

# 30<sup>th</sup> ANNUAL REPORT 2012 - 2013



*paved the way for a  
great feeling by launching drugs that matter...  
...and continues the mission in serving the nation*

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



◀ Performance of 1000 hands by Natco High School girls

Free Sewing Machines distribution in convergence with Rotary Club - Bhagyanagar ▶



◀ Mr Ramkoti Nayak with his yield in Jal Thanda - seeds and saplings supported by Natco Trust

Awareness program on NABARD Scheme ▶





## **CONTENTS**

Page Nos.

Board of Directors	3
Notice of Annual General Meeting	5
Directors' Report and Management Discussion & Analysis	13
Report on Corporate Governance	26
Corporate Social Responsibility	36
Independent Auditors' Report	49
Balance Sheet	54
Statement of Profit & Loss	55
Cash Flow Statement	56
Notes to the Financial Statements	58

## **CONSOLIDATED FINANCIAL STATEMENTS**

Statement pursuant to Section 212(8) of the Companies Act, 1956	83
Independent Auditors' Report	84
Balance Sheet	86
Statement of Profit & Loss	87
Cash Flow Statement	88
Notes to the Financial Statements	90



## BOARD OF DIRECTORS

<b>Sri V.C. Nannapaneni</b>	Chairman & Managing Director
<b>Sri T.V. Rao</b>	Director - Nominee of Export-Import Bank of India
<b>Sri G.S. Murthy</b>	Director
<b>Dr. B.S. Bajaj</b>	Director
<b>Dr. Jasti Samba Siva Rao</b>	Director (till 6th May, 2013)
<b>Sri Rajeev Nannapaneni</b>	Vice Chairman & Chief Executive Officer
<b>Dr. P. Bhaskara Narayana</b>	Director & Chief Financial Officer
<b>Dr. A.K.S. Bhujanga Rao</b>	President (R&D and Technical)
<b>Sri Nitin Jagannath Deshmukh</b>	Director

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

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

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

**Registered Office**  
NATCO House,  
Road No.2, Banjara Hills,  
Hyderabad 500 034.  
[www.natcopharma.co.in](http://www.natcopharma.co.in)



## NOTICE

Notice is hereby given that the 30<sup>th</sup> Annual General Meeting of the Members of the Company will be held on **Saturday, the 28<sup>th</sup> day of September, 2013**, at **10.30 a.m** at Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad 500 033 to transact the following business:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit & Loss account for the year ended 31<sup>st</sup> March, 2013 and the Balance sheet as at 31<sup>st</sup> March, 2013 and the Report of the Directors and Auditors thereon.
2. To confirm the already paid Interim Dividend as Final Dividend on equity shares for the year 2012-2013.  
**"RESOLVED THAT** the Interim Dividend of Rs.4(Rupees four only) per share declared by the Board of Directors of the Company at their meeting held on 13<sup>th</sup> February, 2013 on 3,13,73,074 Equity shares of Rs.10/- each absolving a sum of Rs.12,54,92,296/-(Rupees Twelve Crores Fifty Four Lakhs Ninety Two Thousand Two Hundred And Ninety Six Only) be and is hereby approved as the Final Dividend for the year ended 31<sup>st</sup> March, 2013."
3. To appoint a Director in place of Mr. Rajeev Nannapaneni  
**"RESOLVED THAT** Mr. Rajeev Nannapaneni, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation."
4. To appoint a Director in place of Dr.P.Bhaskara Narayana  
**"RESOLVED THAT** Dr.P. Bhaskara Narayana, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation."
5. To appoint a Director in place of Dr. A K S Bhujanga Rao  
**"RESOLVED THAT** Dr. A K S Bhujanga Rao, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation."
6. To appoint Auditors for the financial year 2013-2014 and fix their remuneration.  
**"RESOLVED THAT** M/s. Walker, Chandio & Co., Chartered Accountants, (Firm Registration No.001076N), Hyderabad, the Statutory Auditors of the Company, who retires at the conclusion of this meeting, being eligible, be and are hereby re-appointed as auditors of the Company to hold office from the conclusion of this meeting till the conclusion of the next Annual General Meeting and that the Board of Directors be and are hereby authorised to fix their remuneration."

### SPECIAL BUSINESS:

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

#### **Reclassification and Increase of Authorised Capital**

**"RESOLVED THAT** pursuant to the provisions of Section 16, 31 and other applicable provisions, if any, of the Companies Act, 1956, the Authorised Share Capital of the Company be and is hereby reclassified into equity shares only and be increased to 4,00,00,000 ( Four crores only) equity shares of Rs.10/-(Rupees ten only) each and to amend the Clause V (a) of the Memorandum of Association and Article 7(a) of the Articles of Association of the Company."

**FURTHER RESOLVED THAT** the Memorandum and Articles of association of the company be suitably altered as follows:

#### **A. Substitution of Clause V(a) of Memorandum of Association**

**"RESOLVED THAT** pursuant to the provisions of Section 16 and other applicable provisions, if any, of the Companies Act, 1956 the existing Clause V(a) of the Memorandum of Association of the Company be and is hereby substituted with the following Clause:

V(a) The Authorised Share Capital of the Company is Rs.40,00,00,000/- (Rupees Forty crores only) divided into 4,00,00,000 (Four crores only) equity shares of Rs.10/-(Rupees ten only) each of the Company.

**B. Substitution of Article 7(a) of Articles of Association**

"**RESOLVED THAT** pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956 Article 7(a) of Articles of Association of the Company be substituted with the following Article:

7(a) The Authorised Share Capital of the Company is Rs.40,00,00,000/- (Rupees Forty crores only) divided into 4,00,00,000 (Four crores only) equity shares of Rs.10/-(Rupees ten only) each of the Company.

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

**Issue of further shares/ securities**

"**RESOLVED THAT** pursuant to the provisions of Section 81(1A) and all other applicable provisions, if any, of the Companies Act, 1956 and any other laws, rules and regulations (including any amendments thereto or re-enactments thereof for the time being in force) as may be applicable and subject to the provisions of the Memorandum and Articles of Association of the Company and subject to such approvals, consents, permissions and sanctions of such statutory, Government and/or regulatory authorities / agencies, including the Stock Exchanges either in India or abroad, SEBI, RBI, etc. and subject to such conditions and modifications, if any, as may be prescribed by any of them in granting such approvals, consents, permissions and sanctions which may be agreed to by the Board of Directors of the Company (the 'Board' which term shall include any Committee which the Board of Directors may have constituted or may hereafter constitute for the time being for exercising the powers conferred on the Board of Directors by this Resolution) and pursuant to various provisions of SEBI including but not limited to Qualified Institutions Placement ("QIP") provisions mentioned in Chapter VIII of the SEBI (Issue of Capital & Disclosure requirements) Regulations 2009, the consent of the members be and is hereby accorded to the Board to create, offer, issue and allot in one or more placements/tranches to QIB's or otherwise as defined in the regulations, equity shares and/or fully convertible debentures and/or partly convertible debentures and/or non-convertible debentures with warrants, and/or any securities (other than warrants), Foreign Currency Convertible Bonds (FCCBs), which are convertible into or exchangeable with equity shares at a later date not exceeding 50,00,000 (fifty lakh equity shares) equity shares of face value of Rs.10/- each at such time or times as the Board may hereafter decide and at a price to be determined by the Board in accordance with the relevant Regulations, provided however that it is in compliance with the requirement of minimum public shareholding specified in the listing agreement.

**RESOLVED FURTHER THAT** a minimum of 10% of the Securities issued pursuant to said guidelines shall be allotted to mutual funds and if no mutual fund is agreeable to take up the minimum portion or any part thereof, then such minimum portion or part thereof may be allotted to other QIB(s) or otherwise;

**RESOLVED FURTHER THAT** the "relevant date" for pricing of the Securities, under the Regulations of the SEBI, in case of allotment of equity shares, will be the date of board meeting in which the Board decides to open the proposed issue and in case of issue of convertible securities it will be the date of board meeting in which it decides to open the proposed issue of such convertible Securities.

**RESOLVED FURTHER THAT** the tenure of the conversion/ exchange of such eligible securities shall occur not later than 60 (sixty) months from date of allotment of the Securities;

**RESOLVED FURTHER THAT** the Board be and is hereby authorized as mentioned in the first para of this Resolution to appoint and enter into and execute all such arrangements/ agreements, as the case may be, with any Investment /Merchant Banker/ Advisor(s)/ Registrars, and all such agencies/ intermediaries as may be required including payment to such agencies/intermediaries of commission, brokerage, fees, remuneration for their services and expenses etc. incurred in relation to the issue of Securities and to finalise the Placement Document and also to seek listing of such Securities on the Stock Exchanges either in India or abroad;



**RESOLVED FURTHER THAT** the Board be and is hereby authorized to finalise the mode and the terms of issue of Securities under the QIP or otherwise and all equity shares allotted under or arising from such QIP or otherwise will rank pari passu in all respects with the existing equity shares of the Company;

**RESOLVED FURTHER THAT** for the purpose of giving effect to the above resolution, the Board be and is hereby authorized to do all such acts, deeds, matters, things and execute, documents, instruments and writings as it may in its absolute discretion deems fit and necessary thereto with a power to settle all questions, difficulties or doubts that may arise in regard to the issue, offer or allotment of Securities and utilization of proceeds;

**RESOLVED FURTHER THAT** the Board be and is hereby authorised to delegate all or any of the powers herein conferred to any Director(s), Company Secretary and/or other officer (s) of the company to give effect to the aforesaid resolution."

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

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

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

"**RESOLVED THAT** pursuant to the provisions of Sections 198, 269, 309, 310, 311, 314 and, Schedule XIII, and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to such sanctions, approvals and other necessary permissions as may be necessary from the Government of India, approval of the Company be and is hereby accorded for increasing the remuneration payable to Dr. P. Bhaskara Narayana Director & Chief Financial Officer (CFO) in the wholetime employment of the Company for a period of 2 years from 1<sup>st</sup> April, 2013 to 31<sup>st</sup> March, 2015 as detailed below:

- a. Salary not exceeding Rs.36,00,000/- (Rupees Thirty six lakhs only) per annum including dearness and other allowances.
- b. Perquisites:
  - i. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
  - ii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
  - iii. Encashment of leave at the end of the tenure.

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

**RESOLVED FURTHER THAT** notwithstanding as above where in any financial year closing on and after 31st March 2014, if the Company has no profits or its profits are inadequate, the Company shall pay to Dr. P. Bhaskara Narayana the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Government from time to time as minimum remuneration.

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

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

**Increase of Remuneration to Dr.AKS Bhujanga Rao, President ( R & D and Technical)**

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, 311, 314 and, Schedule XIII, and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to such sanctions, approvals and other necessary permissions as may be necessary from the Government of India, approval of the Company be and is hereby accorded for increasing the remuneration payable to Dr. A.K.S. Bhujanga Rao President (R&D and Technical) in the wholetime employment of the Company for a period of 2 years from 1st April, 2013 to 31st March, 2015 as detailed below:

- a. Salary not exceeding Rs.36,00,000/- (Rupees Thirty six lakhs only) per annum including dearness and other allowances.
- b. Perquisites:
  - i. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
  - ii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
  - iii. Encashment of leave at the end of the tenure.

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

RESOLVED FURTHER THAT notwithstanding as above where in any financial year closing on and after 31st March 2014, if the Company has no profits or its profits are inadequate, the Company shall pay to Dr. A.K.S . Bhujanga Rao. the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Government from time to time as minimum remuneration.

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

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

**M. Adinarayana**

Company Secretary &

Vice President (Legal & Corp. Affairs)

Place : Hyderabad

Date : 14th August, 2013

**NOTES**

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/ herself on a poll and a proxy need not be a member of the Company. The instrument of proxy in order to be valid must be deposited at the Registered Office of the Company duly completed and signed, at least 48 hours before the commencement of the meeting.
2. Corporate Members intending to send their authorised representatives to attend the Meeting are requested to send to the Company a certified copy of the Board Resolution authorising the representatives to attend and vote on their behalf at the Meeting.
3. In terms of Section 256 of the Companies Act 1956, Mr. Rajeev Nannapaneni, Dr.P.Bhaskara Narayana and Dr. A K S Bhujanga Rao, Directors, retire by rotation at the ensuing Meeting and being eligible offer themselves for re-appointment. The Board of Directors of the Company commends their respective reappointments. Brief resumes of the retiring Directors is provided at the end of this Notice.
4. Members holding shares in physical form are requested to notify any change in their address immediately to the Registered Office of the Company, Hyderabad and in case of Members holding shares in electronic form are requested to notify any change in their mailing address to their respective Depository Participants.
5. The Members / Proxies are requested to bring the copy of the Annual Report to the Annual General Meeting and hand over the attendance slip at the entrance of the meeting venue along with their Registered Folio No./Client ID and DP ID Numbers for easy identification.
6. In case of Joint Holders attending the Meeting, only such Joint Holder who is higher in the order of names will be entitled to vote.
7. Nomination facility is available as per the guidelines. Share transfers and related matters will be undertaken at the Company's Transfer Agents M/s. Venture Capital and Corporate Investments Limited. Members as per their convenience can correspond with the Share Transfer Agents of the Company or the Legal & Secretarial Department of the Company at the Registered Office of the Company.
8. The Register of Members and Share Transfer Books will remain closed for 4 days i.e. from 25th September, 2013 to 28th September, 2013 (both days inclusive).
9. Members holding shares in electronic form may note that the Bank Particulars registered against their respective depository accounts will be used by the Company for payment of dividend. The Company or its Registrars and Transfer Agents cannot act on any request received directly from the members holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participants of the Company.
10. Members who wish to claim Dividends, which remain unclaimed, are requested to either correspond with the Legal & Secretarial Department at the Company's registered office or the Company's Registrars and Share Transfer Agents (Venture Capital and Corporate Investments Private Limited). Members are requested to note that dividends not encashed or claimed within seven years and 30 days from the date of declaration of the Dividend, will, as per Section 205 A(5) read with Section 205 C of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund of Government of India. In view of this, members are advised to send all the un-encashed dividend warrants to the Company or our Registrars for revalidation and encash them before the due dates.

Financial year	Date of Declaration of Dividend	Unclaimed Amount as on 31-03-2012 in ₹	Due date / Date of transfer to Investor Education and Protection Fund
2005 - 2006	24-10-2005	5,83,442.00	22-11-2012
2006 - 2007	26-10-2006	5,53,555.00	25-11-2013
2007 - 2008	25-10-2007	4,64,090.25	24-11-2014
2008 - 2009	25-05-2009	6,12,511.75	24-06-2016
2009 - 2010	27-01-2010	9,65,276.00	25-02-2017
2010 - 2011	14-02-2011	9,22,758.00	16-02-2018
2011 - 2012	09-02-2012	12,69,537.00	10-03-2019
2012-2013	13-02-2013	35,16,180.00	15-03-2020

12. Information relating to the Directors seeking re-appointment in Annual General Meeting scheduled to be held on 28th September, 2013.

Name of Director	Sri Rajeev Nannapaneni	Dr. P. Bhaskara Narayana	Dr AKS Bhujanga Rao
Date of Birth	22nd June, 1977	12th February, 1955	12th July, 1952
Date of Appointment	30th November, 2005	30th November, 2005	30th July, 2009
Relationship with other Director	Yes, he is the Son of Shri V.C. Nannapaneni, the Chairman & Managing Director of the Company	None	None
Experience	He Worked in Merrill Lynch and Natco Systems LL.C in USA. Joined the Company in 2000. Got experience and exposure in General Management, New Business / New Product Development in international markets	He is having rich and varied experience in Finance, Secretarial disciplines spanning over more than three decades.	He worked with IDPL, IDL, Reckitt and Colmen and Vera Laboratories Ltd., before joining with NATCO. He has got good knowledge in Bulk pharmaceuticals especially on Anti Asthmatic / Drugs, Beta Blockers and Cox-inhibitors and he has well acquaintance with Technology Transfer to commercial scale, quality control and regulatory affairs and also looking after the Patent related issues of the Company. He has 30 publications to his credit and applied for 40 international patents. He is a visiting faculty and also approved Research Investigator and Supervisor for Ph.D. Students to many universities.
Qualification	B.A. in Quantitative Economics & B.A. in History from Tufts University, USA	Fellow Member of ICWAI and ICSI, Gold Medalist in Law, Masters in Commerce and Business Administration, CMA - Member of Institute of Certified Management Accountants of the Institute of Management Accountants, USA. He was awarded a Doctorate in Business Management from Kakatiya University in the year 2010.	M.Sc. Chemistry with specialization in Organic Chemistry, Andhra University, Visakhapatnam, India  Ph.D. Synthetic Organic Chemistry, Chemistry of 4- and 5 - Nitroimidazoles from the Indian Institute of Science (IISc), Bangalore, India.
Board membership of other Companies	1. Natsoft Information Systems Pvt. Ltd. 2. Natco Organics Ltd. 3. Natco Aqua Ltd.	1. Natco Organics Ltd. 2. Natco Pharma Inc., USA 3. Time Cap Overseas Limited, Mauritius 4. Natco Farma Do Brasil, Brazil. 5. Natco Pharma (Canada) Inc.	
Chairman/ Member of the Committee of Directors of other Companies	Nil	Nil	Nil

## EXPLANATORY STATEMENT

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

#### ITEM NO 7

The present authorised share capital of the Company is Rs.35,00,00,000/- (Rupees Thirty five Crores) divided into 3,20,00,000 (Three Crore twenty Lakhs only) Equity shares of Rs.10/- (Rupees Ten only) each and 30,00,000 (Thirty lakhs only) preference shares of Rs.10/- (Rupees Ten only) each as per clause V(a) of Memorandum of Association and Article 7(a) of the Articles of Association, with the power to the Board to convert the unissued Preference shares into equity shares and vice versa.

Board recommends to re-classify the Authorised Capital to consist of only equity shares and also to increase the Authorised capital of the Company from 3,50,00,000 equity shares of Rs.10/ each to into 4,00,00,000 (Four crores only) equity shares of Rs.10/-(Rupees ten only) each.

The company is planning to augment more funds by issuing further equity shares. Infusion of capital from time to time is required for business growth as well as from prudence point of view. It ensures that healthy Capital Adequacy and Debt Equity Ratio is maintained and enhances the borrowing capacity.

For this purpose it is required to amend the Clause V (a) of the Memorandum of Association and Article 7(a) of the Articles of Association of the Company.

So your Board recommends the special resolution to increase the authorised capital to 4,00,00,000 (four crores) of Rs. 10/- each aggregated to Rs.40,00,00,000/- (Rupees Forty Crores only).

None of the Directors of the Company is in any way, concerned or interested in the said Resolution.

#### Item no. 8:

The Company, in order to enhance its global competitiveness and increase the ability to compete with peer groups in domestic and international markets need to strengthen its financial position by augmenting long-term resources at optimal costs. The Company may need to issue securities in domestic and international markets as contemplated in the resolution and as may be decided by the Board and found to be expedient and in the best interest of the Company. The Company may raise funds by issue of Shares / eligible securities, which shall be converted into equity shares at a later date, not exceeding 50,00,000 equity shares of face value of Rs.10 each by one or more sources, in one or more tranches, including, Qualified Institutional Placements, public issues and offering of securities in domestic / international markets . Foreign Currency Convertible Bonds (FCCBs), and/or fully convertible debentures and/or partly convertible debentures and/or non-convertible debentures with warrants, and/or any securities, which FCCB holders are convertible into or exchangeable with equity shares at a later date to Qualified Institutional Buyers/ FCCB holders or others as specified in the SEBI (Issue of Capital & Disclosure requirements) Regulations 2009.

Approval of the shareholders should be obtained under section 81(1A) of the Companies Act, 1956 for issuing securities to persons other than shareholders of the company. The Board, in consultation with its Investment / Merchant Banker(s) and other advisor(s) will decide on the price and timing of the proposed issue and finalise the placement document which inter alia shall be placed on the website of Bombay Stock Exchange Limited and National Stock Exchange of India Limited in accordance with the SEBI (Issue of Capital & Disclosure requirements) Regulations, 2009. The Company should ensure that the requirement of minimum public shareholding as specified as per the listing agreement is adhered to even after the issue of QIPs or otherwise.

Allotment shall be completed within a period of twelve months from the date of passing of the Special Resolution.

For reasons aforesaid, an enabling resolution is proposed to be passed to give adequate flexibility and discretion to the Board to finalise the timing, pricing and terms and conditions of the issue.

The Board of Directors accordingly recommends the Special Resolution for approval of the Members.

None of the Directors is, in anyway concerned or interested in this resolution except as a member of the Company.

