a))	52	47
Provision for compensated absences (refer note (b))	53	43
	<b>105</b>	<b>90</b>

### (a) Gratuity

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹ 2. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund.

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

#### (i) Reconciliation of the present value of defined benefit obligation

	As at 31 March 2020	As at 31 March 2019
Opening balance	554	370
Current service cost	65	69
Interest cost	43	29
Benefits paid	(14)	(21)
<b>Actuarial loss recognised in the other comprehensive income:</b>		
Experience adjustment	30	196
Change in demographic assumptions	-	(15)
Change in financial assumptions	48	(74)
Closing balance	<b>726</b>	<b>554</b>

#### (ii) Reconciliations of present value of plan asset

	As at 31 March 2020	As at 31 March 2019
Opening balance	68	83
Interest income	5	7
Employer contribution	52	-
Benefits paid	(14)	(21)
<b>Actuarial losses recognised in the other comprehensive income:</b>		
Return on plan assets, excluding interest income	(1)	(1)
Closing balance	<b>110</b>	<b>68</b>



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

(iii) Reconciliation of net defined benefit obligation

	As at 31 March 2020	As at 31 March 2019
Present value of funded obligation	726	554
Fair value of plan assets	(110)	(68)
<b>Amount recognised in the balance sheet</b>	<b>616</b>	<b>486</b>

(iv) Expense recognised in the statement of profit and loss under employee benefit expense:

	Year ended 31 March 2020	Year ended 31 March 2019
Current service cost	65	69
Interest cost	43	29
Interest income	(5)	(7)
<b>Net cost</b>	<b>103</b>	<b>91</b>

(v) Remeasurements recognised in the statement of other comprehensive income

	Year ended 31 March 2020	Year ended 31 March 2019
Experience adjustment on funded obligation	78	107
Return on plan assets, excluding interest income	1	1
<b>Net gratuity costs in other comprehensive income</b>	<b>79</b>	<b>108</b>

(vi) Plan assets comprises of the following:

	Year ended 31 March 2020	Year ended 31 March 2019
<b>Group gratuity fund with LIC</b>	<b>110</b>	<b>68</b>

(vii) Summary of actuarial assumptions:

	Year ended 31 March 2020	Year ended 31 March 2019
Discount rate	6.85%	7.70%
Estimates rate of return on plan assets	6.85%	7.70%
Salary escalation rate	7.00%	1-2yaers 10% thereafter 7%
Mortality rate	Indian Assured Lives Mortality (2012-14)	Indian Assured Lives Mortality (2006-08)

The estimates of future salary increase considered in actuarial valuation takes account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

(viii) Sensitivity analysis:

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the salary growth rate. The calculation of the net defined benefit liability is sensitive to these assumptions. However, the impact of these changes is not ascertained to be material by the management.

# Notes to standalone financial statements

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

The sensitivity analysis of significant actuarial assumptions as at the end of the period is shown below.

	Year ended 31 March 2020	Year ended 31 March 2019
A. Defined benefit obligation without effect of projected salary growth	726	554
B. Salary escalation rate		
Salary rate +100 basis points	78	58
Salary rate -100 basis points	(68)	(50)
C. Discount rate		
Discount rate +100 basis points	(73)	(55)
Discount rate -100 basis points	88	64

As at 31 March 2020, the weighted-average duration of the defined benefit obligation was 11 years (31 March 2019: 11 years).

(ix) The weighted average duration of the defined benefit plan obligation at the end of the reporting period is 11 years (Previous year: 11 years).

(x) Expected contribution

The expected contributions for defined benefit plan for the next financial year will be in line with the contribution for the period and is expected by the Management to be ₹ 60 (31 March 2019: ₹ 47).

(xi) Maturity profile of defined benefit obligation (valued on undiscounted basis):

	Year ended 31 March 2020	Year ended 31 March 2019
Within 1 year	66	47
2 to 5 years	162	142
6 to 10 years	300	274
More than 10 years	1,333	1,188

(b) Compensated absences:

The accrual for unutilised leave is determined for the entire available leave balance standing to the credit of the employees at the year-end. The value of such leave balances that are eligible for carry forward, is determined by an actuarial valuation as at the end of the year and is charged to the statement of profit and loss. The actual liability towards leave obligations as at 31 March 2020 is ₹ 391 (31 March 2019: ₹ 314). Expense recognised in the statement of profit and loss under employee benefit expense is ₹ 99 (31 March 2019: ₹ 143).

## 20. Other liabilities

	As at 31 March 2020	As at 31 March 2019
<b>Current</b>		
Statutory liabilities	82	92
Advance from customers	4	189
Others	36	33
	<b>122</b>	<b>314</b>

## 21. Trade payables

	As at 31 March 2020	As at 31 March 2019
<b>Current</b>		
Total outstanding dues of micro enterprises and small enterprises [Refer note below]	21	79
Total outstanding dues of creditors other than micro enterprises and small enterprises	2,321	1,939
	<b>2,342</b>	<b>2,018</b>

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

**Note:**

Under the Micro, Small and Medium Enterprises Development Act, 2006, (MSMED) which came into force from 2 October 2006, certain disclosures are required to be made relating to Micro and Small enterprises. On the basis of the information and records available with the Management, the outstanding dues to the Micro and Small enterprises as defined in the MSMED as set out in following disclosure.

Particulars	As at 31 March 2020	As at 31 March 2019
(i) the principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year;	21	79
(ii) the amount of interest paid by the buyer in terms of Section 16 of MSMED Act, 2006 along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;	-	-
(iii) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under MEMED Act, 2006;	-	-
(iv) the amount of interest accrued and remaining unpaid at the end of each accounting year; and	-	1
(v) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under the MSMED Act, 2006.	-	-

The above information regarding Micro, Small and Medium Enterprises has been determined to the extent such parties have been identified on the basis of information available with the Company. This has been relied upon by the auditors.

## 22. Revenue from operations

	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Revenue from contracts with customers:</b>		
Sale of goods	15,877	19,317
Sale of services	1,451	68
Job work income	302	150
<b>Total (a)</b>	<b>17,630</b>	<b>19,535</b>
<b>Other operating revenues</b>		
Export incentives	224	235
Budgetary support	31	62
Scrap sales	17	31
<b>Total (b)</b>	<b>272</b>	<b>328</b>
<b>Total revenue from operations (a+b)</b>	<b>17,902</b>	<b>19,863</b>
<b>Disaggregation of revenue</b>		
<b>Revenue based on Geography (product destination):</b>		
India	7,218	7,928
USA	8,230	8,741
Rest of the world	2,182	2,866
	<b>17,630</b>	<b>19,535</b>
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	15,877	19,317
Services transferred over time	1,753	218
	<b>17,630</b>	<b>19,535</b>

# Notes to standalone financial statements

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

	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Reconciliation of revenue from operations with contract price:</b>		
Revenue as per contracted price	18,612	21,436
<b>Adjusted for:</b>		
Sales returns	(322)	(257)
Trade discounts and rebates	(660)	(1,644)
<b>Total Revenue from operations</b>	<b>17,630</b>	<b>19,535</b>

Contract liabilities resulting from advance payments by customers for delivery of goods are predominantly recognised as sales within one year. The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as on 31 March 2020 is ₹ 4 (31 March 2019: ₹ 189) resulting from advance payments and shown under other current liabilities.

## 23. Other income

	For the year ended 31 March 2020	For the year ended 31 March 2019
Provisions no longer required written back	29	-
Interest income from financial assets carried at amortised cost	816	911
Profit on sale of property, plant and equipment, net	163	135
Foreign exchange gain, net	207	250
Other receipts	23	2
	<b>1,238</b>	<b>1,298</b>

## 24. Cost of material consumed

	For the year ended 31 March 2020	For the year ended 31 March 2019
Raw material consumed	3,018	3,116
Packing material consumed	272	215
	<b>3,290</b>	<b>3,331</b>

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

	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Opening stock:</b>		
- Finished goods	735	621
- Work-in-progress	1,405	1,239
- Stock-in-trade	13	38
	<b>2,153</b>	<b>1,898</b>
<b>Closing stock:</b>		
- Finished goods	1,140	735
- Work-in-progress	1,566	1,405
- Stock-in-trade	6	13
	<b>2,712</b>	<b>2,153</b>
	<b>(559)</b>	<b>(255)</b>

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

## 26. Employee benefits expense

	For the year ended 31 March 2020	For the year ended 31 March 2019
Salaries, wages and bonus	2,940	2,717
Contribution to provident fund and other funds	223	199
Gratuity expense (Refer note 19)	103	91
Share based payment expense (Refer note 15(viii))	144	253
Staff welfare expenses	151	142
	<b>3,561</b>	<b>3,402</b>

### Defined contribution plan:

The Company makes contributions, determined as a specified percentage of employee salaries, in respect of qualifying employees towards provident fund and employee state insurance schemes which are defined contribution plans. The Company has no obligations other than to make the specified contributions. The contribution to provident fund charged to the statement of profit and loss is ₹ 223 (31 March 2019: ₹ 199).

## 27. Finance costs

	For the year ended 31 March 2020	For the year ended 31 March 2019
Interest expense on liabilities at amortised cost:		
- Bank overdraft and others	177	162
Other borrowing cost	29	26
	<b>206</b>	<b>188</b>

## 28. Other expenses

	For the year ended 31 March 2020	For the year ended 31 March 2019
Consumption of stores and spares	290	372
Power and fuel	624	596
Rental charges (Refer note 40)	7	13
Repairs and maintenance		
- Buildings	55	50
- Plant and equipment	163	192
- Others	26	33
Insurance	146	101
Rates and taxes	267	233
Factory maintenance expenses	266	196
Clinical and analytical charges	469	283
Carriage and freight outward	39	46
Donations*	42	287
Corporate social responsibility (CSR) expenses (Refer note 34)	157	116
Corporate environment responsibility (CER) expenses	2	-
Communication expenses	73	65
Office maintenance	78	71
Travelling and conveyance	236	246
Legal and professional fees	299	305
Payment to auditors		
- Audit fees	5	4
- Expenses reimbursed	0	0
Directors sitting fee	1	1
Allowance for credit losses	175	-

# Notes to standalone financial statements

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

	For the year ended 31 March 2020	For the year ended 31 March 2019
Bad debts written off	55	20
Royalty expense	259	698
Sales promotion expenses	187	289
Research and development expenses (refer note 38)	504	536
Miscellaneous expenses	166	152
	<b>4,591</b>	<b>4,905</b>

\* Includes political contributions of ₹ 23 (31st March 2019: ₹ 233) made in accordance with Section 182 of the Companies Act, 2013.

## 29. Income-tax

### (A) Components of Income-tax expenses

	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>(i) Tax expense recognised in profit and loss</b>		
Current tax:		
Current year tax	1,251	1,863
Income-tax for earlier years	40	-
	<b>1,291</b>	<b>1,863</b>
Deferred tax charge/(credit) (net):		
Minimum Alternate Tax (MAT) credit utilisation (Refer note 29(E))	(382)	(60)
Origination and reversal of temporary differences	177	-
	<b>(205)</b>	<b>(60)</b>
<b>Tax expense for the year</b>	<b>1,086</b>	<b>1,803</b>
<b>(ii) Tax recognised in other comprehensive income</b>		
Items that will not be reclassified to profit and loss		
- Remeasurement of defined benefit plans	27	23
- Net gains / (losses) from investments in equity instruments designated at FVTOCI	7	1
	<b>34</b>	<b>24</b>

### (B) Reconciliation of effective tax rate

The major components of income-tax expense and the reconciliation of expected tax expense based on the domestic effective tax rate of the Company at 34.944% (31 March 2019: 34.944%) and the reported tax expense in the statement of profit or loss are as follows:

	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Profit before tax</b>	<b>5,831</b>	<b>8,474</b>
Enacted tax rate applicable to the Company in India*	34.944%	34.944%
<b>Tax using the Company's domestic tax rate</b>	<b>2,038</b>	<b>2,961</b>
Tax effect of:		
Expense not deductible for tax purposes	74	50
Additional deduction allowed under Income-tax Act	(431)	(446)
Additional allowances under Income-tax Act	(378)	(685)
Utilisation of previously unutilised MAT credit**	(382)	(60)
Capital gain tax	(25)	(17)
Other timing differences	150	-
Tax pertaining to earlier years	40	-
<b>Income-tax expense</b>	<b>1,086</b>	<b>1,803</b>

\*The Taxation Laws (Amendment) Ordinance, 2019 ('Ordinance') was promulgated by the President of India on 20 September 2019. The Ordinance has amended the Income-tax Act, 1961 and Finance Act, 2019 to inter-alia provide an option to a domestic company to pay

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

income-tax at reduced rate of 22% plus applicable surcharge and cess subject to certain conditions. The Company has made an assessment of the impact of the Ordinance and decided to continue with the existing tax structure until utilisation of accumulated minimum alternative tax (MAT) credit.

\*\*Also refer note 41

## (C) Deferred tax assets and liabilities

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the items that created these differences is given below:

	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Deferred tax assets/(liabilities):</b>		
Minimum Alternate Tax*	40	-
Trade receivables	61	-
Property , plant and equipment	(711)	(403)
Provision for employee benefits	351	279
Investments	3	11
	<b>(256)</b>	<b>(113)</b>

\* As per Indian tax laws, companies are liable for a Minimum Alternate Tax ("MAT" tax) when current tax, as computed under the provisions of the Income-tax Act, 1961 ("Tax Act"), is determined to be below the MAT tax computed under section 115JB of the Tax Act. The excess of MAT tax over current tax is eligible to be carried forward and set-off in the future against the current tax liabilities over a period of 15 years.

The Company offsets tax assets and liabilities only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Significant management judgement is required in determining provision for income-tax, deferred tax assets and liabilities and recoverability of deferred tax assets. The recoverability of deferred tax assets is based on estimates of taxable income by each jurisdiction in which the relevant entity operates and the period over which deferred tax assets will be recovered.

## (D) Movement in deferred tax assets and liabilities

The details of movement in deferred tax assets and liabilities for the year ended 31 March 2020:

	As at 1 April 2019	Recognised in profit and loss	Recognised in OCI	As at 31 March 2020
<b>Deferred tax assets/(liabilities):</b>				
Minimum Alternate Tax	-	40	-	40
Trade receivables	-	61	-	61
Property , plant and equipment	(403)	(308)	-	(711)
Provision for employee benefits	279	45	27	351
Investments	11	(15)	7	3
Net deferred tax assets/(liabilities)	(113)	(177)	34	(256)

The details of movement in deferred tax assets and liabilities for the year ended 31 March 2019:

	As at 1 April 2018	Recognised in profit and loss	Recognised in OCI	As at 31 March 2019
<b>Deferred tax assets/(liabilities):</b>				
Property , plant and equipment	(308)	(95)	-	(403)
Provision for employee benefits	161	95	23	279
Investments	10	-	1	11
Net deferred tax assets/(liabilities)	(137)	-	24	(113)



# Notes to standalone financial statements

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

## (E) Unrecognised deferred tax assets

	As at 31 March 2020	As at 31 March 2019
Unrecognised MAT credit entitlement	1,237	1,619
	1,237	1,619

The Company did not recognise deferred tax assets of ₹ 1,237 million on MAT credit entitlement, as the Company is unable to estimate the availability of taxable profits with reasonable certainty after taking into consideration the tax holiday units/ benefits available including financial projections and availability of sufficient taxable income in foreseeable future. The above MAT credit expires at various dates ranging from 2029 through 2032.

## 30. Earnings per share (EPS)

	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Earnings:</b>		
Profit for the year	4,745	6,671
<b>Shares:</b>		
Number of equity shares at the beginning of the year	182,746,479	184,493,400
Effect of equity shares issued on exercise of stock options	95,712	123,292
Effect of equity shares bought back during the year	(907,668)	(411,270)
<b>Weighted average number of equity shares – Basic</b>	<b>181,934,523</b>	<b>184,205,422</b>
Dilutive effect of stock options outstanding	521,079	571,121
<b>Weighted average number of equity shares – Diluted</b>	<b>182,455,602</b>	<b>184,776,543</b>
<b>Earnings per equity share (face value of ₹ 2/- each):</b>		
Basic (in ₹)	26.08	36.22
Diluted (in ₹)	26.01	36.10

## 31. Financial instruments - fair values

### Accounting classification and fair values

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities including their levels in the fair value hierarchy.

As at 31 March 2020:

Particulars	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
<b>A. Financials assets</b>					
<b>Financial assets measured at FVOCI</b>					
Non-current investments	8	335	-	-	335
Current investments	8	50	50	-	-
<b>Financial assets measured at amortised cost</b>					
Non-current investments	8	501	-	-	-
Loans	9	765	-	-	-
Trade receivables	13	5,367	-	-	-
Cash and cash equivalents	14	79	-	-	-
Bank balances other than cash and cash equivalents	14	462	-	-	-
Other financial assets	10	8,653	-	-	-
		16,212	50	-	335

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

Particulars	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
<b>B. Financial liabilities</b>					
<b>Financial liabilities measured at amortised cost</b>					
Borrowings (including lease liability)	17	3,140	-	-	17
Trade payables	21	2,342	-	-	-
Other financial liabilities	18	820	-	-	-
		<b>6,302</b>	<b>-</b>	<b>-</b>	<b>17</b>

As at 31 March 2019:

Particulars	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
<b>A. Financial assets</b>					
<b>Financial assets measured at FVOCI</b>					
Non-current investments	8	196	-	-	196
Current investments	8	68	68	-	-
<b>Financial assets measured at amortised cost</b>					
Non-current investments	8	3			
Current investments	8	1,200	-	-	-
Loans	9	665	-	-	-
Trade receivables	13	4,916	-	-	-
Cash and cash equivalents	14	115	-	-	-
Bank balances other than cash and cash equivalents	14	2,512	-	-	-
Other financial assets	10	7,024	-	-	-
		<b>16,699</b>	<b>68</b>	<b>-</b>	<b>196</b>
<b>B. Financial liabilities</b>					
<b>Financial liabilities measured at amortised cost</b>					
Borrowings	17	3,845	-	-	-
Trade payables	21	2,018	-	-	-
Other financial liabilities	18	779	-	-	-
		<b>6,642</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Company's financial liabilities comprise of borrowings from banks, lease liability, trade payables and other financial liabilities. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include loans, trade receivables, other financial assets, cash and cash equivalents and other bank balances that derive directly from its operations. The Company also holds certain strategic investments in entities other subsidiaries.

The fair value of cash and cash equivalents, bank balances, trade receivables, loans, unquoted debentures and bonds, borrowings, trade payables and other financial assets and liabilities approximate their carrying amount largely due to the nature of these instruments. The Company's loans have been contracted at market rates of interest. Accordingly, the carrying value of such loans approximate fair value.

The following methods and assumptions were used to estimate the fair values:

Level 1: The fair value of the quoted equity investments are based on market price at the reporting date.

Level 3: The Investments measured at fair value and falling under fair value hierarchy Level 3 are valued on the basis of valuation reports provided by external valuers with the exception of certain investments, where the impact of fair valuation of investment is considered as insignificant and hence carrying value and fair value is considered as same.

# Notes to standalone financial statements

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

## 32. Financial risk management

The Company's financial risk management is an integral part of how to plan and execute its business strategies. The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Company's primary focus is to foresee the unpredictability of financial markets and seek to minimise potential adverse effects on its financial performance. A summary of the risks have been given below.

### A. Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risks: interest rate risk and currency risk. Financial instruments affected by market risk include borrowings, deposits, loans, trade receivables and trade payables.

#### i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's entire borrowings carried at amortised cost are variable rate instruments and are subject to fluctuation because of a change in market interest rates. The Company considers the impact of fair value interest rate risk on variable rate borrowings as not material.

The Company's variable rate borrowing is subject to interest rate risk. Below are the details of exposure to fixed rate and variable rate instruments:

Particulars	As at 31 March 2020	As at 31 March 2019
<b>Fixed rate instruments</b>		
Financial assets	9,119	10,562
Financial liabilities	17	-
<b>Variable rate instruments</b>		
Financial liabilities (other than lease liability)	3,123	3,845

#### ii. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk to the extent that there is mismatch between the currencies in which sales, purchase are denominated and the respective functional currencies of Company companies. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities.

The Company's exposure to foreign currency financial assets and financial liabilities expressed in ₹ are as follows:

#### Financial assets

	31 March 2020			31 March 2019		
	Trade receivables*	Loans	Other financial assets	Trade receivables*	Loans	Other financial assets
- USD	3,449	413	19	2,739	368	11
- EUR	47	-	-	55	-	-
- CAD	123	-	-	147	-	-
- SGD	8	111	4	3	108	1

#### Financial liabilities

	31 March 2020		31 March 2019	
	Trade payables	Borrowings*	Trade payables	Borrowings*
- USD	214	1,655	158	701
- EUR	22	16	45	-
- GBP	0	-	1	-

\* Includes bills purchased and discounted which are forming part of trade receivables and current borrowings amounting to ₹ 1,671 (31 March 2019: ₹ 701). These are realised amounts and hence there is no further foreign currency risk is involved.

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

## Foreign currency sensitivity

A reasonably possible strengthening (weakening) of the Indian Rupee against various foreign currencies at 31 March would have affected the measurement of financial instruments denominated in foreign currencies and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

The following table demonstrates the sensitivity to a reasonably possible change in USD. The Company's exposure to foreign currency changes for all other currencies is not material.

Particulars	Impact on profit and loss after tax gain/(loss) for the year ended	
	31 March 2020	31 March 2019
<b>USD sensitivity</b>		
₹/USD - Appreciate by 10%	201	226
₹/USD - Depreciate by 10%	(201)	(226)

## B. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and loans given. Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to clients, including outstanding accounts receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, taking into account their financial position, past experience and other factors.

### Trade and other receivables:

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer, including the default risk of the industry and country in which the customer operates, also has an influence on credit risk assessment. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Company grants credit terms in the normal course of business.

The maximum exposure to credit risk for trade receivables (Gross) by geographic region is as follows:

Particulars	As at 31 March 2020	As at 31 March 2019
India	1,914	2,846
USA	2,825	1,859
Rest of the world	803	211
	<b>5,542</b>	<b>4,916</b>

The ageing of trade receivables are as follows:

Particulars	As at 31 March 2020	As at 31 March 2019
Neither past due nor impaired	3,579	3,620
Past due not impaired:		
1-180 days	1,855	1,183
More than 180 days	108	113
Allowance for credit losses	(175)	-
	<b>5,367</b>	<b>4,916</b>

As per simplified approach the Company makes provision of expected credit losses on trade receivable using a provision matrix to mitigate the risk of default payment and make appropriate provision at each reporting date wherever required.

# Notes to standalone financial statements

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

## Other financial assets:

Other financial assets primarily consist cash and cash equivalents and deposits. Credit risk on cash and cash equivalents and deposits with banks and financial institutions are generally low as the said deposits have been made with the banks and financial institutions who have been assigned high credit rating by international and domestic credit rating agencies.

Investments in other than subsidiaries are strategic investments in the normal course of business of the Company. Loans to related parties are given for business purposes. The Company reassesses the recoverability of loans periodically. Interest recoveries from these loans are regular and there is no event of defaults.

## C. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Management monitors rolling forecasts of the Company's liquidity position and cash and cash equivalents on the basis of expected cash flows. The Company takes into account the liquidity of the market in which the entities operates. In addition, the Company's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Company's principal sources of liquidity are the cash flows generated from operations. The Company has no long-term borrowings and believes that the working capital is sufficient for its current requirements. Accordingly, no liquidity risk is perceived.

## Maturities of financial liabilities

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is insignificant.

As at 31 March 2020	Carrying value	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities					
Borrowings	3,123	3,123	-	-	3,123
Lease liabilities	17	8	7	393	408
Trade payables	2,342	2,342	-	-	2,342
Other financial liabilities	820	812	8	-	820
<b>Total</b>	<b>6,302</b>	<b>6,285</b>	<b>15</b>	<b>393</b>	<b>6,693</b>

As at 31 March 2019	Carrying value	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities					
Borrowings	3,845	3,845	-	-	3,845
Trade payables	2,018	2,018	-	-	2,018
Other financial liabilities	779	771	8	-	779
<b>Total</b>	<b>6,642</b>	<b>6,634</b>	<b>8</b>	<b>-</b>	<b>6,642</b>

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

### 33. Capital management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for stakeholders. The Company also proposes to maintain an optimal capital structure to reduce the cost of capital. Hence, the Company may adjust any dividend payments, return capital to shareholders or issue new shares. Total capital is the equity as shown in the Standalone Balance Sheet. Currently, the Company primarily monitors its capital structure on the basis of gearing ratio. Management is continuously evolving strategies to optimise the returns and reduce the risks. It includes plans to optimise the financial leverage of the Company.

The capital for the reporting year under audit is summarised as follows:

	As at 31 March 2020	As at 31 March 2019
Total borrowings	3,123	3,845
Less: Cash and cash equivalents	(79)	(115)
<b>Net debt [A]</b>	<b>3,044</b>	<b>3,730</b>
Total equity [B]	38,695	35,632
<b>Total capital [C=A+B]</b>	<b>41,739</b>	<b>39,362</b>
Gearing ratio (%) [A/C]	7%	9%

### 34. Corporate social responsibility (CSR) expenses

During the year, the amount required to be spent on corporate social responsibility activities amounted to ₹ 156 (31 March 2019: ₹ 116) in accordance with Section 135 of the Act, 2013. The following amounts were actually spent during the current and previous year:

Particulars	As at 31 March 2020	As at 31 March 2019
Amount spent in cash:		
(i) Amount spent for other than for construction/ acquisition of any asset	-	-
(ii) On purposes other than (i) above*	157	116
Amount yet to be paid in cash	-	-
<b>Total</b>	<b>157</b>	<b>116</b>

\*The Company has contributed the amount of ₹ 157 (Previous year: ₹ 116) to NATCO Trust towards CSR activities (Refer note 35(a)).