**Item no.9:**

Dr. P. Bhaskara Narayana, Director & CFO is associated with the Company for over a decade is taking care of the functional operations of the Company including but not limited to Finance, Accounts and Secretarial.

In view of the manifold increase in his job responsibilities and taking into industry standards, the Remuneration Committee recommended to the Board for increasing the remuneration of Dr. P. Bhaskara Narayana subject to the approval of members from Rs. 32,00,000/- (Rupees thirty two lakhs only) to Rs.36,00,000/- (Rupees thirty six lakhs only) per annum for a period of 2 years from 1st April, 2013 to 31st March, 2015.

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

The Board accordingly recommends the resolution as set out in Item 9 of the Notice for approval of the members.

**Item no. 10:**

Dr.AKS Bhujanga Rao, President (R&D and Technical) is associated with the Company for over a decade is taking care of the technical and also looking after the Patent related issues of the Company.

In view of the manifold increase in his job responsibilities and taking into industry standards, the Remuneration Committee recommended to the Board for increasing the remuneration of Dr.AKS Bhujanga Rao subject to the approval of members from Rs.32,00,000/- (Rupees thirty two lakhs only) to Rs.36,00,000/- (Rupees thirty six lakhs only) per annum for a period of 2 years from 1st April, 2013 to 31st March, 2015.

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

The Board accordingly recommends the resolution as set out in Item 10 of the Notice for approval of the members.

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

Place : Hyderabad  
Date : 14th August, 2013

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

**Important Communication to Members**

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

## DIRECTORS' REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

### To the Members

Your Directors are pleased to present the 30<sup>th</sup> Annual Report together with the audited accounts of the Company for the year ended on 31<sup>st</sup> March, 2013.

### Operating Results:

You will be pleased to note that during the year under review, the API division exhibited an exemplary performance, establishing new records in revenues, which have grown by an aggregate of 51% over that of the previous year.

The

revenues from this division recorded Rs. 223 Crores (2011-12 :Rs. 148 Crores). This division continues to roll out good performance, thanks to our entry into niche markets.

The revenues from the finished dosages pharmaceutical formulations division during the year stood at Rs. 398 Crores against Rs. 370 Crores last year, recording a modest 7% growth. However, the exports from this segment recorded a revenue base of Rs. 103 Crores (Rs. 66 Crores during 2011-12), exhibiting a growth of over 56%.

The other business segments also performed well, resulting in an overall growth in revenues of 28%. The following is a summary of the company's performance during the financial year 2012-2013 :

₹ in lakhs

Particulars of Revenues*	2012-2013	2011-2012
API Division	22,636	14,798
Finished Dosage Formulations Division	39,836	37,047
Job Work	944	896
Other Income	7,873	3,168
<b>TOTAL</b>	<b>71,290</b>	<b>55,909</b>

\*consolidated gross revenues.

The company's operations for the year resulted in a surplus of Rs.11,232 lakhs (as compared to Rs.8,251 lakhs for the financial year 2011-2012). Your Directors have decided to make the following adjustments from out of the surplus :

₹ in lakhs

Particulars*	2012-2013	2011-2012
Surplus after operational expenditure	11,232	8,251
Provision for taxes	2,195	1,658
Provision for deferred tax	1,223	380
<b>Net surplus carried to Balance Sheet</b>	<b>7,814</b>	<b>6,213</b>
Interim Dividend declared / paid	1,255	934
Tax on distribution of income	204	152
Transfer to General Reserves	800	700
<b>Surplus carried to Balance Sheet</b>	<b>5,555</b>	<b>4,427</b>

\*on standalone basis

**Dividend:**

Your Directors had recommended and paid an interim dividend of Rs. 4.00 per equity share (last year - Rs. 3.00 per equity share) during February, 2013. Your Directors recommend that this may be treated as the final dividend and the recommendation / payment ratified.

**Review of 2013 performance:****API Division:**

It is quite heartening to note the excellent performance of API division, which is reflected in the 51% growth in its revenues for the year 2012-13, as compared to the revenues during 2011-12. Your Directors are pleased to record that the API division has established an excellent growth of 40% during the year under review. While some amount of this growth is attributable to the volatile exchange rate fluctuations, it is a matter of comfort that the division could register a stellar performance during the year. Domestic sales of APIs remained stagnant at Rs. 32 Crores (Rs. 31 Crores in 2011-12) while exports at Rs. 191 Crores (2011-12 : Rs. 117 Crores) recorded a growth of 63%.

Having recognized the potential that this business segment offers, efforts are being made to further strengthen this segment by focusing on niche markets and new products. In view of the visible potential for this business segment, your management is examining the necessity for undertaking expansion - in terms of new blocks of manufacture and developing new molecules. As a part of this effort, your company continues to file Drug Master Files for different products in various regulatory and semi-regulatory markets. The table given in Annexure A to this report indicates the updated status relating to filing of Drug Master Files.

These filings would enable the company to reach out to international customers who are spread across the globe. While the revenue figures do not include the value of APIs used for captive consumption, the division's contribution to the revenues of the finished dosage pharmaceutical formulations segment cannot be undermined.

Being a responsible corporate citizen, your company cares for the environment and the API manufacturing facility continues to enjoy the ISO:14001 certification for its environmental management efforts. This is in addition to numerous regulatory approvals that the facility enjoys including, principally, those from US FDA and Australian TGA as well.

**API Division :Out look for 2013-14 :**

While the API division continues to churn out commendable performance, a significant challenge lies in sustaining and improving this performance. It is vital that the company concentrates on large governmental customers in niche markets (such as South American nations) and on new molecules and strive to achieve economies of scale in production of the existing molecules. Your management is exploring various options towards this end.

NATCO Organics Limited, which has gone into production during 2011-12, is gearing up to improve its performance and is expected to achieve cash break-even levels of operations during late 2013-14. Products from this unit are sure to help in reaching a wider range of international customers. For one of the Para IV challenges that the company has filed recently, the raw material is being sourced from NATCO Organics. Establishment of additional blocks of manufacture are being contemplated at this Plant to ensure that the growing demands are adequately met.

**Finished Dosage Formulations Division :**

The high-light of the division's performance lies in its record growth - at Rs. 103 Crores of revenues - of over 56% in exports, thanks to the marketing approvals that the company received from US FDA, notably that of Lansoprazole. Between the last week of December, 2012 and 31st March, 2013, the company could garner a revenue base of Rs. 22 Crores from this product. While the market-share from this product was less than expectations, your management is sure that the product would stabilize and achieve a decent market share. The other products for which we had received approvals from the US FDA, and which have since been launched in the US markets have performed well.

The company has also received approvals for marketing of Rizatriptan tablets and shipments of this product have since commenced.

Revenues from the domestic oncology segment, however, remained stagnant at around Rs. 140 Crores, This segment has become severely competitive and some of the domestic players and a couple of multi-nationals as well have effected a down-ward revision in the prices of some of the products.



The generic version of Nexavar, for which your company was the first to receive a compulsory license, recorded a satisfactory level of sales. During the year under review, the Intellectual Property Appellate Bench has up-held the compulsory license granted to the Company for this product, while increasing the royalty payable to the innovator to 7%.

The growing competition, drying up of the product pipe-line and the regulations concerning pricing policy for domestic sales etc. are some factors which are causing a certain amount of anxiety for any possible growth in this segment. In spite of this, your company remains a strong player in the oncology segment, and one of the fastest growing companies in the pharma space..NATCO, itself being a research oriented company, respects intellectual property and rights associated therewith. NATCO has been and would always try to maintain a balance between the IP protection and the need to make available quality drugs at an affordable price. To this end in view, your company strongly believes generic companies - such as NATCO - should be encouraged by the Government by finding a solution within the available legal frame work.

A couple of products being manufactured and sold by the company have been subjected to pricing regulations in view of the Drugs Price Control Order and their prices have been revised downward in line with the Order. The impact of this reduction on the revenues and profitability is insignificant.

As far as the domestic market is concerned, your company assumes a demanding environment and to meet the challenges that are likely to be encountered, your company and management is engaged in a series of activities which would ultimately result in strategic moves. These strategies are expected to effectively counter the challenges that we expect to encompass in the coming years.

#### Finished Dosage Pharmaceutical Formulations Outlook for 2013-14 :

While due note is taken of the ever demanding challenges, your company expects to maintain a stable growth from this segment. A strong push is expected from an aggressive foray into regulated markets. The Directors would like to assure that despite these issues, the segment to do well and maintain its growth. In this context, your company is aiming to establish a strong base in the regulatory markets. Your company is moving towards a "ready" mode to take full advantage of the emerging opportunities.

The Company is contemplating establishment of a cyto-toxic injectable facility at Kothur.

#### Formulation Exports : Emerging scenario :

The year 2012-13 saw NATCO's Lansoprazole (Rx) and Rizatriptan launches in the USA in collaboration with Breckenridge Pharmaceuticals and Actavis. Both the products have recorded a satisfactory level of sales.

The company expects to receive marketing authorizations for several key products / molecules in the coming years. As and when these are received and products launched, they are likely to result in enhanced revenues and profits.

The company has completed all major expansion plans and separate manufacturing blocks for Glatiramer Acetate (API) and Lansoprazole, Oncology Block, Lenalidomide block etc. have been completed.

The company received a favorable verdict from the Court of Appeals, relating to Copaxone®, which should clear the decks for its launch in May, 2014. The launch of this product is likely to push the company into big league, resulting in a significant increase in sales as well as profits.

Though the company has a number of marketing opportunities in terms of para IV challenges and First-to-File (FTF) status, the inordinate delay in granting approvals and efforts by the innovators to curtail and restrict the value of these opportunities has to be carefully dealt with.

A summary of these opportunities is given below :

Product	Armodafinil	Glatiramer Acetate	Lanthanum Carbonate	Lapatinib Ditosylate	Lenalidomide	Oseltamivir Phosphate
Current Mkt Size (USD mn)	400	3400	115	125	3000	485
Partner	Breckinridge	Mylan	Lupin	Lupin	Watson	Alvogen
FTF / Para IV	Para IV	Para IV	Shared FTF	Sole FTF	Sole FTF	Sole FTF

Sole FTFThe present legal status of each of these opportunities is as under :

**Armodafinil :**

Pending infringement suit against NATCO and Breckenridge Pharmaceuticals.

**GlatiramerAcetate :**

Federal Circuit Court had ruled in favor of NATCO / Mylan. Await ANDA approval for possible launch after May 24, 2014.

**Lanthanum Carbonate :**

ANDA yet to be approved. Presently, no litigation is existing.

**LapatinibDitosylate :**

Awaiting ANDA approval. Presently, no suit is pending against NATCO.

**Lenalidomide :**

Depositions likely to begin during the third quarter of the calendar year 2013.

**OseltamivirPhosphate :**

Presently, under appeal before the Federal Circuit Court.

The Kothur facility would be dedicated exclusively for products meant for export to the US / European markets and the Company is dis-engaging itself from accepting new or continuing the existing contract manufacturing assignments ex-Kothur plant.

**Branded Generics & Institutional Sales :**

The company has exited from branded generics segment and is choosy about its participation in institutional tenders. The Institutional sales segment continues to suffer from severe competition. However, with supplies from duty free zones, efforts are being made to be competitive for bagging business from this segment. Dependence on this segment is being brought down, albeit, in a phased manner.

**Subsidiaries :**

Pending completion of the product registration formalities, the company's step-down subsidiary in Brazil is engaged in distribution of wipes business, in addition to pharmaceutical formulations of local companies. The market response to these initiatives has been encouraging and we expect to break-even in due course.

As a part of its strategy of establishing itself in new niche markets, the Company has set-up subsidiaries in Canada and Singapore. These are yet to become operational. The company's efforts to register its products in these countries in continuing.

**NATCO Organics Limited**, which is engaged in the business of manufacture and sale of cyto-toxic APIs has since become a subsidiary of the Company. The company intends to procure these products from NATCO Organics and convert them into finished dosage pharmaceutical formulations for ultimate sale.

**US Pharmacy business:**

SaveMart Pharmacy, Lancaster, Pennsylvania, USA, - which was acquired through the company's wholly owned subsidiary, **NATCO Pharma Inc.** - had, for the year ended on 31st March, 2013, recorded a net profit, after tax, of Rs. 175 lakhs (against Rs. 79 lakhs previous year) after accounting for interest of Rs. 40 lakhs (previous year Rs. 59 lakhs) payable to the Company on the loans advanced by the parent company. The subsidiary has also repaid Rs.205 lakhs (Rs. 343 lakhs previous year) out of the loan advanced by the Company.

**Supply & Distribution Agreements :**

In addition to the existing supply and distribution agreements, agreements have been entered into for new products for marketing overseas. Your company has been consistently working towards taking the several supply and distribution agreements that it has executed with its marketing partners to their logical conclusion. These agreements are expected to evolve into revenue streams in the next couple of years.

**Manufacturing facilities:**

Both the units in Dehradun in the State of Uttarkhand are fully functional. Together, products worth Rs. 141 Crores have been sold from these plants.

The construction of the new finished dosage pharmaceutical formulations facility at Guwahati in the State of Assam is fast nearing completion and the unit is expected to go into production soon. This location is eligible for income-tax and excise duty benefits and establishment of this plant would enable the company to continue to claim the tax benefits.

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

#### **Abbreviated New Drug Applications (ANDAs) :**

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

The Company continues to commercially exploit the approvals that it has already received and has been receiving royalties from its constituents as per the agreements in force.

#### **Research Efforts and Intellectual Property**

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

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

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

#### **Contract Manufacturing:**

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

#### **Corporate Social Responsibilities (CSR):**

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

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

#### **Financial Matters :**

The Company has no derivative contracts outstanding as at 31st March, 2013.

#### **Employees Stock Option Scheme :**

In accordance with the provisions of NATSOP 2010 (NATCO Employees Stock Option Plan, 2010), the company had vested 225,122 options which have since been exercised and an equivalent number of shares (225,122) have been allotted to 1533 employees during the year. Appropriate amounts on account of these grants have been charged to the Profit & Loss account of the company for the year ended on 31<sup>st</sup> March, 2013.

There has not been any variation in the terms of options and no options are in force as at 31<sup>st</sup> March, 2013. A total of 33,900 options have been vested to and exercised by senior management personnel. The company has not used the intrinsic value of the stock options for calculating the employee compensation cost.

#### **Directors :**

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

Dr. Jasti Sambasiva Rao had resigned from the Board on 7<sup>th</sup> May, 2013 owing to his pre-occupation. Your Directors place on record their sincere appreciation of the services rendered by Dr. Jasti S. Rao during his tenure as a Director on the Board of the Company.

#### **Directors' Responsibility Statement :**

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

- a) in the preparation of annual accounts, the applicable accounting standards have been followed;
- b) the Directors have selected such accounting policies as mentioned in Schedule 18 of the Annual Accounts and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a

true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that year;

- c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the aforesaid Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d) the annual accounts have been prepared on a going concern basis.

In respect of the qualification made by the statutory auditors in their reports dated 30th May, 2013 and 6th June, 2013, relating to non-availment of credit of Minimum Alternate Tax, the same would be examined after the outcome of the pending assessments are known.

**Statutory Auditors :**

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

**Internal Auditors :**

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

**Cost Audit :**

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

**Particulars of Employees :**

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

**Particulars regarding Energy conservation, etc.**

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

**Listing Information :**

The securities of the Company are listed with and are traded in, dematerialized form on the Bombay Stock Exchange and the National Stock Exchange. The annual listing fees were paid to each of these exchanges for the year 2012-2013. Facilities for dematerialization have become fully operational. The ISIN No. of the Company is INE987B01018.

**Fixed Deposits :**

There are no outstanding and overdue deposits as at 31st March, 2013. The Company had not accepted any deposits during the year.

**Acknowledgements :**

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

for and on behalf of the Board  
**NATCO** Pharma Limited

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

Hyderabad,  
14th August, 2013

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

Name of Employee	Age	Designation	Gross Remune-ration Rs.	Qualification	Experience in years	Date of Commence-ment	Particular of last Employment
Sri V C Nannapaneni	67	Chairman & Managing Director	1,33,83,000	M.S. (Pharmaceutical Administration)	44	03-10-1981	Time Cap Labs Inc.,
Sri Rajeev Nannapaneni	36	Vice Chairman & CEO	1,06,90,000	B.A. in Quantitative Economics & B.A. in History from Tufts University, USA	15	03-07-2000	Merill Lynch and Natco Systems LL.C.

## **ANNEXURE A**

### **ACTIVE PHARMACEUTICALS INGREDIENTS**

**Status of DMFs filed - till May 15, 2013**

Therapeutic Segment	No. of Products		European Countries		USA		Rest of the World		Total No. of DMF(s) Submitted	
	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation
Anti Emetic	4	2	103	1	4	1	4	0	111	2
Anti Migraine	5	2	135	2	6	2	2	1	143	5
Anti Depressants	5	0	219	0	2	0	14	0	235	0
Anti Ulcer	3	0	120	0	4	0	2	2	126	2
Anti Fungal	1	1	46	1	0	1	1	0	47	2
Anti Neoplastic	2	3	44	4	1	4	0	0	45	8
Anti Cancer	5	6	155	5	7	0	0	1	162	6
Benign Prostatic Hyper Trophy	1	0	0	0	1	0	0	0	1	0
Bronchodilator	1	0	66	0	1	0	0	0	67	0
For the treatment urinary incontinence	1	0	11	0	1	0	0	1	12	1
Anxiolytic	0	1	0	1	0	1	0	1	0	3
Bone resorption inhibitor	2	0	135	0	3	0	0	0	138	0
Hyperphosphataemia	1	0	0	0	1	0	0	0	1	0
Antiparkinsonian	1	0	0	1	1	0	0	0	1	1
<b>TOTAL</b>	<b>32</b>	<b>15</b>	<b>1034</b>	<b>15</b>	<b>32</b>	<b>9</b>	<b>23</b>	<b>6</b>	<b>1089</b>	<b>30</b>

# Status of CEP - May 15, 2013

Therapeutic Segment	No. of CEP		CEP		
	API	Under filing	Filed	Approved	Under review
Anti Emetic	1	1	1	1	0
Anti Depressants	2	0	2	2	0
Anti Migrane	1	2	1	1	2
Anti Ulcer	2	1	2	2	0
Benign Prostrate Hyper Trophy	0	0	0	0	0
Anti Fungal	0	0	0	0	0
Antiparkinsonian	0	0	0	0	0
Anti Cancer	1	0	1	1	0
Bronchodilator	1	0	1	1	0
<b>TOTAL</b>	<b>8</b>	<b>4</b>	<b>8</b>	<b>8</b>	<b>2</b>

## ANNEXURE B

### Status of Regulatory Filings (Finished Products-Formulations) - as on March 2013

#### Status of ANDA's filled in USA - as on March 2013

Therapeutic category	No. of Products	Filed	Under filing	No. of ANDAs	APPROVED
Anti-Depressants	1	1	0	1	1
Anti Emetic	2	2	0	2	2
Benign Prostrate Hyper Trophy	1	0	1	1	0
Anti-Cancer	14	4	10	14	2
Anti-Malarial	2	2	0	2	2
Vitamin	1	1	0	1	0
Anti Ulcer	3	2	1	3	1
Anxiolytics	1	1	0	1	0
Anti cholinergic	2	1	1	2	0
Muscle Relexant	1	1	0	1	0
Anti hypercholestrolemia	1	1	0	1	0
Anti Migrane	3	2	1	3	1
Hyperphosphataemia	1	1	0	1	0
Immunomodulator	1	1	0	1	0
Eugeroics	1	1	0	1	0
Parkinson's disease	2	1	1	2	1
Antiviral	1	1	0	1	0
Antihypertensive	1	0	1	1	0
Antiretroviral	2	0	2	2	0
Pulmonary arterial hypertension	1	0	1	1	0
Immunosupressant	1	0	1	1	0
<b>TOTAL</b>	<b>43</b>	<b>23</b>	<b>20</b>	<b>43</b>	<b>10</b>

**Status of dossiers filled in European Union - as on March 2013**

Therapeutic category	No. of Products	Filed	EU Dossiers under filing	Dossiers	APPROVED
Anti-Cancer	7	3	4	7	1
Anti Emetic	1	1	0	1	1
Anti-Migraine	2	2	0	2	1
Antihypertensive	1	0	1	1	0
<b>TOTAL</b>	<b>11</b>	<b>6</b>	<b>5</b>	<b>11</b>	<b>3</b>

**Status of ANDS's filled in Canada -as on March 2013**

Therapeutic category	No. of Products	Filed	Under filing	ANDSs	APPROVED
Anti-Depressants	1	1	0	1	1
Anti Emetic	2	1	1	2	1
Anti cancer	7	2	5	7	2
Anti migraine	2	2	0	2	2
Anxiolytics	1	0	0	1	1
Antihypertensive	1	0	1	1	0
<b>TOTAL</b>	<b>14</b>	<b>6</b>	<b>8</b>	<b>14</b>	<b>7</b>