### 35. Related party disclosures, as per Ind AS 24

(a) Names of the related parties and nature of relationship (to the extent transactions have taken place during the year)

Nature of relationship	Names of the related parties
1. Subsidiary companies	NATCO Pharma Inc., United States of America Time Cap Overseas Limited, Mauritius NATCO Pharma (Canada) Inc., Canada NATCO Pharma Asia Pte. Ltd., Singapore NATCO Pharma Australia PTY Ltd., Australia NATCO Lifesciences Philippines Inc., Philippines
2. Step-down subsidiary company	Natcofarma Do Brasil Ltda., Brazil
3. Entities in which Directors have control or have significant influence	Time Cap Pharma Labs Limited NATCO Trust
4. Key management personnel ("KMP")	
Chairman and Managing Director	Mr. V C Nannapaneni
Vice Chairman and Chief Executive Officer ("CEO")	Mr. Rajeev Nannapaneni
Wholtime Director	Mr. Potluri Prasad Sivaramakrishna
Wholtime Director	Mr. Lingarao Donthineni
Chief Financial Officer	Mr. S.V.V.N. Appa Rao
Company Secretary	Mr. Adinarayana M

# Notes to standalone financial statements

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

5. Non-Executive Directors and Independent Directors		
Independent Director		Mr. Sreerama Murthy Gubbala
Independent Director		Mr. Govinda Prasad Dasu
Independent Director		Mr. Umamaheshwarrao Naidu Madireddi
Independent Director		Mr. Venkateswara Rao Thallapaka
Non-Executive Director		Mr. Sridhar Sankaraman
Independent Director		Mrs. Leela Digumarti
6. Relatives of KMP		
		Mrs. Durga Devi Nannapaneni
		Dr. N. Ramakrishna Rao
		Mrs. V S Swathi Kantamani

## (b) Related party transactions during the year

Related party transactions during the year	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Time Cap Overseas Limited, Mauritius</b>		
Investment in equity shares	9	-
Share application money	-	2
Loan given	18	165
Interest income on loan	10	10
<b>NATCO Pharma (Canada) Inc., Canada</b>		
Sale of products	156	150
<b>NATCO Pharma Asia Pte Ltd., Singapore</b>		
Investment in equity shares	13	24
Loan given	-	108
Interest income on loan	6	1
Sale of products	14	7
<b>Natcofarma Do Brasil Ltda., Brazil</b>		
Sale of products	281	48
<b>NATCO Pharma Australia Pty Ltd., Australia</b>		
Investment in equity shares	4	7
<b>NATCO Pharma Inc., United States of America</b>		
Loan given	-	114
Interest income on loan	6	2
<b>NATCO Lifesciences Philippines Inc., Philippines</b>		
Investment in equity shares	24	12
Loan given	-	7
Interest income on loan	0	0
<b>Time Cap Pharma Labs Limited</b>		
Sales promotion expenses	-	6
Purchase of Land	-	49
Rental expense	5	5
<b>NATCO Trust</b>		
Donations	0	24
Contribution to corporate social responsibility activities	157	116
<b>Mr. V C Nannapaneni</b>		
Short-term employee benefits*	18	17
Leave encashment paid	1	1
Rental expense	2	2
<b>Mr. Rajeev Nannapaneni</b>		
Short-term employee benefits*	17	16
Leave encashment paid	1	1



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

Related party transactions during the year	For the year ended 31 March 2020	For the year ended 31 March 2019
Rental expense	3	1
<b>Mr. Potluri Prasad Sivaramakrishna</b>		
Short-term employee benefits*	18	14
Leave encashment paid	0	0
<b>Mr. Lingarao Donthineni</b>		
Short-term employee benefits*	18	14
Leave encashment paid	0	0
<b>Mr. S.V.V.N. Appa Rao</b>		
Short-term employee benefits*	9	6
<b>Mr. Adinarayana M</b>		
Short-term employee benefits*	5	4
<b>Sitting fees:</b>		
Mr. Govinda Prasad Dasu	0	0
Mrs. Leela Digumarti	0	0
Mr. Umamaheshwarrao Naidu Madireddi	0	0
Mr. Sreerama Murthy Gubbala	0	0
Mr. Venkateswara Rao Thallapaka	0	0

**(c) Related party closing balances as on balance sheet date receivable/(payable):**

	As at 31 March 2020	As at 31 March 2019
<b>Loan receivable</b>		
NATCO Pharma Inc., United States of America	124	114
Time cap Overseas Limited, Mauritius	289	247
NATCO Pharma Asia PTE Ltd., Singapore	111	108
NATCO Lifesciences Philippines Inc., Philippines	-	7
<b>Interest receivable on loans</b>		
NATCO Pharma Inc., United States of America	8	2
Time cap Overseas Limited, Mauritius	11	9
NATCO Pharma Asia PTE Ltd., Singapore	4	1
<b>Trade receivables</b>		
NATCO Pharma (Canada) Inc., Canada	120	132
Natcofarma Do Brasil Ltda., Brazil	266	47
NATCO Pharma Asia PTE Ltd., Singapore	8	7
<b>Trade payable</b>		
Time Cap Pharma Labs Limited	-	(0)
<b>Remuneration payable</b>		
Mr. V.C. Nannapaneni	-	(2)
Mr. Rajeev Nannapaneni	(1)	(1)
Mr. Lingarao Donthineni	(3)	(1)
Mr. Potluri Prasad Sivaramakrishna	(3)	(1)
Mr. S.V.N.N. Appa Rao	0	0
Mr. Adinarayana M	0	0

\*This aforesaid amount does not include amounts in respect of gratuity and compensated absences as the same are determined on actuarial basis for the Company as a whole.

# Notes to standalone financial statements

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

## 36. Segment reporting

The Company has presented segment information in the consolidated financial statements which are presented in the same Annual Report. Accordingly, in terms of paragraph 3 of Ind AS 108 'Operating Segments' no disclosures related to segment are presented in this standalone financial statements.

## 37. Contingent liabilities and commitments

### (a) Commitments

	As at 31 March 2020	As at 31 March 2019
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	834	753
Pending export obligation under EPCG Scheme	143	141

### (b) Contingent liabilities

#### (i) Matters under appeals with tax authorities:

	As at 31 March 2020	As at 31 March 2019
Disputed sales tax liabilities	9	9
Disputed service tax liabilities	-	17
Disputed customs liability	2	2

(ii) The Company is contesting certain patent infringement cases filed against it by the innovators in the ordinary course of business. A few of these cases pertain to products already launched by the Company in the market. These cases are pending before different authorities / courts and most of the claims involve complex issues. The outcome from these claims are uncertain due to a number of factors involved in legal trial such as stage of the proceedings and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any. Often, these issues are subject to uncertainties and therefore the probability of a loss, if any, being sustained and an estimate of the amount of any loss is difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. Further, at present, the management does not expect such liabilities to be significant.

(iii) The Hon'ble Supreme Court (SC) has clarified in the case of Vivekananda Vidyamandir and Others Vs. The Regional Provident Fund Commissioner (II) West Bengal that various allowances like conveyance allowance, special allowance, education allowance, medical allowance etc., paid uniformly and universally by an employer to its employees shall form part of basic wages for computation of the provident fund contribution. However, considering that there are numerous interpretative issues relating to this judgement, on the basis of internal evaluation, supported by a legal opinion from an independent legal expert, management of the Company has determined that the aforesaid ruling is applicable prospectively.

## 38. Amounts incurred on research and development expenses

	For the year ended 31 March 2020	For the year ended 31 March 2019
Salaries and wages	527	501
Consumption of materials and spares	210	314
Power and fuel	33	29
Other research and development expenses	644	844
Capital equipment	242	288
	1,656	1,976

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

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

## 39. Capital work-in-progress

	As at 31 March 2020	As at 31 March 2019
<b>Opening balance</b>	6,375	4,800
Costs incurred toward construction activity	2,652	4,206
<b>Expenses capitalised:</b>		
Cost of materials consumed, net of trial run inventory recognised	10	1
Employee benefits expense	41	54
Power and fuel	38	39
Factory maintenance	73	88
Rates and taxes	22	3
Legal and professional charges	45	1
Others	18	23
Less:		
Capitalised during the year	(4,096)	(2,840)
	<b>5,178</b>	<b>6,375</b>

## 40. Leases

### Transition to Ind AS 116

Ministry of Corporate Affairs ("MCA") through Companies (Indian Accounting Standards) Amendment Rules, 2019 and Companies (Indian Accounting Standards) Second Amendment Rules, has notified Ind AS 116 Leases which replaces the existing lease standard, Ind AS 17 leases and other interpretations. Ind AS 116 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. It introduces a single, on-balance sheet lease accounting model for lessees.

Effective 01 April 2019, the Company adopted Ind AS 116 "Leases" and applied the standard to all lease contracts existing on 01 April 2019 using the modified retrospective method. Right-of-use of assets at 01 April 2019 for leases previously classified as operating leases were recognised and measured at an amount equal to lease liability (adjusted for related prepayments/ accruals). The Company recorded the lease liability at the present value of all future lease payments discounted at the incremental borrowing rate. Comparatives as at and for the year ended 31 March 2019 have not been retrospectively adjusted and therefore will continue to be reported under the accounting policies included as part of our Annual Report for year the ended 31 March 2019.

On 01 April 2019, the Company recognised lease liability of ₹ 20 (presented as a part of borrowings net of prepaid lease rent of ₹ 18) and right-of-use assets of ₹ 38 as at 01 April 2019 (presented as part of property, plant and equipment). The Company has reclassified the leasehold land of ₹ 251 to right-of-use asset as at 01 April 2019. The adoption of the standard did not have any material impact on the financial statements for the current period.

Following are the changes in the lease liability for the year ended 31 March 2020:

Particulars	Amount
<b>Lease commitments as at 1 April 2019</b>	20
Additions during the year	2
Finance cost accrued	3
Payment of lease liabilities	(8)
<b>Lease liabilities as at 31 March 2020</b>	<b>17</b>
Current lease liability	8
Non-current lease liabilities	9

# Notes to standalone financial statements

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

The impact on account on adoption of Ind AS 116 is as follows :

Particulars	Amount
Increase in lease liability as at 31 March 2020 by	17
Increase in Right-of use as at 31 March 2020 by	284
Increase in finance cost by	3
Increase in depreciation by	2

Maturity analysis of lease liabilities as at 31 March 2020:

Maturity analysis – contractual undiscounted cash flows	Amount
Less than one year	8
One to three years	7
More than three years	393
<b>Total undiscounted lease liabilities as at 31 March 2020</b>	<b>408</b>

The Company does not face a significant liquidity risk with regard to its lease liabilities as the current assets are sufficient to meet the obligations related to lease liabilities as and when they fall due.

The following is the rental expense recorded for short-term leases for the year ended 31 March 2020:

Particulars	Amount
Variable lease expenses (other than short term)	-
Short-term lease expense	7
Low value lease expense	-

Amounts recognised in the statement of cash flows for the year ended 31 March 2020:

Particulars	Amount
Payment of lease liabilities	(8)
Short-term lease expense	(7)

41. During the year ended 31 March 2020, pursuant to the Upside Sharing Agreement dated 16 May 2019 entered with CX Securities Limited ("the Investor"), the Company has received a voluntary amount of USD 6.83 million (₹ 474 million) from the equity participant. In accordance with the Applicable Accounting Framework, the aforementioned gain, received from the equity participant, is recognised as an increase in equity, net of tax.
42. In March 2020, the World Health Organisation declared COVID-19 to be a pandemic. The Company has adopted measures to curb the spread of infection in order to protect the health of its employees and ensure business continuity with minimal disruption. The Company has considered internal and external information while finalizing various estimates and recoverability of assets in relation to its financial statement captions up to the date of approval of the financial statements by the Board of Directors. Considering the Company is in the business of manufacturing and supplying of pharmaceutical products which is categorised under essential goods, there has been a minimal disruption with respect to operations including production and distribution activities. The actual impact of the global health pandemic may be different from that which has been estimated, as the COVID-19 situation evolves in India and globally. The Company will continue to closely monitor any material changes to the future economic conditions.

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

43. The disclosures regarding details of specified bank notes held and transacted during 8 November 2016 to 30 December 2016 has not been made in these standalone financial statements since the requirement does not pertain to financial year ended 31 March 2020.

#### 44. Events after reporting period

The Board of Directors at their meeting held on 17 June 2020 have recommended an interim dividend of ₹ 1 per equity share of ₹ 2 each for the year ended 31 March 2020.

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

**Vikash Somani**  
Partner  
Membership Number: 061272

Place: Hyderabad  
Date: 17 June 2020

for and on behalf of the Board of Directors  
**NATCO Pharma Limited**  
CIN: L24230TG1981PLC003201

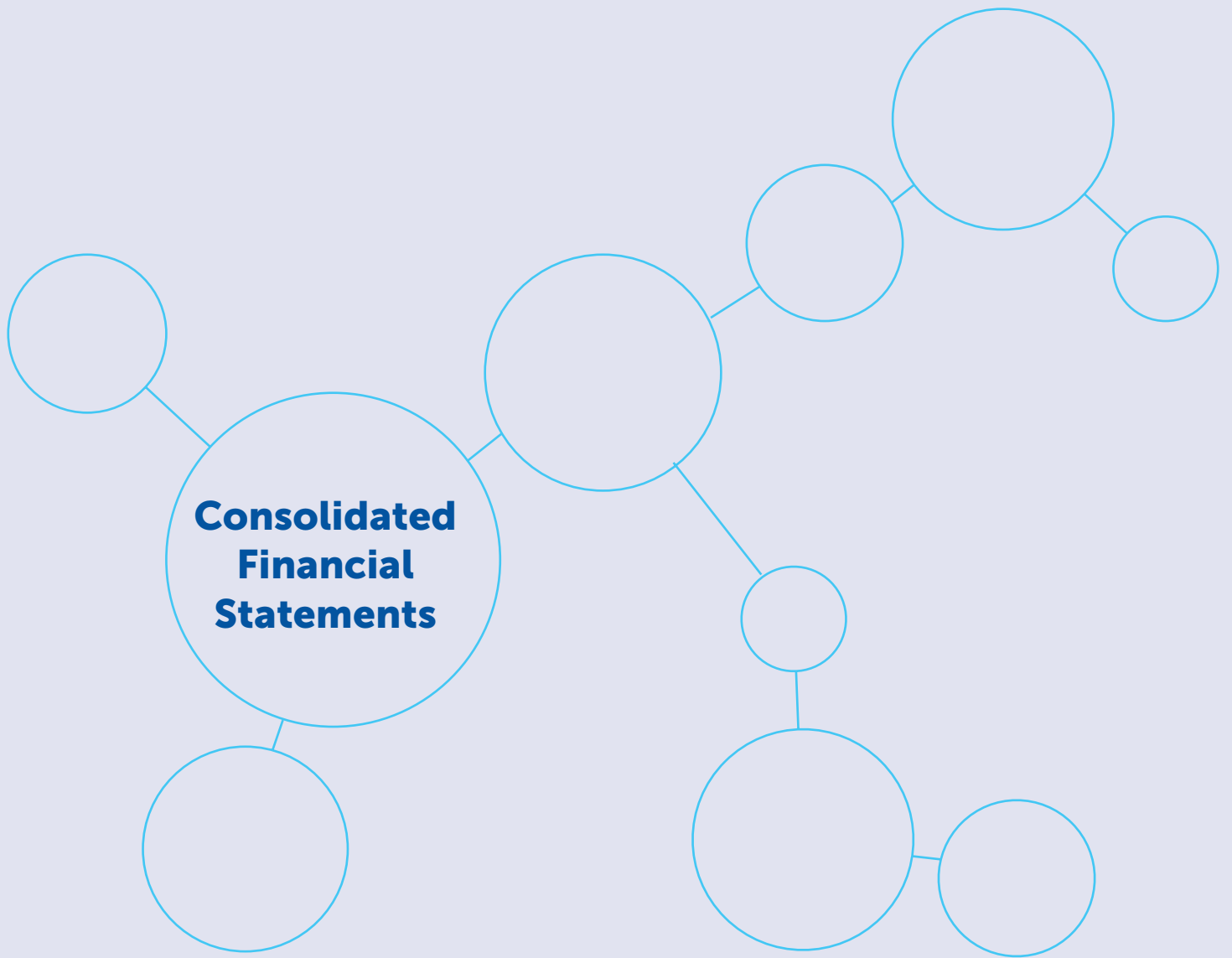
**V C Nannapaneni**  
Chairman and Managing Director  
DIN: 00183315

**M. Adinarayana**  
Company Secretary

Place: Hyderabad  
Date: 17 June 2020

**Rajeev Nannapaneni**  
Vice Chairman and CEO  
DIN: 00183872

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



To the Members of  
NATCO Pharma Limited

## Report on the Audit of Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of NATCO Pharma Limited (hereinafter referred to as the 'Holding Company') and its subsidiaries (Holding Company and its subsidiaries together referred to as 'the Group'), which comprise the consolidated balance sheet as at 31 March 2020, and the consolidated statement of profit and loss (including other comprehensive income), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (hereinafter referred to as 'the consolidated financial statements').

In our opinion and to the best of our information and according to the explanations given to us, and based on the consideration of reports of other auditors on separate financial statements of such subsidiaries as were audited by the other auditors, the aforesaid consolidated financial statements give the information required by the Companies Act, 2013 ('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 2020, of its

consolidated profit and other comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended.

### Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under Section 143(10) of the Act. Our responsibilities under those SAs are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group, in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in terms of the Code of Ethics issued by the Institute of Chartered Accountants of India and the relevant provisions of the Act, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence obtained by us along with the consideration of audit reports of the other auditors referred to in sub paragraph (a) of the 'Other Matters' paragraph below, is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
<b>Revenue recognition:</b>  Refer to Note 3(e) of the summary of significant accounting policies to the consolidated financial statements.  Revenue is recognised when the control of the products being sold has transferred to the customer. The Group has a large number of customers operating in various geographies and sale contracts with customers have a variety of different terms relating to the recognition of revenue. Control is usually transferred upon shipment/ delivery to/ upon receipt of goods by the customer, in accordance with the delivery and acceptance terms agreed with the customers.  We identified the recognition of revenue from sale of products as a key audit matter because the Group and its external stakeholders focus on revenue as a key performance indicator. There could be a risk that revenue is recognised in the incorrect period or before the control has been transferred to the customer.	In view of the significance of the matter we applied the following audit procedures in this area, among others to obtain sufficient and appropriate audit evidence: <ol style="list-style-type: none"> <li>1) Evaluated the appropriateness of the revenue recognition accounting policies by comparing with applicable accounting standards.</li> <li>2) Tested design, implementation and operating effectiveness of the Group's controls over measurement and recognition of revenue in accordance with customer contracts which includes control over transaction pricing, including discounts and correct timing of revenue recognition.</li> <li>3) Performed substantive testing (including year-end cut-off testing) by selecting samples of revenue transactions recorded during the year (and before and after the financial year end), including one off sales to customers, by verifying the underlying documents, which included sales invoices/ contracts and shipping documents.</li> <li>4) Performed testing by selecting samples relating to revenue transactions, recorded during the year with relevant underlying documents and we read, analysed and identified the distinct performance obligations in these contracts.</li> <li>5) We scrutinised manual journals posted to revenue to identify unusual items.</li> </ol>



# Independent Auditors' Report

The key audit matter	How the matter was addressed in our audit
<p><b>Deferred tax asset:</b></p> <p>The Holding Company operates in a complex tax jurisdiction in India with various tax exemptions available. The Holding Company has paid minimum alternate tax (MAT) under Section 115JB of the Income-tax Act, 1961. The MAT paid would be available as offset over a period of 15 years. The MAT credit is recognised as a deferred tax asset that will be available for offset when the Holding Company pays regular taxes under the provisions of Income-tax Act, 1961. Refer note 28(E) to the consolidated financial statements for unrecognised deferred tax asset amounting to ₹ 1,237 million as at 31 March 2020.</p> <p>In assessing whether the deferred tax assets will be realised, Holding Company considers whether some portion or all of the deferred tax assets will not be realised. The ultimate realisation of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible.</p> <p>The extent of recognition of deferred tax asset on account of MAT credit requires significant judgment regarding the Holding Company's future taxable income which will result in utilisation of the MAT credit within the time limits available under the applicable Income tax laws.</p>	<p>In view of the significance of the matter, we applied the following audit procedures in this area, among others to obtain sufficient appropriate audit evidence:</p> <ol style="list-style-type: none"> <li>1) Tested the operating effectiveness of controls over Holding Company's review of deferred tax asset recognition.</li> <li>2) We analysed origination of MAT credit entitlement and reviewed Holding Company's assessment and conclusion in relation to its utilisation within the period allowed for carry forward and set off against foreseeable forecast taxable income streams.</li> <li>3) We evaluated appropriateness of taxation disclosures in note 28 to the consolidated financial statements, including the enhanced disclosures made in respect of the utilisation period of deferred tax assets in relation to MAT credit entitlement.</li> </ol>

## Other Information

The Holding Company's management and the Board of Directors are responsible for the other information. The other information comprises the information included in the Holding Company's annual report, but does not include the consolidated financial statements and our auditors' report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take actions as per applicable laws and regulations.

## Management's and Board of Directors' Responsibilities for the Consolidated Financial Statements

The Holding Company's Management and Board of Directors are responsible for the preparation and presentation of these consolidated financial statements in

term of the requirements of the Act that give a true and fair view of the consolidated state of affairs, consolidated profit/loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flows of the Group in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under Section 133 of the Act. The respective Management and Board of Directors of the companies included in the Group are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of each company and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring accuracy and completeness of the accounting records, relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, which have been used for the purpose of preparation of the consolidated financial statements by the Management and Directors of the Holding Company, as aforesaid.

In preparing the consolidated financial statements, the respective Management and Board of Directors of the companies included in the Group are responsible for assessing the ability of each company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the respective Board of Directors either

intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The respective Board of Directors of the companies included in the Group is responsible for overseeing the financial reporting process of each company.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under Section 143(3) (i) of the Act, we are also responsible for expressing our opinion on the internal financial controls with reference to the consolidated financial statements and the operating effectiveness of such controls based on our audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management and Board of Directors.
- Conclude on the appropriateness of Management and Board of Directors use of the going concern basis of accounting in preparation of consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the

appropriateness of this assumption. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of such entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of financial information of such entities included in the consolidated financial statements of which we are the independent auditors. For the other entities included in the consolidated financial statements, which have been audited by other auditors, such other auditors remain responsible for the direction, supervision and performance of the audits carried out by them. We remain solely responsible for our audit opinion. Our responsibilities in this regard are further described in para (a) of the section titled 'Other Matters' in this audit report.

We believe that the audit evidence obtained by us along with the consideration of audit reports of the other auditors referred to in sub-paragraph (a) of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance of the Holding Company and such other entities included in the consolidated financial statements of which we are the independent auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of

# Independent Auditors' Report

most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other Matters

- (a) We did not audit the financial statements of seven subsidiaries, whose financial statements reflect total assets of ₹ 1,839 million as at 31 March 2020, total revenues of ₹ 1,699 million and net cash outflows amounting to ₹ 49 million for the year ended on that date, as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries is based solely on the audit reports of the other auditors.

All the seven subsidiaries are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Holding Company's management has converted the financial statements of such subsidiaries located outside India from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India. We have audited these conversion adjustments made by the Holding Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries located outside India is based on the report of other auditors and the conversion adjustments prepared by the management of the Holding Company and audited by us.

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 and the reports of the other auditors.

- (b) The financial information for the corresponding year ended 31 March 2019 included in these consolidated financial statements, are based on the previously

issued statutory financial statements audited by the predecessor auditor whose report for the year ended 31 March 2019 dated 27 May 2019 expressed an unmodified opinion on those financial statements. Our opinion is not modified in respect of this matter.

## Report on Other Legal and Regulatory Requirements

- A. As required by Section 143(3) of the Act, based on our audit and on the consideration of reports of the other auditors on separate financial statements of such subsidiaries as were audited by other auditors, as noted in the 'Other Matters' paragraph, 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 purposes 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 balance sheet, the consolidated statement of profit and loss (including other comprehensive income), the consolidated statement of changes in equity and the consolidated statement of cash flows dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements.
  - d) In our opinion, the aforesaid consolidated financial statements comply with the Ind AS specified under Section 133 of the Act.
  - e) On the basis of the written representations received from the directors of the Holding Company as on 31 March 2020 taken on record by the Board of Directors of the Holding Company none of the directors of the Holding Company, is disqualified as on 31 March 2020 from being appointed as a director in terms of Section 164(2) of the Act.
  - f) With respect to the adequacy of the internal financial controls with reference to financial statements of the Holding Company and the operating effectiveness of such controls, refer to our separate Report in "Annexure A".

B. 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 and based on the consideration of the reports of the other auditors on separate financial statements of the subsidiaries as noted in the 'Other Matters' paragraph:

- i. The consolidated financial statements disclose the impact of pending litigations as at 31 March 2020 on the consolidated financial position of the Group. Refer Note 36(b) to the consolidated financial statements.
- ii. The Group did not have any material foreseeable losses on long-term contracts including derivative contracts during the year ended 31 March 2020.
- iii. There has been no delay in transferring amounts to the Investor Education and Protection Fund by the Holding Company during the year ended 31 March 2020.
- iv. The disclosures in the consolidated financial statements regarding holdings as well as dealings in specified bank notes during the period from 8 November 2016 to 30 December 2016 have not been made in the financial statements

since they do not pertain to the financial year ended 31 March 2020.