**ANNEXURE C****Status of Patents granted and patent applications pending UPDATED ON 15 MAY 2013**

<b>A. Granted</b>	Indian	Foreign
New Chemical Entities	1	39
API - Process	60	4
Finished Dosage Products	15	2
Natural products	3	0
Design	1	3
<b>TOTAL</b>	<b>80</b>	<b>48</b>

<b>B. Applied</b>	Indian	Foreign
New Chemical Entities	7	151
API - Process	128	65
Finished Dosage Products	18	19
Natural Products	3	0
Design	2	4
<b>TOTAL</b>	<b>158</b>	<b>239</b>



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

### FORM - A

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

#### A. POWER & FUEL CONSUMPTION

	For the Year ended 31st Mar'13	For the Year ended 31st Mar'12
1 Electricity		
a. Purchased Units	27,948,567	24,784,282
Total Amount (₹)	178,401,033	114,213,908
Rate / Unit (₹)	6.38	4.61
b. Own Generation:		
Through Diesel		
Generator Units	5,518,343	5,247,390
Units/ltr.of Diesel Oil	3.30	3.19
Cost/Unit (₹)	15.42	15.35
2 Coal D/C Grade		
Quantity (tonnes)	5,932	5,779
Total Amount (₹)	47,128,956	39,537,779
Average rate per tonne(₹)	7,945	6,842
3 Furnace Oil		
Quantity (LTS)	486,116	207,517
Total Amount (₹)	22,077,504	86,57,957
Average rate per Ltr. (₹)	45.42	41.72

### FORM - B

Form for disclosure of particulars with respect to absorption

#### RESEARCH AND DEVELOPMENT (R & D)

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



		AMOUNT (₹ in lakhs)	
		For the Year ended 31st Mar'13	For the Year ended 31st Mar'12
4	Expenditure on R & D		
a)	R & D Expenditure	3,777.93	2,288.78
b)	Total R & D expenditure as Percentage of total Turnover (Including capital expenditure)	6.77	5.25

**TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:**

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

**FORM - C**
**FOREIGN EXCHANGE EARNINGS AND OUTGO**

		(₹ in thousands)	
		For the Year ended 31st Mar'13	For the Year ended 31st Mar'12
A)	Earnings in Foreign Exchange		
	Export of goods calculated on F.O.B basis	2,817,396	1,790,196
B)	CIF value of Imports		
	Raw Materials	375,630	167,475
	Capital Goods & Consumable stores	110,404	220,712
C)	Expenditure in Foreign Currency towards		
	Travelling	12,503	11,665
	Commission	8,398	79,386
	Professional Charges	14,311	12,755
	Interest on borrowings	13,039	12,271
	Others	93,508	65,885

for and on behalf of the Board  
**NATCO PHARMA LIMITED**

Place : HYDERABAD  
Date : 30 May, 2013

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

## **Risk Management & Mitigation strategy at NATCO**

The company encompasses several operational risks, notable among them include, but not limited to risks relating to Property, day-to-day operations, environmental management, regulatory, and policy. Your management strives to evaluate these risks on a continuous basis and ensures that remedial measures are initiated and follow-up action is taken.

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

### **Property and resource related risks:**

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

### **Human Resources**

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

### **Products / Markets :**

Your company has a predominant presence in oncology segment with a basket of around 20 drugs. Operating in this segment has proved to be highly profitable, with good margins. However, realizing the pit-falls of dependence on a single segment, efforts are being made by the Company to reduce such dependence to the minimum. Constant efforts are made to widen the business horizon and to enter niche markets and introduce niche products. Your company is constantly evaluating various options available to it to mitigate these risks by spreading its operations into new geographical areas and by venturing into new product / therapeutic lines.

### **Competition :**

As one operating in an open economy, the Company understands and realizes that competition is omnipresent. The industry sector and therapeutic segment in which your company operates are no exception, compelling your company to devise strategies to ward off or minimize the effect of competition. Steps being taken in this direction include, among others, increasing rapport with the medical profession and generally spreading the knowledge about the company's products by organizing continuous knowledge programs for the medical profession. The company has thus created for itself a niche position among the companies operating in this segment.

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

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

### **Price Controls :**

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

**Litigations :**

The company's presence in the US and European markets and future strengthening of this presence would invariably invite legal risks. More often, these risks remain high and would involve huge stakes. The company aims to minimize or neutralize these risks by a unique system of tie-ups where the litigation risks are taken-up by the marketing partner rather than the Company itself. In addition, suitable and adequate product liability insurance is also obtained.

**Regulatory Observations:**

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

**Global and Environmental Risks :**

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

However, before considering an entry into niche markets, the company invariably evaluates the challenges and risks associated with the country's political stability, commercial strengths and market stability. In most cases, while the Company continues to be cautious in its plans for expansion and growth, ensures adequate insurance coverage for its commercial risks.

**Foreign Currency transactions and associated Risks :**

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

**Economic and Financial Risks :**

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

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

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

**Energy and associated risks :**

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

The company is purchasing power through the open access system, subject to Government regulations in this regard, and is attempting to explore the feasibility of setting up a non-conventional power plant on an experimental basis.

**Other Risks :**

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

## REPORT ON CORPORATE GOVERNANCE

The Securities and Exchange Board of India (SEBI) regulates corporate governance practices of companies listed on the Stock Exchanges. These regulations are notified under Clause 49 of the Listing Agreement of all the Stock Exchanges. Corporate Governance is the application of best management practices, compliance of laws in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.

### 1. Company's Policy on Code of Corporate Governance

Principles of corporate governance are key to maintaining the trust of investors. The Board of Directors of your company has adopted these corporate governance practices to promote the effective functioning of the Board, its committees, and the Company.

Your Company continues its endeavor to enhance its stakeholder's value by protecting their interest. It envisages working towards high level of transparency, accountability, consistent value system, integrity of the management. Your inputs helps us to continue to drive innovation in policies and disclosure on corporate activities and other key governance areas.

Regulatory reforms have resulted in the transformation of the corporate governance landscape and your company has embraced these amendments, and in some cases has been ahead in adopting innovations. It further inspires to practice responsible business principles, and continue to demonstrate commitment to excellence to sustain value for investors and stakeholders.

Your company respects the right of its shareholders to information on the performance of the company and considers itself as trustee of its shareholders.

### 2. Board of Directors

#### (i) Composition of the Board

The Board represents an optimum mix of professionalism, knowledge and experience. As on 31st March, 2013, we had a total strength of nine(9) Directors in the Board, comprising of four are Executive Directors and five are Non-Executive and Independent Directors. The company immensely benefits from the professional expertise of the Independent Directors.

#### Key information pertaining to Directors as on 31st March, 2013

Name of The Director	Category	No of Board Meetings During The Year		Whether Attended Last AGM Held on 29-09-2012	No. of Directorships in Other Public Limited Companies*	No of Committees		Relationship interse Directors
		Held	Attended			Member	Chairman	
Mr.V.C. Nannapaneni	Promoter	4	4	Yes	2	3	1	Father of Mr. Rajeev Nannapaneni
T.V. Rao	Independent Director - Nominee Exim Bank	4	3	No	Nil	-	-	
Mr.G.S. Murthy	Independent Director	4	4	Yes	Nil	4	4	
Dr. B.S. Bajaj	Independent Director	4	4	No	Nil	3	-	
Dr. Jasti Samba Siva Rao	Independent Director	4	3	No	Nil	--	--	
Mr. Rajeev Nannapaneni	Whole time Director	4	4	Yes	2	1	-	Son of Sri V.C Nannapaneni
Dr. P. Bhaskara Narayana	Whole time Director	4	4	Yes	4	2	-	
Dr. A.K.S. Bhujanaga Rao	Whole time Director	4	4	Yes	Nil	-	-	
Mr. Nitin Jagannath Deshmukh	Independent Director	4	3	No	2	1	1	

No Directors holds membership of more than ten Committees of Boards nor is a Chairman of more than 5 Committees of Board of all the companies in which he is a Director.

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

During 2012-13, the Company did not have any material pecuniary relationship or transactions with Non working Directors.

### **Board Meetings**

The Board of Directors and its committees meet at regular intervals. The Board meetings are tentatively fixed at the beginning of each financial year. During the year under review, 4 meetings of the Board were held on 28-05-2012, 11-08-2012, 8-11-2012 & 13-2-2013. Board and Audit Committee meetings were convened on the same day in order to avoid possible travel and time constraints of the Directors. As stipulated in the Companies Act and also as per the Listing Agreement the intervening period between two board meetings was not more than 4 months.

### **(ii) Board Agenda**

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

### **3. Audit Committee**

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

The Audit Committee constitutes Shri G.S.Murthy, Shri T.V.Rao, Dr.B.S.Bajaj and Shri V.C. Nannapaneni as its members. During the year, the Audit Committee met 4 times on 28-05-2012, 11-08-2012, 8-11-2012 & 13-2-2013.

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

<b>Name of the Member</b>	<b>Meetings held during the year</b>	<b>Attendance at the meeting</b>
Shri G.S.Murthy	4	4
Dr. B. S. Bajaj	4	4
Mr. T.V.Rao	4	1
Shri V.C.Nannapaneni	4	4

Mr. T.V.Rao has been inducted as Audit Committee member at the Board meeting held on 8<sup>th</sup> November, 2012.

### **Terms of reference of Audit Committee**

The Committee reviews all matters such as Reports of Internal Auditors/Statutory Auditors, and discuss their findings, suggestions and other related issues. The Committee also determines major accounting policies followed by the company and sets out control systems, scope of audit etc. The Committee also review and discuss with management the status and implications of major legal cases. The entire internal audit process has been reviewed by the Committee and Internal Auditors role induced with requisite adequacy.

#### 4. Remuneration Committee

##### i. Terms of reference

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

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

As of 31st March, 2013, two member Remuneration Committee comprised of Non-working independent directors viz. (1) Shri G.S.Murthy and (2) Dr. B.S. Bajaj and they met on 28-5-2012.

##### iii. Remuneration of Directors

Remuneration paid to Directors during 2012-2013

##### a. Executive Directors:

S. No.	Name	Position	Total ₹
1.	Sri V.C. Nannapaneni	Chairman & MD	1,33,83,000
2.	Mr. Rajeev Nannapaneni	Vice Chairman & CEO	1,06,90,000
3.	Dr. P. Bhaskara Narayana	Director & CFO	32,00,000
4.	Dr. A.K.S. Bhujanaga Rao	President (R & D and Technical)	29,48,628

##### b. Non-Executive Directors

A sitting fee of Rs.5,000/- (Rupees Five Thousands only) is paid for attending the each Board / Committee meeting in addition to reimbursement of out of pocket expenses. The amount paid is well within the ceiling limits under the Companies Act and the Articles of Association of the Company. The details of the sitting fees paid to the Non working Directors during the year 2012-13 is given below:

Sl. No.	Name	Position	Sitting Fees paid for the meetings of						TOTAL
			Board meeting	Audit Committee	Investors Grievances Committee	Remuneration Committee	Compensation Committee	Allotment Committee	
			₹	₹	₹	₹	₹	₹	
1.	Sri G.S.Murthy	Independent Director	20,000	20,000	10,000	5,000	-	-	55,000
2.	Mr.T.V.Rao	Nominee Director - Exim Bank	15,000	5,000	-	-	-	-	20,000
3.	Dr. B.S.Bajaj	Independent Director	20,000	20,000	-	5,000	-	-	45,000
4.	Dr. J. S. Rao	Independent Director	15,000	-	-	-	-	-	15,000
5.	Mr.Nitin Jagannath Deshmukh	Independent Director	15,000	-	-	-	-	-	15,000

#### 5. Investors Grievances Committee

The Investor Grievance Committee review all matters connected with shares transfers and transmissions, Dematerialization/Re-materialization, Non receipt of Annual Reports and dividend warrants. The Committee also expeditiously redress investor grievances. The committee consists of three Directors of which Chairman of the

Committee is Independent Professional Director. The members are Mr.G.S.Murthy, Mr.V.C.Nannapaneni and Dr.P.Bhaskara Narayana they met on 11-08-2012 & 13-02-2013.

The Company had received 250 requests for various queries during the year 2012-13 and all of them were replied / resolved to the satisfaction of the investors.

**6. Compensation Committee:**

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

No Compensation Committee meeting held during the year.

**7. Allotment Committee**

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

No Allotment Committee meeting held during the year.

**8. Share Transfer Committee**

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

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

During the Financial year 195 instruments of transfers/ transmissions for 10,196 equity shares were received and the same were affected.

**9. General Body Meetings**

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

Year	Date of the Meeting	Venue	Time of meeting	No. of Special Business
2009-2010	30-09-2010	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033.	10.00 a.m.	4
2010-2011	30-09-2011	Daspalla Hotel, Road No.37 Jubilee Hills, Hyderabad 500 033	10.00 a.m.	2
2011-2012	29-09-2012	Daspalla Hotel, Road No.37 Jubilee Hills, Hyderabad 500 033	10.30 a.m.	3

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

**10. Minutes**

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

#### 11. Quarterly Reconciliation of Share Capital Audit Report

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

#### 12. Employees Stock Option Plans (ESOP)

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

The Company granted 2,36,551 on 12-08-2011 and No. of options exercised by employees were 2,25,122, and the date of allotment was 08-11-2012 to 1533 employee allottees.

#### 13. Secretarial Standards

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

#### 14. Disclosures

##### a. Legal Compliances

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

##### b. Code of Business Conduct

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

##### c. Related Party Transactions

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

##### d. Mandatory & Non-Mandatory Clauses

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

##### e. Environmental Policy

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

#### 15. Compliance with other Mandatory requirements

##### i) Management Discussion and Analysis

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



ii) Senior Management Declaration:

Senior Management Personnel have declared to the Board that, no material, financial and commercial transactions were entered into by them during 2012-13 where they have personal interest that may have a potential conflict with the interest of the Company at large.

iii) Subsidiary Companies

The Company has a fully owned subsidiary named NATCO Pharma Inc. in USA, Time Cap Overseas Limited in Mauritius, Natco Pharma Inc. in Canada, Natco Organics Limited in India, Natco Farma Do Brazil, Brazil, K&C Pharmacy, Partnership Firm in USA.

iv) Disclosure of Issue Proceeds

The Company did not make any Public, Rights or Preferential Issue of securities during 2012-13.

v) CFO Certification

CFO Certification by Dr. P. Bhaskara Narayana, Director & CFO as per the Listing Agreement was placed before the Board at its meeting on 14-08-2013.

vi) Review of Directors' Responsibility Statement

The Board in its Report have confirmed that the annual accounts for the year ended 31st March, 2013 have been prepared as per applicable accounting standards and policies and that sufficient care has been taken for maintaining adequate accounting records.

**16. Compliance with non-mandatory requirements**

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

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

iii. Mechanism for evaluating non-working Board Members:

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

iv. Whistle Blower Policy:

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

v. Shareholders' Rights: As per the Listing Agreement Quarterly / yearly Audited / un-audited Results on the company's financial performance with press note(s), if any, were sent to stock exchanges and published in newspapers and on the Company's Website.

vi. Listing Agreement facilitates circulation of Abridged Accounts in lieu of full-fledged Annual Report. The Company has however not exercised this option and continues to send Annual Report in full to all shareholders.

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

viii. Others: All the Directors are well versed in the business model of the Company. Detailed presentations are made by Senior Executives and Professionals followed by discussions at Audit Committee/ Board Meetings. Considering the same, no formal training of Board members or peer review of the performance of non-executive Directors is arranged.

**17. Means of Communication**

The audited / unaudited quarterly, half-yearly and annual financial results on the standalone basis and on the consolidated basis of the Company were submitted to the stock exchanges soon after the Board meeting approved these and were accordingly published in the newspapers as per norms and were also promptly put on the Company's

website [www.natcopharma.co.in](http://www.natcopharma.co.in), Press Releases on significant developments in the Company such as product launches, new units / important events, approvals etc. were made available from time to time to the Stock Exchanges where your Company's shares are listed and also to the press and posted on the website of the company.

The Company did not send the half-yearly reports to each household of shareholders in the financial year 2012-13 but posted on its website. The quarterly financial results of the Company are also published in a National English Daily and in a Regional Vernacular (Telugu) daily and the details of publications are as under:

Quarter Ended	Name of the English Daily	Name of the Regional Daily	Date of Publication
30th June, 2012	Economic Times	Andhra Prabha	13-08-2012
30th September, 2012	Business Line, Financial Express, Mint	Prajasakti	10-11-2012
31st December, 2012	Financial Express, Mint	Prajasakti, Eenadu	14-02-2013
31st March, 2013	Financial Express, Mint	Prajasakti, Eenadu	31-05-2013

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

## 18. General Information for Shareholders

### AGM: Date, Time and Venue

Annual General Meeting Date & Time	28th September, 2013 at 10.30 a.m.
Venue	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad- 500 033
Book Closure dates	25th September, 2013 to 28th September, 2013 (Both days inclusive)

## 19. Financial calendar 2012-2013

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

## 20. Financial Reporting - Unaudited Results - Tentative Dates:

For the quarter ending June 30, 2013	14th August, 2013
For the quarter ending Sep 30, 2013	On or before 15/11/2013
For the quarter ending Dec 31, 2013	On or before 15/02/2014
For the quarter ending Mar 31, 2014	On or before 30/05/2014
Annual General meeting for 2013-14	On or before 30th September, 2014

## 21. Listing of Equity Shares

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

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

The Company has paid the annual listing fees for the year 2012-13 to both of the above stock exchanges and also paid Custodial Fee for the year 2012 - 2013 to both National Securities Depository Limited and the Central Depository Service (India) Limited.

**22. Market Price Data**

The monthly movement of equity share prices during the financial year 2012- 2013 at BSE & NSE are summarized as herein below:

Month & Year	Bombay Stock Exchange		National Stock Exchange	
	₹ High	₹ Low	₹ High	₹ Low
April, 2012	436.70	353.00	436.85	349.95
May, 2012	437.00	350.15	435.70	355.15
June, 2012	395.90	335.00	396.95	335.00
July, 2012	372.30	330.00	372.00	330.00
August, 2012	379.70	340.00	379.90	341.35
September, 2012	395.00	342.50	388.05	342.65
October, 2012	405.00	363.00	414.90	363.00
November, 2012	468.00	368.00	467.90	368.00
December, 2012	505.20	411.95	506.80	433.00
January, 2013	502.90	446.25	503.00	446.30
February, 2013	467.45	402.60	472.00	403.05
March, 2013	475.00	407.65	524.80	405.60

**23. Share Transfer Work For Both Physical & Electronic Forms**

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

**24. Shareholding Pattern**

Distribution of Shareholding as on 31st March, 2013

S.No.	Category	No. Of Equity Shares	Percentage
1	Promoters holding	1,77,78,481	56.67
2	Individuals/Others	75,40,727	24.04
3	Mutual Funds, Financial Institutions	31,53,747	10.05
4	FII's, NRIs, OCBs	28,96,416	9.23

Your Company has a Shareholder base of 29,627 members as on 31.03.2013 and the paid up capital is Rs.31,37,30,740 /-.

**25. Dematerialization of shares**

Nearly 98% of your Company shares were dematerialized as on 31st March 2013. As the trading is being conducted only in electronic form members are requested to go in for dematerialisation of shares at the earliest.

**26. Investor Grievances**

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

**27. Report on corporate governance**

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

## 28. Insider trading guidelines

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

## 29. Compliance Certificate from the Practicing Company Secretary

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

## 30. Plant Locations

### **Pharma Division**

Kothur Post & Mandal  
Mahaboobnagar Dist.  
Andhra Pradesh -509 228.

### **Chemical Division**

Mekaguda, Kothur Mandal  
Mahaboobnagar Dist.  
Andhra Pradesh - 509 228.

### **Formulations Division**

Plot No.19, Pharma City,  
Selaqui Industrial Area,  
Vikas Nagar,  
DEHARADUN - 248 001.  
Uttarakhand.

### **Unit Under Construction**

PHARMA DIVISION,  
DAG NO-749,750.  
Village - Kokjhar,  
Revenue Circle-Mirza,  
Dist -Kamrup (rural) Guwahati,  
Assam-state. Pin-781122.

### **Pharma Division - Parenterals**

Vijayapuri North,  
Nagarjunasagar, Nalgonda Dist.  
Andhra Pradesh - 508 202.

### **R & D Division**

B-13, Industrial Estate  
Sanathnagar, Hyderabad.  
Andhra Pradesh - 500 018.

### **Formulations Division**

Plot No.A3, UPSIDC,  
Selaqui Industrial Area,  
DEHARADUN - 248 001.  
Uttarakhand.

### **Regd. Office :**

#### **Natco House**

Road No.2, Banjara Hills,  
Hyderabad - 500 034.  
Tel No. (040) 23547532 Fax No. 23548243  
Email : investors@natcopharma.co.in

## ANNEXURE 1 CORPORATE GOVERNANCE REPORT

To  
The Shareholders,

### **Affirmation of Compliance with Code of Business Conduct**

I, V.C. Nannapaneni, Chairman & Managing Director, declare that the Board of Directors of the Company has received affirmation on compliance with the Code of Business Conduct for the period from 1st April, 2012 or the date of their joining the Company, whichever is later, to 31st March, 2013 from all Board Members and also Senior Management staff immediately one level below the board members viz. all functional business heads, heads of finance, HR, legal, EDP Dept.

Hyderabad  
14-08-2013

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

**ANNEXURE 2****CFO CERTIFICATION TO THE BOARD**

(Under Clause 49(V) of Listing Agreement)

**I Certify that --**

- a. I have reviewed the financial statements and the cash flow statement for the year ended 31st March, 2013 and that to the best of my knowledge and belief:
  - These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations;
- b. There are, to the best of my knowledge and belief, no transactions entered into by the Company during the year ended 31st March, 2013 that are fraudulent, illegal or violative of the Company's code of conduct;
- c. I accept responsibility for establishing and maintaining internal controls and that I have evaluated the effectiveness of the internal control systems of the Company and I have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of the internal control, if any, of which I am aware of and the steps I have taken or propose to take to rectify these deficiencies.
- d.
  - i) There has not been any significant change in internal control over financial reporting during the year under reference;
  - ii) There has not been any significant change in accounting policies during the year except as laid down in Accounting Standard (AS) 15 (revised 2005) on Employee Benefits, requiring disclosure in the notes to the financial statements;
  - iii) I am not aware of any instance during the year of significant fraud with involvement therein of the management or any employee having a significant role in the Company's internal control system over financial reporting.

Sd/-

**(Dr. P. BHASKARA NARAYANA)**  
DIRECTOR & CFO

Date : 14-08- 2013

Place : Hyderabad

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

To

The Members of Natco Pharma Limited

I have examined the compliance of conditions of Corporate Governance by Natco Pharma Limited, for the year ended on March 31, 2013 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

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

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

In my opinion and to the best of my information and according to the explanations given to me and the representations made by the Directors and the management, I certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreement. The Company has submitted and published the Financial Results for all the quarters with in the stipulated time.

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

Place : Hyderabad

Date : 14-08-2013

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

## CORPORATE SOCIAL RESPONSIBILITY



natcotrust

*To learn to live  
To live and learn*

### About Natco Trust

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

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

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

### THE CORE AREAS OF INTERVENTION are as follows:-

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

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

## Natco Mobile Health Clinic:

### Objective: -"Health Services at the door steps of the community"

Natco mobile health clinics (NMHC) are a boon for the community (as apparent by the community). It serves more than 8000 households with a population of more than 50000 in 29 villages at Mahaboobnagar and Nalagonda districts on a rotation basis with a weekly schedule. It has all the basic equipments and free medicines provided apart from the health services health education also provided to the community.

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

*Natco Mobile  
Health Clinic has been initiated  
at Kothur mandal on 15th August 2012  
and it has been inaugurated by Mr.  
Pratap Reddy -MLA Shadnagar.*

**NUTRITION CENTER VISIT:** As part of the NMHC services antenatal and postnatal care is provided to the pregnant and lactating mothers respectively. They were treated of the basic ailments like anemia...etc and are referred for higher centres for ultrasound scan, blood investigations and when abnormalities like high blood pressure, abnormal presentation of foetus, bleeding p/v...etc are detected.

NMHC team works with the government ANM (auxiliary nurse midwife) and makes sure that all the antenatal mothers are immunized with 2 doses of TT. Pregnant mothers are advised about the diet, immunization, family planning, breast feeding etc. All pregnant mothers are motivated to go for institutional delivery.

**HEALTH AWARENESS:** to prevent seasonal and communicable diseases like Typhoid, Malaria, Dengue and HIV-AIDS, etc, People are advised to boil and filter water before drinking. They were advised to take personal protective measures like using mosquito nets to prevent from the disease spreading mosquitoes biting them. Awareness provided on tobacco consumption, safe sex and regular health check up for the pregnant mothers, personal and community hygiene. Awareness provided on cleanliness of surroundings, family planning, institutional deliveries, breast feeding and immunization.

*As part of NMHC health services has  
been extended to government school  
students and Nutrition  
centre beneficiaries*

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

sticks... etc into their ears...

**Natco Mobile Health Clinic - Nalagonda district:** The NMHC at Nagarjuna Sagar extends health services to 17 villages, 1 backward community government hostel and employees of Natco Pharma Limited. 27,097 beneficiaries got benefit for the year 2012-13. The month wise beneficiaries' details of NMHC are as follows....

Sl.No.	Name of the Village	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Total
1	Yerra Cheruvu Thanda	72	143	59	118	183	259	127	88	177	103	122	111	1562
2	Chenchu Vani Thanda	67	103	56	78	95	72	70	28	0	0	44	71	684
3	Godumadaka	122	170	158	133	118	129	115	26	142	114	140	204	1571
4	Nellikal	162	229	129	202	152	253	145	134	211	142	415	213	2387
5	Pilli Gundla Thanda	119	145	75	191	117	129	84	67	145	51	107	117	1347
6	Chintala Palem	127	173	131	201	124	46	227	226	130	204	98	191	1878
7	Jal Thanda	147	177	147	218	150	34	134	185	139	163	125	167	1786
8	Palthi Thanda	22	99	39	129	170	0	71	90	76	153	59	76	984
9	Thangilla Thanda	20	65	24	106	165	0	49	54	62	81	49	64	739
10	Poolya Thanda	141	142	47	123	187	0	87	106	40	90	96	71	1130
11	Jammana kola	57	64	153	155	145	75	89	78	113	106	73	80	1188
12	Nagarjuna Peta	100	173	194	143	188	145	184	148	173	180	104	156	1888
13	Nayakuni Thanda	174	239	175	165	217	342	186	90	162	84	118	134	2086
14	Thimmai Palem	72	120	116	147	165	190	130	51	102	58	94	41	1286
15	Pedda Munagala	141	167	155	131	113	116	144	69	79	64	113	83	1375
16	kambalapally	138	112	152	123	107	164	0	115	107	87	91	74	1270
17	APR School	0	0	101	118	102	91	0	127	103	80	113	0	835
18	NATCO Parenterals division	204	180	201	253	286	270	286	199	232	277	244	328	2960
19	In convergence with Pollution Control Board Nalgonda dist.,									141				141
	<b>Total</b>	<b>1885</b>	<b>2501</b>	<b>2112</b>	<b>2734</b>	<b>2784</b>	<b>2315</b>	<b>2128</b>	<b>1881</b>	<b>2334</b>	<b>2037</b>	<b>2205</b>	<b>2181</b>	<b>27097</b>



**Natco Mobile Health Clinic - Mahaboobnagar district** - The NMHC at Kothur mandal extends health services to 10 villages, government schools and Natco High School. 15,482 beneficiaries got the benefit for the year 2012-13. The month wise beneficiaries' details of NMHC are as follows....

*42579 beneficiaries got benefit from NMHC in Mahaboobnagar and Nalagonda districts of Andhra Pradesh for the year 2012-13*

Sl. No	No. of Villages	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Total
1	Rangapur	358	359	461	317	526	352	324	316	3013
2	Inmulnarva	411	572	828	289	624	550	482	393	4149
3	Mekaguda	229	282	361	297	345	464	289	195	2462
4	Sanghiguda	101	120	152	99	88	202	167	120	1049
5	Kolbaitlanda	71	16	41	52	32	45	69	64	390
6	Jyothya thanda	49	25	29	65	44	61	58	53	384
7	Dharamaiah thanda	67	66	84	0	0	0	0	0	217
8	Salvendraguda	197	85	77	162	191	211	179	124	1226
9	Thatigadda thanda	111	90	54	95	106	121	99	93	769
10	Chakaligutta thanda	151	125	73	82	148	134	86	75	874
11	Government schools and Natco High school	179	410	102	193	65	0	0	0	949
12	<b>Total</b>	<b>1924</b>	<b>2150</b>	<b>2262</b>	<b>1651</b>	<b>2169</b>	<b>2140</b>	<b>1753</b>	<b>1433</b>	<b>15482</b>

## Nutrition centers

**Locations:** - Nalagonda, Mahaboobnagar and Hyderabad districts of Andhra Pradesh

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

### 2. New nutrition centres initiated at Salvendrigudam and Sanghiguda villages of Kothur mandal for the year 2012-13.

The Nutrition centre catered 384 mothers; out of which 55 are pregnant and 83 are lactating mothers in 9 village's i.e, Mekaguda, Sanghiguda, Salvendrigudam, Yerracheruvu thanda, Nayakuni thanda, Thimmaiah palyam, Chinthalapalyam, Thangalli thanda and Peddamunigala of Mahaboobnagar and Nalagonda districts and one centre at Hyderabad. Out of 384 beneficiaries 248 were completed one year (the trust supports a beneficiary for a period of one year that is from conception (3rd month) to 6 month after delivery). Total deliveries are 126 and out of which 96 are institutional deliveries and 30 are home deliveries supervised by trained local dhai (nurse). 19 mothers underwent for family planning.

*Two new nutrition centres initiated at Salvendrigudam and Sanghiguda habitations of Kothur Mandal. A total of 384 mothers got benefitted and 96 are institutional deliveries*

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

*According to National Institute of Nutrition, Indian women have the deficiency of 430 calories, to mitigate it, the nutrition centre have been initiated*

### Details of Nutrition centre beneficiaries 2012-13

Month	Pregnant	Lactating	Incoming	Out going	Deliveries	Total	Institutional deliveries	Home deliveries	Caesarean	Tubectomy operations
Apr 12	89	99	6	18	16	188	12	4	10	3
May 12	91	81	16	32	14	172	7	5	6	1
June 12	85	93	13	7	19	178	12	7	9	5
July 12	98	118	38	0	12	216	7	4	5	0
Aug 12	111	115	21	11	8	226	6	2	4	0
Sep 12	121	113	23	15	13	234	12	2	8	2
Oct 12	126	103	18	23	13	229	11	2	8	3
Nov 12	132	111	15	1	9	243	8	1	6	0
Dec 12	141	112	19	9	10	253	9	1	3	1
Jan 13	143	112	11	9	9	255	9	2	6	1
Feb 13	83	53	2	123	2	134	2	0	0	2
Mar 13	83	55	2	0	1	136	1	0	0	1
<b>Total</b>			<b>184</b>	<b>248</b>	<b>126</b>		<b>96</b>	<b>30</b>	<b>65</b>	<b>19</b>

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

### 6th INDIAN NATIONAL BRAIN BEE CHAMPIONSHIP 2012-13

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

Natco organized the Indian National Brain Bee quiz on neurosciences in association with NIMS Hyderabad. 14 students from 14 centres took part in the National quiz competition held at Centre for Behavioral and Cognitive Sciences (CBCS) Allahabad. The winner of the Indian National Brain Bee championship- 2013 will be invited to participate in the International Brain Bee finals to be held along with 21st World Congress of Neurology on 3rd week of September, 2013, in Vienna, Austria.

### Patient Counselor support to government hospitals at Hyderabad

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

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

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

*The patient counselors are bridge between health service seekers and health service provider. They have facilitated 85591 patients in getting different health services for the year 2012-13 in 3 government hospitals at Hyderabad*

S.No.	Name of the particulars	Osmania hospital	Mnj hospital	Niloufer hospital	Total
1	Outpatient block guidance	66,778	6089	-	72,867
2	In patient block guidance	-	-	11,390	11,390
3	Counseling for in patient at wards	213	115	316	644
4	Individual support to patient	18	29	70	117
5	Referrals to blood bank	-	39	63	102
6	Support group meeting	-	29	42	71
7	Follow up cases	82	29	107	218
8	Networking with other NGO's	8	8	26	42
9	Referral networking to other Organizations	1	-	27	28
10	Art & Craft Program	2	17	29	48
11	Tobacco Cessation Counseling	22	3	9	34
12	Awareness meeting on Health issues	-	7	4	11
13	Awareness and health education at government schools	4	7	8	19
	<b>Total</b>	<b>67,128</b>	<b>6,372</b>	<b>12,091</b>	<b>85,591</b>

#### Education:

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

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

#### Natco School of Learning - Gollamudipadu Village, Ponnur Mandal, Guntur District.

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

*The NSL got recognized by state government of AP and affiliated to CBSE, New Delhi*

This School has been set up with well-established infrastructural facilities with gardening and landscaping, well-trained teaching staff, x-seed idiscoveri methodology and activity based learning. It is also facilitated with good transport system and well-equipped library Computer Lab and Science lab etc.

Though the school started with strength of 156 students for the year 2011-12, it has increased to 264 students for the year 2012-13 academic years. The school got recognized by the state government of Andhra Pradesh and affiliated to central board of secondary education, New Delhi. Free education extended to 32% of the students and subsidized education provided to 6% of the students for the academic year.

*Free and subsidized education extended to 32% and 6% of the students for the academic year respectively*

Most of the children at NSL are from Telugu Medium background, with minimum parental support with regard to their academics. But, on observing over a period of two years, we could find that there is remarkable development in their creativity, thinking, interpretational and illustrative skills, helping them grow independent at each level, which are encouraged through various activities and tasks assigned from time to time in different subjects. Children of Grade 4 to 8 can confidently

interview an individual while a grade 1 or 2 student may be able to relate his learning on Additions, or Sizes to the environment and respond to a project work like accounting for the different books in their bag, or types of furniture in different classes as well.

Yet, there is consistent and continuing effort to enhance their thinking, reading and writing skills further by our teachers through the curriculum and activities planned from time to time ensuring that they can always, "THINK OUT OF THE BOX " through their learning process,.,

Academic activities - The X-Seed curriculum was implemented in order to provide quality education to the students of Natco School of Learning. In order to check students understanding levels Learnometer tests were conducted. In order to induce pupils into 'Learning by doing' various project works were entrusted to them based on reasoning, application, analysis and comprehension. First hand experience / direct experience to students was given through field trips.

*Most of the children at NSL are from Telugu Medium background, with minimum parental support with regard to their academics. On observation from past two years, there is remarkable development in their creativity, thinking, interpretational and illustrative skills, helping them grow independent at each level*

#### Social categorization of free and subsidized education at NSL-Guntur

Sl.No.	Community	Free education	Subsidized	Fee paid
1	SC	15	3	11
2	ST	2	0	0
3	BC	61	3	23
4	Minorities	0	0	0
5	OC	6	10	127
	<b>Total</b>	<b>84</b>	<b>16</b>	<b>161</b>
	<b>Percentage</b>	<b>32</b>	<b>6</b>	<b>62</b>

#### Natco High School, Rangapur, Kothur Mandal, Mahaboobnagar district

Natco High School was established in the year 1995 under the Natco Trust, to facilitate education in the surrounding villages and also to the employee children of Natco Pharma Ltd. Though the school started with strength of 77 students, 10 rooms and 10 staff members in 1995 by 2012-13 it has increased to 1346 students, The objective behind establishing the school remained to impart quality education with free and subsidized fees.

*Students have improved in their interpretation, thinking and analytical skills through the innovative mode of teaching taken up by the teachers. When a student made a torch light using a plastic container and waste wires, he found in his house, it encouraged all of us. 100% results in class X for the academic year 2012-13.*

The implementation of activity based and hands on learning has brought a broad outlook for the students and increased their thinking skills and interpretation skills. Unlike every year we have seen a tremendous improvement in the way students interpret what they are learning, the way they express their

feelings and opinions. Teachers were continuously supported with different training programmes to meet the demand of the class room. The academic achievements include 100% result in grade X board exams as well as 99% results in internal exams from LKG to Gr. IX. External exams were also introduced and students from gr 4 to 9 have bagged gold, silver and bronze medals in international math and science Olympiads

*Students bagged Gold, Silver and Bronze medals in Math and Science Olympiad conducted by IMO and ISO. 487 students got benefit from free and subsidized education for the year 2012-13*

**Details students availed free and subsidized education at Natco High School**

Sl.No.	No. of Students availed free education	No. of students availed subsidized education	Total number of students
1	88	399	487

To improve the co-curricular and the extracurricular skills, students were made to participate in various competitions conducted in school as well as organizations like library associations of Shadnagar and Kothur. Kalabharathi Childrens Art Association, Chinni Chinni Asha, NICE foundation. Drawing, painting, elocution, essay writing, spell bee, fancy dress are the competitions conducted.

Boys' team of Natco high school participated in the national level Tchok ball championship and bagged first place on behalf of Mahaboobnagar district. Girls' team bagged second place in district level Tchok ball championship. Hockey, volleyball and cricket sports teams are also formed and given training in school.

In order to meet the requirement of the class rooms, management has decided to construct a new block of 9 class rooms and demolished the old construction and made a block of 6 class rooms with 1 multipurpose hall.

There are many events which were celebrated in the school which included national festivals and other important festivals of our country. The major event of the year was "Natco's Prakruthi Utsav" which was a cultural show and nearly 900 students have participated on stage and 100 students have participated back stage.

*STATE CHAMPIONS:-NHS Tchok ball boys team won state level championship from MBNG district. 900 students directly and 100 students indirectly took part in the Annual event "Natco's Prakruthi Utsav"*

It was a learning which included planning of the event to logo designing, from understanding the theme to developing cultural shows related to the theme, designing of the stage to lighting and sound. Preparations of props and managing to arrange on the stage.....students have gained the best of the experience in their lifetime.

**Education activities at Nagarjuna Sagar, Nalagonda district****AFTER SCHOOL TUTIONS for primary and high school students**

The objective: to inculcate the school going habit of among the children through activity based learning process amongst the students

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

*270 students are getting benefit from after school tuitions. Regular interaction with parents and teachers reduced the dropouts*

The Natco trust initiated the after school tuitions to 10 government schools students in the targeted villages at Peddavura Mandal of Nalagonda district. The emphasis has been put on inculcating activity based learning process in addition to the class room learning. The child has the freedom to explore and learn in joyful way. The teaching methodology adopted was Multi grade and multi level. About 270 students of the 670 enrolments in Government Primary schools are benefitting from this program. These students are also provided with Nutritious snacks regularly

*The objective is to prevent dropouts and mainstream the school going age group children*

The syllabus has been progressing as per the content planned from time to time, level wise and an assessment using reading cards or written assessments are being held alternately in each centre. During this academic year, in Telugu apart from stressing on their ability to learn the basics thoroughly, stress was laid on grammar concepts, writing skills, comprehending skills, interpretational skills as well in a graded manner through the level wise laid down curriculum. Various activities to enhance their speaking, reading and recitation skills are also being included in to the curriculum to

make learning interesting and fun as well for the children, while it also fulfils the purpose of developing their spontaneity and involvement in subjects through the games and activities held.

There has been significant improvement in the reduction of the Dropout rate at Government schools, because of "After School Tuitions program". While the reasons contributing to the drop outs were like, engaging children in household/farm works, remunerative cropping patterns affecting their regularity, non child centered system of teaching process in some cases, etc., The impetus through play way methods of teaching, congenial timings, parent interactions and involvement in the child's development, games and art activities included in syllabi, cards method of assessment, etc being provided through "After school tuitions" have been making notable impact on the increased rate of enrolment and attendance in the schools enhancing interest in learning.

#### **Pre -primary school - Thangalli thanda:**

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

Thangalli thanda is a rehabilitated village, consisting of 87 households belonging to Schedule tribal community. It has been earlier (palthi thanda) situated on the banks of Krishna River and very often inundated by the backwaters of river Krishna.

*The objective of pre primary school is to inculcate the school going habit among the children. The learning processes become ease through MGML method.*

The Trust has started a pre-primary school for the benefit of the children. The centre has 17 students in the age group of 3 to 5 years and they have been imparting activity based play way method learning. The Trust provided all teaching learning materials, play equipments, slates, and books; the center was taken care by a teacher and an ayah.

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

During the academic year 2012-13, the school has 17 Children between the age group of 3 to 5 years getting benefit out of this program. They were provided with various learning experiences in Telugu, Math and Themes through different activities designed in thematic manner and with the implementation of Multi Grade Multi Level Methodology in teaching Telugu.