C. With respect to the matter to be included in the Auditor's report under Section 197(16):

In our opinion and according to the information and explanations given to us, the remuneration paid during the current year by the Holding Company to its directors is in accordance with the provisions of Section 197 of the Act. The remuneration paid to any director by the Holding Company is not in excess of the limit laid down under Section 197 of the Act. The Ministry of Corporate Affairs has not prescribed other details under Section 197(16) which are required to be commented upon by us.

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No.: 116231W/ W-100024

**Vikash Somani**  
Partner  
Membership No.: 061272  
UDIN: 20061272AAAABD9793

Place: Hyderabad  
Date: 17 June 2020

## Annexure A to the Independent Auditors' report on the consolidated financial statements of NATCO Pharma Limited for the year ended 31 March 2020

### Report on the internal financial controls with reference to the aforesaid consolidated financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013

(Referred to in paragraph A(f) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

#### Opinion

In conjunction with our audit of the consolidated financial statements of the Company as of and for the year ended 31 March 2020, we have audited the internal financial controls with reference to consolidated financial statements of NATCO Pharma Limited (hereinafter referred to as "the Holding Company"), as of that date.

In our opinion, the Holding Company, have, in all material respects, adequate internal financial controls with reference to consolidated financial statements and such internal financial controls were operating effectively as at 31 March 2020, based on the internal financial controls with reference to consolidated financial statements criteria established by such companies considering the essential components of such internal controls 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").

#### Management's Responsibility for Internal Financial Controls

The Holding Company's management and the Board of Directors are responsible for establishing and maintaining internal financial controls with reference to consolidated financial statements based on the criteria established by the Holding Company considering the essential components of internal control stated in 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 its business, including adherence to the respective 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 Companies Act, 2013 (hereinafter referred to as "the Act").

#### Auditors' Responsibility

Our responsibility is to express an opinion on the internal financial controls with reference to consolidated financial statements based on our audit. We conducted our audit in

accordance with the Guidance Note and the Standards on Auditing, prescribed under Section 143(10) of the Act, to the extent applicable to an audit of internal financial controls with reference to consolidated financial statements. 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 internal financial controls with reference to consolidated financial statements were established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to consolidated financial statements and their operating effectiveness. Our audit of internal financial controls with reference to consolidated financial statements included obtaining an understanding of internal financial controls with reference to consolidated financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of the internal controls 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 consolidated financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained, is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls with reference to consolidated financial statements.

#### Meaning of Internal Financial controls with Reference to Consolidated Financial Statements

A company's internal financial controls with reference to consolidated financial statements 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 internal financial controls with reference to consolidated financial statements 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 with Reference to consolidated Financial Statements**

Because of the inherent limitations of internal financial controls with reference to consolidated financial statements, 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 internal financial controls with reference to consolidated financial statements to future periods are subject to the risk that the

internal financial controls with reference to consolidated financial statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration No.: 116231W/ W-100024

**Vikash Somani**

Partner

Membership No.: 061272

UDIN: 20061272AAAAABD9793

Place: Hyderabad

Date: 17 June 2020

# Consolidated Balance Sheet

as at 31 March 2020

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

Particulars	Notes	As at 31 March 2020	As at 31 March 2019
<b>I. ASSETS</b>			
<b>(1) Non-current assets</b>			
(a) Property, plant and equipment	5	15,756	12,185
(b) Capital work-in-progress	38	5,180	6,376
(c) Intangible assets	6	88	87
(d) Financial assets			
(i) Investments	7	836	199
(ii) Loans	8	161	119
(iii) Other financial assets	9	42	66
(e) Other non-current assets	10	559	527
<b>Total non-current assets</b>		<b>22,622</b>	<b>19,559</b>
<b>(2) Current assets</b>			
(a) Inventories	11	5,580	5,290
(b) Financial assets			
(i) Investments	7	287	1,487
(ii) Trade receivables	12	5,513	5,062
(iii) Cash and cash equivalents	13	198	283
(iv) Bank balances other than (iii) above	13	462	2,512
(v) Loans	8	84	71
(vi) Other financial assets	9	8,588	6,947
(c) Other current assets	10	2,544	1,820
<b>Total current assets</b>		<b>23,256</b>	<b>23,472</b>
<b>Total assets</b>		<b>45,878</b>	<b>43,031</b>
<b>II. EQUITY AND LIABILITIES</b>			
<b>(1) Equity</b>			
(a) Equity share capital	14	364	365
(b) Other equity	15	37,371	34,525
<b>Equity attributable to owners of the Company</b>		<b>37,735</b>	<b>34,890</b>
(c) Non-controlling interest		112	20
<b>Total equity</b>		<b>37,847</b>	<b>34,910</b>
<b>(2) Liabilities</b>			
<b>(A) Non-current liabilities</b>			
(a) Financial liabilities			
(i) Borrowings	16	9	-
(ii) Other financial liabilities	17	8	8
(b) Provisions	18	902	710
(c) Deferred tax liabilities, net	28	259	116
<b>Total non-current liabilities</b>		<b>1,178</b>	<b>834</b>
<b>(B) Current liabilities</b>			
(a) Financial liabilities			
(i) Borrowings	16	3,150	3,863
(ii) Trade payables	20		
- Dues of micro and small enterprises		21	79
- Dues of creditors other than micro and small enterprises		2,533	2,091
(iii) Other financial liabilities	17	825	782
(b) Other current liabilities	19	134	316
(c) Provisions	18	105	90
(d) Current tax liabilities, net		85	66
<b>Total current liabilities</b>		<b>6,853</b>	<b>7,287</b>
<b>Total liabilities</b>		<b>8,031</b>	<b>8,121</b>
<b>Total equity and liabilities</b>		<b>45,878</b>	<b>43,031</b>
Significant accounting policies	3 and 4		

The accompanying notes form an integral part of the consolidated financial statements.  
As per our report of even date attached

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

**Vikash Somani**  
Partner  
Membership Number: 061272

for and on behalf of the Board of Directors  
**NATCO Pharma Limited**  
CIN: L24230TG1981PLC003201

**V C Nannapaneni**  
Chairman and Managing Director  
DIN: 00183315

**M. Adinarayana**  
Company Secretary

**Rajeev Nannapaneni**  
Vice Chairman and CEO  
DIN: 00183872

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

Place: Hyderabad  
Date: 17 June 2020

Place: Hyderabad  
Date: 17 June 2020



# Consolidated Statement of Profit and Loss

for the year ended 31 March 2020

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

Particulars	Notes	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>1. Income</b>			
(a) Revenue from operations	21	19,150	20,945
(b) Other income	22	1,074	1,302
<b>Total income</b>		<b>20,224</b>	<b>22,247</b>
<b>2. Expenses</b>			
(a) Cost of materials consumed	23	3,290	3,331
(b) Purchases of stock-in-trade		1,278	550
(c) Changes in inventories of finished goods, work-in-progress and stock-in-trade	24	(752)	(339)
(d) Employee benefits expense	25	3,750	3,559
(e) Finance costs	26	215	193
(f) Depreciation and amortisation expense	5 and 6	998	810
(g) Other expenses	27	5,758	5,896
<b>Total expenses</b>		<b>14,537</b>	<b>14,000</b>
<b>3. Profit before tax (1-2)</b>		<b>5,687</b>	<b>8,247</b>
<b>4. Tax expense:</b>	28		
(a) Current tax		1,271	1,883
(b) Income-tax for earlier years		40	-
(c) Deferred tax		(205)	(60)
<b>Total tax expenses</b>		<b>1,106</b>	<b>1,823</b>
<b>5. Profit for the year (3-4)</b>		<b>4,581</b>	<b>6,424</b>
<b>6. Other comprehensive income</b>			
(a) Items that will not be reclassified subsequently to profit and loss			
(i) Remeasurement of defined benefit plans		(79)	(108)
Tax on remeasurement of defined benefit plans		27	23
(ii) Net gains / (losses) from investments in equity instruments designated at FVTOCI		(20)	(1)
Tax impact benefit / (expense) on equity instruments designated at FVTOCI		7	1
(b) Items that will be reclassified subsequently to profit and loss			
(i) Exchange differences on translation of foreign operations		(80)	9
Other comprehensive income, net of tax		(145)	(76)
<b>7. Total comprehensive income for the year (5+6)</b>		<b>4,436</b>	<b>6,348</b>
<b>8. Profit for the year attributable to:</b>			
Owners of the company		4,608	6,444
Non-controlling interests		(27)	(20)
<b>Profit for the year</b>		<b>4,581</b>	<b>6,424</b>
<b>9. Other comprehensive income attributable to:</b>			
Owners of the company		(145)	(76)
Non-controlling interests		-	-
<b>Other comprehensive income for the year</b>		<b>(145)</b>	<b>(76)</b>
<b>10. Total comprehensive income attributable to:</b>			
Owners of the company		4,463	6,368
Non-controlling interests		(27)	(20)
<b>Total comprehensive income for the year</b>		<b>4,436</b>	<b>6,348</b>
<b>11. Earnings per equity share (Face value of ₹ 2 each)</b>	29		
Basic (in ₹)		25.33	34.98
Diluted (in ₹)		25.26	34.87
Significant accounting policies	3 and 4		

The accompanying notes form an integral part of the consolidated financial statements.  
As per our report of even date attached

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

**Vikash Somani**  
Partner  
Membership Number: 061272

Place: Hyderabad  
Date: 17 June 2020

for and on behalf of the Board of Directors  
**NATCO Pharma Limited**  
CIN: L24230TG1981PLC003201

**V C Nannapaneni**  
Chairman and Managing Director  
DIN: 00183315

**M. Adinarayana**  
Company Secretary

Place: Hyderabad  
Date: 17 June 2020

**Rajeev Nannapaneni**  
Vice Chairman and CEO  
DIN: 00183872

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

# Consolidated Statement of Cash Flow

for the year ended 31 March 2020

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

Particulars	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Cash flows from operating activities:</b>		
Profit before tax	5,687	8,247
<b>Adjustments :</b>		
Depreciation and amortisation expense	998	810
Finance costs	215	193
Share based payment expense	144	255
Interest income	(791)	(898)
Allowance for credit losses	175	-
Bad debts written off	55	20
Liabilities written back	(29)	-
Profit on sale of property, plant and equipment, net	(163)	(135)
Unrealised foreign exchange loss, net	(64)	(102)
<b>Operating profit before working capital changes</b>	<b>6,227</b>	<b>8,390</b>
<b>Working capital adjustments:</b>		
Inventories	(289)	(906)
Trade receivables	(538)	1,388
Loans	(55)	(25)
Other financial assets	71	(71)
Other assets	(701)	20
Trade payables	417	(512)
Provisions	128	252
Other financial liabilities	173	(67)
Other liabilities	(182)	7
<b>Cash generated from operating activities</b>	<b>5,251</b>	<b>8,476</b>
Income taxes paid, net of refund	(1,078)	(1,788)
<b>Net cash generated from operating activities (A)</b>	<b>4,173</b>	<b>6,688</b>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment (Refer note b below)	(3,557)	(4,566)
Proceeds from sale of property, plant and equipment	221	178
Acquisition of intangible assets	(29)	(51)
Purchase of investments	(673)	(1,121)
Proceeds from sale of investments	1,203	200
Movement in other bank balances, net	2,087	(892)
Loans given to others	-	(20)
Interest received	874	524
Deposits made with financial institutions	(1,796)	(374)
<b>Net cash used in investing activities (B)</b>	<b>(1,670)</b>	<b>(6,122)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	1	0
Payment on buy-back of shares, including transaction costs	(536)	(1,347)
Contribution from shareholders of the Company	474	-
Contribution from non-controlling interest	119	2
Net proceeds from short-term borrowings (refer note c below)	(801)	2,131
Payment of lease liability including interest (refer note c below)	(8)	-
Dividends paid (including corporate dividend tax)	(1,536)	(1,108)
Interest paid	(221)	(187)
<b>Net cash used in financing activities (C)</b>	<b>(2,508)</b>	<b>(509)</b>
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>	<b>(5)</b>	<b>57</b>
Effect of currency translation adjustment	(80)	9
Cash and cash equivalents as at the beginning of the year	283	217
Cash and cash equivalents as at the end of the year	<b>198</b>	<b>283</b>

# Consolidated Statement of Cash Flow

for the year ended 31 March 2020

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

## Components of cash and cash equivalents

Particulars	As at 31 March 2020	As at 31 March 2019
<b>Cash and cash equivalents:</b>		
Cash on hand	11	18
<b>Balance with Banks:</b>		
- Current accounts	187	134
- Deposit with original maturity within three months	-	131
	<b>198</b>	<b>283</b>

Notes:

- The above Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Indian Accounting Standard (Ind AS-7) - "Statement of Cash Flows".
- Acquisition of Property, Plant and Equipment includes movements of capital work-in-progress, capital advances and capital creditors.
- Debt reconciliation in accordance with Ind AS 7:

Particulars	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Borrowings from banks:</b>		
Opening balance	3,863	1,732
(Repayment) of / proceeds from borrowings, net	(801)	2,131
Non-cash items (Foreign exchange changes)	80	-
<b>Closing balance</b>	<b>3,142</b>	<b>3,863</b>
<b>Lease liability:</b>		
Opening balance	20	-
Recognised as at 1 April 2019	2	-
Additions and interest accrued during the year	3	-
Payment of lease liability	(8)	-
<b>Closing balance</b>	<b>17</b>	<b>-</b>
Significant accounting policies	3 and 4	

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

As per our report of even date attached

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration No. 116231W/ W-100024

**Vikash Somani**

Partner

Membership Number: 061272

for and on behalf of the Board of Directors

**NATCO Pharma Limited**

CIN: L24230TG1981PLC003201

**V C Nannapaneni**

Chairman and Managing Director

DIN: 00183315

**M. Adinarayana**

Company Secretary

**Rajeev Nannapaneni**

Vice Chairman and CEO

DIN: 00183872

**S V V N Appa Rao**

Chief Financial Officer

Place: Hyderabad

Date: 17 June 2020

Place: Hyderabad

Date: 17 June 2020

# Consolidated Statement of Changes in Equity

for the year ended 31 March 2020

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

Particulars	Reserves and Surplus					Other equity				Other comprehensive income			Total other equity attributable to owners of the Company	Non-controlling interest	Total equity
	Equity share capital	Securities premium	Capital reserve	Capital redemption reserve	General reserve	Share options outstanding account	Retained earnings	Net gains / (losses) from investments in equity instruments designated at FVTOCI	Foreign currency translation reserve	Foreign currency translation reserve	Foreign currency translation reserve	Foreign currency translation reserve			
<b>As at 1 April 2018</b>	369	15,209	207	5	595	239	14,120	40	(62)				30,353	38	30,760
Profit for the year	-	-	-	-	-	-	6,444	-	-	-	-	-	6,444	(20)	6,424
Other comprehensive income (net of taxes)	-	-	-	-	-	-	(85)	-	9	-	-	-	(76)	-	(76)
Buyback of shares	(4)	(1,325)	-	-	-	-	-	-	-	-	-	-	(1,325)	-	(1,329)
Share buyback expenses	-	(18)	-	-	-	-	-	-	-	-	-	-	(18)	-	(18)
Employee stock option expense	-	-	-	-	-	255	-	-	-	-	-	-	255	-	255
Dividend paid	-	-	-	-	-	-	(919)	-	-	-	-	-	(919)	-	(919)
Tax on distributed profits	-	-	-	-	-	-	(189)	-	-	-	-	-	(189)	-	(189)
Share options exercised	0	186	-	-	-	(186)	-	-	-	-	-	-	-	-	0
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	2	2
Transfer from securities premium on account of buyback of equity shares	-	(4)	-	4	-	-	-	-	-	-	-	-	-	-	-
<b>As at 31 March 2019</b>	365	14,048	207	9	595	308	19,371	40	(53)				34,525	20	34,910
Profit for the year	-	-	-	-	-	-	4,608	-	-	-	-	-	4,608	(27)	4,581
Other comprehensive income (net of taxes)	-	-	-	-	-	-	(52)	(13)	(80)	-	-	-	(145)	-	(145)
Transaction with shareholders (net of taxes) (Refer note 41)	-	-	309	-	-	-	-	-	-	-	-	-	309	-	309
Buyback of shares	(2)	(534)	-	-	-	-	-	-	-	-	-	-	(534)	-	(536)
Employee stock option expense	-	-	-	-	-	144	-	-	-	-	-	-	144	-	144
Dividend paid	-	-	-	-	-	-	(1,274)	-	-	-	-	-	(1,274)	-	(1,274)
Tax on distributed profits	-	-	-	-	-	-	(262)	-	-	-	-	-	(262)	-	(262)
Share options exercised	1	217	-	-	-	(217)	-	-	-	-	-	-	-	-	1
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	119	119
Transfer from securities premium on account of buyback of equity shares	-	(2)	-	2	-	-	-	-	-	-	-	-	-	-	-
<b>As at 31 March 2020</b>	364	13,729	516	11	595	235	22,391	27	(133)				37,371	112	37,847

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

As per our report of even date attached

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration No. 116231W/ W-100024

**Vikash Somani**

Partner

Membership Number: 061272

for and on behalf of the Board of Directors

**NATCO Pharma Limited**

CIN: L24230TG1981PLC003201

**V C Nannapaneni**

Chairman and Managing Director

DIN: 00183315

**M. Adinarayana**

Company Secretary

Place: Hyderabad

Date: 17 June 2020

**Rajeev Nannapaneni**

Vice Chairman and CEO

DIN: 00183872

**S V N Appa Rao**

Chief Financial Officer

## 1. Reporting entity information

NATCO Pharma Limited ("the Company" or "the Parent") is a public limited company domiciled and incorporated in with its registered office situated at NATCO House, Road No. 2, Banjara Hills, Hyderabad – 500034. The equity shares of the Company are listed on the National Stock Exchange (NSE) and Bombay Stock Exchange in India (BSE).

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

## 2. Basis of preparation

### A. Statement of Compliance

These consolidated financial statements of the Group have been prepared in accordance with Indian Accounting Standards (Ind AS) as per the Companies (Indian Accounting Standards) Rules 2015, as amended, notified under Section 133 of Companies Act, 2013, (the 'Act') and other relevant provisions of the Act.

The consolidated financial statements for the year ended 31 March 2020 were authorized and approved for issue by the Company's Board of Directors on 17 June 2020.

New and amended standards adopted by the Group Effective 1 April 2019, the Group has applied Ind AS 116 Leases. On transition to Ind AS 116, Right-of-use of assets at 1 April 2019 for leases previously classified as operating leases were recognised and measured at an amount equal to lease liability (adjusted for related prepayments/ accruals). As a result, the comparative information has not been restated and there is no impact on retained earnings as at 1 April 2019. Overall, the application of this standard did not have any material impact on the financial statements. Refer note 39 for further details.

Details of the Group's accounting policies are included in Note 3.

### B. Functional and presentation currency

The consolidated financial statements are presented in Indian Rupee ('INR' or '₹') which is also the Company's functional currency. All amounts have been rounded-off to the nearest million, unless otherwise indicated.

Transactions and balances with values below the rounding off norm adapted by the Group have been reflected as '0' in relevant notes in the consolidated financial statements.

### C. Operating cycle

The Group has ascertained its operating cycle as 12 months that is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

### D. Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following items:

Items	Measurement basis
Certain financial assets and liabilities	Fair value
Net defined benefit asset/ (liability)	Fair value of plan assets less present value of defined benefit obligations

### E. Use of estimates and judgements

The preparation of the financial statements in conformity with Ind AS requires management to make estimates, judgements and assumptions. These estimates, judgements and assumptions affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Accounting estimates could change from period to period. Actual results could differ from those estimates. Appropriate changes in estimates are made as and when management becomes aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made and, if material, such effects are disclosed in the notes to the financial statements.

### F. Measurement of fair values

Certain accounting policies and disclosures of the Group require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values.

The finance team regularly reviews significant unobservable inputs and valuation adjustments.

# Notes to consolidated financial statements

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of reporting period during which the change has occurred.

## 3. Significant accounting policies

### a. Basis of consolidation

#### i. Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The financial statements of subsidiaries are included in the consolidated financial statement from the date on which control commences until the date on which control ceases.

#### ii. Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's net identifiable asset at the date of acquisition. Changes in the Group's equity interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interest is presented separately from the liabilities or assets and the equity of the shareholders in the consolidated Balance Sheet. Non-controlling interest in the profit or loss of the Group is separately presented.

#### iii. Subsidiaries considered in the consolidated financial statements:

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

Name of the subsidiaries	Country of Incorporation	Percentage holding/interest (%)	
		As at 31 March	
		2020	2019
NATCO Pharma, Inc.,	United States of America	100.00	100.00
Time Cap Overseas Limited	Mauritius	90.44	90.36
NATCO Farma Do Brazil	Brazil	90.89	90.90
NATCO Pharma (Canada), Inc.	Canada	99.04	99.04
Natco Pharma Asia Pte. Ltd.	Singapore	99.76	99.73
NATCO Pharma Australia PTY Ltd.	Australia	100.00	100.00
NATCO Lifesciences Philippines Inc.	Philippines	100.00	100.00

Note 1: NATCO Farma Do Brazil is the Subsidiary of Time Cap Overseas Limited and interest in NATCO Pharma interest in NATCO Farma Do Brazil represents effective holding of the Group.

Note 2: Principal activity of all subsidiaries except Time Cap Overseas Limited is marketing of pharmaceutical products. Time Cap Overseas Limited is an intermediate investment holding company.

#### iv. Change in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within equity.

v. **Principles of consolidation**

The Group combines the separate financial statements of the parent and its subsidiaries line by line adding together like items of assets, liabilities, contingent liabilities, equity, income and expenses. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The accounting policies adopted in the preparation of consolidated financial statements are consistent with those of previous year. The financial statements of each of the subsidiaries and associates used for the purpose of consolidation are drawn up to same reporting date as that of the Company, i.e., year ended on 31 March.

b. **Property, plant and equipment (PPE)**

**Recognition and initial measurement**

Items of property, plant and equipment, are measured at cost (which includes capitalised borrowing costs, if any) less accumulated depreciation and accumulated impairment losses, if any. Cost of an item of property, plant and equipment includes its purchase price, duties, taxes, after deducting trade discounts and rebates, any directly attributable cost of bringing the item to its working condition for its intended use and estimated costs of dismantling and removing the item and restoring the site on which it is located.

The cost of a self-constructed item of property, plant and equipment comprises the cost of materials, direct labour and any other costs directly attributable to bringing the item to its intended working condition and estimated costs of dismantling, removing and restoring the site on which it is located, wherever applicable.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

**Subsequent expenditure**

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

**Depreciation**

Depreciation is calculated on cost of items of property, plant and equipment less their estimated residual value using straight line method over the useful lives of assets estimated by the Group. Depreciation rates followed by the Group coincides with rates prescribed in Schedule II to the Companies Act, 2013. Depreciation amount is recognised in the Statement of Profit and Loss. Depreciation for assets purchased / sold during the period is proportionately charged.

The estimated useful lives of items of property, plant and equipment are as follows:

Tangible assets	Estimated useful life (in years)	Companies Act life (in years)
Buildings	5 to 60	5 to 60
Plant and machinery	5 to 20	5 to 20
Computers	3 to 6	3 to 6
Vehicles	8 to 10	8 to 10
Office equipment	5	5
Furniture and fixtures	10	10

Freehold land is not depreciated.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

**De-recognition**

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of profit and loss, when the asset is derecognised.

**Capital work-in-progress**

Capital work-in-progress includes cost of property, plant and equipment under installation / under development as at the balance sheet date.

c. **Intangible assets**

**Recognition and initial measurement**

Intangible assets (software) are stated at their cost of acquisition. The cost comprises purchase price, borrowing cost if capitalization criteria are met and directly attributable cost of bringing the asset to its working condition for the intended use. Any trade discount and rebates are deducted in arriving at the purchase price.



## Notes to consolidated financial statements

### Subsequent measurement (amortisation)

The cost of capitalised software is amortised over a period of 6 years, on a straight-line basis. Amortisation on the addition/disposals is charged on pro-rata basis from/until the date of such addition/disposal.

### d. Foreign currencies

Transactions in foreign currencies are initially recorded by the Group at its functional currency spot rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the functional currency spot rates of exchange at the reporting date. Exchange differences that arise on settlement of monetary items or on reporting at each balance sheet date are recognised as income or expenses in the period in which they arise. Non-monetary items which are carried at historical cost denominated in a foreign currency are reported using the exchange rates at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

### Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. assets and liabilities are translated at the closing rate at the date of the balance sheet,
2. income, expenses and cash flow items are translated at average exchange rates for the respective periods; and
3. All resulting exchange differences are recognised in OCI.

When a foreign operation is disposed of in its entirety or partially such that control is lost, the cumulative amount of exchange differences related to that foreign operation recognised in OCI is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes off part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is re-allocated to NCI. When the Group disposes off only a part of its interest in an associate while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to Statement of Profit or Loss.

### e. Revenue recognition

The Group derives revenues primarily from sale of finished dosage formulations, active pharmaceutical

ingredients (APIs), including niche and technically complex molecules.

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

### Sale of goods:

Revenue from sale of goods is recognised when a promise in a customer contract (performance obligation) has been satisfied by transferring control over the promised goods to the customer. Control is usually transferred upon shipment/ delivery to/ upon receipt of goods by the customer, in accordance with the delivery and acceptance terms agreed with the customers. The amount of revenue to be recognised is based on the consideration expected to be received in exchange for goods, excluding trade discounts, volume discounts, sales returns, chargeback, medicaid payments, rebates, shelf stock adjustments, where applicable and any taxes or duties collected on behalf of the government which are levied on sales such as goods and services tax, etc., where applicable. Revenue is only recognised to the extent that it is highly probable a significant reversal will not occur.

The Group from time to time enters into marketing arrangements with certain business partners for the sale of its products in certain markets. Under such arrangements, the Group sells its products to the business partners at a non-refundable base purchase price agreed upon in the arrangement and is also entitled to a profit share which is over and above the base purchase price. The profit share is typically dependent on the business partner's ultimate net sale proceeds or net profits, subject to any reductions or adjustments that are required by the terms of the arrangement. Such arrangements typically require the business partner to provide confirmation of units sold and net sales or net profit computations for the products covered under the arrangement.

Revenue in an amount equal to the base purchase price is recognised in these transactions upon delivery of products to the business partners. An additional amount representing the profit share component is recognised as revenue only to the extent that it is highly probable that a significant reversal will not occur.

At the end of each reporting period, the Company updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

**Sale of services:**

Revenue from sale of dossiers/ licenses/services, includes in certain instances, certain performance obligations and based on evaluation of whether or not these obligations are in consequential or perfunctory, revenue is recognised in accordance with the terms of the contracts with the customers when the related performance obligation is completed at point in time or spread over a period of time, as applicable.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, it does not require to adjust any of the transaction prices for the time value of money.

**f. Borrowing costs**

Borrowing costs directly attributable to the acquisition or construction of those property, plant and equipment which necessarily takes a substantial period of time to get ready for their intended use are capitalised. All other borrowing costs are expensed in the period in which they are incurred in the Statement of Profit and Loss.

**g. Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to revenue, it is recognised in the Statement of Profit and Loss on a systematic basis over the periods to which they relate. When the grant relates to an asset, it is presented as a reduction to the carrying value of the related asset.

Export benefits available under prevalent schemes are accrued in the year in which the goods are exported and no significant uncertainty exist regarding its ultimate collection.

**h. Impairment of non-financial assets (Intangible assets and property, plant and equipment)**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite useful life are tested annually for impairment. For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount

is determined for the cash generating unit to which the asset belongs. If such assets are considered to be impaired, the impairment to be recognised in the Statement of Profit and Loss is measured by the amount by which the carrying value of the assets exceeds the estimated recoverable amount of the asset. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is reversed in the Statement of Profit and Loss if there has been a change in the estimates used to determine the recoverable amount. The carrying amount of the asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortization or depreciation) had no impairment loss been recognised for the asset in prior years.

**i. Financial instruments****i. Initial recognition and measurement**

Trade receivables and debt securities issued are initially recognised when they are originated. All other assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, that are not at fair value through profit or loss, are added to the fair value on initial recognition.

**ii. Classification and subsequent measurement****Financial assets**

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") on the basis of following:

- the entity's business model for managing the financial assets and
- the contractual cash flow characteristics of the financial asset.

**Amortised Cost:**

A financial asset shall be classified and measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

## Notes to consolidated financial statements

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### **Fair Value through OCI:**

A financial asset shall be classified and measured at fair value through OCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### **Fair Value through Profit or Loss:**

A financial asset shall be classified and measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through OCI.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

### **Classification of investments:**

- a. **Debt instruments at amortised cost** – A 'debt instrument' is measured at the amortised cost if both the following conditions are met:

- The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and
- Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method.

- b. **Equity investments** – All equity investments in scope of Ind-AS 109 are measured at fair value. Equity instruments which are held for trading are classified at fair value through profit and loss (FVTPL). For all other equity instruments, the Group decides to classify the same either as at fair value through other comprehensive income (FVOCI) or fair value

through profit and loss (FVTPL). The Group makes such election on an instrument by instrument basis. The classification is made on initial recognition and is irrevocable.

- c. **Mutual funds** – All mutual funds in scope of Ind-AS 109 are measured at fair value through profit and loss (FVTPL).

### **Interest income and dividend income:**

For all financial instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in other income in the Statement of Profit and Loss.

Dividend income is recognised when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend.

### **Financial liabilities**

Financial liabilities are subsequently carried at amortised cost using the effective interest method. For trade and other payables maturing within one year from the balance sheet date, the carrying amounts approximate fair value due to the short maturity of these instruments.

### **iii. De-recognition Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial assets are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

If the Group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised.



### Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group also derecognises a financial liability when its terms are modified and the cash flows under the modified terms are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and a new financial liability with modified terms is recognised in the Statement of Profit and Loss.

#### iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or realise the asset and settle the liabilities simultaneously.

#### v. Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified party fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the amount of expected loss allowance determined as per impairment requirements of Ind-AS 109 and the amount recognised less cumulative amortisation.

#### j. Impairment of financial assets

The Group recognises loss allowances using the expected credit loss (ECL) model for the financial assets which are not fair valued through profit or loss. Loss allowance for trade receivables with no significant financing component is measured at an amount equal to lifetime ECL. For all other financial assets, expected credit losses are measured at an amount equal to the 12-month ECL, unless there has been a significant increase in credit risk from initial recognition in which case those are measured at lifetime ECL. The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised is recognised as an impairment gain or loss in statement of profit or loss.

#### k. Inventories

Inventories are valued at the lower of cost (including prime cost, non-refundable taxes and duties and other costs incurred in bringing the inventories to their present location and condition) and estimated net realisable value, after providing for obsolescence, where appropriate. The comparison of cost and net realisable value is made on an item-by-item basis. The net realisable value of materials in process is determined with reference to the selling prices less estimated cost of completion or selling expenses of related finished goods. Cost of inventories is determined using the weighted average cost method. Raw materials, packing materials and other supplies held for use in production of inventories are not written down below cost except in cases where material prices have declined, and it is estimated that the cost of the finished products will exceed their net realisable value.

The provision for inventory obsolescence is assessed regularly based on estimated usage and shelf life of products.

Work-in-progress is valued at input material cost plus conversion cost as applicable.

Finished goods, work-in-progress and stock-in-trade are valued at the lower of net realisable value and cost (including prime cost, non-refundable taxes and duties and other costs incurred in bringing the inventories to their present location and condition), computed on a weighted average basis.

#### l. Income taxes

Income tax comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to an item recognised directly in equity or in other comprehensive income.

##### i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax reflects the best estimate of the tax amount expected to be paid or received after considering the uncertainty, if any related to income taxes. It is measured using tax rates (and tax laws) enacted or substantively enacted by the reporting date.

##### ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting

## Notes to consolidated financial statements

purposes and the corresponding amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss at the time of transaction.
- temporary differences related to investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax assets recognised or unrecognised are reviewed at each reporting date and are recognised / reduced to the extent that it is probable / no longer probable respectively that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

The Group offsets, the current tax assets and liabilities (on a year on year basis) and deferred tax assets and liabilities, where it has a legally enforceable right and where it intends to settle such assets and liabilities on a net basis.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss (either in other comprehensive income or in equity).

### m. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, demand deposits with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### n. Post-employment, long-term and short-term employee benefits

#### Defined contribution plan

A defined contribution plan is a post-employment benefit under which an entity pays a specific contribution to a separate entity and has no obligation to pay any further amounts. The Group's contribution to provident fund and employee state insurance schemes is charged to the Statement of profit and loss during the period in which the employee renders the related service. The Group's contributions towards Provident Fund are deposited with the Regional Provident Fund Commissioner under a defined contribution plan. The Group has no obligation, other than the contribution payable to these funds.

#### Defined benefit plan

The Group has gratuity as defined benefit plan where the amount that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The liability recognised in the balance sheet for defined benefit plans is the present value of the defined benefit obligation (DBO) at the reporting date net of fair value of plan assets. Management estimates the DBO annually with the assistance of independent actuaries, by adopting the projected unit credit method. Actuarial gains and losses resulting from re-measurements of the liability are included in other comprehensive income.

The Group has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹ 2 million. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Group makes contributions to the Gratuity Fund.

#### Other long-term employee benefits

The Group also provides benefit of compensated absences to its employees which are in the nature of long-term benefit plan. Liability in respect of compensated absences becoming due and expected

to be availed more than one year after the balance sheet date is estimated on the basis of an actuarial valuation performed by an independent actuary using the projected unit credit method as on the reporting date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in the Statement of profit or loss in the year in which such gains or losses arise.

#### Short-term employee benefits

Short-term employee benefits comprise of employee costs such as salaries, bonus etc. is recognized on the basis of the amount paid or payable for the period during which services are rendered by the employee.

#### o. Share-based payments

Certain employees of the Group are entitled to remuneration in the form of equity settled instruments, for rendering services over a defined vesting period. Equity instruments granted are measured by reference to the fair value of the instrument at the date of grant. The fair value determined at the grant date is expensed over the vesting period of the respective tranches of such grants. The stock compensation expense is determined based on the Group's estimate of equity instruments that will eventually vest using fair value in accordance with Ind AS 102, Share based payment.

The employee benefits expense is measured using the fair value of the employee stock options and is recognised over vesting period with a corresponding increase in equity. The vesting period is the period over which all the specified vesting conditions are to be satisfied.

#### p. Provisions, contingent liabilities and contingent assets

##### General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the expense relating to a provision is presented in the Statement of Profit and Loss, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### Contingent liabilities and Contingent assets

A disclosure for contingent liabilities is made where there is a possible obligation or a present obligation that may probably not require an outflow of resources. When there is a possible or a present obligation where the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are neither recognised nor disclosed. However, when realisation of income is virtually certain, related asset is recognised.

#### Onerous contracts

Provision for onerous contracts. i.e. contracts where the expected unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event based on a reliable estimate of such obligation.

#### q. Earnings per share

Basic Earnings Per Share ('EPS') is computed by dividing the net profit attributable to the equity shareholders by the weighted average number of equity shares outstanding during the year. Diluted earnings per share is computed by dividing the net profit by the weighted average number of equity shares considered for deriving basic earnings per share and also the weighted average number of equity shares that could have been issued upon conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as of the beginning of the year, unless issued at a later date. In computing diluted earnings per share, only potential equity shares that are dilutive and that either reduces earnings per share or increases loss per share are included. The number of shares and potentially dilutive equity shares are adjusted retrospectively for all periods presented in case of share splits.

#### r. Cash flow statement

Cash flows are reported using indirect method, whereby net profits 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 and items of income or expenses associated with investing or financing cash flows. The cash flows from regular revenue generating (operating activities), investing and financing activities of the Group are segregated.



# Notes to consolidated financial statements

## s. Research and development

Expenditure on research activities are expensed as and when incurred. Development expenses which meet defined criteria for capitalisation are capitalised if its ability to generate future economic benefits is reasonably certain. All other development costs are expensed as and when incurred. Capital expenditure incurred on research and development is capitalised as property, plant and equipment and depreciated in accordance with the depreciation policy of the Group.

## t. Ind AS 116, Leases:

### Accounting as lessee

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises right-of-use asset representing its right to use the underlying asset for the lease term at the lease commencement date. The cost of the right-of-use asset measured at inception shall comprise of the amount of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received, plus any initial direct costs incurred and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the underlying asset or site on which it is located. The right-of-use assets is subsequently measured at cost less any accumulated depreciation, accumulated impairment losses, if any and adjusted for any remeasurement of the lease liability. The right-of-use assets is depreciated using the straight-line method from the commencement date over the shorter of lease term or useful life of right-of-use asset. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Right-of-use assets are tested for impairment whenever there is any indication that their carrying amounts may not be recoverable. Impairment loss, if any, is recognised in the Statement of profit and loss.

The Group measures the lease liability at the present value of the lease payments that are not paid at the commencement date of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses incremental borrowing rate. For leases with reasonably similar characteristics, the Group, on a lease by lease basis, may adopt either the incremental borrowing rate specific to the lease or the incremental borrowing rate for the portfolio as a whole. The lease payments shall include fixed payments, variable lease payments, residual value guarantees, exercise price of a purchase

option where the Group is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. The lease liability is subsequently remeasured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. The Group recognises the amount of the re-measurement of lease liability due to modification as an adjustment to the right-of-use asset and Statement of profit and loss depending upon the nature of modification. Where the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the re-measurement in Statement of profit and loss.

The Group has elected not to apply the requirements of Ind AS 116 Leases to short-term leases of all assets that have a lease term of 12 months or less and leases for which the underlying asset is of low value. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Refer note 39 "Leases" of the financial statements for transition related disclosures.

## 4. Key accounting estimates and judgements

The preparation of financial statements in conformity with the Ind AS requires judgements, estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures relating to contingent liabilities as of the date of the financial statements. Although these estimates are based on the management's best knowledge of current events and actions, uncertainty about these assumptions and estimates could result in outcomes different from the estimates. Difference between actual results and estimates are recognised in the period in which the results are known or materialise. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

Management considers the accounting estimates and assumptions discussed below to be its critical accounting estimates and, accordingly, provide an explanation of each below. The discussion below



should also be read in conjunction with the Group's disclosure of significant accounting policies which are provided in Note 3 to the consolidated financial statements, 'Significant accounting policies'.

**Critical judgments:**

**Taxes on income:**

Significant judgments are involved in determining the provision for income taxes, including possibility of utilisation of Minimum Alternate Tax (MAT) credit in future.

**Impairment of investments:**

Significant judgment is involved in determining the estimated future cash flows from the investments to determine their value in use to assess whether there is any impairment in their carrying amounts as reflected in the consolidated financial statements.

**Critical estimates:**

**Recognition of deferred tax assets** – The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits.

**Evaluation of indicators for impairment of assets:** The evaluation of applicability of indicators of impairment of assets requires assessment of several external and internal factors which could result in deterioration of recoverable amount of the assets.

**Useful lives of depreciable/amortisable assets:** Management reviews its estimate of the useful lives of depreciable/amortisable assets at each reporting date, based on the expected utility of the assets.

Uncertainties in these estimates relate to technical and economic obsolescence that may change the utility of certain software, IT equipment and other plant and equipment.

**Defined benefit obligation (DBO):** Management's estimate of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses.

**Fair value measurements:** Management applies valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

**Provisions:** The Group exercises judgement in measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

# Notes to consolidated financial statements

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

## 5. Property, plant and equipment

	Freehold land	Leasehold land	Buildings	Plant and equipment	Office equipment	Furniture	Vehicles	Computers	Right-of use (Leasehold lands)	Total
<b>Gross carrying amount</b>										
As at 1 April 2018	1,769	262	3,575	7,701	63	177	200	164	-	13,911
Additions	363	-	864	1,565	2	43	35	21	-	2,893
Disposals	(41)	-	(1)	(3)	-	-	(10)	-	-	(55)
Exchange difference	-	-	(3)	(1)	-	-	-	-	-	(4)
<b>Balance as at 31 March 2019</b>	<b>2,091</b>	<b>262</b>	<b>4,435</b>	<b>9,262</b>	<b>65</b>	<b>220</b>	<b>225</b>	<b>185</b>	<b>-</b>	<b>16,745</b>
Recognised on adoption of Ind AS 116 (Refer Note 39)	-	-	-	-	-	-	-	-	38	38
Reclassified on adoption of Ind AS 116 (Refer Note 39)	-	(262)	-	-	-	-	-	-	262	-
Additions	429	-	1,805	2,111	2	152	22	63	2	4,586
Disposals	(33)	-	-	(40)	(0)	(0)	(8)	-	-	(81)
Exchange difference	-	-	(15)	(11)	(0)	(1)	(0)	0	-	(27)
<b>Balance as at 31 March 2020</b>	<b>2,487</b>	<b>-</b>	<b>6,225</b>	<b>11,322</b>	<b>67</b>	<b>371</b>	<b>239</b>	<b>248</b>	<b>302</b>	<b>21,261</b>
<b>Accumulated depreciation</b>										
As at 1 April 2018	-	8	720	2,719	37	69	102	129	-	3,784
Charge for the year	-	3	127	593	2	17	25	20	-	787
Disposals	-	-	-	(2)	-	-	(9)	-	-	(11)
Exchange difference	-	-	0	0	0	0	0	0	-	0
<b>Balance as at 31 March 2019</b>	<b>-</b>	<b>11</b>	<b>847</b>	<b>3,310</b>	<b>39</b>	<b>86</b>	<b>118</b>	<b>149</b>	<b>-</b>	<b>4,560</b>
Reclassified on adoption of Ind AS 116 (Refer Note 39)	-	(11)	-	-	-	-	-	-	11	-
Charge for the year	-	-	178	719	2	26	18	22	8	973
Disposals	-	-	-	(21)	(0)	(0)	(2)	-	-	(23)
Exchange difference	-	-	(2)	(3)	(0)	(0)	0	0	-	(5)
<b>Balance as at 31 March 2020</b>	<b>-</b>	<b>-</b>	<b>1,023</b>	<b>4,005</b>	<b>41</b>	<b>112</b>	<b>133</b>	<b>171</b>	<b>19</b>	<b>5,504</b>
<b>Net book value as at 31 March 2019</b>	<b>2,091</b>	<b>251</b>	<b>3,588</b>	<b>5,952</b>	<b>26</b>	<b>134</b>	<b>107</b>	<b>36</b>	<b>-</b>	<b>12,185</b>
<b>Net book value as at 31 March 2020</b>	<b>2,487</b>	<b>-</b>	<b>5,202</b>	<b>7,317</b>	<b>26</b>	<b>259</b>	<b>105</b>	<b>77</b>	<b>283</b>	<b>15,756</b>

### (i) Contractual obligations

Refer to note 36(a) for disclosure of contractual commitments for the acquisition of property, plant and equipment.

(ii) Right-of-use assets consists of leasehold land from the State Industrial Development Corporation of Uttarakhhand Limited for a period of 90 years, Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years and 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 at the option of the Company.

(iii) Land parcels with an aggregate carrying amount of ₹4 (31 March 2019: ₹4) are under dispute pending in a court as to the ownership of the property. The management, based on available information and advice of legal counsel, is confident of favourable outcome in this case and hence, no adjustments are made in these financial statements.

(iv) The following lands have come into the books of the Company pursuant to the merger of Natco Organics Limited and Karanth Pharma Chemical Labs Private Limited (transferor companies) with the Company in the earlier years. Hence, the name of the transferor companies are appearing in the title deeds of these lands.

i) Freehold land at Sanathnagar Industrial estate, Hyderabad.

ii) Freehold land at No. 74/7B, Vaikkadu TPP Salai, Manali, Chennai.

(v) During the previous year, the Company was provisionally allotted a parcel of land from Andhra Pradesh Industrial Infrastructure Corporation Limited ('APIIC') in Attivaram, Nellore District, Andhra Pradesh for a consideration of ₹66 which shall be registered in the name of the Company based on fulfilment of certain conditions laid down by APIIC.

(vi) Refer to note 39 for disclosure of leases under Ind AS 116.

(vii) Refer to note 16 for disclosure of security against borrowings.

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

## 6. Intangible assets

	Computer Software	Total
<b>Gross carrying amount</b>		
As at 1 April 2018	149	149
Additions	51	51
As at 31 March 2019	200	200
Additions	29	29
Deletions	(3)	(3)
As at 31 March 2020	226	226
<b>Accumulated amortisation</b>		
As at 1 April 2018	90	90
Charge for the year	23	23
As at 31 March 2019	113	113
Charge for the year	25	25
Deletions	0	-
As at 31 March 2020	138	138
<b>Net carrying amount</b>		
As at 31 March 2019	87	87
As at 31 March 2020	88	88

## 7. Investments

	As at 31 March 2020	As at 31 March 2019
<b>I. Non-current</b>		
<b>At fair value through other comprehensive income</b>		
a. Investment in equity instruments (fully paid-up)		
<b>Unquoted</b>		
139,451 (31 March 2019: 139,451) equity shares of ₹10 each, in OMRV Hospitals Private Limited	105	105
21,769 (31 March 2019: 21,769) equity shares of ₹10 each, in Veda Seedsciences Private Limited	79	79
8000 (31 March 2019: Nil) equity shares of ₹ 10 each, in Cipher Oncology Private Limited	10	-
978 (31 March 2019: Nil) equity shares of ₹ 10 each, in Medplus Health Services Private Limited	75	-
34,400 (31 March 2019: 34,400) equity shares of ₹10 each, in Pattancheru Enviro-Tech Limited	0	0
27,000 (31 March 2019: 27,000) equity shares of ₹10 each, in Jayalakshi Spinning Mills Limited	0	0
4,054 (31 March 2019: 4,054) shares of 1USD NATIVITA Joint Limited Liability Company	0	0
30 (31 March 2019: 30) equity shares of Euro 0.5 per share of Pharnasanta B.V	0	0
750 (31 March 2019: 750) equity shares of ₹100 each, in Jeedimetla Effluent Treatment Limited	0	0
Less: Provision for impairment in value of investments	0	0
	269	185
b. Other investments		
<b>Unquoted</b>		
1,624 (31 March 2019: 1,060) units of ₹10,000 each, in Endiya Trust	16	11
500,000 (31 March 2019: Nil) 0.05% compulsorily convertible preference shares (CCPS) of ₹100 each, in OMRV Hospitals Private Limited	50	-
	66	11

# Notes to consolidated financial statements

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

	As at 31 March 2020	As at 31 March 2019
At amortised cost		
<b>Unquoted</b>		
National Saving Certificate	-	-
Application money for investment in Kotak Alternate Investment Plan	-	3
<b>Quoted</b>		
250,000 (31 March 2019: Nil) 9.25% non-convertible debentures (NCD) of ₹1,000 each, in Muthoot Finance limited	250	-
250 (31 March 2019: Nil) 8.39% Series III Perpetual Bonds of ₹ 1,000,000 each, issued by State Bank of India	251	-
	<b>501</b>	<b>3</b>
<b>Total non-current investments</b>	<b>836</b>	<b>199</b>
Aggregate book value of unquoted investments	335	199
Aggregate book value of quoted investments	501	-
Aggregate market value of quoted investments	512	-
Aggregate amount of impairment in the value of investments	0	0
<b>II. Current</b>		
<b>Quoted</b>		
Investments in equity instruments of others (fully paid-up) (At fair value through other comprehensive income)		
10,000 (31 March 2019: 10,000) equity shares of ₹10 each, in Neuland Laboratories Limited	3	7
5,500 (31 March 2019: 5,500) equity shares of ₹1 each, in Sun Pharmaceuticals Industries Limited	2	3
778 (31 March 2019: 778) equity shares of ₹2 each, in Alkem Laboratories Limited	2	1
15,000 (31 March 2019: 15,000) equity shares of ₹1 each, in Cadila Healthcare Limited	4	5
100,000 (31 March 2019: 100,000) equity shares of ₹10 each, in Laurus Labs Limited	32	40
150,000 (31 March 2019: 150,000) equity shares of ₹1 each, in Lanco Infratech Limited	0	0
22,700 (31 March 2019: 22,700) equity shares of ₹1 each, in GMR Infrastructure Limited	0	0
50,400 (31 March 2019: 50,400) equity shares of ₹1 each, in GVK Power & Infrastructure Limited	0	0
50,000 (31 March 2019: 50,000) equity shares of ₹1 each, in Panacea Biotech Limited	6	10
3,176 (31 March 2019: 3,176) equity shares of ₹10 each, in ICICI Prudential Life Insurance Company Limited	1	1
<b>Unquoted</b>		
<b>Investments in others (fully paid-up)</b>		
(At amortised cost)		
Investment in Global Dynamic Opportunities Fund Limited	237	219
Nil (31 March 2019: 12,000) non-convertible debentures of ₹100,000 in Citicorp Finance India Limited	-	1,200
<b>Total current investments</b>	<b>287</b>	<b>1,487</b>
Aggregate book value of unquoted investments	237	1,419
Aggregate cost of quoted investments	60	60
Aggregate market value of quoted investments	50	68

## 8. Loans

	As at 31 March 2020	As at 31 March 2019
<b>(Unsecured, considered good)</b>		
<b>Non-current</b>		
Loans to others	20	20
Security deposits	141	99
<b>Total non-current loans</b>	<b>161</b>	<b>119</b>
<b>Current</b>		
Loans to employees	84	71
<b>Total current loans</b>	<b>84</b>	<b>71</b>

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

## 9. Other financial assets

	As at 31 March 2020	As at 31 March 2019
<b>(Unsecured, considered good)</b>		
Non-current		
<b>Deposits classified at amortised cost:</b>		
- Bank deposits with maturity beyond 12 months*	36	61
- Interest on deposits and investments, accrued but not due	6	5
	<b>42</b>	<b>66</b>
* Bank deposits are given as margin money against bank guarantees/performance guarantees issued by banks.		
Current		
<b>Deposits classified at amortised cost:</b>		
- Deposits with financial institutions	8,112	6,316
- Interest on deposits, accrued but not due	469	553
Other receivables	7	78
	<b>8,588</b>	<b>6,947</b>

## 10. Other assets

	As at 31 March 2020	As at 31 March 2019
<b>(Unsecured, considered good)</b>		
Non-current		
(i) Capital advances	547	492
(ii) Advances other than capital advances		
- Prepaid expenses (Refer note 39)	-	18
- Balance with statutory authorities	12	17
	<b>559</b>	<b>527</b>
Current		
Advances other than capital advances		
- Advance to material/service providers	1,407	618
- Prepaid expenses	180	139
- Export incentives receivable	260	304
- Balance with statutory authorities	696	750
- Other advances	1	9
	<b>2,544</b>	<b>1,820</b>

## 11. Inventories

	As at 31 March 2020	As at 31 March 2019
Raw materials [including goods-in-transit of ₹26 (31 March 2019: ₹4)]	1,627	2,111
Work-in-progress	1,566	1,406
Finished goods	1,140	735
Stock-in-trade	342	219
Stores and spares [including goods-in-transit of ₹5 (31 March 2019: ₹44)]	640	561
Packing materials [including goods-in-transit of ₹1 (31 March 2019: ₹Nil)]	265	258
	<b>5,580</b>	<b>5,290</b>

The write-down of inventories to net realisable value during the year amounted to ₹ 31 (31 March 2019: ₹ 2).