The Learning system has been proving effective, in helping the child mould himself well with regard to his socio-emotional skills, by providing for inculcating good etiquette, habits and also self expression. The activity based system has been facilitating him to learn the concepts with a true relation to reality in life. Implementation of multi-grade-multi-level (MGML) methodology facilitating him ample space to learn at ease from multiple perspectives, the concepts in Telugu and Math, for example, once he/she learns a particular letter, he/she not only learns the usage and the pronunciation but also explores the environment to find words with that letter, similarly they learn math through manipulative activities and relevant story problems, games etc. . Ultimately, these children are able to stand out among the other entrants of Grade 1 students in Government schools,, in respect of their content knowledge, behavior and participation in the learning process.

*The parents of the children took the responsibility of cooking the mid-day meal for the students. It indirectly facilitates to monitor the learning process and increases the awareness and responsibility among the community*

The involvement of the parents in the mid day meal preparation and updating of the learning levels of the child from time to time would slowly develop a sense of responsible attitude among the community people such that it sustains to a better extent in them to follow up their children's education.

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

Children's clubs at Nayakunitanda , Yerracheruvu Tanda, Pilliguntla Tanda and at Borabanda, have been motivated and

encouraged to actively participate in mobilizing the school going children, apart from striving to improve the cleanliness in the schools, soft board works and playing various activities etc. A rally was organized at Tangilla Tanda also by the BVK children to increase the enrollment of the smaller children in Primary schools and encourage the children and parents towards schooling

*The child clubs and village library would facilitate the socialization process and reading habits among the students of different age group*

#### Village Library Program:

*Periodical capacity building workshops organized for volunteers. Special event classes were organized for students to retain them in the schools.*

In all about 87 children are taking the benefit of the program in three villages, viz, Pilliguntla Tanda, Yerra Cheruvu Thanda and Jaltanda. The children are encouraged to read the Library books available at school, with the support of the volunteer in the process through the conduct of various reading programs like, Chain Reading, Pair Reading, Reading and sharing the summary of the content read to the peers etc and an improvement is seen in their reading skills, pronunciation and enactment and imagination abilities apart from oral comprehending skills.

#### Open Tenth Program:

7 students have appeared for the exams held in the month of April from Chintalapalem. They were the working youth motivated for the purpose and supported and guided in the process of learning by the Team members and also supported on and off by a one or two employees of the organization as well.

#### Volunteer skills enhancement session:

A session has been organized to orient the volunteers with regard to the teaching of various concepts like, Picture comprehension, Story Narration, Greater than-less than, Missing numbers, additions and subtractions using the grid, Tombola game to revise the numerals, conduct of Memory and word building games etc, involving them through the activities. The government school teachers and Natco Trust team members took part in the program.

**Drawing and Clay Modeling** workshop was conducted in about 5 centers, namely, Jaltanda, Peddamunigal, Chintalapalem, Yerracheruvu tanda and Nayakuni Tanda for a week, with the cooperation of final year, Fine arts Student, Mr.Phani. They were taught about 15 to 20 pictures, through simple tricks of freehand drawing and they were also encouraged in clay activity.

**Workshop by Butterfly Fields:** It has been organized with their cooperation on 2nd November at Nellikal School for the students from Grade 4-10. About five topics were dealt in two to three slots of sessions for these classes. They have given 29 concept maps suitable for High School and 5 kits suitable for Primary to the school authorities.

#### Education activities at Hyderabad district

**Support to Natco Government High School:** The School has more than 1400 students from Class I to X both in Telugu and English medium. The Trust extended the support of housekeeping services and night security along with all required sanitary materials to keep the sanitation and school premises neat and clean. It also provided snacks to the school for all national festivals. A special snack has been provided to the 10th class students during the special classes. The results of 10th class were 90% both in Telugu and English mediums. 95 students appeared for the 10th examinations, out of which 85 students cleared it successfully. The school stood 1st in 10th results in the district of Hyderabad and the district collector felicitated the entire staff of the school.

*The Natco Government High School stood 1st in 10th class results in Hyderabad district. Demand for admissions increased, as a result entrance test introduced for admissions. Natco Trust continuously extended Housekeeping and other need based support*

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



## Educational support to Government schools and Anganawadi centres at Kothur, Mahaboobnagar district.

The Trust has supported child centric school infrastructure like dual desks to 7 government schools, 1 anganawadi centre and 1 Village library. It also supported mid day meal plates, drinking water glasses, cooking vessels, food grain storing materials and other essential materials to government schools and Anganawadi centres at Kothur Mandal.

*Provided student centric infra to government schools for conducive learning environment*

## SUMMER CAMP

The Summer Camp at Borabanda was organized for a period of 20 days for the children between the age group of 6 to 12 yrs. About 32 students participated in the program, a combination of various activities were included as part of the program. They were taught about 20 varieties of craft works, using handmade papers, Glass-work, best out of waste type etc and they were also taught the art of Candle Making. These students were also introduced to a set of new spot games, party games and interesting outdoor games. There were also activities like storytelling, Rhymes recitation to enhance their speaking and expression abilities. They could also have the opportunity of interacting with the Postal and Traffic

*The objective of summer camp is to motivate the children to continue the school education by creating interest on various activities. 53 students took part in the summer camp*

Personnel and learn about the rules and roles of these department personnel apart from Traffic Education. This is the third successive year of such Summer Camp at this School which has also gained its name as one of the best Government Schools in Academic Performance and Infrastructural facilities running with the Support of Natco Trust, The CSR wing of Natco Pharma Ltd.

A Maiden attempt has been made, introducing the same at Sanghiguda; Government School as well in this academic year, about 21 students took part in the program which went on for 5 days only. However, here also the daily agenda consisted of activities like, Craft Works, Story Telling, a few of the Indoor and Outdoor games as introduced at Borabanda.

The day used to end up with Entertainment Programs like Antakshari or Warm up Exercises too. And all the children were excited to participate and learn the various activities facilitated to them.

The day used to end up with Entertainment Programs like Antakshari or Warm up Exercises too. And all the children were excited to participate and learn the various activities facilitated to them.

## Activities at Guntur:-

**Support to fire accident villages:** In summer two villages namely Tallapalem and Mulukuduru at Ponnur mandal got fire and the houses got gutted down along with their belongings. Natco extended timely support it is supported with cattle feed to all the 80 families and in Mulukuduru village and supported with school stationary to all the students at Tallapalem.

*Extended timely support on natural calamities and provided the fodder for animals and school materials to students.*

## Distribution of UPS units to Government welfare hostels:

It is organized and participated in the District Collectors program for distribution of UPS units in 6 government hostels worth Rs.1 lakh, in and around Ponnur on the occasion of state formation day.

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

## Vocational training centers:

During the year 2012-13, the Natco Trust has initiated vocational training centre at Gollamudipadu village of Ponnur Mandal, Guntur district. We have entered partnership with government of Andhra Pradesh for providing training to the youth.

The Trust has started 4 channels of vocational training centre at Hyderabad, Guntur and Nalagonda districts on Fashion designing, Beauty parlor, ICT (information communication technology) Electrical and Driving courses. 604 beneficiaries got

*604 candidates underwent skill development training. 287 candidates got placement and 120 are in wage employment. 40% BC community got benefited, followed by 24% minority, 19% SC community, 11% OC and 6% of ST community. 42.5% got employment in tailoring followed by 19.5% in beautician and driving and 18.5% in computers*



trained in different courses. The Trust facilitated placement for 287 beneficiaries. Around 120 beneficiaries are self employed and around 50 beneficiaries were pursuing education and the information on others is not known.

### Social categorization of the beneficiaries

Sl. No	Course Name	BC	SC	ST	OC	MIN	Total
1	Tailoring	124	65	25	41	39	294
2	Beautician	33	05	-	06	52	96
3	Computer	60	33	12	14	8	127
4	Driving	25	11	03	04	44	87
	<b>Total</b>	<b>242</b>	<b>114</b>	<b>40</b>	<b>65</b>	<b>143</b>	<b>604</b>

### Social categorization and course wise placement details

Sl.no	Course Name	BC	SC	ST	OC	MIN	Total
1	Tailoring	49	32	11	13	17	122
2	Beautician	23	03	-	04	26	56
3	Computer	26	16	03	05	03	53
4	Driving	11	06	-	02	37	56
	<b>Total:</b>	<b>109</b>	<b>57</b>	<b>14</b>	<b>24</b>	<b>83</b>	<b>287</b>

### Income generation program

Natco Trust facilitated income generation program for the tailoring beneficiaries for the tune of Rs. 2 lakhs. They have stitched the government school uniforms and cloth carry bags for centre for environment education. Most of them use to earn minimum of Rs.2500/- and maximum of Rs.14000/- for per month.

*Income generation program for a tune of Rs. 2 lakhs provided 50 sewing machines at free of cost*

### Distribution of sewing machine in convergence with Rotary Club -Bhagyanagar

Natco Trust facilitated free 50 sewing machines for the tailoring beneficiaries in convergence with Rotary club, Bhagyanagar. Natco vocational training centres are registered with directorate of employment and training under skill development initiative scheme (SDIS) scheme

### Water and Sanitation

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

During the year 2012-13 a new RO purified drinking water plant was set up at Gollamudipadu GP of Ponnur mandal in Guntur district.

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

### **Sanitation: Individual Sanitation Latrine (ISL) in Gollamudipadu village, Ponnur Mandal, Guntur district.**

With a vision and target of 100% ISL in the village initiated to stop open defecation to prevent diseases. Discussions have been organized with the community and the line department to orient the importance of ISL and their participation in the construction. Coordinated with the Rural Water and Sanitation (RWS) engineer to make visit to the village and explained the process of assistance and objective of 100% sanitation in the village. So far 36 units are completed and distributed the assistance from Natco trust and government. Facilitated and coordinated with the district administration to include Gollamudipadu village as one of the 5 short listed villages in the mandal to extend Rs.9200 for each ISL under Central government scheme. The collector accepted, recommended the village and forwarded the proposal to Superintendent of Engineer of RWS for further process. The demand survey is completed and the list of sanctioned units is issued for grounding.

*Objective of the program is to make the village free from open defecation. Facilitated and coordinated with the district administration to include Gollamudipadu village as one of the 5 short listed villages in the mandal to extend Rs.9200 for each ISL under Central government scheme..*

### **Environment**

#### **Objective: -Promotion of kitchen gardens and non- pesticide management**

In the targeted villages motivated the parents of the government school students and beneficiaireis of nutrition centres to raise the back yard kitchen garden in their lands. Natco trust encourages them by supplying the seeds at free of cost with a condition that soon after the yield, the farmers has to give the vegetables at free of cost to the government schools for their mid day meal. In this way support of vegetables has been extended to 6 government schools. The farmers also earned a decent income out of the yield.

*The farmers gave a part of their yield to government schools for mid-day-meals*

#### **NABARD schemes awareness programme**

Natco Trust facilitated in organizing the awareness program on different schemes available under National Bank for Agriculture and Rural Development (NABARD) for the village community. The Assistant General Manager of NABARD, Nalgonda dist., Mr. Veera Shankar explained the subsidiary loans on poultry, sheep rearing, dairy farms, eligibility conditions etc., for the farmers and the process of getting it through various banks. NABARD Leads Manager Mr. P.J. James discussed with the farmers about the free toll numbers for the enquiries in the district and state level officials and how to approach the officials in a simple way. In this program the bank managers of APGVB and Canara Bank Nagarjuna Sagar also attended and 750 women and farmers from three Grama panchayaths i.e., Nellikal, Tunikinutala and Chintala palem were also attended.

*The awareness facilitated farmers to have one to one discussion with the government officials and ventilate their doubts. Around 750 women and farmers took part in the meeting.*

Natco Trust has facilitated one to one contact between the farmers and the service banks in the area. A follow up meeting was also facilitated between the farmers and the service banks in the villages for a good rapport and mutual benefit.

## INDEPENDENT AUDITORS' REPORT

To  
The Members of NATCO Pharma Limited

### Report on the Financial Statements

1. We have audited the accompanying financial statements of NATCO Pharma Limited ("the Company"), which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation of these financial statements, that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### Basis for Qualified Opinion

6. *Pending outcome of the on-going tax assessments, the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement as required by the Guidance Note on "Accounting for Credit available in respect of Minimum Alternative Tax under the Income Tax Act, 1961", issued by the Institute of Chartered Accountants of India. Had the Company accounted for such MAT credit, the profit after tax and the balance in loans and advances for the year ended 31 March 2013 would have been higher by ₹ 623,262,102 (31 March 2012: ₹ 404,902,653). This matter had caused us to qualify our audit report for the year ended 31 March 2012.*

### Qualified Opinion

7. In our opinion and to the best of our information and according to the explanations given to us, *except for the effects of the matter described in the Basis for Qualified Opinion paragraph* the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013;
  - ii) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and
  - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

### Report on Other Legal and Regulatory Requirements

8. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
9. As required by sub-section (3) of Section 227 of the Act, we report that:
  - a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
  - b. in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - c. the financial statements dealt with by this report are in agreement with the books of account;
  - d. in our opinion, the financial statements comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act; and
  - e. on the basis of written representations received from the directors, as on 31 March 2013 and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2013 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

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

Place : Hyderabad  
Date : 30 May 2013

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

**Annexure to the Independent Auditors' Report of even date to the members of NATCO Pharma Limited, on the financial statements for the year ended 31 March 2013.**

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

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets, except *in certain instances where the records for plant and machinery, furniture and other assets are maintained for a group of similar assets and not for each individual asset.*
- (b) The Company has a regular program of physical verification of its fixed assets under which fixed assets are verified in a phased manner over a period of three years, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) In our opinion, a substantial part of fixed assets has not been disposed-off during the year.
- (ii) (a) The management has conducted physical verification of inventory at reasonable intervals during the year.
- (b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory and no material discrepancies between physical inventory and book records were noticed on physical verification.
- (iii) (a) The Company has granted unsecured interest free loan to a subsidiary covered in the register maintained under Section 301 of the Act. The maximum amount outstanding during the year is ₹ 165,301,121 and the year-end balance is ₹ 165,301,121.
- (b) The Company has granted an interest free loan to a subsidiary covered under Section 301 of the Act. According to explanation provided by the management, the terms and conditions of such loan is not, *prima facie*, prejudicial to the interest of the Company due to concessional trade arrangement with such party. *In view of such trade arrangement, we are unable to comment as to whether the rate of interest or other terms and conditions are prejudicial to the interest of the Company.*
- (c) In respect of interest free loan given, the principal amount is repayable on demand and since the repayment of such loan has not been demanded, in our opinion, receipt of the principal amount is regular.
- (d) There is no overdue amount in respect of loan granted to the said subsidiary.
- (e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(f) and 4(iii)(g) of the Order are not applicable.
- (iv) In our opinion, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and for the sale of goods and services. *In our opinion, the internal control system for purchase of fixed assets needs to be strengthened to be commensurate with the size of the Company and the nature of its business. In our opinion, there is a continuing failure to correct major weakness in the internal controls for purchase of fixed assets.*
- (v) (a) In our opinion, the particulars of all contracts or arrangements that need to be entered into the register maintained under Section 301 of the Act have been so entered.
- (b) Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment as to whether the transactions made in pursuance of such contracts or arrangements have been made at the prevailing market prices at the relevant time.

- (vi) The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the Companies (Acceptance of Deposits) Rules, 1975. Accordingly, the provisions of clause 4(vi) of the Order are not applicable.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and the nature of its business.
- (viii) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under clause (d) of sub-section (1) of Section 209 of the Act in respect of Company's products and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.
- (ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues, as applicable, have generally been regularly deposited with the appropriate authorities, though there has been a slight delay in a few cases. Further, no undisputed amounts payable in respect thereof were outstanding at the year-end for a period of more than six months from the date they became payable.
- (b) The dues outstanding in respect of income-tax, sales-tax, wealth tax, service tax, custom duty, excise duty, cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount (₹)	Amount Paid under protest (₹)	Period to which the amount relates	Forum where dispute is pending
The Central Sales Tax Act, 1956	Central Sales Tax	8,690,000	2,500,000	Financial year 1997-98	Honorable High Court of Andhra Pradesh
The Income Tax Act, 1961	Income Tax	6,924,266	6,924,266	AY:2009-10	Income Tax Appellate Tribunal, Hyderabad
		18,447,645	18,447,645	A.Y. 1989-90 to 1998-99	Honorable High Court of Andhra Pradesh
		656,967	656,967		

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

- (xvii) In our opinion, no funds raised on short-term basis have been used for long-term investment by the Company.
- (xviii) During the year, the Company has made preferential allotment of shares to parties covered in the register maintained under Section 301 of the Act. In our opinion, the price at which shares have been issued is not, prima facie, prejudicial to the interest of the Company.
- (xix) The Company has neither issued nor had any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable.
- (xx) The Company has not raised any money by public issues during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable.
- (xxi) No fraud on or by the Company has been noticed or reported during the period covered by our audit.

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

Place : Hyderabad  
Date : 30 May 2013

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



## BALANCE SHEET AS AT 31ST MARCH, 2013

(All amounts in ₹ unless otherwise stated)

	Notes	As at 31 March, 2013	As at 31 March, 2012
<b>I. EQUITY AND LIABILITIES</b>			
<b>Shareholders' funds</b>			
Share capital	2	313,730,740	311,479,520
Reserves and surplus	3	5,062,059,357	4,363,167,613
		<u>5,375,790,097</u>	<u>4,674,647,133</u>
<b>Non-current liabilities</b>			
Long-term borrowings	4	1,371,236,462	1,340,986,565
Deferred tax liabilities (net)	5	411,198,879	288,939,908
Other long term liabilities	6	6,910,411	13,536,275
Long-term provisions	7	82,121,634	65,905,727
		<u>1,871,467,386</u>	<u>1,709,368,475</u>
<b>Current liabilities</b>			
Short-term borrowings	8	1,477,434,832	816,422,437
Trade payables	9	1,044,243,556	838,648,521
Other current liabilities	10	802,513,540	818,383,935
Short-term provisions	11	3,305,980	34,247,716
		<u>3,327,497,908</u>	<u>2,507,702,609</u>
<b>Total</b>		<u><u>10,574,755,391</u></u>	<u><u>8,891,718,217</u></u>
<b>II. Assets</b>			
<b>Non-current assets</b>			
Fixed assets			
Tangible assets	12	4,656,459,895	3,000,318,283
Intangible assets	13	49,109,294	17,753,289
Capital work-in-progress		783,677,802	1,644,271,788
Non-current investments	14	767,592,047	741,573,055
Long-term loans and advances	15	1,206,628,288	757,787,172
Other non-current assets	16	1,264,844	4,220,803
		<u>7,464,732,170</u>	<u>6,165,924,390</u>
<b>Current assets</b>			
Current investments	17	8,121,526	7,374,966
Inventories	18	1,283,198,581	972,834,410
Trade receivables	19	1,264,635,643	933,359,241
Cash and bank balances	20	93,689,211	336,972,901
Short-term loans and advances	15	426,885,070	426,383,653
Other current assets	21	33,493,190	48,868,656
		<u>3,110,023,221</u>	<u>2,725,793,827</u>
<b>Total</b>		<u><u>10,574,755,391</u></u>	<u><u>8,891,718,217</u></u>

Notes 1 to 43 form an integral part of these financial statements.