# Notes to consolidated financial statements

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

## 12. Trade receivables

	As at 31 March 2020	As at 31 March 2019
<b>(Unsecured)</b>		
Trade receivables:		
- Considered good	5,688	5,062
- Credit impaired	-	-
	5,688	5,062
Less: Allowance for credit losses	175	-
	5,513	5,062

## 13. Cash and bank balances

	As at 31 March 2020	As at 31 March 2019
<b>Cash and cash equivalents:</b>		
Cash on hand	11	18
Balance with banks:		
- Current accounts	187	134
- Deposit with original maturity within three months	-	131
	198	283
<b>Bank balances other than cash and cash equivalents:</b>		
Bank deposits with maturity within 12 months	428	2,490
Unpaid dividend account	34	22
	462	2,512

## 14. Equity share capital

### i. Authorised share capital

	As at 31 March 2020		As at 31 March 2019	
	Number	Amount	Number	Amount
Equity shares of ₹ 2 each	20,00,00,000	400	20,00,00,000	400

### ii. Issued, subscribed and fully paid up

	As at 31 March 2020		As at 31 March 2019	
	Number	Amount	Number	Amount
Equity shares of ₹ 2 each	18,20,67,975	364	18,27,46,479	365
	18,20,67,975	364	18,27,46,479	365

### iii. Reconciliation of number of equity shares outstanding at the beginning and at the end of the year

	As at 31 March 2020		As at 31 March 2019	
	Number	Amount	Number	Amount
<b>Equity shares</b>				
Balance at the beginning of the year	18,27,46,479	365	18,44,93,400	369
Add: Equity shares issued pursuant to employee stock option plan (Refer note 14(viii))	3,05,840	1	2,68,735	0
Less: Bought back during the year and extinguished before balance sheet date (Refer notes given below)	(9,84,344)	(2)	(18,77,640)	(4)
	18,20,67,975	364	18,28,84,495	365
Less: Bought back during the year and extinguished after the balance sheet date (Refer notes given below)	-	-	(1,38,016)	(0)
<b>Balance at the end of the year</b>	<b>18,20,67,975</b>	<b>364</b>	<b>18,27,46,479</b>	<b>365</b>

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

**Notes:**

- (a) During the year ended 31 March 2020, the Company bought back and extinguished 984,344 equity shares of ₹ 2 each for an aggregate purchase value of ₹ 536 at an average price of ₹ 544 per share, excluding transaction costs under the buy-back of equity shares plan approved by the Board of directors on 05 November 2018.
- (b) During the year ended 31 March 2019, the Company bought back 2,015,656 equity shares of ₹ 2 each for an aggregate purchase value of ₹ 1,329 at an average price of ₹ 659 per share, excluding transaction costs under the buy-back of equity shares plan approved by the Board of directors on 05 November 2018. Out of the total shares bought back, 1,877,640 equity shares of ₹ 2 each were extinguished before 31 March 2019 and the balance 138,016 equity shares were extinguished in two tranches on 5 April 2019 and 22 April 2019.

**iv. Rights, preferences and restrictions attached to equity shares**

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

**v. Details of shareholder holding more than 5% share capital**

Name of the equity shareholder	As at 31 March 2020		As at 31 March 2019	
	Number	% holding	Number	% holding
V C Nannapaneni *	2,80,27,975	15.39%	4,07,51,315	22.30%
Time Cap Pharma Labs Limited	1,71,57,220	9.42%	1,71,57,220	9.39%
Natsoft Information Systems Private Limited	1,57,67,500	8.66%	1,57,67,500	8.63%
V S Swathi Kantamani	1,59,83,340	8.78%	32,60,000	1.78%

\*including shares held in the capacity of Karta of Hindu Undivided Family (HUF) aggregating 5,440,045 (31 March 2019: 5,440,045)

**vi. Shares reserved for issuance under Stock Option Plans of the Company**

	As at 31 March 2020		As at 31 March 2019	
	Number	Amount	Number	Amount
<b>NATCO Employee Stock Option Plan:</b>				
ESOP 2015	74,810	0.04%	2,15,800	0.12%
ESOP 2016	87,310	0.05%	1,47,280	0.08%
ESOP 2017	3,70,525	0.20%	4,85,235	0.27%
	<b>5,32,645</b>		<b>8,48,315</b>	

**vii. Aggregate number of bonus shares issued, shares issued for consideration other than cash and shares bought back during the period of five years immediately preceding the reporting date:**

	2019-20	2018-19	2017-18	2016-17	2015-16
Equity Shares issued under Stock Option Plans of the Company	3,05,840	2,68,735	1,85,600	1,33,555	-
Equity shares bought-back (Refer note 14(iii))	9,84,344	20,15,656	-	-	-

**viii. Share based payments**

- (a) The Company has instituted the NATCO Employee Stock Option Plan 'ESOP-2015', NATCO Employee Stock Option Plan 'ESOP-2016' and NATCO Employee Stock Option Plan 'ESOP-2017' ("the ESOP Schemes"). The ESOP Schemes were formulated in accordance with the Securities Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 issued by the Securities and Exchange Board of India ("SEBI"). Pursuant to the terms of the ESOP Schemes, the Board of Directors of the Company have granted 750,000 options (post split), 174,330 options and 600,000 options to eligible employees on 12 August 2015, 11 November 2016 and 2 November 2017, respectively. The terms of the ESOP Schemes provide that each option entitles the holder to one equity share of ₹ 2 each (post split) and that the options can be settled only by way of issue of equity shares. The options vest in a phased manner ranging from 1 to 5 years from the date of grant and the options are entirely time-based with no performance conditions.



# Notes to consolidated financial statements

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

(b) During the year ended 31 March 2020, the Company had accrued stock compensation cost of ₹ 144 (31 March 2019: ₹ 255) in respect of the ESOP Schemes.

(c) The details of options are as follows:

ESOP 2015, ESOP 2016 and ESOP 2017	As at 31 March 2020		As at 31 March 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	8,48,315	2	11,44,380	2
Granted during the year	-	2	-	2
Forfeited during the year	-	2	-	2
Vested during the year	3,58,675	2	2,96,065	2
Exercised during the year	3,05,840	2	2,68,735	2
Expired during the year	15,775	2	27,330	2
Outstanding at the end of the year	5,26,700	2	8,48,315	2
Exercisable at the end of the year	43,005	2	-	-

The weighted average remaining contractual life of unvested options is 12.35 months (31 March 2019: 16.83 months).

The weighted average share price on the date of exercise of options during the years ended 31 March 2020 and 31 March 2019 was ₹ 567 and ₹ 732 per share, respectively.

There were no stock options granted by the Company for the years ended 31 March 2020 and 31 March 2019. The fair value of stock options granted in earlier years had been measured using the Black-Scholes option pricing model at the date of the grant. The Black-Scholes option pricing model includes assumptions regarding dividend yields, expected volatility, expected terms and risk free interest rates.

## ix. Dividend paid and proposed

Dividends on equity shares were declared and paid by the Company during the year:

	As at 31 March 2020		As at 31 March 2019	
	Dividend per Equity share (₹)	Amount	Dividend per Equity share (₹)	Amount
First interim dividend	1.25	227	1.50	277
Second interim dividend	1.00	182	3.50	642
Third interim dividend	3.50	638	-	-
Dividend distribution tax on above		215		189
<b>Total</b>		<b>1,262</b>		<b>1,108</b>

After the reporting dates the following dividend was proposed by the directors subject to the approval at the annual general meeting; the dividends have not been recognised as liabilities. Payment of dividends would be subject to deduction of tax at source when declared or paid.

	Year ended 31 March 2020		Year ended 31 March 2019	
	Dividend per Equity share (₹)	Amount	Dividend per Equity share (₹)	Amount
Fourth interim dividend	1	182	-	-
Final dividend on equity shares	-	-	1.25	227
Dividend distribution tax on above		-		47
<b>Total</b>		<b>182</b>		<b>274</b>

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

**15. Other equity****A Reserve and surplus**

	As at 31 March 2020	As at 31 March 2019
<b>Reserves and surplus</b>		
Securities premium	13,729	14,048
Capital reserve	516	207
Capital redemption reserve	11	9
General reserve	595	595
Share options outstanding account	235	308
Retained earnings	22,391	19,371
<b>Total reserves and surplus</b>	<b>37,477</b>	<b>34,538</b>
<b>Other comprehensive income</b>		
Gain on FVTOCI equity securities	27	40
Foreign currency translation reserve	(133)	(53)
	(106)	(13)
	<b>37,371</b>	<b>34,525</b>

**B Nature and purpose of other reserves****Securities premium**

Securities premium is used to record the premium on issue of shares. The reserve is utilised in accordance with provisions of the Companies Act, 2013.

**Capital reserve**

Capital reserve was created on amalgamation of certain entities into the Company in the earlier years and the transactions with shareholders. The Group uses capital reserve for transactions in accordance with the provisions of the Companies Act, 2013.

**Capital redemption reserve**

The Company had purchased its own shares and as per the provision of the applicable laws, a sum equal to the nominal value of the shares so purchased is required to be transferred to the capital redemption reserve. The Group uses capital redemption reserve for transactions in accordance with the provisions of the Companies Act, 2013.

**General reserve**

The Group generally appropriates a portion of its earnings to the general reserve to be used for contingencies. These reserves are freely available for use by the Group.

**Share options outstanding account**

This reserve represents the excess of the fair value of the options on the grant date over the strike price

which is accumulated by the Group in respect of all options that have been granted. The Group transfers the proportionate amounts, outstanding in this account, in relation to options exercised to securities premium on the date of exercise of such options.

**Fair value through other comprehensive income (FVTOCI) equity securities**

The Group has elected to recognise the change in fair value of certain equity instruments in other comprehensive income. These changes are accumulated within the FVTOCI equity instruments reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.

**Retained earnings**

Retained earnings mainly represent all current and prior year profits as disclosed in the statement of profit and loss and other comprehensive income pertaining to remeasurement gains/(losses) arising from the actuarial valuation of the defined benefit plan less dividend distribution.

**Foreign currency translation reserve**

Exchange differences arising on translation of the foreign operations are recognised in other comprehensive income as described in accounting policy and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed-off.

# Notes to consolidated financial statements

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

## 16. Borrowings

	As at 31 March 2020	As at 31 March 2019
<b>Non-current</b>		
Lease liabilities (refer note 39)	9	-
	9	-
<b>Current</b>		
Lease liabilities (refer note 39)	8	-
Loan repayable on demand from banks:		
Working capital loans (secured)	1,340	1,038
Working capital loans (unsecured)	1,802	2,825
	3,150	3,863

### Notes:

- (i) Working capital loans (secured) represents cash credit, bills purchased and discounted with various banks. These working capital loans are secured by joint pari-passu first charge on all the current assets and property, plant and equipment of:
- Land admeasuring 17.19 acres comprised in survey no. 70 of village Nandikonda, Mandal Peddavoora, District Nalgonda in the State of Telangana together with all buildings and structures thereon and all plant and equipment attached to the earth.
  - House/premise bearing municipal no. 8-2-120/112/A/33 and 8-2-120/112/A/32 in plot no. 100 admeasuring 1166 sq. yards with all its building and fixed assets situated at Road No.2, Banjara Hills, Hyderabad - 500033.
- (ii) Working capital loans (unsecured) represents overdraft, bills purchased and discounted with various banks.
- (iii) The rate of interest applicable was in the range of 2.40% to 12%.

## 17. Other financial liabilities

	As at 31 March 2020	As at 31 March 2019
<b>Non-current</b>		
Deposits from customers	8	8
	8	8
<b>Current</b>		
Interest accrued but not due	-	6
Book overdraft	135	-
Capital creditors	403	482
Unpaid dividend *	34	22
Payroll related liabilities	247	265
Other payables	6	7
	825	782

\* Investor Education and Protection Fund shall be credited when due.

## 18. Provisions

	As at 31 March 2020	As at 31 March 2019
<b>Non-current</b>		
Provision for employee benefits:		
Provision for gratuity (refer note (a))	564	439
Provision for compensated absences (refer note (b))	338	271
	902	710
<b>Current</b>		
Provision for employee benefits:		
Provision for gratuity (refer note (a))	52	47
Provision for compensated absences (refer note (b))	53	43
	105	90

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

**(a) Gratuity**

The Group has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹ 2. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Group makes contributions to the Gratuity Fund.

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

**(i) Reconciliation of the present value of defined benefit obligation**

	As at 31 March 2020	As at 31 March 2019
Opening balance	554	370
Current service cost	65	69
Interest cost	43	29
Benefits paid	(14)	(21)
<b>Actuarial loss recognised in the other comprehensive income:</b>		
Experience adjustment	30	196
Change in demographic assumptions	-	(15)
Change in financial assumptions	48	(74)
<b>Closing balance</b>	<b>726</b>	<b>554</b>

**(ii) Reconciliations of present value of plan asset**

	As at 31 March 2020	As at 31 March 2019
Opening balance	68	83
Interest income	5	7
Employer contribution	52	-
Benefits paid	(14)	(21)
<b>Actuarial losses recognised in the other comprehensive income:</b>		
Return on plan assets, excluding interest income	(1)	(1)
<b>Closing balance</b>	<b>110</b>	<b>68</b>

**(iii) Reconciliation of net defined benefit obligation**

	As at 31 March 2020	As at 31 March 2019
Present value of funded obligation	726	554
Fair value of plan assets	(110)	(68)
<b>Amount recognised in the balance sheet</b>	<b>616</b>	<b>486</b>

**(iv) Expense recognised in the statement of profit and loss under employee benefit expense:**

	Year ended 31 March 2020	Year ended 31 March 2019
Current service cost	65	69
Interest cost	43	29
Interest income	(5)	(7)
<b>Net cost</b>	<b>103</b>	<b>91</b>

# Notes to consolidated financial statements

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

## (v) Remeasurments recognised in the statement of other comprehensive income

	Year ended 31 March 2020	Year ended 31 March 2019
Experience adjustment on funded obligation	78	107
Return on plan assets, excluding interest income	1	1
<b>Net gratuity costs in other comprehensive income</b>	<b>79</b>	<b>108</b>

## (vi) Plan assets comprises of the following:

	As at 31 March 2020	As at 31 March 2019
Group gratuity fund with LIC	110	68

## (vii) Summary of actuarial assumptions:

	As at 31 March 2020	As at 31 March 2019
Discount rate	6.85%	7.70%
Estimates rate of return on plan assets	6.85%	7.70%
Salary escalation rate	7.00%	1 - 2 year 10.00% thereafter 7%
Mortality rate	Indian Assured Lives Mortality(2012-14)	Indian Assured Lives Mortality(2006-08)

The estimates of future salary increase considered in actuarial valuation takes account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

## (viii) Sensitivity analysis:

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate and the salary growth rate. The calculation of the net defined benefit liability is sensitive to these assumptions. However, the impact of these changes is not ascertained to be material by the management.

The sensitivity analysis of significant actuarial assumptions as at the end of the period is shown below.

	As at 31 March 2020	As at 31 March 2019
A. Defined benefit obligation without effect of projected salary growth	726	554
B. Salary escalation rate		
Salary rate +100 basis points	78	58
Salary rate -100 basis points	(68)	(50)
C. Discount rate		
Discount rate +100 basis points	(73)	(55)
Discount rate -100 basis points	88	64

## (ix) Expected contribution

The expected contributions for defined benefit plan for the next financial year will be in line with the contribution for the period and is expected by the Management to be ₹ 60 (31 March 2019: ₹ 47).

## (x) Maturity profile of defined benefit obligation (valued on undiscounted basis):

	As at 31 March 2020	As at 31 March 2019
Within 1 year	66	47
2 to 5 years	162	142
6 to 10 years	300	274
More than 10 years	1,333	1,188

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

- (xi) The weighted average duration of the defined benefit plan obligation at the end of the reporting period is 11 years (Previous year: 11 years).

**(b) Compensated absences:**

The accrual for unutilised leave is determined for the entire available leave balance standing to the credit of the employees at the year-end. The value of such leave balances that are eligible for carry forward, is determined by an actuarial valuation as at the end of the year and is charged to the statement of profit and loss. The actual liability towards leave obligations as at 31 March 2020 is ₹ 391 (31 March 2019: ₹ 314). Expense recognised in the statement of profit and loss under employee benefit expense is ₹ 99 (31 March 2019: ₹ 143).

## 19. Other liabilities

	As at 31 March 2020	As at 31 March 2019
<b>Current</b>		
Statutory liabilities	94	94
Advance from customers	4	189
Others	36	33
	<b>134</b>	<b>316</b>

## 20. Trade payables

	As at 31 March 2020	As at 31 March 2019
<b>Current</b>		
Total outstanding dues of micro enterprises and small enterprises [Refer note below]	21	79
Total outstanding dues of creditors other than micro enterprises and small enterprises	2,533	2,091
	<b>2,554</b>	<b>2,170</b>

**Note:**

Under the Micro, Small and Medium Enterprises Development Act, 2006, (MSMED) which came into force from 2 October 2006, certain disclosures are required to be made relating to Micro and Small enterprises. On the basis of the information and records available with the Management, the outstanding dues to the Micro and Small enterprises as defined in the MSMED as set out in following disclosure.

Particulars	As at 31 March 2020	As at 31 March 2019
(i) the principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year;	21	79
(ii) the amount of interest paid by the buyer in terms of Section 16 of MSMED Act, 2006 along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;	-	-
(iii) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under MEMED Act, 2006;	-	-
(iv) the amount of interest accrued and remaining unpaid at the end of each accounting year; and	-	1
(v) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under the MSMED Act, 2006.	-	-

The above information regarding Micro, Small and Medium Enterprises has been determined to the extent such parties have been identified on the basis of information available with the Group. This has been relied upon by the auditors.

# Notes to consolidated financial statements

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

## 21. Revenue from operations

	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Revenue from contracts with customers:</b>		
Sale of goods	17,125	20,400
Sale of services	1,451	68
Job work income	302	150
<b>Total (a)</b>	<b>18,878</b>	<b>20,618</b>
<b>Other operating revenues:</b>		
Export incentives	224	235
Budgetary Support	31	62
Scrap sales	17	30
<b>Total (b)</b>	<b>272</b>	<b>327</b>
<b>Total revenue from operation (a+b)</b>	<b>19,150</b>	<b>20,945</b>
<b>Disaggregation of revenue</b>		
<b>Revenue based on Geography (product destination):</b>		
India	7,218	7,929
USA	8,230	8,741
Rest of the world	3,430	3,948
	<b>18,878</b>	<b>20,618</b>
<b>Timing of revenue recognition:</b>		
Goods transferred at a point in time	17,125	20,400
Services transferred over time	1,753	218
	<b>18,878</b>	<b>20,618</b>
<b>Reconciliation of revenue from operations with contract price:</b>		
Revenue as per contracted price	20,310	22,519
<b>Adjusted for:</b>		
Sales returns	(399)	(257)
Trade discounts and rebates	(1,033)	(1,644)
<b>Total revenue from operations</b>	<b>18,878</b>	<b>20,618</b>

Contract liabilities resulting from advance payments by customers for delivery of goods are predominantly recognised as sales within one year. The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as on 31 March 2020 is ₹ 4(31 March 2019: ₹ 189) resulting from advance payments and shown under other current liabilities.

## 22. Other income

	For the year ended 31 March 2020	For the year ended 31 March 2019
Provisions no longer required written back	29	-
Interest income from financial assets carried at amortised cost	791	898
Profit on sale of property, plant and equipment, net	163	135
Foreign exchange gain, net	51	249
Other receipts	40	20
	<b>1,074</b>	<b>1,302</b>

## 23. Cost of materials consumed

	For the year ended 31 March 2020	For the year ended 31 March 2019
Raw material consumed	3,018	3,116
Packing material consumed	272	215
	<b>3,290</b>	<b>3,331</b>



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

**24. Changes in inventories of finished goods, work-in-progress and stock-in-trade:**

	For the year ended 31 March 2020	For the year ended 31 March 2019
Opening stock:		
- Finished goods	735	621
- Work-in-progress	1,406	1,239
- Stock-in-trade	219	164
	2,360	2,024
Closing stock:		
- Finished goods	1,140	735
- Work-in-progress	1,566	1,406
- Stock-in-trade	342	219
	3,048	2,360
Currency translation adjustment	64	3
	(752)	(339)

**25. Employee benefits expense**

	For the year ended 31 March 2020	For the year ended 31 March 2019
Salaries, wages and bonus	3,129	2,872
Contribution to provident fund and other funds	223	199
Gratuity expense (Refer note 18)	103	91
Share based payment expense (Refer note 14(viii))	144	255
Staff welfare expenses	151	142
	3,750	3,559

**Defined contribution plan:**

The Group makes contributions, determined as a specified percentage of employee salaries, in respect of qualifying employees towards provident fund and employee state insurance schemes which are defined contribution plans. The Group has no obligations other than to make the specified contributions. The contribution to provident fund and employees state insurance charged to the statement of profit and loss is ₹ 223 (31 March 2019: ₹ 199).

**26. Finance costs**

	For the year ended 31 March 2020	For the year ended 31 March 2019
Interest expense on liabilities at amortised cost:		
- Bank overdraft and others	177	162
Other borrowing cost	38	31
	215	193

**27. Other expenses**

	For the year ended 31 March 2020	For the year ended 31 March 2019
Consumption of stores and spares	290	372
Power and fuel	624	596
Rental charges (Refer note 39)	33	37
Repairs and maintenance:		
- Buildings	55	50
- Plant and equipment	163	192
- Others	26	34
Insurance	147	103
Rates and taxes	366	380
Factory maintenance expenses	266	196
Clinical and analytical charges	469	283

# Notes to consolidated financial statements

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

	For the year ended 31 March 2020	For the year ended 31 March 2019
Carriage and freight outward	45	53
Donations*	42	287
Corporate social responsibility (CSR) expenses (Refer note 33)	157	116
Corporate environment responsibility (CER) expenses	2	-
Communication expenses	76	68
Office maintenance	83	75
Travelling and conveyance	256	257
Legal and professional fees	356	335
Payment to auditors**		
- Audit fees	8	8
- Expenses reimbursed	0	0
Directors sitting fee	1	1
Allowance for doubtful receivables	175	-
Bad debts (net of related liabilities) written off	55	20
Foreign exchange loss, net	-	22
Royalty expense	259	698
Sales promotion	936	847
Research and development expenses (refer note 37)	633	724
Miscellaneous expenses	235	142
	<b>5,758</b>	<b>5,896</b>

\* Includes political contributions of ₹ 23 (31st March 2019: ₹ 233) made in accordance with Section 182 of the Companies Act, 2013.

\*\* Including audit fee of subsidiary companies.

## 28. Income-tax

### (A) Components of Income-tax expenses

	For the year ended 31 March 2020	For the year ended 31 March 2019
(i) Tax expense recognised in profit and loss		
Current tax:		
Current year tax	1,271	1,883
Income-tax for earlier years	40	-
	<b>1,311</b>	<b>1,883</b>
Deferred tax charge/(credit) (net):		
Minimum Alternate Tax (MAT) credit utilisation (Refer note 28(E))	(382)	(60)
Origination and reversal of temporary differences	177	-
	<b>(205)</b>	<b>(60)</b>
<b>Tax expense for the year</b>	<b>1,106</b>	<b>1,823</b>
(ii) Tax recognised in other comprehensive income		
Items that will not be reclassified to profit and loss		
- Remeasurement of defined benefit plans	27	23
- Net gains / (losses) from investments in equity instruments designated at FVTOCI	7	1
	<b>34</b>	<b>24</b>

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

**(B) Reconciliation of effective tax rate**

The major components of income tax expense and the reconciliation of expected tax expense based on the domestic effective tax rate of the Company at 34.944% (31 March 2019: 34.944%) and the reported tax expense in the statement profit and loss are as follows:

	For the year ended 31 March 2020	For the year ended 31 March 2019
Profit before tax	5,687	8,247
Enacted tax rate applicable to the Company in India*	34.944%	34.944%
Tax using the Company's domestic tax rate	1,987	2,882
Tax effect of:		
Expense not deductible for tax purposes	74	50
Additional deduction allowed under Income-tax Act	(431)	(446)
Unrecognised deferred tax asset in subsidiaries	19	28
Additional allowances under Income-tax Act	(378)	(685)
Effect of change in tax laws and rate in jurisdictions outside India	60	71
Utilisation of previously unutilised MAT credit**	(382)	(60)
Capital gain tax	(25)	(17)
Other timing differences	142	-
Tax pertaining to earlier years	40	-
<b>Income tax expense</b>	<b>1,106</b>	<b>1,823</b>

\*The Taxation Laws (Amendment) Ordinance, 2019 ('Ordinance') was promulgated by the President of India on 20 September 2019. The Ordinance has amended the Income-tax Act, 1961 and Finance Act, 2019 to inter-alia provide an option to a domestic company in India to pay income tax at reduced rate of 22% plus applicable surcharge and cess subject to certain conditions. The Company has made an assessment of the impact of the Ordinance and decided to continue with the existing tax structure until utilisation of accumulated minimum alternative tax (MAT) credit.