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

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

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

V.C. Nannapaneni  
Chairman & Managing Director

Rajeev Nannapaneni  
Vice Chairman & CEO

Place : Hyderabad  
Date : 30 May, 2013

Dr. P. Bhaskara Narayana  
Director & Chief Financial Officer

M. Adinarayana  
Company Secretary



**STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 MARCH, 2013**

(All amounts in ₹ unless otherwise stated)

	Notes	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>REVENUE</b>			
Revenue from operations (gross)	22	5,651,209,796	4,425,896,186
Less: Excise duty		72,685,211	69,137,773
Revenue from operations (net)		5,578,524,585	4,356,758,413
Other income	23	119,399,069	95,147,964
<b>Total revenue</b>		<b>5,697,923,654</b>	<b>4,451,906,377</b>
<b>Expenses</b>			
Cost of materials consumed (including packing material)	24	1,806,272,492	1,176,723,270
Purchases of stock-in-trade		55,815,327	155,316,876
Changes in inventories of finished goods, work-in-progress and traded goods	25	(212,488,572)	10,834,924
Employee benefit expenses	26	853,620,758	671,341,782
Finance costs	27	251,193,404	229,595,364
Depreciation and amortisation charge	12 and 13	198,415,499	154,051,694
Other expenses	28	1,506,003,773	1,228,912,994
<b>Total expenses</b>		<b>4,458,832,681</b>	<b>3,626,776,904</b>
<b>Profit before exceptional items and tax</b>		<b>1,239,090,973</b>	<b>825,129,473</b>
Exceptional item	29	115,840,728	-
<b>Profit before tax</b>		<b>1,123,250,245</b>	<b>825,129,473</b>
<b>Tax expense</b>			
Current tax		219,557,700	165,779,120
Deferred tax expense		122,258,971	38,070,613
<b>Profit for the year</b>		<b>781,433,574</b>	<b>621,279,740</b>
<b>Earnings per equity share [EPES]</b>	39		
<i>Face value ₹ 10 per share</i>			
Basic		25.02	21.39
Diluted		24.91	21.39
<b>Notes 1 to 43 form an integral part of these financial statements.</b>			

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

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**For Walker, Chandiok & Co.  
Chartered Accountants  
per **Sanjay Kumar Jain**  
Partner**V.C. Nannapaneni**  
Chairman & Managing Director**Rajeev Nannapaneni**  
Vice Chairman & CEOPlace : Hyderabad  
Date : 30 May, 2013**Dr. P. Bhaskara Narayana**  
Director & Chief Financial Officer**M. Adinarayana**  
Company Secretary

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH, 2013

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>Cash flows from operating activities</b>		
Profit before tax	1,123,250,245	825,129,473
<b>Adjustments:</b>		
Depreciation and amortisation expense	198,415,499	154,051,694
Net gain on sale of investments	(11,766,528)	(747,897)
Diminution in the value of investments	-	3,265,855
Inventory written-off	8,401,436	3,751,630
Bad and doubtful trade receivables written-off	-	5,754,833
Provision for employee benefits	17,149,171	12,235,610
Employee stock option compensation	57,112,791	-
Provision no longer required, written back	(31,875,000)	-
Interest income	(21,102,676)	(30,740,338)
Dividend income	(4,808)	(220,720)
Interest expenses	237,803,001	211,032,299
Loss on sale of asset	711,296	-
Unrealised foreign exchange loss / (gain), net	407,951	(636,322)
<b>Operating profit before working capital changes</b>	<b>1,578,502,378</b>	<b>1,182,876,117</b>
Increase / (decrease) in other current liabilities	(76,729,521)	115,353,998
Increase in trade payables	204,822,138	108,034,424
Increase / (decrease) in long-term liabilities	(6,625,864)	1,050,000
Increase in inventories	(318,765,607)	(46,385,483)
Increase in trade receivables	(330,911,456)	(234,048,913)
(Increase) / decrease in long-term loans and advances	(44,267,618)	11,887,696
Increase in short-term loans and advances	(83,033,580)	(229,851,873)
Increase in other current assets	(335,451)	(3,357,689)
Cash generated from operating activities	922,655,419	905,558,277
Income taxes paid	(222,407,944)	(225,438,719)
<b>Net cash generated from operating activities</b> <b>A</b>	<b>700,247,475</b>	<b>680,119,558</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible assets	(1,022,336,150)	(1,282,903,967)
Purchase of intangible assets	(38,260,234)	(4,694,078)
Investment in subsidiary companies	(26,018,992)	(51,070,785)
Drawings from partnership firm	18,848,513	2,745,573
Purchase of current investments	(9,129,970)	(5,353,123)
Proceeds from sale of current investments	11,789,933	3,616,569
Interest received	26,325,085	22,139,715
Loans recovered from / (given to) subsidiary companies	(199,454,248)	34,333,500
Receipt of capital subsidy	-	3,000,000
Dividends received	4,808	220,720
Increase in other bank balances	(4,167,009)	(7,772,195)
<b>Net cash used in investing activities</b> <b>B</b>	<b>(1,242,398,264)</b>	<b>(1,285,738,071)</b>

**CASH FLOW STATEMENT (Contd.)**

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	2,251,220	675,000,000
Proceeds from long-term borrowings	550,000,000	508,740,250
Repayment of long-term borrowings	(469,042,949)	(269,395,591)
Proceeds from short-term borrowings, net	661,012,395	96,196,971
Interest paid	(308,898,219)	(284,083,941)
Dividends paid (including tax on distributed profits)	(143,578,316)	(106,721,038)
<b>Net cash from financing activities</b> C	<b>291,744,131</b>	<b>619,736,651</b>
<b>Net (decrease) / increase in cash and cash equivalents (A+B+C)</b>	<b>(250,406,658)</b>	<b>14,118,138</b>
Cash and cash equivalents as at the beginning of the year	317,105,808	302,987,670
Cash and cash equivalents as at the end of the year [Refer Note 1]	<b>66,699,150</b>	<b>317,105,808</b>
<b>Note 1:</b>		
Cash and bank balances as per Note 20	93,689,211	336,972,901
Less: Other bank balances	26,990,061	19,867,093
<b>Cash and cash equivalents considered</b>	<b>66,699,150</b>	<b>317,105,808</b>

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

For and on behalf of Board of Directors of  
NATCO Pharma LimitedFor Walker, Chandio & Co.  
Chartered Accountants  
per Sanjay Kumar Jain  
PartnerV.C. Nannapaneni  
Chairman & Managing DirectorRajeev Nannapaneni  
Vice Chairman & CEOPlace : Hyderabad  
Date : 30 May, 2013Dr. P. Bhaskara Narayana  
Director & Chief Financial OfficerM. Adinarayana  
Company Secretary

## NOTES TO THE FINANCIAL STATEMENTS

Summary of significant accounting policies and other explanatory information

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### a. Basis of preparation of financial statements

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

#### b. Use of estimates

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

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

#### c. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprise of purchase price, freight, non-refundable duties, taxes and any other cost attributable to bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of tangible fixed assets which

takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready for its intended use. Assets retired from active use and held for disposal are stated at their estimated net realisable values or net book values, whichever is lower.

#### d. Depreciation

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

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

#### e. Intangible assets

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

#### f. Impairment of assets

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

#### g. Government grants

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

#### **h. Investments**

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

#### **i. Inventories**

Raw material, packaging material, stores and spare parts are carried at cost. Cost includes purchase price excluding taxes those are subsequently recoverable by the Company from the concerned revenue authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition. Cost is determined using the weighted average cost. The carrying cost of raw materials, packaging materials and stores and spare parts are appropriately written down when there is a decline in replacement cost of such materials and finished products in which they will be incorporated are expected to be sold below cost.

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

#### **j. Research and development**

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

#### **k. Revenue recognition**

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

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

#### **l. Taxes**

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or subsequently enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is

reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

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

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

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

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

#### **m. Earnings per equity share**

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

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

#### **n. Foreign currency transactions**

##### *Initial recognition*

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

##### *Conversion*

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

##### *Exchange differences*

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

#### **o. Employee benefits**

##### *Provident fund*

The Company contributes to the provident fund maintained by the Regional Provident Fund Commissioner, in accordance with Employees Provident Fund and Miscellaneous Provisions Act, 1952. The provident fund plan is a defined

contribution plan and contribution paid or payable is recognized as an expense on accrual basis. There are no other obligations of the Company other than the contributions made to the fund.

*Gratuity*

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

*Employee state insurance*

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

*Compensated absences*

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

**p. Leases**

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

**q. Provisions and contingent liabilities**

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

**r. Cash flow statement**

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

**s. Cash and cash equivalents**

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

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013		As at 31 March, 2012	
	Number	Amount	Number	Amount
<b>2. SHARE CAPITAL</b>				
<b>Authorised share capital</b>				
Equity shares of ₹10 each	32,000,000	320,000,000	32,000,000	320,000,000
Preference shares of ₹10 each	3,000,000	30,000,000	3,000,000	30,000,000
<b>Issued, subscribed and fully paid up</b>				
Equity shares of ₹10 each	31,373,074	313,730,740	31,147,952	311,479,520
<b>TOTAL</b>	<b>31,373,074</b>	<b>313,730,740</b>	<b>31,147,952</b>	<b>311,479,520</b>

### (a) Reconciliation of shares

	As at 31 March, 2013		As at 31 March, 2012	
	Number	Amount	Number	Amount
<b>Equity shares of ₹ 10 each</b>				
Balance at the beginning of the year	31,147,952	311,479,520	28,147,952	281,479,520
Add: Issued during the year	-	-	3,000,000	30,000,000
Add: Shares issued under the employee stock option plan ("ESOP")	225,122	2,251,220	-	-
Balance at the end of the year	<b>31,373,074</b>	<b>313,730,740</b>	<b>31,147,952</b>	<b>311,479,520</b>

### (b) Terms and rights attached to equity shares

The Company has only one class of equity shares having a par value of ₹ 10 per share. Each holder of equity shares is entitled to one vote per share. The dividend, if any, proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing general meeting.

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

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

	As at 31 March, 2013		As at 31 March, 2012	
	Number	%	Number	%
<b>Equity share of ₹ 10 each</b>				
V C Nannapaneni **	8,023,838	25.58%	8,023,838	25.76%
Time Cap Pharma Labs Limited	3,409,694	10.87%	3,409,694	10.95%
Natsoft Information Systems Private Limited	3,153,500	10.05%	3,153,500	10.12%

\*\* including shares held in the capacity of Karta of HUF of 1,088,009 (31 March 2012:1,088,009)

### (d) Employee stock option scheme ("ESOP")

- (i) The Company had instituted NATCO Stock Option Plan 2010 ("ESOP 2010") as per the special resolution passed in the annual general meeting of the members held on 30 September 2010. This Scheme has been formulated in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI ESOP Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Act. Pursuant to such approval, the Board is authorized to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to eligible employees based on specific recommendations of the remuneration committee. Each option comprises of one underlying equity share of ₹ 10 each. 236,551 options were granted during August 2011 at an exercise price of ₹ 10 each.



As at 31 March 2013 the stock option outstanding comprises of Nil (31 March 2012: 225,122) equity shares of ₹ 10 each, fully paid-up at an exercise price of ₹ 10 each to eligible employees, subject to vesting over a period of twelve months from the date of the grant. Shares granted under ESOP 2010 are accounted at intrinsic value of ₹ 253.70 per share, being the difference between the market value, calculated in accordance with the valuation methods prescribed by the SEBI and the grant price and accounted as stock option compensation over the vesting period.

- (ii) During the year ended 31 March 2013 the Company has recorded stock compensation expenses amounting to ₹ 57,112,791 (31 March 2012: ₹ Nil) including ₹ 36,202,643 (31 March 2012: ₹ Nil) pertaining to prior period.
- (iii) Changes in number of shares representing stock options outstanding as at the year ended on 31 March 2013 were as follows:

	<u>ESOP 2010</u>
Outstanding as at 1 April 2011	-
Granted during the year	236,551
Exercised and vested	-
Forfeited	11,429
Outstanding as at 31 March 2012	225,122
Exercised and vested	225,122
Forfeited	-
Outstanding as at 31 March 2013	<u>-</u>

- (iv) Proforma disclosures:

Earnings per equity share (EPES) calculated using cost computed under the black and scholes model method is higher than the EPES reported after considering the cost computed using the intrinsic value method, hence no proforma disclosures are presented.

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

	<u>As at 31 March, 2013</u>	<u>As at 31 March, 2012</u>
Equity shares of ₹ 10 each allotted as fully paid-up pursuant to contracts without payment being received in cash.*	<b>332,247</b>	211,600
Equity shares bought back by the Company	-	458,465

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

- (f) In the prior year, NATCO Group Employees Welfare Trust ("Trust") acquired certain equity shares of the Company from the open market for the purposes of further allotment to the employees of the Company. Pursuant to the Circular No. CIR/CFD/DIL/7/2013 dated 13 May 2013 issued by SEBI and as required thereunder, the Trust is in the process of disposing off such shares in compliance with the provisions of the said circular.

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>3. RESERVES AND SURPLUS</b>		
<b>Capital reserves</b>		
Balance at the beginning of the year	207,272,762	204,272,762
Add: Additions during the year	-	3,000,000
Balance at the end of the year	207,272,762	207,272,762
<b>Capital redemption reserve - as per last balance sheet</b>	4,928,810	4,928,810
<b>Securities premium reserve</b>		
Balance at the beginning of the year	1,464,328,761	819,328,761
Add: Additions during the year [Refer note 2 (d)]	57,112,791	645,000,000
Balance at the end of the year	1,521,441,552	1,464,328,761
<b>General reserve</b>		
Balance at the beginning of the year	247,161,000	177,161,000
Add: Additions during the year	80,000,000	70,000,000
Balance at the end of the year	327,161,000	247,161,000
<b>Foreign currency translation reserve</b>		
Balance at the beginning of the year	34,336,385	19,430,092
Add: Adjustments during the year	6,195,663	14,906,293
Balance at the end of the year	40,532,048	34,336,385
<b>Surplus in the statement of profit and loss</b>		
Balance at the beginning of the year	2,405,139,895	1,962,462,941
Add: Profit for the year	781,433,574	621,279,740
Less: Interim dividend - ₹ 4 (31 March 2012: ₹ 3) per share	125,492,296	93,443,856
Less: Tax on distributed profits	20,357,988	15,158,930
Less: Transferred to general reserve	80,000,000	70,000,000
Balance at the end of the year	2,960,723,185	2,405,139,895
	<u>5,062,059,357</u>	<u>4,363,167,613</u>
<b>4. LONG-TERM BORROWINGS</b>		
<b>Secured</b>		
Term loans from		
Banks	1,268,412,628	964,195,612
Other parties	609,176,471	803,647,059
	<u>1,877,589,099</u>	<u>1,767,842,671</u>
<b>Unsecured</b>		
Deferred payment liabilities	542,698	2,177,325
	<u>1,878,131,797</u>	<u>1,770,019,996</u>
Less: Current maturities of long-term borrowings (note 10)	506,895,335	429,033,431
	<u>1,371,236,462</u>	<u>1,340,986,565</u>

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

**(a) Deferred payment liabilities**

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

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

- (i) Term loans amounting to ₹ 696,676,471 (31 March 2012: ₹ 941,147,059) is secured by pari-passu first charge on the entire immovable properties and movable fixed assets both present and future of Mekaguda Unit and part of the loan is further secured by an exclusive charge on all the immovable properties and movable fixed assets of both the units (Plot No-19 and Plot NoA-3) at Dehradun and exclusive charge on the R&D equipment acquired from the loan amount.
- (ii) Term loan amounting to ₹ 327,559,559 (31 March 2012: ₹ 410,814,800) is secured by an exclusive charge over all movable and immovable fixed assets of NATCO Research Center and a part of the loan is secured by first charge on the movable and immovable fixed assets of Mekaguda unit along with other lenders.
- (iii) Term loan amounting to ₹ 853,353,069 (31 March 2012: ₹ 415,880,812) is secured by pari-passu first charge on the entire fixed assets both present and future of Kothur Unit.

All the above loans are guaranteed by Mr. V.C Nannapaneni, Chairman and Managing Director and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 3.53% per annum to 12.75% per annum (31 March 2012: 3.53% per annum to 14% per annum).

**(c) Details of repayment of long term borrowings**

	As at 31 March, 2013	As at 31 March, 2012
Up to 1 year	506,895,335	429,033,431
From 1 to 3 years	854,153,129	1,030,006,183
3 years and above	517,083,333	310,980,382
	<u>1,878,131,797</u>	<u>1,770,019,996</u>

	As at 31 March, 2013	As at 31 March, 2012
<b>5. DEFERRED TAX LIABILITY, NET</b>		
On account of depreciation	443,433,857	313,976,066
On account of employee benefits and others	(32,234,978)	(25,036,158)
Net deferred tax liability	<u>411,198,879</u>	<u>288,939,908</u>
<b>6. OTHER LONG-TERM LIABILITIES</b>		
Deposits	6,910,411	13,536,275
	<u>6,910,411</u>	<u>13,536,275</u>

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>7. LONG-TERM PROVISIONS</b>		
Provision for gratuity	54,519,402	45,868,185
Provision for leave benefits	27,602,232	20,037,542
	<u>82,121,634</u>	<u>65,905,727</u>

**(a) Gratuity**

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

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

	As at 31 March, 2013	As at 31 March, 2012
<b>(i) Change in projected benefit obligation</b>		
Projected benefit obligation at the beginning of the year	73,162,037	58,231,217
Service cost	5,420,329	4,282,414
Interest cost	5,852,963	4,658,497
Actuarial (gain) / loss	13,154,950	7,133,657
Benefits paid	(3,127,649)	(1,143,748)
Projected benefit obligation at the end of the year	<u>94,462,630</u>	<u>73,162,037</u>
<b>(ii) Change in plan assets</b>		
Fair value of plan assets at the beginning of the year	27,293,852	26,078,468
Expected return on plan assets	3,190,969	2,359,132
Employer contributions	12,586,056	-
Benefits paid	(3,127,649)	(1,143,748)
Fair value of plan assets at the end of the year	<u>39,943,228</u>	<u>27,293,852</u>
<b>(iii) Reconciliation of present value of obligation on the fair value of plan assets</b>		
Present value of projected benefit obligation at the end of the year	94,462,630	73,162,037
Funded status of the plans	39,943,228	27,293,852
Net liability recognised in the balance sheet	<u>54,519,402</u>	<u>45,868,185</u>
<b>(iv) Expense recognized in the statement of profit and loss</b>		
Service cost	5,420,329	4,282,414
Interest cost	5,852,963	4,658,497
Expected returns on plan assets	(3,190,969)	(2,359,132)
Recognized net actuarial (gain)/ loss	13,154,950	7,133,657
Net gratuity costs	<u>21,237,273</u>	<u>13,715,436</u>
<b>(v) Key actuarial assumptions</b>		
Discount rate	8.00%	8.00%
Expected return on plan assets	9.25%	9.25%
Salary escalation rate	4.00%	4.00%

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>8. SHORT-TERM BORROWINGS</b>		
Loans repayable on demand		
<b>Secured</b>		
From banks	947,559,690	717,089,070
<b>Unsecured</b>		
From banks	529,875,142	99,333,367
	<u>1,477,434,832</u>	<u>816,422,437</u>

- (a) Loans repayable on demand represents cash credit, overdraft, bills purchased and discounted with various banks and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 5.75% per annum to 14% per annum.
- (b) Loans repayable on demand are secured by way of first charge on all the current assets of the Company. The collateral security is joint pari-passu first charge on the corporate Office and all fixed assets of Nagarjuna Sagar Unit apart from personal guarantees of Mr. V.C. Nannapaneni, Chairman and Managing Director and (a) Ms. Durga Devi Nannapaneni, promoter and (b) Dr. N. Ramakrishna Rao, relative of Chairman and Managing Director, in case of working capital limits availed from SBI, Corporation Bank, Oriental Bank of Commerce and Allahabad Bank.
- (c) Unsecured loans are personally guaranteed by Mr. V.C. Nannapaneni, Chairman and Managing Director.

	As at 31 March, 2013	As at 31 March, 2012
<b>9. TRADE PAYABLES</b>		
Sundry creditors		
Dues to micro and small enterprises [Refer (a) below]	50,901,758	31,007,455
Dues to others		
- Creditors for purchases and expenses	894,760,036	659,898,198
- Employee and other payables	98,581,762	147,742,868
	<u>1,044,243,556</u>	<u>838,648,521</u>

- (a) The management has identified creditors covered by Micro, Small and Medium Enterprises Development Act, 2006 (MSMEDA). Accordingly, disclosures in respect of the amounts payable to such enterprises as at 31 March 2013 has been made in note 33 to the financials statements and such disclosures is based on information received and available with the Company.

	As at 31 March, 2013	As at 31 March, 2012
<b>10. OTHER CURRENT LIABILITIES</b>		
Current maturities of long-term borrowings	506,895,335	429,033,431
Interest accrued but not due on long-term borrowings	7,241,672	11,093,108
Creditors for capital assets	194,748,273	210,171,583
Book overdraft	46,993,831	31,000,614
Advance from customers	11,323,209	106,307,670
Unpaid dividends	8,303,908	6,031,940
Statutory liabilities	27,007,312	24,745,589
	<u>802,513,540</u>	<u>818,383,935</u>
<b>11. SHORT-TERM PROVISIONS</b>		
Provision for contingencies	-	31,875,000
Provision for leave benefits	3,305,980	2,372,716
	<u>3,305,980</u>	<u>34,247,716</u>

- (a) Provision for contingencies represents, possible obligations that may arise in view of uncertainties associated with certain revenue transactions entered into by the company. In the current year, as the terms associated with such revenue transactions has been satisfied, accordingly the Company has reversed such provision.