\*\* Also refer note 41

**(C) Deferred tax assets and liabilities**

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities and a description of the items that created these differences is given below:

	As at 31 March 2020	As at 31 March 2019
Deferred tax assets/(liabilities):		
Minimum Alternate Tax*	40	-
Trade receivables	61	-
Property, plant and equipment	(711)	(403)
Provision for employee benefits	350	278
Investments	1	9
	<b>(259)</b>	<b>(116)</b>

\* As per Indian tax laws, companies are liable for a Minimum Alternate Tax ("MAT" tax) when current tax, as computed under the provisions of the Income-tax Act, 1961 ("Tax Act"), is determined to be below the MAT tax computed under section 115JB of the Tax Act. The excess of MAT tax over current tax is eligible to be carried forward and set-off in the future against the current tax liabilities over a period of 15 years.

The Group offsets tax assets and liabilities year on year basis only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Significant management judgement is required in determining provision for income-tax, deferred tax assets and liabilities and recoverability of deferred tax assets. The recoverability of deferred tax assets is based on estimates of taxable income by each jurisdiction in which the relevant entity operates and the period over which deferred tax assets will be recovered.

# Notes to consolidated financial statements

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

## (D) Movement in deferred tax assets and liabilities

The details of movement in deferred tax assets and liabilities for the year ended 31 March 2020:

	As at 1 April 2019	Recognised in profit and loss	Recognised in OCI	As at 31 March 2020
Deferred tax assets/(liabilities):				
Minimum Alternate Tax	-	40	-	40
Trade receivables	-	61	-	61
Property, plant and equipment	(403)	(308)	-	(711)
Provision for employee benefits	278	45	27	350
Investments	9	(15)	7	1
<b>Net deferred tax assets/(liabilities)</b>	<b>(116)</b>	<b>(177)</b>	<b>34</b>	<b>(259)</b>

The details of movement in deferred tax assets and liabilities for the year ended 31 March 2019:

	As at 1 April 2018	Recognised in profit and loss	Recognised in OCI	As at 31 March 2019
Deferred tax assets/(liabilities):				
Property, plant and equipment	(307)	(95)	-	(403)
Provision for employee benefits	160	95	23	278
Investments	8	-	1	9
<b>Net deferred tax assets/(liabilities)</b>	<b>(139)</b>	<b>-</b>	<b>24</b>	<b>(116)</b>

## (E) Unrecognised deferred tax assets

	As at 31 March 2020	As at 31 March 2019
Unrecognised MAT credit entitlement	1,237	1,619
Carry forward losses of subsidiaries	153	171
	<b>1,390</b>	<b>1,790</b>

The Group did not recognise deferred tax assets of ₹ 1,237 million on MAT credit entitlement, as the Group is unable to estimate the availability of taxable profits with reasonable certainty after taking into consideration the tax holiday units/ benefits available including financial projections and availability of sufficient taxable income in foreseeable future. The above MAT credit expires at various dates ranging from 2029 through 2032.

## 29. Earnings per share (EPS)

	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Earnings:</b>		
Profit attributable to equity share holders of the Company	4,608	6,444
<b>Shares:</b>		
Number of equity shares at the beginning of the year	18,27,46,479	18,44,93,400
Effect of equity shares issued on exercise of stock options	95,712	1,23,292
Effect of equity shares bought back during the year	(9,07,668)	(4,11,270)
<b>Weighted average number of equity shares – Basic</b>	<b>18,19,34,523</b>	<b>18,42,05,422</b>
Dilutive effect of stock options outstanding	5,21,079	5,71,121
<b>Weighted average number of equity shares – Diluted</b>	<b>18,24,55,602</b>	<b>18,47,76,543</b>
<b>Earnings per equity share (face value of ₹ 2/- each):</b>		
Basic (in ₹)	25.33	34.98
Diluted (in ₹)	25.26	34.87

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

**30. Financial instruments - fair values****Accounting classification and fair values**

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities including their levels in the fair value hierarchy.

As at 31 March 2020:

Particulars	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
<b>A. Financials assets</b>					
Financial assets measured at FVTOCI					
Non-current investments	7	335	-	-	335
Current investments	7	50	50	-	-
Financial assets measured at amortised cost					
Non-current investments	7	501	-	-	-
Current investments	7	237	-	-	-
Loans	8	245	-	-	-
Trade receivables	12	5,513	-	-	-
Cash and cash equivalents	13	198	-	-	-
Bank balances other than cash and cash equivalents	13	462	-	-	-
Other financial assets	9	8,630	-	-	-
		<b>16,171</b>	<b>50</b>	<b>-</b>	<b>335</b>
<b>B. Financials liabilities</b>					
Financial liabilities measured at amortised cost					
Borrowings (including lease liability)	16	3,159	-	-	17
Trade payables	20	2,554	-	-	-
Other financial liabilities	17	833	-	-	-
		<b>6,546</b>	<b>-</b>	<b>-</b>	<b>17</b>

As at 31 March 2019:

Particulars	Note	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
<b>A. Financials assets</b>					
Financial assets measured at FVOCI					
Non-current investments	7	196	-	-	196
Current investments	7	68	68	-	-
Financial assets measured at amortised cost					
Non-current investments	7	3	-	-	-
Current investments	7	1,419	-	-	-
Loans	8	190	-	-	-
Trade receivables	12	5,062	-	-	-
Cash and cash equivalents	13	283	-	-	-
Bank balances other than cash and cash equivalents	13	2,512	-	-	-
Other financial assets	9	7,013	-	-	-
		<b>16,746</b>	<b>68</b>	<b>-</b>	<b>196</b>
<b>B. Financials liabilities</b>					
Financial liabilities measured at amortised cost					
Borrowings	16	3,863	-	-	-
Trade payables	20	2,170	-	-	-
Other financial liabilities	17	790	-	-	-
		<b>6,823</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to consolidated financial statements

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

The Group's financial liabilities comprise of borrowings from banks, lease liabilities, trade payables and other financial liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include loans, trade receivables, other financial assets, cash and cash equivalents and other bank balances that derive directly from its operations. The Group also holds certain strategic investments in entities other subsidiaries.

The fair value of cash and cash equivalents, bank balances, trade receivables, loans, unquoted debentures and bonds, borrowings, trade payables and other financial assets and liabilities approximate their carrying amount largely due to the nature of these instruments. The Group's loans have been contracted at market rates of interest. Accordingly, the carrying value of such loans approximate fair value.

The following methods and assumptions were used to estimate the fair value :

Level 1: The fair value of the quoted investments are based on market price at the reporting date.

Level 3: The Investments measured at fair value and falling under fair value hierarchy Level 3 are valued on the basis of valuation reports provided by external valuers with the exception of certain investments, where the impact of fair valuation of investment is considered as insignificant and hence carrying value and fair value is considered as same.

The Group's variable rate borrowings are subject to interest rate risk. Below are the details of exposure to fixed rate and variable rate instruments:

Particulars	As at 31 March 2020	As at 31 March 2019
<b>Fixed rate instruments</b>		
Financial assets	9,334	10,440
<b>Financial liabilities</b>	17	-
<b>Variable rate instruments</b>		
Financial liabilities (other than lease liability)	3,142	3,863

ii. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risk to the extent that there is mismatch between the currencies in which sales, purchase are denominated and the respective functional currencies of Group companies. The

## 31. Financial risk management

The Group's financial risk management is an integral part of how to plan and execute its business strategies. The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group's primary focus is to foresee the unpredictability of financial markets and seek to minimise potential adverse effects on its financial performance. A summary of the risks have been given below.

A. Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risks: interest rate risk and currency risk. Financial instruments affected by market risk include borrowings, deposits, trade receivables and other financial instruments.

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's entire borrowings carried at amortised cost are variable rate instruments and are subject to fluctuation because of a change in market interest rates. The Group considers the impact of fair value interest rate risk on variable rate borrowings as not material.

Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities.

The Group's exposure to foreign currency financial assets and financial liabilities expressed in ₹ are as follows:

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

**Financial assets and financial liabilities:**

	31 March 2020			31 March 2019		
	Trade receivables*	Borrowings*	Trade payables	Trade receivables*	Borrowings*	Trade payables
- USD	3,449	1,655	214	2,739	701	158
- EUR	47	16	22	55	-	45
- CAD	123	-	-	147	-	-
- GBP	-	-	0	-	-	1
- SGD	8	-	-	3	-	-

\* Includes bills purchased and discounted which are forming part of trade receivables and current borrowings amounting to ₹ 1,671 (31 March 2019: ₹ 701). These are realised amounts and hence there is no further foreign currency risk is involved.

**Foreign currency sensitivity**

A reasonably possible strengthening (weakening) of the Indian Rupee against various foreign currencies at 31 March would have affected the measurement of financial instruments denominated in foreign currencies and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

The following table demonstrates the sensitivity to a reasonably possible change in USD. The Group's exposure to foreign currency changes for all other currencies is not material.

Particulars	Impact on profit and loss after tax gain/(loss) for the year ended	
	31 March 2020	31 March 2019
<b>USD sensitivity</b>		
₹/USD - Appreciate by 10%	158	188
₹/USD - Depreciate by 10%	(158)	(188)

**B. Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans given. Credit risk arises from cash held with banks and financial institutions, as well as credit exposure to clients, including outstanding accounts receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Group assesses the credit quality of the counterparties, taking into account their financial position, past experience and other factors.

**Trade and other receivables:**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer, including the default risk of the industry and country in which the customer operates, also has an influence on credit risk assessment. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Group grants credit terms in the normal course of business.

The maximum exposure to credit risk for trade receivables by geographic region was as follows:

Particulars	As at 31 March 2020	As at 31 March 2019
India	1,913	2,846
USA	2,713	1,859
Rest of the world	1,062	357
	<b>5,688</b>	<b>5,062</b>



# Notes to consolidated financial statements

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

The ageing of trade receivables are as follows:

Particulars	As at 31 March 2020	As at 31 March 2019
Neither past due nor impaired	3,745	3,886
Past due not impaired:		
1-180 days	1,830	1,060
More than 180 days	113	116
Allowance for credit losses	(175)	-
	5,513	5,062

As per simplified approach the Group makes provision of expected credit losses on trade receivable using a provision matrix to mitigate the risk of default payment and make appropriate provision at each reporting date wherever required.

## Other financial assets:

Other financial assets primarily consist cash and cash equivalents and deposits. Credit risk on cash and cash equivalents and deposits with banks and financial institutions are generally low as the said deposits have been made with the banks and financial institutions who have been assigned high credit rating by international and domestic credit rating agencies. Investments in other than subsidiaries are strategic investments in the normal course of business of the Company.

Management monitors rolling forecasts of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. The Group takes into account the liquidity of the market in which the entities operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The Group's principal sources of liquidity are the cash flows generated from operations. The Group has no long-term borrowings and believes that the working capital is sufficient for its current requirements. Accordingly, no liquidity risk is perceived.

## C. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

## Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is insignificant.

As at 31 March 2020	Carrying value	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities					
Borrowings	3,142	3,142	-	-	3,142
Lease liabilities	17	8	7	393	408
Trade payables	2,554	2,554	-	-	2,554
Other financial liabilities	833	825	8	-	833
<b>Total</b>	<b>6,546</b>	<b>6,529</b>	<b>15</b>	<b>393</b>	<b>6,937</b>

As at 31 March 2019	Carrying value	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities					
Borrowings	3,863	3,863	-	-	3,863
Trade payables	2,170	2,170	-	-	2,170
Other financial liabilities	790	782	8	-	790
<b>Total</b>	<b>6,823</b>	<b>6,815</b>	<b>8</b>	<b>-</b>	<b>6,823</b>

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

### 32. Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for stakeholders. The Group also proposes to maintain an optimal capital structure to reduce the cost of capital. Hence, the Group may adjust any dividend payments, return capital to shareholders or issue new shares. Total capital is the equity as shown in the Consolidated Balance Sheet. Currently, the Group primarily monitors its capital structure on the basis of gearing ratio. Management is continuously evolving strategies to optimise the returns and reduce the risks. It includes plans to optimise the financial leverage of the Group.

The capital for the reporting year under review is summarised as follows:

Particulars	As at 31 March 2020	As at 31 March 2019
Total borrowings	3,159	3,863
Less: Cash and cash equivalents	(198)	(283)
<b>Net debt [A]</b>	<b>2,961</b>	<b>3,580</b>
Total equity [B]	37,847	34,910
<b>Total capital [C=A+B]</b>	<b>40,808</b>	<b>38,490</b>
Gearing ratio (%) [A/C]	7%	9%

### 33. Corporate social responsibility (CSR) expenses

During the year, the amount required to be spent on corporate social responsibility activities amounted to ₹ 156 (31 March 2019: ₹ 116) in accordance with Section 135 of the Act, 2013. The following amounts were actually spent during the current and previous year:

Particulars	For the year ended 31 March 2020	For the year ended 31 March 2019
<b>Amount spent in cash:</b>		
(i) Amount spent for other than for construction/ acquisition of any asset	-	-
(ii) On purposes other than (i) above*	157	116
Amount yet to be paid in cash	-	-
<b>Total</b>	<b>157</b>	<b>116</b>

The Group has contributed the amount of ₹ 157 (Previous year: ₹ 116) to NATCO Trust towards CSR activities (Refer note 34(a)).

### 34. Related party disclosures, as per Ind AS 24

(a) Names of the related parties and nature of relationship (to the extent transactions have taken place during the year)

Nature of relationship	Names of the related parties
1. Entities in which Directors have control or have significant influence	Time Cap Pharma Labs Limited NATCO Trust
2. Key management personnel ("KMP")	
Chairman and Managing Director	Mr. V C Nannapaneni
Vice Chairman and Chief Executive Officer ("CEO")	Mr. Rajeev Nannapaneni
Wholtime Director	Mr. Potluri Prasad Sivaramakrishna
Wholtime Director	Mr. Lingarao Donthineni
Chief Financial Officer	Mr. S.V.V.N. Appa Rao
Company Secretary	Mr. Adinarayana M
3. Non-Executive Directors and Independent Directors	
Independent Director	Mr. Sreerama Murthy Gubbala
Independent Director	Mr. Govinda Prasad Dasu
Independent Director	Mr. Umamaheshwarrao Naidu Madireddi
Independent Director	Mr. Venkateswara Rao Thallapaka
Non-Executive Director	Mr. Sridhar Sankararaman
Independent Director	Mrs. Leela Digumarti
4. Relatives of KMP	Mrs. Durga Devi Nannapaneni Dr. N. Ramakrishna Rao Mrs. V S Swathi Kantamani

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

## (b) Related party transactions during the year

	For the year ended	
	31 March 2020	31 March 2019
Time Cap Pharma Labs Limited		
Sales promotion expenses	-	6
Purchase of Land	-	49
Rental expense	5	5
NATCO Trust		
Donations	-	24
Contribution to corporate social responsibility activities	157	116
Mr. V.C. Nannapaneni		
Short-term employee benefits*	18	17
Leave encashment paid	1	1
Rental expenses	2	2
Mr. Rajeev Nannapaneni		
Short-term employee benefits*	17	16
Leave encashment paid	1	1
Rental expenses	3	1
Mr. Potluri Prasad Sivaramakrishna		
Short-term employee benefits*	18	14
Leave encashment paid	0	0
Mr. Lingarao Donthineni		
Short-term employee benefits*	18	14
Leave encashment paid	-	0
Mr. S.V.V.N. Appa Rao		
Short-term employee benefits*	9	6
Mr. Adinarayana M		
Short-term employee benefits*	5	4
Sitting fees		
Mr. Govinda Prasad Dasu	0	0
Mrs. Leela Digumarti	0	0
Mr. Umamaheshwarrao Naidu Madireddi	0	0
Mr. Sreerama Murthy Gubbala	0	0
Mr. Venkateswara Rao Thallapaka	0	0

\*This aforesaid amount does not include amounts in respect of gratuity and compensated absences as the same are determined on actuarial basis for the Group as a whole.

## (c) Related party closing balances as on balance sheet date receivable/(payable):

	As at	
	31 March 2020	31 March 2019
Trade payable		
Time Cap Pharma Labs Limited	-	(0)
Managerial Remuneration		
Mr. V.C. Nannapaneni	-	(2)
Mr. Rajeev Nannapaneni	(1)	(1)
Mr. Lingarao Donthineni	(3)	(1)
Mr. Potluri Prasad Sivaramakrishna	(3)	(1)
Mr. S.V.N.N. Appa Rao	0	0
Mr. Adinarayana M	0	0

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

**35. Segment reporting**

The management has assessed the identification of reportable segments in accordance with the requirements of Ind AS 108 'Operating Segment' and believes that the Group has only one reportable segment namely "Pharmaceuticals". The products being sold under this segment are of similar nature and comprises of pharmaceutical products only.

The operating segments are reported in a manner consistent with the internal reporting provided to

the Company's Chief Operating Decision Maker (CODM). The CODM has been identified as the Chief Executive Officer (CEO) of the Group who reviews the internal management reports prepared based on an aggregation of financial information for all entities in the Group on a periodic basis.

Geography-wise details of the Group's revenues from external customers and its non-current assets (other than financial instruments) and revenue from major customers are given below:

**i. Revenue from Operations:**

	Year ended 31 March 2020	Year ended 31 March 2019
India	7,490	8,256
USA	8,230	8,741
Rest of the world	3,430	3,948
	<b>19,150</b>	<b>20,945</b>

**ii. Non-current assets\***

	As at 31 March 2020	As at 31 March 2019
India	20,923	18,524
USA	-	-
Rest of the world	101	124
	<b>21,024</b>	<b>18,648</b>

\* Non-current assets for this purpose consist of property, plant and equipments, Capital work-in-progress and intangibles.

**iii. Major customers**

The Group has two customer who contributed more than 10% of the Group's total revenue during the current year and previous year. The revenue from such major customer(s) during the year is ₹ 7,266 (31 March 2019: ₹ 5,245).

**36. Contingent liabilities and commitments**

	As at	
	31 March 2020	31 March 2019
(a) Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	834	753
Pending export obligation under EPCG Scheme	143	141
(b) Contingent liabilities		
(i) Matters under appeals with tax authorities:		
Disputed sales tax liabilities	9	9
Disputed service tax liabilities	-	17
Disputed customs liability	2	2

- (ii) The Group is contesting certain patent infringement cases filed against it by the innovators in the ordinary course of business. A few of these cases pertain to products already launched by the Group in the market. These cases are pending before different authorities / courts and most of the claims involve complex issues. The outcome from these claims are uncertain due to a number of factors involved in legal trial such as stage

of the proceedings and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any. Often, these issues are subject to uncertainties and therefore the probability of a loss, if

# Notes to consolidated financial statements

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

any, being sustained and an estimate of the amount of any loss is difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. Further, at present, the management does not expect such liabilities to be significant.

- (iii) The Hon'ble Supreme Court (SC) has clarified in the case of Vivekananda Vidyamandir and Others Vs. The Regional Provident Fund Commissioner (II)

West Bengal that various allowances like conveyance allowance, special allowance, education allowance, medical allowance etc., paid uniformly and universally by an employer to its employees shall form part of basic wages for computation of the provident fund contribution. However, considering that there are numerous interpretative issues relating to this judgement, on the basis of internal evaluation, supported by a legal opinion from an independent legal expert, management of the Company has determined that the aforesaid ruling is applicable prospectively.

## 37. Amounts incurred on research and development expenses

	For the year ended	
	31 March 2020	31 March 2019
Salaries and wages	527	501
Consumption of materials, spares	210	314
Power and fuel	33	29
Other research and development expenses	773	1,032
Capital equipment	242	288
	<b>1,785</b>	<b>2,164</b>

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

## 38. Capital work-in-progress

	As at	
	31 March 2020	31 March 2019
Opening balance	6,376	4,800
Costs incurred toward construction activity	2,653	4,207
Expenses capitalised:		
Cost of materials consumed, net of trial run inventory recognised	10	1
Employee benefits expense	41	54
Power and fuel	38	39
Factory maintenance	73	88
Rates and taxes	22	3
Legal and professional charges	45	1
Others	18	23
Less:		
Capitalised during the year	(4,096)	(2,840)
	<b>5,180</b>	<b>6,376</b>

## 39. Leases

### Transition to Ind AS 116

Ministry of Corporate Affairs ("MCA") through Companies (Indian Accounting Standards) Amendment Rules, 2019 and Companies (Indian Accounting Standards) Second Amendment Rules, has notified Ind AS 116 Leases which replaces the existing lease standard, Ind AS 17 leases and other interpretations. Ind AS 116 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. It introduces a single, on-balance sheet lease accounting model for lessees.

Effective 01 April 2019, the Group adopted Ind AS 116 "Leases" and applied the standard to all lease contracts existing on 01 April 2019 using the modified retrospective method. Right-of-use of assets at 01 April 2019 for leases previously classified as operating leases were recognised and measured at an amount equal to lease liability (adjusted for related prepayments/ accruals). The Group recorded the lease liability at the present value of all future lease payments discounted at the incremental borrowing rate. Comparatives as at and for the year ended 31 March 2019 have not been retrospectively adjusted

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

and therefore will continue to be reported under the accounting policies included as part of our Annual Report for the year ended 31 March 2019.

On 01 April 2019, the Group recognised lease liability of ₹ 20 (presented as a part of borrowings net of prepaid lease rent of ₹ 18) and right-of-use assets of ₹ 38 as at

1 April 2019 (presented as part of property, plant and equipment). The Group has reclassified the leasehold land of ₹ 251 (net of accumulated depreciation) to right-of-use asset as at 01 April 2019. The adoption of the standard did not have any material impact on the financial statements for the current period.

Following are the changes in the lease liability for the year ended 31 March 2020:

Particulars	Amount
Lease commitments as at 1 April 2019	20
Additions during the year	2
Finance cost accrued	3
Payment of lease liabilities	(8)
<b>Lease liabilities as at 31 March 2020</b>	<b>17</b>
Current lease liability	8
Non-current lease liabilities	9

The impact on account on adoption of Ind AS 116 is as follows :

Particulars	Amount
Increase in lease liability as at 31 March 2020 by	17
Increase in Right-of use as at 31 March 2020 by	284
Increase in finance cost by	3
Increase in depreciation by	2

Maturity analysis of lease liabilities as at 31 March 2020:

Maturity analysis – contractual undiscounted cash flows	Amount
Less than one year	8
One to three years	7
More than three years	393
<b>Total undiscounted lease liabilities as at 31 March 2020</b>	<b>408</b>

The Group does not face a significant liquidity risk with regard to its lease liabilities as the current assets are sufficient to meet the obligations related to lease liabilities as and when they fall due.

The following is the rental expense recorded for short-term leases for the year ended 31 March 2020:

Particulars	Amount
Variable lease expenses (other than short term)	-
Short-term lease expense	33
Low value lease expense	-

Amounts recognised in the statement of cash flows for the year ended 31 March 2020:

Particulars	Amount
Payment of lease liabilities	(8)
Short-term lease expense	(33)

# Notes to consolidated financial statements

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

## 40. Additional information as required under para 2 of General Instruction for the preparation of Consolidated Financial Statements of Schedule III, Division III to the Companies Act, 2013.

For the year ended 31 March 2020

Name of the entity	Net assets		Share in profit or loss		Share in other comprehensive income (OCI)		Share in total comprehensive income (TCI)	
	As a % of consolidated net assets	Amount	As a % of consolidated profit or loss	Amount	As a % of consolidated OCI	Amount	As a % of consolidated TCI	Amount
Parent company								
NATCO Pharma Limited	102%	38,695	103%	4,745	44%	(64)	105%	4,681
Foreign subsidiaries								
NATCO Pharma Inc.	1%	305	0%	1	1%	(1)	0%	(0)
NATCO Lifesciences Philippines Inc.	0%	8	0%	(9)	0%	-	0%	(9)
Time Cap Overseas Limited	-1%	(291)	-6%	(286)	0%	-	-6%	(286)
NATCO Pharma (Canada), Inc.	1%	329	1%	56	0%	-	1%	56
NATCO Pharma Asia Pte. Ltd.	0%	11	0%	(13)	0%	-	0%	(13)
NATCO Pharma Australia PTY Ltd.	0%	1	0%	(2)	0%	-	0%	(2)
Non-controlling interests								
Time Cap Overseas Limited	0%	(109)	1%	28	0%	-	1%	28
NATCO Pharma (Canada) Inc.	0%	(3)	0%	(1)	0%	-	0%	(1)
Adjustment arising out of consolidation	-3%	(1,099)	2%	89	55%	(80)	0%	9
<b>Total</b>	<b>100%</b>	<b>37,847</b>	<b>100%</b>	<b>4,608</b>	<b>100%</b>	<b>(145)</b>	<b>100%</b>	<b>4,463</b>

For the year ended 31 March 2019

Name of the entity	Net assets		Share in profit or loss		Share in other comprehensive income (OCI)		Share in total comprehensive income (TCI)	
	As a % of consolidated net assets	Amount	As a % of consolidated profit or loss	Amount	As a % of consolidated OCI	Amount	As a % of consolidated TCI	Amount
Parent company								
NATCO Pharma Limited	102%	35,632	104%	6,671	120%	(91)	103%	6,580
Foreign subsidiaries								
NATCO Pharma Inc.	1%	283	0%	2	-8%	6	0%	8
NATCO Lifesciences Philippines Inc.	0%	9	0%	(5)	0%	-	0%	(5)
Time Cap Overseas Limited	0%	(99)	-4%	(230)	0%	-	-4%	(230)
NATCO Pharma (Canada), Inc.	1%	270	1%	51	0%	-	1%	51
NATCO Pharma Asia Pte. Ltd.	0%	10	0%	(17)	0%	-	0%	(17)
NATCO Pharma Australia PTY Ltd.	0%	0	0%	(7)	0%	-	0%	(7)
Non-controlling interests								
Time Cap Overseas Limited	0%	(20)	0%	21	0%	-	0%	21
NATCO Pharma (Canada) Inc.	0%	0	0%	(1)	0%	-	0%	(1)
Adjustment arising out of consolidation	-3%	(1,175)	-1%	(41)	-12%	9	-1%	(32)
<b>Total</b>	<b>100%</b>	<b>34,910</b>	<b>100%</b>	<b>6,444</b>	<b>100%</b>	<b>(76)</b>	<b>100%</b>	<b>6,368</b>



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

41. During the year ended 31 March 2020, pursuant to the Upside Sharing Agreement dated 16 May 2019 entered with CX Securities Limited ("the Investor"), the Group has received a voluntary amount of USD 6.83 million (₹ 474 million) from an equity participant. In accordance with the Applicable Accounting Framework, the aforementioned gain, received from the equity participant, is recognised as an increase in equity, net of tax.
42. In March 2020, the World Health Organisation declared COVID-19 to be a pandemic. The Group has adopted measures to curb the spread of infection in order to protect the health of its employees and ensure business continuity with minimal disruption. The Group has considered internal and external information while finalising various estimates and recoverability of assets in relation to its financial statement captions up to the date of approval of the financial statements by the Board of Directors. Considering the Group is in the business of manufacturing and supplying of pharmaceutical products which is categorised under essential goods, there has been a minimal disruption with respect to operations including production and distribution activities. The actual impact of the global health pandemic may be different from that which has been estimated, as the COVID-19 situation evolves in India and globally. The Group will continue to closely monitor any material changes to the future economic conditions.
43. The disclosures regarding details of specified bank notes held and transacted during 8 November 2016 to 30 December 2016 has not been made in these standalone financial statements since the requirement does not pertain to financial year ended 31 March 2020.
44. **Events after reporting period**  
The Board of Directors, at the meeting held on 17 June 2020, had recommended an interim dividend of ₹ 1 per equity share of face value of ₹ 2/- each.

for **B S R & Associates LLP**

Chartered Accountants

ICAI Firm Registration No. 116231W/ W-100024

**Vikash Somani**

Partner

Membership Number: 061272

Place: Hyderabad

Date: 17 June 2020

for and on behalf of the Board of Directors

**NATCO Pharma Limited**

CIN: L24230TG1981PLC003201

**V C Nannapaneni**

Chairman and Managing Director

DIN: 00183315

**M. Adinarayana**

Company Secretary

Place: Hyderabad

Date: 17 June 2020

**Rajeev Nannapaneni**

Vice Chairman and CEO

DIN: 00183872

**S V V N Appa Rao**

Chief Financial Officer

# Notice to Members

Notice is hereby given that the 37<sup>th</sup> Annual General Meeting of the members of the Company will be held on Thursday, the 15<sup>th</sup> day of October, 2020 at 11.00 a.m. IST through Video Conferencing ("VC") / Other Audio Visual Means ("OAVM") to transact the following business:

## ORDINARY BUSINESS:

### 1. Adoption of audited Annual Financial Statements for the Financial Year 2019-20

To receive, consider and adopt the Audited Financial Statements, both on Standalone and Consolidated basis of the Company for the Financial Year ended March 31, 2020, together with the reports of Board of Directors, and the Auditors and others thereon.

### 2. To confirm the already paid four interim dividends on equity shares during the Financial Year 2019-20 as final dividend

To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

"RESOLVED THAT the interim dividend of ₹ 1.25 (Rupees one and paise twenty five only) per equity share of ₹ 2/- each declared in the Board Meeting held on August 9, 2019 amounting to ₹ 22,72,02,668.75 (Rupees Twenty two crores seventy two lakhs two thousand six hundred sixty eight and seventy five paise only) on 18,17,62,135 equity shares of ₹ 2/- each, second interim dividend of ₹ 1 (Rupee One only) per equity share of ₹ 2/- each declared in the Board Meeting held on November 12, 2019 amounting to ₹ 18,18,87,350 (Rupees Eighteen crores eighteen lakhs eighty seven thousand three hundred and fifty only) on 18,18,87,350 equity shares of ₹ 2/- each, third interim dividend of ₹ 3.50 (Rupees Three and paise fifty only) per equity share of ₹ 2/- each declared in the Board Meeting held on February 12, 2020 amounting to ₹ 63,72,37,912.50 (Rupees Sixty three crores seventy two lakhs thirty seven thousand nine hundred twelve and paise fifty only) on 18,20,67,975 equity shares of ₹ 2/- each and fourth interim dividend of ₹ 1 (Rupee one only) per equity share of ₹ 2/- each declared in the Board Meeting held on June 17, 2020 amounting to ₹ 18,20,67,975 (Rupees Eighteen crores twenty lakhs sixty seven thousand nine hundred and seventy five only) on 18,20,67,975 equity shares of ₹ 2/- each thus total aggregating to ₹ 122,83,95,906.25/- (Rupees One hundred twenty two crores eighty three lakhs ninety five thousand nine hundred six and twenty five paise only) be and is hereby approved as the final dividend for the Financial Year 2019-20."

### 3. Reappointment of Sri Sridhar Sankararaman (DIN: 06794418) as a Director liable to retire by rotation

To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED THAT Sri Sridhar Sankararaman (DIN: 06794418) who retires by rotation and being eligible offers himself for re-appointment, be and is hereby reappointed as a Director of the Company, who shall be liable for retirement by rotation."

## SPECIAL BUSINESS:

### 4. Reappointment of Sri V.C. Nannapaneni (DIN: 00183315) as Chairman and Managing Director

To consider and, if thought fit, to pass the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 152, 196, 197, 198, and all other applicable provisions of the Companies Act, 2013 ("Act") read with the provisions of Schedule V thereto and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, (including any statutory modification(s) or re-enactment thereof, for the time being in force) and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time, Sri V.C. Nannapaneni (DIN: 00183315), whose reappointment is recommended by the Nomination and Remuneration Committee of the Company and in respect of whom the Company has received a notice in writing from a member under Section 160 of the Act proposing his candidature for the office of Director, be and is hereby reappointed as Chairman and Managing Director of the Company for a period of one (1) year from April 1, 2020 to March 31, 2021 with the remuneration as detailed below:

- a. Salary not exceeding ₹ 1,85,00,000 (Rupees one crore eighty five lakhs only) per annum including dearness allowance and all other allowances.
- b. Managerial commission not exceeding 0.5% of the net profits calculated as per Section 198 of the Act.
- c. Perquisites:
  - i. Reimbursement of Medical Expenses for major ailments not exceeding 50% of the salary.
  - ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the

extent either singly or put together are not taxable under Income Tax Act, 1961.

- iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service.
- iv. Encashment of leave as per rules of the Company.
- v. Special incentive not exceeding 20% of salary per annum.

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

**RESOLVED FURTHER THAT** notwithstanding as above in the financial year closing on March 31, 2021, if the Company has no profits or if its profits are inadequate, the Company shall pay to Sri V.C. Nannapaneni the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Act 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 Company Secretary or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection."

**5. Reappointment of Sri Rajeev Nannapaneni (DIN: 00183872) as Vice Chairman and Chief Executive officer**

To consider and, if thought fit, to pass the following resolution as a Special Resolution:

"**RESOLVED THAT** pursuant to the provisions of Sections 152, 196, 197, 198, and all other applicable provisions of the Companies Act, 2013 ("Act") read with the provisions of Schedule V thereto and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, (including any statutory modification(s) or re-enactment thereof for the time being in force) and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time, Sri Rajeev Nannapaneni (DIN: 00183872), whose reappointment is recommended by the Nomination

and Remuneration Committee of the Company be and is hereby reappointed as the Vice Chairman and Chief Executive Officer of the Company for a period of one (1) year from April 1, 2020 to March 31, 2021 with the remuneration as detailed below:

- a) Salary not exceeding ₹ 1,70,00,000 (Rupees one crore seventy lakhs only) per annum including dearness allowance and all other allowances.
- b) Managerial commission not exceeding 0.5% of the net profits calculated as per Section 198 of the Act.
- c) Perquisites:
  - i. Reimbursement of Medical Expenses for major ailments not exceeding 50% of the salary.
  - ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
  - iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service.
  - iv. Encashment of leave as per rules of the Company.
  - v. Special incentive not exceeding 20% of salary per annum.

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

**RESOLVED FURTHER THAT** notwithstanding as above in the financial year closing on March 31, 2021, if the Company has no profits or if its profits are inadequate, the Company shall pay to Sri Rajeev Nannapaneni the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Act or any statutory modification(s) or re-enactment thereof.

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

## Notice to Members

### 6. Reappointment of Sri P.S.R.K Prasad (DIN: 07011140) as Director and Executive Vice President (Corporate Engineering Services)

To consider and, if thought fit, to pass the following resolution as a Special Resolution:

**"RESOLVED THAT** pursuant to the provisions of Sections 152, 196, 197, 198, and all other applicable provisions of the Companies Act, 2013 ("Act") read with provisions of Schedule V thereto and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, (including any statutory modification(s) or re-enactment thereof for the time being in force) and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time, Sri P.S.R.K. Prasad, (DIN: 07011140), whose reappointment is recommended by the Nomination and Remuneration Committee of the Company and in respect of whom the Company has received a notice in writing from a member under Section 160 of the Act, proposing his candidature for the office of Director, be and is hereby reappointed as Director and Executive Vice President (Corporate Engineering Services) of the Company for a period of one (1) year from April 1, 2020 to March 31, 2021 with the remuneration as detailed below:

- a) Salary not exceeding ₹ 1,63,80,000/- (Rupees one crore sixty three lakhs and eighty thousand only) per annum including dearness allowance and all other allowances.
- b) Perquisites:
  - i. Reimbursement of Medical Expenses for major ailments not exceeding 50% of the salary.
  - ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
  - iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service.
  - iv. Encashment of leave as per rules of the Company.
  - v. Special incentive not exceeding 50% of salary per annum.
  - vi. Loan(s) as per the Scheme of the Loan approved by the members.

**RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised 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 March 31, 2021, 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 Act or any statutory modification(s) or re-enactment thereof.

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

### 7. Reappointment of Dr. D. Linga Rao (DIN: 07088404) as Director and President (Tech. Affairs)

To consider and, if thought fit, to pass the following resolution as a Special Resolution:

**"RESOLVED THAT** pursuant to the provisions of Sections 152, 196, 197, 198, and all other applicable provisions of the Companies Act, 2013 ("Act") read with provisions of Schedule V thereto and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, (including any statutory modification(s) or re-enactment thereof for the time being in force) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended from time to time, Dr. D. Linga Rao (DIN: 07088404) whose reappointment is recommended by the Nomination and Remuneration Committee of the Company and in respect of whom the Company has received a notice in writing from a member under Section 160 of the Act proposing his candidature for the office of Director, be and is hereby reappointed as Director and President (Tech. Affairs) of the Company for a period of one (1) year from April 1, 2020 to March 31, 2021 with such remuneration as detailed below:

- a. Salary not exceeding ₹ 1,63,80,000/- (Rupees one crore sixty three lakhs and eighty thousand only) per annum including dearness allowance and all other allowances.

## b. Perquisites:

- i. Reimbursement of Medical Expenses for major ailments not exceeding 50% of the salary.
- ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
- iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service.
- iv. Encashment of leave as per rules of the Company.
- v. Special incentive not exceeding 80% of salary per annum.
- vi. Loan as per the policy of the Company.

**RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised 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 March 31, 2021, 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 Act or any statutory modification(s) or re-enactment thereof.

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

#### 8. Reappointment of Dr. M.U.R. Naidu (DIN: 05111014) as an Independent Director

To consider and, if thought fit, to pass the following resolution as a Special Resolution:

"**RESOLVED THAT** pursuant to the provisions of Sections 149, 152 and any other applicable provisions of the Companies Act, 2013 ("Act") read with the provisions of Schedule IV thereto and Companies (Appointment and Qualification of Directors) Rules, 2014, (including any statutory modification(s) or re-enactment thereof for the time being in force) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as

amended from time to time, Dr. M.U.R. Naidu (DIN: 05111014) whose reappointment is recommended by the Nomination and Remuneration Committee of the Company and in respect of whom the Company has received a notice in writing from a member under Section 160 of the Act proposing his candidature for the office of Director, be and is hereby reappointed as an Independent Director of the company, who is not liable to retire by rotation, to hold office for a further term of 5 (five) years i.e., up to the conclusion of 42<sup>nd</sup> Annual general Meeting to be held in the Calendar year 2025.

**RESOLVED FURTHER THAT** the Board be and is hereby authorised to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or Company Secretary 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, with or without modifications, to pass the following resolution as an Ordinary Resolution:

"**RESOLVED THAT** pursuant to Section 148 of the Companies Act, 2013 ('Act') and Rule 6 of the Companies (Cost Records and Audit) Rules, 2014 and all other applicable provisions, if any, of the Act and the rules made thereunder, as amended from time to time, the members be and hereby ratify the remuneration of ₹ 1,75,000/- (Rupees one lakh seventy five 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 March 31, 2021.

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

#### 10. To approve the Scheme for giving of Loan(s) to Non-Promoter Working Director(s)

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

"**RESOLVED THAT** pursuant to provision of Section 185, 186 and all other applicable provisions of the Companies Act, 2013 and Rules made thereunder,

# Notice to Members

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and all other applicable provisions, if any, as amended from time to time, the Scheme for giving loan (s) to Non-Promoter Working Director (s) (Loan Scheme) which is circulated to the members along with this notice as per the terms and conditions contained there in which envisages providing loans to Non-Promoter Working Director(s) be and is hereby approved.

**RESOLVED FURTHER THAT** the Loan to be sanctioned to Non-Promoter Working Director(s) shall not exceed 36 month's of his salary.

**RESOLVED FURTHER THAT** the tenure of repayment of loan to be granted to the Non-Promoter Working Director(s) shall not be more than three years and interest to be charged as decided by the Nomination and Remuneration Committee/ Board of Directors as per Marginal cost of funds based Lending Rate (MCLR) of State Bank of India prevailing on the date of sanction of loan..

**RESOLVED FURTHER THAT** that the Nomination and Remuneration Committee/ Board of Directors be and are hereby authorised to implement the Loan Scheme at its discretion and do all such things that it may think fit and proper, including directions for settling any questions or difficulties that may arise and to do all such acts, deeds, matters and things of whatsoever nature as may be deemed expedient for implementing and giving effect to the above Loan Scheme."

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

**M. Adinarayana**

Company Secretary and  
Vice President (Legal & Corp.  
Affairs) (FCS:3808)

Date: June 17, 2020  
Place: Hyderabad

the meeting through VC/OAVM is as per Note no. 15 & 19 and available at the Company's website [www.natcopharma.co.in](http://www.natcopharma.co.in)

The Members can join the AGM in the VC/OAVM mode 15 minutes before and after the scheduled time of the commencement of the Meeting by following the procedure mentioned in the Notice. The facility of participation at the AGM through VC/OAVM will be made available for 1000 members on first come first served basis. This will not include large Shareholders (Shareholders holding 2% or more shareholding), Promoters, Institutional Investors, Directors, Key Managerial Personnel, the Chairpersons of the Audit Committee, Nomination and Remuneration Committee and Stakeholders Relationship Committee, Auditors etc. who are allowed to attend the AGM without restriction on account of first come first served basis.

2. An explanatory statement pursuant to Section 102(1) of the Companies Act, 2013 in respect of special businesses is annexed hereto.
3. Pursuant to the provisions of the Act, a Member entitled to attend and vote at the AGM is entitled to appoint a proxy to attend and vote on his/her behalf and the proxy need not be a Member of the Company. Since this AGM is being held pursuant to the MCA Circulars through VC / OAVM, physical attendance of Members has been dispensed with. Accordingly, the facility for appointment of proxies by the Members will not be available for the AGM and hence the Proxy Form and Attendance Slip are not annexed to this Notice.
4. Corporate/Institutional Members are encouraged to attend and vote in the AGM held through VC or OAVM. Hence Corporate/Institutional Members authorising their representative to attend and vote at the AGM through VC / OAVM on its behalf are requested to send a duly certified copy of the Board resolution/power of attorney to the company or upload the same on VC or OAVM portal/ e-voting portal.
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, Telangana, India** and members holding shares in electronic form are requested to notify any change in mailing address or bank mandates to their respective Depository Participants with whom they are maintaining their demat accounts.
6. In compliance with the aforesaid MCA Circulars and SEBI Circular dated May 12, 2020, Notice of the

## NOTES

1. In view of the continuing Covid-19 pandemic, the Ministry of Corporate Affairs ("MCA") has vide its Circular dated May 5, 2020 read with circulars dated April 8, 2020 and April 13, 2020 (collectively referred to as "MCA Circulars") permitted the holding of the Annual General Meeting ("AGM") through VC / OAVM, without the physical presence of the Members at a common venue. In compliance with the provisions of the Companies Act, 2013 ("Act"), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations") and MCA Circulars, the AGM of the Company is being held through VC / OAVM. The detailed procedure for participation in



37<sup>th</sup> AGM along with the Annual Report for the FY 2019-20 is being sent only through electronic mode to those Members whose email addresses are registered with the Company/ Depositories. Members may note that the 37<sup>th</sup> AGM Notice and Annual Report for the FY 2019-20 will also be available on the Company's website i.e., [www.natcopharma.co.in](http://www.natcopharma.co.in), websites of the Stock Exchanges i.e., BSE Limited and National Stock Exchange of India Limited at [www.bseindia.com](http://www.bseindia.com) and [www.nseindia.com](http://www.nseindia.com) respectively and on the website of NSDL <https://www.evoting.nsdl.com>

7. Members attending the AGM through VC / OAVM will be counted for the purpose of reckoning the quorum under Section 103 of the Act. AGM has been convened through VC/OAVM in compliance with applicable provisions of the Companies Act, 2013 read with MCA Circular No. 14/2020 dated April 08, 2020 and MCA Circular No. 17/2020 dated April 13, 2020 and MCA Circular No. 20/2020 dated May 05, 2020.
8. Members holding shares in electronic form may note that the Bank particulars registered against their respective depository accounts will be used by the Company for payment of dividend, 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.
9. Pursuant to Finance Act, 2020, dividend income will be taxable in the hands of shareholders w.e.f. April 1, 2020 and the Company is required to deduct tax at source from dividend paid to shareholders at the prescribed rates. For the prescribed rates for various categories, the shareholders are requested to refer to the Finance Act, 2020 and amendments thereof. The shareholders are requested to update their PAN with the Company/ depositories (in case of shares held in demat mode).

A Resident individual shareholder with PAN and who is not liable to pay income tax can submit a yearly declaration in Form No. 15G/15H, to avail the benefit of non-deduction of tax at source by email to [info@vccipl.com](mailto:info@vccipl.com). Shareholders are requested to note that in case their PAN is not registered, the tax will be deducted at a higher rate of 20%.

Non-resident shareholders can avail beneficial rates under tax treaty between India and their country of residence, subject to providing necessary documents i.e., No Permanent Establishment and Beneficial Ownership Declaration, Tax Residency Certificate, Form 10F, any other document which may be required

to avail the tax treaty benefits by sending an email to [info@vccipl.com](mailto:info@vccipl.com).

10. Relevant documents referred to in Notice are open for inspection by the members at the Registered Office of the Company on all working days, during business hours up to the date of the meeting.
11. 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, Circulars, etc., from the Company in electronic mode.
12. 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.
13. The Register of Members and Share Transfer Books will remain closed for 3 (Three) days i.e. from Tuesday, October 13, 2020 to Thursday, October 15, 2020 (both days inclusive).
14. Members who wish to claim Dividends, which remain unclaimed within a period of seven (7) years 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 (i.e., M/s. Venture Capital and Corporate Investments Private Limited). Members are requested to note that dividends not en-cashed or claimed within seven (7) years and 30 days from the date of declaration of the Dividend, will be transferred to the Investor Education and Protection Fund (IEPF) of Government of India as per Section 124(5) of the Companies Act, 2013. In view of this, members are advised to send the un-encashed dividend warrants to the Company or to our Registrars for issue of new warrants/demand drafts. The Unpaid Dividend, Shares transferred to IEPF Authority are updated in our website <http://www.natcopharma.co.in/>
15. Instructions for e-voting and joining the AGM are as follows:
  - A. Voting through electronic means
    - i) In compliance with the provisions of Section 108 of the Act, read with Rule 20 of the Companies (Management and Administration) Rules, 2014, as amended from time to time and Regulation 44 of the SEBI Listing Regulations, the Members are provided with the facility to cast their vote electronically, through the e-voting services provided by NSDL, on all the resolutions set forth



## Notice to Members

in this Notice. The instructions for e-voting are given herein below.

- ii) The remote e-voting period commences on Monday, October 12, 2020 (9:00 a.m. IST) and ends on Wednesday, October 14, 2020 (5:00 p.m. IST). During this period, Members holding shares either in physical form or in dematerialised form, as on Thursday, October 8, 2020 i.e. cut-off date, may cast their vote electronically. The e-voting module shall be disabled by NSDL for voting thereafter. Those Members, who will be present in the AGM through VC / OAVM facility and have not cast their vote on the Resolutions through remote e-voting and are otherwise not barred from doing so, shall be eligible to vote through e-voting system during the AGM.
- iii) The Members who have cast their vote by remote e-voting prior to the AGM may also attend/participate in the AGM through VC / OAVM but shall not be entitled to cast their vote again.
- iv) The voting rights of Members shall be in proportion to their shares in the paid-up equity share capital of the Company as on the cut-off date.
- v) Any person, who acquires shares of the Company and becomes a Member of the Company after sending of the Notice and holding shares as of the cut-off date, may obtain the login ID and password by sending a request at [evoting@nsdl.co.in](mailto:evoting@nsdl.co.in). However, if he/she is already registered with NSDL

for remote e-voting then he/she can use his/her existing User ID and password for casting the vote.

- vi) The details of the process and manner for remote e-voting are explained herein below:

Step 1: Log-in to NSDL e-voting system at <https://www.evoting.nsdl.com/>

Step 2: Cast your vote electronically on NSDL e-voting system.

### Details on Step 1 are mentioned below:

How to Log-in to NSDL e-voting website?

1. Visit the e-voting website of NSDL. Open web browser by typing the following URL: <https://www.evoting.nsdl.com/> either on a personal computer or on a mobile.
2. Once the home page of e-voting system is launched, click on the icon "Login" which is available under "Shareholders" section.
3. A new screen will open. You will have to enter your User ID, your Password and a Verification Code as shown on the screen. Alternatively, if you are registered for NSDL eservices i.e. IDEAS, you can log-in at <https://eservices.nsdl.com/> with your existing IDEAS login. Once you log-in to NSDL eservices after using your log-in credentials, click on e-voting and you can proceed to Step 2 i.e., cast your vote electronically.

4. Your User ID details are given below:

Manner of holding shares i.e. Demat (NSDL or CDSL) or Physical	Your User ID is:
Your User ID is:	8 Character DP ID followed by 8 Digit Client ID For example, if your DP ID is IN300*** and Client ID is 12***** then your user ID is IN300***12*****
For Members who hold shares in Demat account with CDSL.	16 Digit Beneficiary ID For example, if your Beneficiary ID is 12***** then your user ID is 12*****
For Members holding shares in Physical Form.	EVEN Number followed by Folio Number registered with the company For example, if EVEN is 123456 and folio number is 001*** then user ID is 123456001***

5. Your password details are given below:

- a) If you are already registered for e-voting, then you can use your existing password to login and cast your vote.
- b) If you are using NSDL e-voting system for the first time, you will need to retrieve the 'initial password' which was communicated to you by NSDL. Once you retrieve your

'initial password', you need to enter the 'initial password' and the system will force you to change your password.

c) How to retrieve your 'initial password'?

- i) If your email ID is registered in your demat account or with the Company, your 'initial password' is communicated to you on your email ID. Trace the email sent to you

from NSDL in your mailbox from [evoting@nsdl.com](mailto:evoting@nsdl.com). Open the email and open the attachment i.e., a .pdf file. Open the .pdf file. The password to open the .pdf file is your 8 digit client ID for NSDL account, last 8 digits of client ID for CDSL account or folio number for shares held in physical form. The .pdf file contains your 'User ID' and your 'initial password'.

- ii) In case you have not registered your email address with the Company/ Depository, please follow instructions mentioned below in this notice.
6. If you are unable to retrieve or have not received the 'initial password' or have forgotten your password:
  - a) Click on "Forgot User Details/Password?" (If you are holding shares in your demat account with NSDL or CDSL) option available on [www.evoting.nsdl.com](http://www.evoting.nsdl.com).
  - b) "Physical User Reset Password?" (If you are holding shares in physical mode) option available on [www.evoting.nsdl.com](http://www.evoting.nsdl.com).
  - c) If you are still unable to get the password by aforesaid two options, you can send a request at [evoting@nsdl.co.in](mailto:evoting@nsdl.co.in) mentioning your demat account number/folio number, your PAN, your name and your registered address.
  - d) Members can also use the one-time password (OTP) based login for casting the votes on the e-Voting system of NSDL.
7. After entering your password, click on Agree to "Terms and Conditions" by selecting on the check box.
8. Now, you will have to click on "Login" button.
9. After you click on the "Login" button, Home page of e-voting will open.