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

### 12. TANGIBLE ASSETS

Gross block	Freehold land	Leasehold land	Buildings	Plant and equipment	Office equipment	Furniture	Vehicles	Computers	Total
Balance as at 1 April 2011	259,814,100	16,725,782	1,068,849,687	1,988,335,799	22,671,724	24,153,064	69,704,758	68,320,823	3,518,575,737
Additions	69,823,025	-	200,203,695	335,477,601	1,136,932	9,123,533	6,685,026	3,501,988	625,951,800
Balance as at 31 March 2012	329,637,125	16,725,782	1,269,053,382	2,323,813,400	23,808,656	33,276,597	76,389,784	71,822,811	4,144,527,537
Additions	115,703,075	-	478,634,030	1,166,555,082	630,830	11,749,135	16,754,186	19,177,783	1,809,204,121
Disposals / adjustments	-	-	-	-	-	-	1,304,989	-	1,304,989
Foreign exchange fluctuation	-	-	14,032,917	25,127,140	-	-	-	-	39,160,057
Balance as at 31 March 2013	445,340,200	16,725,782	1,761,720,329	3,515,495,622	24,439,486	45,025,732	91,838,981	91,000,594	5,991,586,726
Accumulated depreciation									
Up to 1 April 2011	-	1,060,706	213,436,663	661,623,719	8,308,539	13,580,836	32,373,955	63,709,600	994,094,018
Depreciation charge	-	188,536	36,638,885	103,133,452	1,139,428	3,120,645	4,744,790	1,149,500	150,115,236
Up to 31 March 2012	-	1,249,242	250,075,548	764,757,171	9,447,967	16,701,481	37,118,745	64,859,100	1,144,209,254
Depreciation charge	-	188,536	45,559,523	133,220,800	1,149,143	2,625,117	5,535,469	3,232,682	191,511,270
Reversal on disposal	-	-	-	-	-	-	593,693	-	593,693
Up to 31 March 2013	-	1,437,778	295,635,071	897,977,971	10,597,110	19,326,598	42,060,521	68,091,782	1,335,126,831
Net block									
Balance as at 31 March 2012	329,637,125	15,476,540	1,018,977,834	1,559,056,229	14,360,689	16,575,116	39,271,039	6,963,711	3,000,318,283
Balance as at 31 March 2013	445,340,200	15,288,004	1,466,085,258	2,617,517,651	13,842,376	25,699,134	49,778,460	22,908,812	4,656,459,895

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

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

**13. INTANGIBLE ASSETS**

	Computer Software	Total
<b>Gross block</b>		
Balance as at 1 April 2011	22,377,238	22,377,238
Additions	4,694,078	4,694,078
<b>Balance as at 31 March 2012</b>	<b>27,071,316</b>	<b>27,071,316</b>
Additions	38,260,234	38,260,234
<b>Balance as at 31 March 2013</b>	<b>65,331,550</b>	<b>65,331,550</b>
Accumulated amortisation		
<b>Up to 1 April 2011</b>	<b>5,381,569</b>	<b>5,381,569</b>
Amortization charge	3,936,458	3,936,458
<b>Up to 31 March 2012</b>	<b>9,318,027</b>	<b>9,318,027</b>
Amortization charge	6,904,229	6,904,229
<b>Up to 31 March 2013</b>	<b>16,222,256</b>	<b>16,222,256</b>
<b>Net block</b>		
Balance as at 31 March 2012	17,753,289	17,753,289
<b>Balance as at 31 March 2013</b>	<b>49,109,294</b>	<b>49,109,294</b>

	As at 31 March, 2013	As at 31 March, 2012
<b>14. NON-CURRENT INVESTMENTS</b>		
<b>Investments in equity instruments, Trade, Unquoted</b>		
<i>Investments in subsidiaries</i>		
1,000 (31 March 2012: 1,000) representing 100% (31 March 2012: 100%) fully paid-up, non-assessable shares of US\$1,000 each in Natco Pharma Inc., Delaware, United States of America	41,849,274	41,849,274
20,241,770 (31 March 2012: Nil) representing 51% (31 March 2012: Nil) equity shares of ₹ 10 each, fully paid-up in NATCO Organics Limited	202,417,700	-
Share application money in NATCO Organics Limited	400,042,198	602,459,898
189,628 (31 March 2012: 91,785) representing 73% (31 March 2012: 75%) equity shares of US\$10 each, fully paid-up in Time Cap Overseas Limited, Mauritius	90,497,200	40,914,029
Share application money in Timecap Overseas Limited, Mauritius	14,641,384	40,926,944
36,000 (31 March 2012: Nil) representing 90% (31 March 2012: Nil) equity shares of Candain Dollar 1 each, fully paid-up in NATCO Pharma (Canada) Inc, Canada	1,988,280	-
Share application money in NATCO Pharma (Canada) Inc, Canada	733,101	-
	<b>752,169,137</b>	<b>726,150,145</b>

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>NON-CURRENT INVESTMENTS (Contd.)</b>		
<i>Others</i>		
750 (31 March 2012: 750) equity shares of ₹ 100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	75,000	75,000
34,400 (31 March 2012: 34,400) equity shares of ₹ 10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	344,000	344,000
	<u>419,000</u>	<u>419,000</u>
<b>Total investments in equity instruments, Trade (A)</b>	<b>752,588,137</b>	<b>726,569,145</b>
<b>Investments in equity instruments, Others, Quoted</b>		
27,000 (31 March 2012: 27,000) equity shares of ₹10 each, fully paid-up in Jayalakshmi Spinning Mills Limited	270,000	270,000
<b>Total investments in equity instruments, Others (B)</b>	<b>270,000</b>	<b>270,000</b>
<b>Other non-current investments, Others, Unquoted</b>		
Investment in portfolio management services		
15,000,000 (31 March 2012: 15,000,000) compulsorily convertible preference shares of ₹ 1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited.	15,000,000	15,000,000
National savings certificates	3,910	3,910
<b>Total investments in other non-current investments (C)</b>	<b>15,003,910</b>	<b>15,003,910</b>
<b>Total non-current investments (A+B+C)</b>	<b>767,862,047</b>	<b>741,843,055</b>
Less: provision for diminution in value of investments	270,000	270,000
	<u><b>767,592,047</b></u>	<u><b>741,573,055</b></u>
Quoted investments	270,000	270,000
Market value of quoted investments	-	-
Unquoted investments [including share application money]	767,592,047	741,573,055
Provision for diminution in value of investments	<u>270,000</u>	<u>270,000</u>

### Investment in portfolio management services

The Company has made an investment, aggregating to ₹ 15,000,000 in the private equity opportunities fund of Anand Rathi Financial Services Limited (ARFSL). By virtue of shareholders agreement and share subscription agreement, both dated 29 November 2010, ARFSL has invested the Company's fund in the Compulsorily Convertible Preference Shares of Ravindranath GE Medical Associates Private Limited. The Company's investment in the private equity opportunities fund of ARFSL provides for a return of 20% in excess of 16% on a gross pre-tax IRR basis. In the absence of reasonable certainty of realization of return, no income was accrued on such investment for the year ended 31 March 2013.



**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>15. LOANS AND ADVANCES</b>		
(Unsecured, considered good)		
<b>Long-term</b>		
Capital advances	290,831,985	177,290,805
Security deposits	26,523,601	20,112,112
Advance tax, net	143,367,501	140,517,257
Loans and advances to related parties	657,417,289	351,692,238
Balances with government authorities	88,487,912	68,174,760
	<u>1,206,628,288</u>	<u>757,787,172</u>
<b>Short-term</b>		
Loans and advances to related parties	93,676,407	176,208,570
Prepaid expenses	13,675,587	17,440,864
Balances with government authorities	251,578,693	141,964,952
Advances for purchases and expenses	46,112,237	69,377,065
Other advances	21,842,146	21,392,202
	<u>426,885,070</u>	<u>426,383,653</u>
<b>16. OTHER NON-CURRENT ASSETS</b>		
(Unsecured, considered good)		
Margin money deposit with banks*	1,264,844	4,220,803
	<u>1,264,844</u>	<u>4,220,803</u>
*Bank deposits held with banks as margin money with a maturity period of more than 12 months.		
<b>17. CURRENT INVESTMENTS</b>		
<b>Investments in equity instruments, Quoted, Non trade</b>		
140,000 (31 March 2012: 93,365) equity shares of ₹ 10 each, fully paid-up in Neuland Laboratories Limited	7,613,556	6,866,996
1,000 (31 March 2012: 1,000) equity shares of ₹ 10 each, fully paid-up in Sun Pharmaceuticals Industries Limited	507,970	507,970
	<u>8,121,526</u>	<u>7,374,966</u>
<i>Aggregate amount of</i>		
Quoted investments	8,121,526	7,374,966
Market value of quoted investments	13,845,950	7,436,946
Unquoted investments	-	-
Provision for diminution in value of investments	-	3,265,855

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>18. INVENTORIES</b>		
Raw materials [including goods-in-transit of ₹ 4,833,327 (31 March 2012: ₹ 25,975,063)]	385,598,282	328,601,728
Work-in-progress	529,645,057	368,403,712
Finished goods	155,069,614	86,729,795
Stores and spares [including goods-in-transit of ₹ 4,083,462 (31 March 2012: ₹ 7,432,065)]	115,894,214	101,949,782
Packing materials [including goods-in-transit of ₹ 87,384 (31 March 2012: ₹ 307,012)]	83,396,523	56,461,910
Stock-in-trade [including goods-in-transit of ₹ Nil (31 March 2012: ₹ 404,705)]	13,594,891	30,687,483
	<u>1,283,198,581</u>	<u>972,834,410</u>
<b>19. TRADE RECEIVABLES</b>		
Due for a period exceeding six months		
Unsecured, considered good	70,661,175	24,349,617
Unsecured, considered doubtful	10,334,519	10,334,519
	<u>80,995,694</u>	<u>34,684,136</u>
Less: Provision for doubtful receivables	10,334,519	10,334,519
	<u>70,661,175</u>	<u>24,349,617</u>
Other debts		
Unsecured, considered good	1,193,974,468	909,009,624
	<u>1,264,635,643</u>	<u>933,359,241</u>
<b>20. CASH AND BANK BALANCES</b>		
<b>Cash and cash equivalents</b>		
Balances with banks		
- on current accounts	33,748,200	55,775,796
- on deposit accounts	2,500,000	249,932,073
Cash on hand	30,450,950	11,397,939
	<u>66,699,150</u>	<u>317,105,808</u>
<b>Other bank balances</b>		
Unpaid dividend account	8,303,908	6,031,940
Fixed deposits held with banks as margin money	18,686,153	13,835,153
	<u>26,990,061</u>	<u>19,867,093</u>
	<u>93,689,211</u>	<u>336,972,901</u>
<b>21. OTHER CURRENT ASSETS</b>		
<i>(Unsecured, considered good)</i>		
Interest accrued on fixed deposits	6,128,016	11,350,425
Export incentives receivable	27,365,174	27,029,723
Investment in partnership firm	-	10,488,508
	<u>33,493,190</u>	<u>48,868,656</u>

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>22. REVENUE FROM OPERATIONS</b>		
Sale of products	5,063,887,558	4,197,897,343
Sale of services, net of service tax	148,348,214	38,483,783
<b>Other operating revenues</b>		
Job work charges	94,360,434	89,549,686
Export incentives	44,549,118	30,907,494
Scrap sales	66,912,216	32,292,603
Technology Income	112,125,000	-
Income from profit sharing arrangement	121,027,256	36,765,277
	<u>438,974,024</u>	<u>189,515,060</u>
<b>Total revenue from operations</b>	<u>5,651,209,796</u>	<u>4,425,896,186</u>
<b>Details of products sold</b>		
<b>Manufactured goods</b>		
Bulk drug and drug intermediaries	2,220,916,178	1,476,615,867
Formulations	2,754,488,364	2,517,683,035
	<u>4,975,404,542</u>	<u>3,994,298,902</u>
<b>Traded goods</b>		
Formulations	88,483,016	203,598,441
	<u>5,063,887,558</u>	<u>4,197,897,343</u>
<b>23. OTHER INCOME</b>		
Interest income	21,102,676	30,740,338
Dividend income	4,808	220,720
Net gain on sale of current investments	11,766,528	747,897
Foreign exchange gain, net	52,019,959	61,343,675
Provision no longer required, written back	31,875,000	-
Other non-operating income	2,630,098	2,095,334
	<u>119,399,069</u>	<u>95,147,964</u>
<b>24. COST OF RAW MATERIALS CONSUMED (INCLUDING PACKING MATERIALS CONSUMED) #</b>		
Opening stock	385,063,638	304,754,481
Add: Purchases during the year	1,890,203,659	1,257,032,427
Less: Closing stock	468,994,805	385,063,638
	<u>1,806,272,492</u>	<u>1,176,723,270</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>25. Changes in inventories of finished goods, work-in-progress and stock-in-trade</b>		
<b>Opening stock</b>		
- Finished goods	86,729,795	115,616,979
- Work-in-progress	368,403,712	348,374,790
- Stock-in-trade	30,687,483	32,664,145
	<u>485,820,990</u>	<u>496,655,914</u>
<b>Closing stock</b>		
- Finished goods	155,069,614	86,729,795
- Work-in-progress	529,645,057	368,403,712
- Stock-in-trade	13,594,891	30,687,483
	<u>698,309,562</u>	<u>485,820,990</u>
	<u>(212,488,572)</u>	<u>10,834,924</u>
Following are the details of inventory balances under broad heads:		
<b>Opening stock</b>		
<b>Finished goods</b>		
Bulk drug and drug intermediaries	42,357,147	39,397,538
Formulations	44,372,648	76,219,441
	<u>86,729,795</u>	<u>115,616,979</u>
<b>Work in progress</b>		
Bulk drug and drug intermediaries	340,426,425	335,251,427
Formulations	27,977,287	13,123,363
	<u>368,403,712</u>	<u>348,374,790</u>
<b>Traded goods</b>		
Formulations	30,687,483	32,664,145
	<u>30,687,483</u>	<u>32,664,145</u>
<b>Closing inventory</b>		
<b>Finished goods</b>		
Bulk drug and drug intermediaries	49,717,930	42,357,147
Formulations	105,351,684	44,372,648
	<u>155,069,614</u>	<u>86,729,795</u>
<b>Work in progress</b>		
Bulk drug and drug intermediaries	491,655,899	340,426,425
Formulations	37,989,158	27,977,287
	<u>529,645,057</u>	<u>368,403,712</u>
<b>Traded goods</b>		
Formulations	13,594,891	30,687,483
	<u>13,594,891</u>	<u>30,687,483</u>
<b>26. EMPLOYEE BENEFIT EXPENSE</b>		
Salaries and wages	683,820,105	546,201,646
Contribution to provident and other funds	67,509,166	55,984,029
Employee stock option compensation [including ₹ 36,202,643 (31 March 2012: ₹ Nil) pertaining to prior period]	57,112,791	-
Staff welfare expenses	45,178,696	69,156,107
	<u>853,620,758</u>	<u>671,341,782</u>

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>27. FINANCE COSTS</b>		
Interest expense	237,803,001	211,032,299
Other borrowing costs	13,390,403	18,563,065
	<u>251,193,404</u>	<u>229,595,364</u>
Interest expenses is after capitalization of ₹ 67,243,782 (31 March 2012: ₹ 82,659,494) to qualifying fixed assets		
<b>28. Other expenses</b>		
Consumption of stores and spare parts	140,505,634	89,829,648
Power and fuel	369,778,541	263,201,936
Rent	8,545,500	7,212,738
Repairs and maintenance		
- Buildings	48,353,502	33,649,113
- Plant and equipment	103,806,622	84,107,172
- Others	17,439,815	10,655,846
Insurance	25,166,185	21,556,976
Rates and taxes	72,854,982	58,064,943
Factory maintenance expenses	115,991,410	84,671,336
Analysis charges	46,022,487	44,927,149
Carriage and freight outwards	60,756,826	39,450,481
Donations	30,398,098	24,677,501
Communication expenses	18,562,336	15,638,101
Office maintenance and other expenses	18,002,729	14,807,905
Travelling and conveyance	83,608,946	80,573,132
Legal and professional fees	69,047,878	64,030,655
Payment to auditors		
- As auditor	1,300,000	1,050,000
- For other services	-	900,000
- For reimbursement of expenses	14,321	4,236
Adjustments to the carrying amount of current investments	-	3,265,855
Inventory written-off	8,401,436	3,751,630
Bad debts	-	5,754,833
Directors sitting fee	150,000	180,000
Sales promotion expenses including sales commission	73,811,109	144,985,163
Research and development expenses	146,336,413	84,270,985
Printing and stationery	18,724,012	18,368,924
Miscellaneous expenses	28,424,991	29,326,736
	<u>1,506,003,773</u>	<u>1,228,912,994</u>
<b>29. Exceptional item</b>		

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

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

### 30. RELATED PARTY DISCLOSURES

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

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

#### (b) Transactions with related parties

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>NATCO Pharma Inc.</b>		
Interest on loans and advances	3,980,349	5,866,283
<b>Time Cap Overseas Limited</b>		
Share capital and share application money	23,297,611	51,070,785
Loans and advances	48,931,313	-
Interest on loans and advances	3,943,087	-
Advance for expenses	7,713,572	6,208,570
<b>NATCO Pharma (Canada) Inc.</b>		
Share capital and share application money	2,721,381	-
<b>NATCO Organics Limited</b>		
Advance towards future supplies	43,782,194	159,343,231
Rental expense	1,305,000	1,140,000
Loans and advances	165,301,121	-
Purchases and job work charges	38,172,037	41,250,559
Sales	6,781,601	3,021,097
<b>K &amp; C Pharmacy</b>		
Drawings from the partnership firm	10,488,508	2,745,573
<b>NATCO Farma Do Brazil Ltda EPP</b>		
Loans and advances	10,400,000	-
Interest on loans and advances	611,744	-

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>Time Cap Pharma Labs Limited</b>		
Income from Job work charges and sales	2,862,350	1,965,240
Re-imbursement of expenses	120,000	120,000
Commission and expenses reimbursement	3,933,976	4,885,751
Purchases	1,663,200	1,681,961
Rental expense	1,800,000	1,620,000
Advances given	4,000,000	19,021,759
Dividends paid	13,650,776	10,209,582
<b>Natsoft Information Systems Private Limited</b>		
Dividends paid	12,614,000	9,460,500
<b>NDL Infratech Private Limited</b>		
Interest on loans granted	-	853,694
<b>NATCO Trust</b>		
Donations given	24,400,000	22,500,000
<b>NATCO Group Employees Welfare Trust</b>		
Donations for the welfare of employees	-	17,211,557
Dividends paid	336,000	252,000
<b>Transactions with key management personnel</b>		
<b>V C Nannapaneni</b>		
Managerial remuneration	13,383,000	10,608,000
Rental expenses	1,800,000	1,440,000
Dividends paid	32,095,352	24,071,514
Personal guarantees against loans taken by the Company	830,000,000	1,110,814,800
<b>Rajeev Nannapaneni</b>		
Managerial remuneration	10,690,000	8,400,000
Rental expenses	960,000	720,000
Dividends paid	1,826,440	2,719,830
<b>P Bhaskara Narayana</b>		
Managerial remuneration	3,200,000	3,200,000
Dividends paid	6,800	22,500
Stock options		
1,700 (31 March 2012: Nil) equity shares granted at an exercise price of ₹ 10 per share under the employee stock option scheme framed by the Company.	431,285	-
<b>A K S Bhujanga Rao</b>		
Managerial remuneration	2,948,628	3,119,599
Dividends paid	34,800	21,000
Stock options		
1,700 (31 March 2012: Nil) equity shares granted at an exercise price of ₹ 10 per share under the employee stock option scheme framed by the Company.	431,285	-
<b>Transactions with a relatives of key management personnel</b>		
<b>Durga Devi Nannapaneni</b>		
Dividends paid	3,311,280	2,483,460
Personal guarantees against loans taken by the Company	-	145,000,000
<b>Neelima Nannapaneni</b>		
Dividends paid	1,586,368	1,189,776
<b>Dr. N. Ramakrishna Rao</b>		
Dividends paid	567,928	425,946
Personal guarantees against loans taken by the Company	-	145,000,000

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>(c) Balances receivable / (payable)</b>		
NATCO Pharma Inc.	85,772,269	96,125,297
Time Cap Overseas Limited	58,415,391	6,208,570
NATCO Organics Limited	606,715,470	425,478,283
Loan outstanding	165,301,121	-
Advance for future supplies	441,414,349	425,478,283
Time Cap Pharma Labs Limited	(1,526,076)	2,001,778
Natsoft Information Systems Private Limited	-	16,667
NATCO Group Employees Welfare Trust	-	10,000
NATCO Trust	10,816	61,991
V C Nannapaneni	(616,763)	(483,008)
Rajeev Nannapaneni	(494,539)	(329,630)
P Bhaskara Narayana	(122,438)	(179,984)
A K S Bhujanga Rao	(358,765)	(489,858)
Outstanding guarantees		
V C Nannapaneni	4,421,589,099	3,624,842,671
Dr. N. Ramakrishna Rao	1,328,000,000	1,328,000,000
Durga Devi Nannapaneni	1,328,000,000	1,328,000,000

### (d) Disclosure pursuant to Clause 32 of Listing Agreement

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

	As at 31 March, 2013	As at 31 March, 2012
<b>Outstanding balance</b>		
NATCO Pharma Inc.	85,772,269	96,125,297
Timecap Overseas Limited	50,701,819	-
NATCO Organics Limited	165,301,121	-
Natsoft Information Systems Private Limited	-	16,667
NDL Infratech Private Limited	-	-
<b>Maximum balance outstanding at any time during the year</b>		
NATCO Pharma Inc.	98,409,676	109,686,221
Timecap Overseas Limited	50,701,819	-
NATCO Organics Limited	165,301,121	-
NATCO Farma Do Brazil Ltda EPP	10,653,126	-
Natsoft Information Systems Private Limited	16,667	16,667
NDL Infratech Private Limited	-	7,066,105

### 31. Segment reporting

The single financial report of the Company would contain consolidated financial statements, including segment information, and the separate financial statements. Hence no separate disclosure on segment information is given in these financial statements.