#### Details on Step 2 are mentioned below:

How to cast your vote electronically on NSDL e-voting system?

1. After successful login at Step 1, you will be able to see the Home page of e-voting. Click on e-voting. Then, click on Active Voting Cycles.

2. After click on Active Voting Cycles, you will be able to see all the companies "EVEN" in which you are holding shares and whose voting cycle is in active status.
3. Select "EVEN" of the Company, which is 114587.
4. Now you are ready for e-voting as the Voting page opens.
5. Cast your vote by selecting appropriate options i.e., assent or dissent, verify/modify the number of shares for which you wish to cast your vote and click on "Submit" and also "Confirm" when prompted.
6. Upon confirmation, the message "Vote cast successfully" will be displayed.
7. You can also take the printout of the votes cast by you by clicking on the print option on the confirmation page.
8. Once you confirm your vote on the resolution, you will not be allowed to modify your vote.
- B. Process for those shareholders whose email ids are not registered with the depositories for procuring user id and password and registration of e mail ids for e-voting for the resolutions set out in this notice:
  1. In case shares are held in physical mode please provide Folio No., Name of shareholder, scanned copy of the share certificate (front and back), PAN (self attested scanned copy of PAN card), AADHAR (self attested scanned copy of Aadhar Card) by email to [investors@natcopharma.co.in](mailto:investors@natcopharma.co.in)
  2. In case shares are held in demat mode, please provide DPID-CLID (16 digit DPID + CLID or 16 digit beneficiary ID), Name, client master or copy of Consolidated Account statement, PAN (self attested scanned copy of PAN card), AADHAR (self attested scanned copy of Aadhar Card) to [investors@natcopharma.co.in](mailto:investors@natcopharma.co.in)
  3. Alternatively member may send an e-mail request to [evoting@nsdl.co.in](mailto:evoting@nsdl.co.in) for obtaining User ID and Password by proving the details mentioned in Point (1) or (2) as the case may be.

The instructions for members for e-voting on the day of the AGM are as under:

1. The procedure for e-Voting on the day of the AGM is same as the instructions mentioned above for remote e-voting.

## Notice to Members

2. Only those Members/ shareholders, who will be present in the AGM through VC/OAVM facility and have not casted their vote on the Resolutions through remote e-Voting and are otherwise not barred from doing so, shall be eligible to vote through e-Voting system in the AGM.
3. Members who have voted through Remote e-Voting will be eligible to attend the AGM. However, they will not be eligible to vote at the AGM.
4. The details of the person who may be contacted for any grievances connected with the facility for e-Voting on the day of the AGM shall be the same person mentioned for Remote e-voting.
6. Shareholders who would like to express their views/ have questions may send their questions in advance mentioning their name demat account number/ folio number, email id, mobile number at [investors@natcopharma.co.in](mailto:investors@natcopharma.co.in). The same will be replied by the Company suitably.
7. Those shareholders who have registered themselves as a speaker will only be allowed to express their views/ ask questions during the meeting. The Company reserves the right to restrict the number of speakers depending on the availability of time for the AGM.

Instructions for members for attending the AGM through VC/OAVM are as under:

1. Member will be provided with a facility to attend the AGM through VC/OAVM through the NSDL e-Voting system. Members may access the same at <https://www.evoting.nsdl.com> under shareholders/members login by using the remote e-voting credentials. The link for VC/OAVM will be available in shareholder/ members login where the EVEN of Company will be displayed. Please note that the members who do not have the User ID and Password for e-Voting or have forgotten the User ID and Password may retrieve the same by following the remote e-Voting instructions mentioned in the notice to avoid last minute rush. Further members can also use the OTP based login for logging into the e-Voting system of NSDL.
  2. Members are encouraged to join the Meeting through Laptops for better experience.
  3. Further Members will be required to allow Camera and use Internet with a good speed to avoid any disturbance during the meeting.
  4. Please note that Participants Connecting from Mobile Devices or Tablets or through Laptop connecting via Mobile Hotspot may experience Audio/Video loss due to Fluctuation in their respective network. It is therefore recommended to use Stable Wi-Fi or LAN Connection to mitigate any kind of aforesaid glitches.
  5. Shareholders who would like to express their views/ask questions during the meeting may register themselves as a speaker may send their request mentioning their name, demat account number/folio number, email id, mobile number at [investors@natcopharma.co.in](mailto:investors@natcopharma.co.in) on or before October 10, 2020 (5:00 P.M.) IST.
  6. Shareholders who would like to express their views/ have questions may send their questions in advance mentioning their name demat account number/ folio number, email id, mobile number at [investors@natcopharma.co.in](mailto:investors@natcopharma.co.in). The same will be replied by the Company suitably.
  7. Those shareholders who have registered themselves as a speaker will only be allowed to express their views/ ask questions during the meeting. The Company reserves the right to restrict the number of speakers depending on the availability of time for the AGM.
- General Guidelines for shareholders**
- i) Institutional / Corporate shareholders (i.e. other than individuals, HUF, NRI, etc.) are required to send a scanned copy (PDF/JPG Format) of the relevant Board Resolution/ Authority letter etc., with attested specimen signature of the duly authorised signatory(ies) who are authorised to vote, to the Scrutinizer by email to [dvrao@dvraoassociates.com](mailto:dvrao@dvraoassociates.com) with a copy marked to [evoting@nsdl.co.in](mailto:evoting@nsdl.co.in)
  - ii) It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential. Login to the e-voting website will be disabled upon five unsuccessful attempts to key in the correct password. In such an event, you will need to go through the "Forgot User Details/Password?" or "Physical User Reset Password?" option available on <https://www.evoting.nsdl.com> to reset the password.
  - iii) In case of any queries relating to e-voting you may refer to the FAQs for Shareholders and e-voting user manual for Shareholders available at the download section of <https://www.evoting.nsdl.com> or call on toll free no.: 1800-222-990 or send a request at [evoting@nsdl.co.in](mailto:evoting@nsdl.co.in).
16. 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 as per the norms.

- 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.

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. Since the AGM will be held through VC / OAVM, the Route Map is not annexed in this Notice.

19. Process for registration of email id for obtaining Annual Report and user id/password for e-voting and updation of bank account mandate for receipt of dividend:

Physical Holding	<p>Send a request to the Registrar and Transfer Agents of the Company, at <a href="mailto:info@vccilindia.com">info@vccilindia.com</a> providing Folio No., Name of shareholder, scanned copy of the share certificate (front and back), PAN (self attested scanned copy of PAN card), AADHAR (self attested scanned copy of Aadhar Card) for registering email address. Following additional details need to be provided in case of updating Bank Account Details:</p> <ol style="list-style-type: none"> <li>Name and Branch of the Bank in which you wish to receive the dividend,</li> <li>the Bank Account type,</li> <li>Bank Account Number allotted by their banks after implementation of Core Banking Solutions</li> <li>9 digit MICR Code Number, and</li> <li>11 digit IFSC Code</li> <li>a scanned copy of the cancelled cheque bearing the name of the first shareholder</li> </ol>
Demat Holding	Please contact your Depository Participant (DP) and register your email address and bank account details in your demat account, as per the process advised by your DP.

## Notice to Members

### 20. (a) Brief profile of Executive Directors who are seeking reappointment at the AGM

Name of the Director	Sri V.C. Nannapaneni	Sri Rajeev Nannapaneni	Sri P.S.R.K Prasad	Dr. D. Linga Rao
Category	Chairman & Managing Director	Vice Chairman & Chief Executive Officer	Director & Executive Vice President (Corporate Engineering Services)	Director & President (Tech. Affairs)
DIN	00183315	00183872	07011140	07088404
Birth date and Age	November 30, 1945, 74 years	June 22, 1977, 42 years	January 15, 1958, 62 years	October 29, 1952, 67 years
Qualifications	MS (Pharmacy) & MS(Pharmaceutical Administration)	BA (Quantitative Economics) & B.A. (History)	B.E. Mechanical Engineering	M.Sc., Ph.D. in Chemistry (JNTU)
Past experience	Worked with a) Lit Drug Company, New Jersey, USA, b) Vitarine Fine Pharmaceuticals, New York, c) Time Cap Labs Inc., USA	Worked in a) Merrill Lynch, USA b) Natco Systems LLC, USA	Worked with a) Ahmedabad Textiles Industries Research Association b) Mehta Inorganic & Marine Chemical Industries c) Coromandel Fertilizers Limited d) Shah Ceramics Limited e) Stiles India Limited f) Saudi Ceramic Co., Riyadh	Worked with a) Indian Drugs and Pharmaceuticals Limited, b) Novochem Laboratories Private Limited.
Date of appointment as Directors	September 19, 1981	November 30, 2005	November 12, 2014	February 11, 2015
Nature of Appointment	Reappointment	Reappointment	Reappointment	Reappointment
Tenure of Appointment	April 1, 2020 to March 31, 2021	April 1, 2020 to March 31, 2021	April 1, 2020 to March 31, 2021	April 1, 2020 to March 31, 2021
Percentage of shares held	12.41%	0.62%	0.0267%	0.031%
No. of board meetings attended out of 4 (Four) meetings held.	4 (Four)	4 (Four)	3 (Three)	3 (Three)
Relationship with other directors or KMP of the company	Father of Sri Rajeev Nannapaneni	Son of Sri V.C. Nannapaneni	None	None
Directorship in other companies	1. Natco Aqua Limited 2. NDL Infratech Private Limited 3. Natco Power Private Limited	1. Natco Aqua Limited 2. NATSOFT Information Systems Private Limited	None	None

**(b) Brief profile of Independent/Non-Executive Directors seeking reappointment:**

Name of the Director	Dr. M.U.R. Naidu	Sri Sridhar Sankararaman
Category	Independent Director	Non-Independent and Non-Executive Director
DIN	05111014	06794418
Birth date and Age	October 16, 1949 and 70 years	January 4, 1981 and 39 years
Qualifications	Doctor of Medicine, FCCP, FIPS	Chartered Accountant, MBA (ISB) & M.Com
Past experience	a) Demonstrator, Government Medical College, Jabalpur b) Lecturer in Pharmacology, Govt. Medical College, Bhopal c) Senior Research Executive, IDPL Research Centre, Hyderabad d) Assistant Professor Clinical Pharmacology, Clinical Pharmacology and Therapeutics, The Nizam's Institute of Medical Sciences, Hyderabad e) Associate Professor and Head, Clinical Pharmacology Clinical Pharmacology and Therapeutics, The Nizam's Institute of Medical Sciences, Hyderabad f) Additional Professor and Head Clinical Pharmacology, Clinical Pharmacology and Therapeutics, The Nizam's Institute of Medical Sciences, Hyderabad g) Professor and Head, Clinical Pharmacology & Therapeutics, Clinical Pharmacology and Therapeutics, The Nizam's Institute of Medical Sciences, Hyderabad h) Dean, faculty of Medicine, The Nizam's Institute of Medical Sciences, Hyderabad. i) Professor Clinical Pharmacology and Therapeutic (Contract), The Nizam's Institute of Medical Sciences, Hyderabad	15 years of experience which includes 11 years in Private Equity in following organisations: a) Arthur Andersen LLP (UK) b) Sun Capital (UK) c) Multiples Alternate Asset Management Pvt Ltd (India)
Date of appointment as Directors	February 11, 2015	May 23, 2018
Nature of Appointment	Re- appointment as an Independent Director who is not liable to retire by rotation.	Director liable to retire by rotation and eligible for reappointment.
Tenure of Appointment	5 years term up to 42 <sup>nd</sup> Annual General Meeting to be held in the Calendar year 2025	NA
Percentage of shares held	0.008%	Nil
No. of board meetings attended out of 4 (Four) meetings held.	3 (Three)	4 (Four)
Relationship with other directors or KMP of the company	None	None
Directorship in other companies	None	None

**Explanatory statement**

(Pursuant to Section 102(1) of the Companies Act, 2013)

**ITEM NO. 4****Reappointment of Sri V.C. Nannapaneni (DIN: 00183315) as Chairman and Managing Director**

Sri V.C. Nannapaneni (DIN: 00183315) is associated with the Company as founder/promoter/mentor since 1981 the year of incorporation of your Company has rich and varied experience in the Industry and driving the Company towards higher growth in terms of revenues as well as profitability. He is highly qualified.

Sri V.C. Nannapaneni attained the age of 74 years (DOB: November 30, 1945) as on November 30, 2019. 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 vast experience and professional services as Chairman and Managing Director to your Company. The Board believes that the Company will benefit from his professional expertise and rich varied experience.

As recommended by the Nomination and Remuneration Committee, the Board of Directors at their meeting

## Notice to Members

held on June 17, 2020 after receiving the consent from Sri V.C. Nannapaneni, approved the reappointment of Sri V.C. Nannapaneni as Chairman & Managing Director of the Company for a period of one (1) year from April 1, 2020 to March 31, 2021 with such remuneration as specified in the resolution subject to the consent of members which is just and reasonable.

For additional information relating to Sri V.C. Nannapaneni we request to refer to the section on "Brief Profile of the Directors seeking reappointment at the Annual General Meeting" in Note No. 20 (a).

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.4 of the notice for approval of the members.

### ITEM NO. 5

#### **Reappointment of Sri Rajeev Nannapaneni (DIN: 00183872) as Vice Chairman and Chief Executive Officer**

Sri Rajeev Nannapaneni, Vice Chairman and Chief Executive Officer is associated with the Company for the past 20 years and he is looking after all the functional operations of the Company including but not limited to Production, Financial, Legal & Secretarial, New Drug Launches, Domestic and International Marketing, Exports, Imports, etc.

Based on the recommendation of the Nomination and Remuneration Committee, the Board of Directors at their meeting held on June 17, 2020, after receiving consent to act as a Vice Chairman and Chief Executive Officer, approved the reappointment of Sri Rajeev Nannapaneni (DIN: 00183872) as Vice Chairman and Chief Executive Officer of the Company for a period of one (1) year with effect from April 1, 2020 to March 31, 2021 with such remuneration as specified in the resolution subject to the consent of members which is just and reasonable to Sri Rajeev Nannapaneni.

For additional information relating to Sri Rajeev Nannapaneni we request to refer to the section on "Brief Profile of the Directors seeking Reappointment at the Annual General Meeting" in note No. 20 (a).

Except Sri V.C. Nannapaneni & Sri Rajeev Nannapaneni, no other Director or Key Managerial Personnel or their relative is/are concerned or interested in the said item of business.

The Board accordingly recommends the Special Resolution as set out in Item No. 5 of the Notice for approval of the members.

### ITEM NO. 6

#### **Reappointment of Sri P.S.R.K. Prasad (DIN: 07011140) as a Director and Executive Vice President (Corporate Engineering Services)**

Sri P.S.R.K. Prasad has over 31 years of experience in various sectors such as textile, chemicals and pharmaceuticals and working with our Company for the past 25 years. He has got vast and good knowledge in procuring right equipment(s) and machinery for production processes and to provide all utility services and to utilise the resources like manpower, material in an optimum way and to ensure safety of life and property.

In view of the highly competitive employee market, inflationary trends and taking into consideration industry standards and other relevant factors and as recommended by the Nomination and Remuneration Committee, the Board of Directors at their meeting held on June 17, 2020 approved the reappointment of Sri P.S.R.K. Prasad (DIN: 07011140) for a period of one (1) year on the Board of the Company with effect from April 1, 2020 to March 31, 2021 with such remuneration as specified in the resolution subject to the consent of members which is just and reasonable to Sri P.S.R.K. Prasad.

For additional information relating to Sri P.S.R.K. Prasad members are requested to refer to the section on "Brief Profile of the Directors seeking Reappointment at the Annual General Meeting" in note No.20 (a)

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 Special Resolution as set out in Item No. 6 of the Notice for approval of the members.

### ITEM NO. 7

#### **Reappointment of Dr. D. Linga Rao (DIN: 07088404) as a Director & President (Tech. Affairs)**

Dr. D. Linga Rao is working as Director and President (Technical Affairs) of the Company. He has over 41 years of experience in the pharmaceutical industry and has been working with our Company for over 26 years. He has vast experience in various departments like R&D, Quality Control, Quality Assurance and Regulatory affairs.

In view of the job responsibilities, taking into consideration the industry standards and other relevant factors and as recommended by the Nomination and Remuneration Committee, the Board of Directors at their meeting held on June 17, 2020 approved the reappointment of Dr. D. Linga Rao (DIN: 07088404) for a period of one (1) year on the Board of the Company with effect from April 1, 2020 to



March 31, 2021 with such remuneration as specified in the resolution subject to the consent of members which is just and reasonable to Dr. D. Linga Rao.

For additional information relating to Dr. D. Linga Rao we request to refer to the section on "Brief Profile of the Directors seeking Re-appointment at the Annual General Meeting" in note No. 20 (a).

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 Special Resolution as set out in Item No. 7 of the Notice for approval of the members.

#### **ITEM NO. 8**

##### **Reappointment of Dr. M.U.R. Naidu (DIN: 05111014) as an Independent Director**

At the Annual General Meeting held on September 26, 2015, Dr. M.U.R. Naidu (DIN: 05111014) was appointed as an Independent Director for a term of five (5) years i.e., up to the 37<sup>th</sup> Annual General Meeting of the Company to be held in the calendar year 2020. He attained the age of 70 years (October 16, 1949) as on June 17, 2020. His vast professional experiences in the past are very essential for the Company. It would be in the interest of the Company to have his professional experience to act as an Independent Director of the Company for a further term of five (5) years.

Based upon the recommendation of Nomination and Remuneration Committee and pursuant to Sections 149, 152, read with Schedule IV of the Companies Act, 2013 (the Act) and other applicable provisions, if any and the Companies (Appointment and Qualification of Directors) Rules, 2014, and SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 as amended from time to time, Board recommends to the members for their approval to reappoint Dr. M.U.R. Naidu as an Independent Director for a further term of 5 (five) years i.e., up to 42<sup>nd</sup> Annual General Meeting of the Company to be held in the Calendar year 2025.

In the opinion of the Board, Dr. M.U.R. Naidu, fulfil the conditions specified in the Act and rules framed there under for reappointment as an Independent Director. Dr. M.U.R. Naidu meets the criteria of Independence as prescribed in the Act and under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

For additional information relating to Dr. M.U.R. Naidu request to refer to the Section on "Brief Profile of the Directors seeking Re-Appointment at the Annual General Meeting" in note No. 20 (b).

Except Dr. M.U.R. Naidu, no Director or Key Managerial Personnel or their relatives is/are concerned or interested in the said item of the business.

The Board accordingly recommends the Special 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, 2021.

In accordance with the provisions of Section 148 of the Companies Act, 2013 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, 2021.

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**

##### **To approve the Scheme of Loan(s) to Non-Promoter Working Directors**

The Board, on the recommendation of the Nomination and Remuneration Committee and Audit Committee, had approved the Scheme of Loan(s) to Non-Promoter Working Director(s) of the Company which aims to attract, motivate, improve productivity and retain manpower, by creating a congenial work environment, encouraging initiatives, personal growth and team work, and inculcating a sense of

## Notice to Members

belonging and involvement, besides offering appropriate remuneration packages and superannuation benefits.

Given below is the Scheme for giving Loan(s) to Non-Promoter Working Director(s):

### **SCHEME FOR GIVING OF LOAN(S) TO NON-PROMOTER WORKING DIRECTOR(S) (LOAN SCHEME)**

#### **PREAMBLE OF THE LOAN SCHEME**

This Loan Scheme is made pursuant to the provisions of Section 185 of the Companies Act, 2013 and other applicable provisions of the Companies Act, 2013.

The Loan Scheme of the Company is designed to attract, motivate, improve productivity and retain manpower, by creating a congenial work environment, encouraging initiatives, personal growth and team work, and inculcating a sense of belonging and involvement, besides offering appropriate remuneration packages and superannuation benefits.

This Loan Scheme applies to Non-Promoter Working Director(s) of the Company.

#### **OBJECTIVE OF THE SCHEME**

The Loan Scheme outlined below aims at providing financial support by the Company to Non-Promoter Working Director(s) of the Company for purchase of home, vehicle, medical and other personal needs of the Non-Promoter Working Director(s).

#### **QUANTUM OF LOAN**

Under this scheme Non-Promoter Working Director is eligible to get a loan amount not exceeding 36 month's of his/her salary.

#### **RATE OF INTEREST**

Subject to Section 186 and other applicable provisions of the Companies Act, 2013, the interest will be charged as per

Marginal Cost of funds based Lending Rate of State Bank of India or as decided by the Nomination and Remuneration Committee/Board of Directors.

#### **REPAYMENT OF LOAN**

The tenure of repayment of loan sanctioned under this Scheme shall not be more than three years from the date of disbursement of loan. The loan along with interest shall be repaid by Non-Promoter Working Director(s) from the salary, incentive etc., payable to them.

In the event of Non Promoter Working Director ceases the employment of the Company, the loan amount outstanding at the relevant time will be adjusted against the terminal benefits payable to him.

#### **REVIEW OF THIS SCHEME**

The Nomination and Remuneration Committee will review this Loan Scheme from time to time, as appropriate, and shall recommend to the Board.

Except Sri P.S.R.K. Prasad, Director and Executive Vice President (Corporate Engineering Services) and Dr. D. Linga Rao as a Director & President (Tech. Affairs), no Director or Key Managerial Personnel or their relatives is/are concerned or interested in the said item of the business.

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

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

**M. Adinarayana**

Company Secretary and  
Vice President (Legal & Corp.  
Affairs) (FCS:3808)

Date: June 17, 2020

Place: Hyderabad

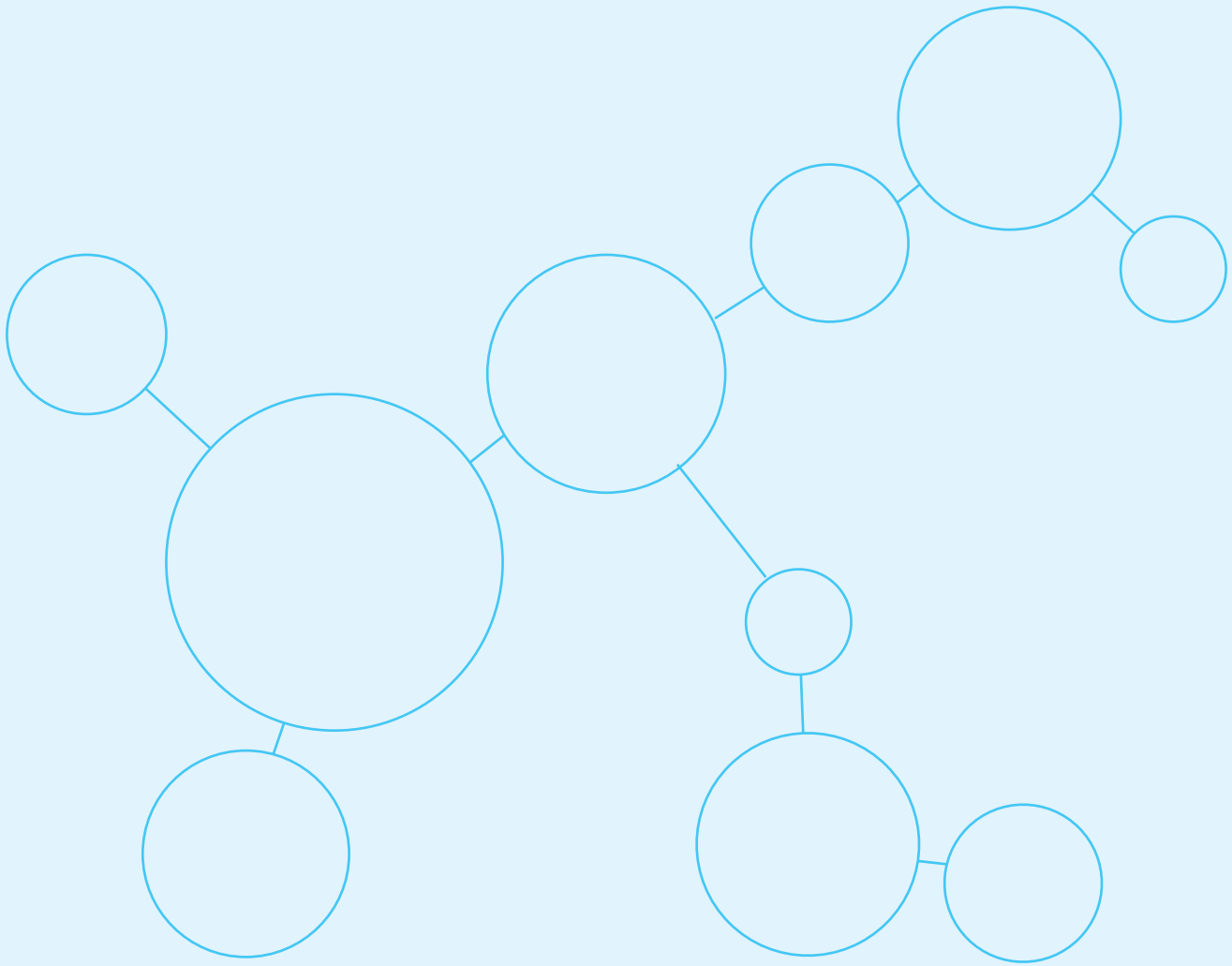
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