**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>32. Contingent liabilities and commitments</b>		
<b>(a) Commitments</b>		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	<b>135,107,882</b>	67,213,981
<b>(b) Contingent liabilities</b>		
Claims against the company not acknowledged as debt	<b>204,227,280</b>	320,068,008
Disputed sales tax liabilities	<b>8,690,000</b>	8,690,000
Disputed income tax liabilities	<b>26,028,878</b>	169,259,702

Claims against the Company not acknowledged as debt, represents claim including interest lodged by M/s. SMS Pharmaceuticals Limited, against the Company. During the current year, the Hon'ble City Civil Court, Hyderabad has passed the judgement against the Company. Based on a legal advice received, the Company has preferred an appeal before the Hon'ble High Court of Andhra Pradesh as the management is confident of favorable outcome and has recorded an expense aggregating to ₹ 115,840,728 in the accompanying financial statements.

Disputed tax liabilities primarily represents additional tax demanded by the Tax Authorities, challenging the Company's basis of computing profits of units covered by the provisions of Section 80IC of the Income Tax Act, 1961. Pending final outcome of such matters and in view of the order for Assessment Year 2007-08 and 2008-09 being set aside by appellate authorities, management is confident of favorable outcome of the proceedings.

**33. Dues to Micro and small enterprises**

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

	As at 31 March, 2013	As at 31 March, 2012
(a) The principal amount remaining unpaid as at the end of the year	<b>50,901,758</b>	31,007,455
(b) The amount of interest accrued and remaining unpaid at the end of the year	<b>3,657,576</b>	1,589,382
(c) Amount of interest paid by the company in terms of Section 16, of (MSMED Act 2006) along with the amounts of payments made beyond the appointed date during the year.	-	-
(d) Amount of interest due and payable for the period of delay in making payment without the interest specified under the (MSMED Act 2006)	-	-
(e) The amount of further interest remaining due and payable in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprises for the purpose of disallowance as a deductible expenditure under Section 23 of the (MSMED Act 2006)	-	-

## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>34. Unhedged foreign currency exposure</b>		
Long-term borrowings (including current maturities)	327,559,559	410,814,800
Short-term borrowings	89,243,453	-
Trade payables	40,681,204	30,217,284
Interest accrued but not due on borrowings	-	915,996
Non-current investments	149,709,239	123,690,247
Long term loans and advances	58,415,391	96,125,297
Current investments	-	10,488,508
Short term loans and advances	85,772,269	-
Trade receivables*	147,938,161	49,263,137

\*Net of discounted bills of ₹ 814,596,884 (31 March 2012: ₹ 467,326,395)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>35. Earnings in foreign currency on accrual basis</b>		
Export on FOB basis	2,817,395,933	1,790,196,561
Sale of services	145,679,664	33,718,000
Technology Income	112,125,000	-
Income from profit sharing arrangement	121,027,256	36,765,277
Interest on loans to subsidiary company	8,535,180	5,866,283
<b>36. Expenditure in foreign currency on accrual basis</b>		
Travelling expenses	12,503,228	11,664,994
Commission	8,397,784	79,386,240
Professional and consultation fees	14,311,006	12,755,215
Rates and taxes	57,831,717	40,748,062
Interest on borrowings	13,039,092	12,271,421
Others	35,675,915	25,137,148
<b>37. Value of imports on CIF basis</b>		
Raw materials and packing materials	375,630,023	167,475,025
Capital goods (including spares and components)	110,403,953	220,712,305

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>38. Dividend remitted in foreign currency</b>		
Number of non - resident shareholders	34	17
Number of equity shares held on which dividend was due	546,877	545,488
Amount remitted (\$)	39,947	32,933
Amount remitted (₹)	2,187,508	1,636,464
Period to which is relates	2012-13	2011-12
<b>39. Earnings per equity share (EPES)</b>		
Net profit as per Statement of Profit and Loss	781,433,574	621,279,740
Weighted average number of equity shares considered in computation of basic EPES	31,236,767	29,041,395
Add: Effect of dilutive equity shares	133,348	-
Weighted average number of equity shares considered in computation of diluted EPES	31,370,115	29,041,395
<b>40. Amounts incurred on research and development expenses</b>		
Salaries and wages	113,815,316	99,274,370
Consumption of materials, spares	105,730,697	57,498,580
Utilities	13,484,487	8,115,125
Other research and development expenses	103,210,337	59,200,030
Capital equipments	41,552,174	4,790,731
	<u>377,793,011</u>	<u>228,878,836</u>



## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>41. Imported and indigenous consumption</b>		
<b>Raw materials (including packing materials)</b>		
Imported		
Amount	249,345,694	156,434,450
Percentage	13.80%	13.29%
Indigeneous		
Amount	1,556,926,798	1,020,288,820
Percentage	86.20%	86.71%
<b>Total</b>		
Amount	1,806,272,492	1,176,723,270
Percentage	100%	100%
<b>Stores and spares</b>		
Imported		
Amount	8,941,788	5,926,703
Percentage	6.36%	6.60%
Indigeneous		
Amount	131,563,846	83,902,945
Percentage	93.64%	93.40%
<b>Total</b>		
Amount	140,505,634	89,829,648
Percentage	100%	100%

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

### **43. Comparatives**

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

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

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

For Walker, Chandio & Co.  
Chartered Accountants

V.C. Nannapaneni  
Chairman & Managing Director

Rajeev Nannapaneni  
Vice Chairman & CEO

per Sanjay Kumar Jain  
Partner

Place : Hyderabad  
Date : 30 May, 2013

Dr. P. Bhaskara Narayana  
Director & Chief Financial Officer

M. Adinarayana  
Company Secretary

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

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

- The consolidated financial statements of the Company include the audited financial statements pertaining to the subsidiaries.
- The said financial statements have been prepared in strict compliance with the Accounting Standards and the Listing Agreement as prescribed by SEBI.

(Amount in ₹)

Particulars	NATCO Pharma Inc.	NATCO Organics Limited	NATCO Pharma (Canada) Inc	Time Cap Overseas Limited	NATCO Farma Do Brasil
Capital	54,390,000	396,897,450	2,135,820	141,538,789	121,355,911
Reserves	81,319,081	(193,016,589)	(2,786,871)	(6,619,266)	(130,749,135)
Total Assets	275,739,229	1,269,740,111	343,387	186,274,725	89,423,487
Total Liabilities	140,030,148	1,065,859,250	994,438	51,355,202	98,816,711
Details of Investments*	Nil	Nil	Nil	Nil	Nil
Turnover	926,879,696	39,362,500	Nil	Nil	109,702,201
Profit before taxation	28,768,773	(84,957,984)	(2,831,637)	(128,913)	(70,135,695)
Provision for taxation	11,245,364	11,301,542	Nil	Nil	Nil
Profit after taxation	17,523,409	(96,259,526)	(2,831,637)	(128,913)	(70,135,695)
Proposed Dividend	Nil	Nil	Nil	Nil	Nil
Reporting currency	US \$	INR	Canada \$	US \$	Brazilian Real
Closing exchange rate	54.39	1	53.40	54.39	26.84
Average exchange rate	54.45	1	53.25	54.45	27.10

\*Investments other than investment in subsidiaries is disclosed

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

## INDEPENDENT AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

### To the Board of Directors of NATCO Pharma Limited

1. We have audited the accompanying consolidated financial statements of NATCO Pharma Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which comprise the Consolidated Balance Sheet as at 31 March 2013, and the Consolidated Statement of Profit and Loss and Consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### Basis for Qualified Opinion

6. *The Consolidated Financial Statements as at and for the year ended 31 March 2013 include management prepared unaudited financial statements of its subsidiary Timecap Overseas Limited, Mauritius and K&C Pharmacy for the previous year ended 31 March 2012. In the absence of audited financial statements of the said subsidiary, we are unable to express an opinion to the extent of total assets, total revenues and net cash out flow pertaining to the said subsidiary amounting to ₹ 12,598,216 (31 March 2012: ₹ 47,355,832); ₹ Nil (31 March 2012: ₹ Nil) and ₹ 172,555 (31 March 2012: ₹ 5,383,349) respectively, included in the Consolidated Balance Sheet as at 31 March 2013, Consolidated Statement of Profit and Loss and Consolidated Cash Flow for the year ended 31 March 2013 respectively. This matter had caused us to qualify our audit report for the year ended 31 March 2012.*
7. *Pending outcome of the on-going tax assessments, the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement as required by the Guidance Note on "Accounting for Credit available in respect of Minimum Alternative Tax under the Income Tax Act, 1961", issued by the Institute of Chartered Accountants of*

*India. Had the Company accounted for such MAT credit, the profit after tax and the balance in loans and advances for the year ended 31 March 2013 would have been higher by ₹ 623,262,102 (31 March 2012: ₹ 404,902,653). This matter had caused us to qualify our audit report for the year ended 31 March 2012.*

### Qualified Opinion

8. In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on the financial statements of the subsidiaries, as noted below, *except for the effects of the matters described in the Basis for Qualified Opinion paragraph*, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
- i) in the case of the consolidated Balance Sheet, of the state of affairs of the Group as at 31 March 2013;
  - ii) in the case of the consolidated Statement of Profit and Loss, of the profit for the year ended on that date; and
  - iii) in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

### Other Matter

9. We did not audit the financial statements of subsidiaries included in the consolidated financial statements, whose financial statements reflect total assets (after eliminating intra-group transactions) of ₹ 1,635,246,215 as at 31 March 2013; total revenues (after eliminating intra-group transactions) of ₹ 1,047,572,397 and net cash outflow aggregating to ₹ 519,176 for the year then ended. These financial statements (other than those mentioned in paragraph 6 above), have been audited by other auditors whose audit reports have been furnished to us by the management, and our audit opinion on the consolidated financial statements of the Group for the year then ended to the extent they relate to the financial statements not audited by us as stated in this paragraph is based solely on the audit reports of the other auditors. Our opinion is not qualified in respect of this matter.

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

Place : Hyderabad  
Date : 6 June, 2013

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

## CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2013

(All amounts in ₹ unless otherwise stated)

	Notes	As at 31 March, 2013	As at 31 March, 2012
<b>I. EQUITY AND LIABILITIES</b>			
<b>Shareholders' funds</b>			
Share capital	2	313,730,740	311,479,520
Reserves and surplus	3	5,021,698,073	4,424,852,126
		<u>5,335,428,813</u>	<u>4,736,331,646</u>
Minority interest		105,366,852	8,838,771
<b>Non-current liabilities</b>			
Long-term borrowings	4	1,378,255,285	1,340,986,565
Deferred tax liabilities (net)	5	443,254,232	293,016,824
Other long term liabilities	6	6,910,411	13,536,275
Long-term provisions	7	86,207,117	65,905,727
		<u>1,914,627,045</u>	<u>1,713,445,391</u>
<b>Current liabilities</b>			
Short-term borrowings	8	1,477,434,832	816,422,437
Trade payables	9	1,142,900,672	923,563,734
Other current liabilities	10	817,687,553	819,092,811
Short-term provisions	11	10,678,217	34,403,492
		<u>3,448,701,274</u>	<u>2,593,482,474</u>
<b>TOTAL</b>		<u>10,804,123,984</u>	<u>9,052,098,282</u>
<b>II. Assets</b>			
<b>Non-current assets</b>			
Fixed assets			
Tangible assets	12	5,539,060,318	3,009,078,577
Intangible assets	13	288,415,671	186,516,103
Capital work-in-progress		1,058,416,250	1,644,271,788
Non-current investments	14	15,422,910	617,882,808
Long-term loans and advances	15	571,966,883	662,205,720
Other non-current assets	16	1,264,844	4,220,803
		<u>7,474,546,876</u>	<u>6,124,175,799</u>
<b>Current assets</b>			
Current investments	17	8,121,526	7,374,966
Inventories	18	1,460,240,041	1,103,892,807
Trade receivables	19	1,297,129,607	946,902,353
Cash and bank balances	20	126,507,920	366,311,982
Short-term loans and advances	15	404,084,824	465,060,227
Other current assets	21	33,493,190	38,380,148
		<u>3,329,577,108</u>	<u>2,927,922,483</u>
<b>TOTAL</b>		<u>10,804,123,984</u>	<u>9,052,098,282</u>

Notes 1 to 36 form an integral part of these consolidated financial statements.

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

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

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

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

**Rajeev Nannapaneni**  
Vice Chairman & CEO

Place : Hyderabad  
Date : 6 June, 2013

**Dr. P. Bhaskara Narayana**  
Director & Chief Financial Officer

**M. Adinarayana**  
Company Secretary



**CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 MARCH 2013**

(All amounts in ₹ unless otherwise stated)

	Notes	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>REVENUE</b>			
Revenue from operations (gross)	22	6,681,010,091	5,306,366,660
Less : Excise duty		75,750,421	69,137,773
Revenue from operations (net)		6,605,259,670	5,237,228,887
Other income	23	124,063,709	91,438,422
<b>Total revenue</b>		<b>6,729,323,379</b>	<b>5,328,667,309</b>
<b>Expenses</b>			
Cost of materials consumed (including packing material consumed)	24	1,775,661,952	1,176,723,270
Purchases of stock-in-trade		871,409,142	868,254,127
Changes in inventories of finished goods, work-in-progress and traded goods	25	(219,089,484)	(14,186,837)
Employee benefit expenses	26	1,022,892,190	800,473,507
Finance costs	27	263,068,187	230,359,380
Depreciation and amortisation charge	12 and 13	221,222,590	159,078,916
Other expenses	28	1,654,278,380	1,305,423,068
Prior period item		846,869	7,123,512
<b>Total expenses</b>		<b>5,590,289,826</b>	<b>4,533,248,943</b>
<b>Profit before exceptional items and tax</b>		<b>1,139,033,553</b>	<b>795,418,366</b>
Exceptional item	29	115,840,728	-
<b>Profit before tax</b>		<b>1,023,192,825</b>	<b>795,418,366</b>
<b>Tax expense</b>			
Current tax		230,422,777	172,677,639
Deferred tax expense		133,940,800	38,070,613
<b>Profit after tax but before minority interest</b>		<b>658,829,248</b>	<b>584,670,114</b>
Minority interest		(59,861,536)	(11,413,344)
<b>Profit after minority interest</b>		<b>718,690,784</b>	<b>596,083,458</b>
<b>Earnings per equity share [EPES]</b>	35		
<i>Face value ₹ 10 per share</i>			
Basic		23.01	20.53
Diluted		22.91	20.53
<b>Notes 1 to 36 form an integral part of these consolidated financial statements.</b>			

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

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**For Walker, Chandiok & Co.  
Chartered Accountants  
per **Sanjay Kumar Jain**  
Partner**V.C. Nannapaneni**  
Chairman & Managing Director**Rajeev Nannapaneni**  
Vice Chairman & CEOPlace : Hyderabad  
Date : 6 June, 2013**Dr. P. Bhaskara Narayana**  
Director & Chief Financial Officer**M. Adinarayana**  
Company Secretary

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>Cash flows from operating activities</b>		
Profit before tax	1,023,192,825	795,418,366
<b>Adjustments:</b>		
Depreciation and amortisation expense	221,222,590	159,078,916
Net gain on sale of investments	(11,766,528)	(747,897)
Diminution in the value of investments	-	3,265,855
Inventory written-off	8,401,436	3,751,630
Bad and doubtful trade receivables written off	(140,529)	6,039,770
Provision for employee benefits	17,894,295	12,235,610
Employee stock option compensation	57,112,791	-
Provision no longer required, written back	(31,875,000)	-
Interest income	(23,509,704)	(24,874,055)
Dividend income	(4,808)	(220,720)
Loss on sale of asset	1,544,179	-
Interest expenses	249,458,783	211,796,315
Unrealised foreign exchange loss / (gain), net	407,951	(636,322)
<b>Operating profit before working capital changes</b>	<b>1,511,938,281</b>	<b>1,165,107,468</b>
Increase / (decrease) in other current liabilities	(79,222,132)	114,867,541
Increase in trade payables	201,608,082	156,867,303
Increase / (decrease) in long-term liabilities and provisions	(9,196,714)	1,050,000
Increase in inventories	(343,856,313)	(85,320,303)
Increase in trade receivables	(349,721,779)	(241,792,730)
Increase in other current assets	(335,451)	(3,357,689)
Increase in short-term loans and advances	(72,899,699)	(233,371,645)
(Increase) / decrease in long-term loans and advances	(20,310,929)	11,343,852
<b>Cash generated from operating activities</b>	<b>838,003,346</b>	<b>885,393,797</b>
Income taxes paid	(226,056,560)	(235,986,387)
<b>Net cash generated from operating activities</b> <b>A</b>	<b>611,946,786</b>	<b>649,407,410</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible assets	(1,078,253,763)	(1,279,918,029)
Purchase of intangible assets	(38,558,338)	(5,301,609)
Acquisition of a subsidiary (see note 2 below)	-	-
Proceeds from dissolution of partnership firm	18,848,513	-
Purchase of current investments	(9,129,970)	(5,353,123)
Proceeds from sale of current investments	11,789,933	3,616,569
Interest received	28,732,113	22,139,715
Receipt of capital subsidy	-	3,000,000
Dividends received	4,808	220,720
Increase in other bank balances	(4,167,009)	(7,772,195)
<b>Net cash used in investing activities</b> <b>B</b>	<b>(1,070,733,713)</b>	<b>(1,269,367,952)</b>

**CONSOLIDATED CASH FLOW STATEMENT (Contd.)**

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>Cash flows from financing activities</b>		
Proceeds from issue of equity shares	2,251,220	675,000,000
Proceeds from long term borrowings	550,000,000	508,740,250
Repayment of long term borrowings	(509,673,095)	(270,278,046)
Proceeds from short term borrowings, net	661,012,395	96,196,971
Minority interest contribution received	23,642,558	9,662,186
Interest paid	(320,554,001)	(284,847,957)
Dividends paid (including tax on distributed profits)	(143,578,316)	(106,721,038)
<b>Net cash from financing activities</b> C	<b>263,100,761</b>	<b>627,752,366</b>
<b>Effect of currency translation adjustment</b> D	<b>(51,240,864)</b>	<b>21,686,195</b>
<b>Net decrease in cash and cash equivalents (A+B+C+D)</b>	<b>(246,927,030)</b>	<b>29,478,019</b>
Cash and cash equivalents as at the beginning of the year	346,444,889	316,966,870
<b>Cash and cash equivalents as at the end of the year [Refer Note 1]</b>	<b>99,517,859</b>	<b>346,444,889</b>
<b>Note 1:</b>		
Cash and bank balances as per note 20	126,507,920	366,311,982
Less: Other bank balances	26,990,061	19,867,093
Cash and cash equivalents considered for cash flow statement	99,517,859	346,444,889

**Note 2:**

Acquisition of a subsidiary by way of conversion of share application money into equity share capital of the acquired subsidiary is considered as a non-cash item for the purposes of consolidated cash flow statement.

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

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

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

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

**Rajeev Nannapaneni**  
Vice Chairman & CEO

per **Sanjay Kumar Jain**  
Partner

Place : Hyderabad  
Date : 6 June, 2013

**Dr. P. Bhaskara Narayana**  
Director & Chief Financial Officer

**M. Adinarayana**  
Company Secretary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### a. Basis of consolidation

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

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

The financial statements of the consolidating entities are added on a line-by-line basis and material inter-company balances and transactions including unrealized gain and loss from such transactions are eliminated upon consolidation. The following subsidiaries have been considered for the purpose preparation of consolidated financial statements:

Names of the consolidating entities	Country of Incorporation	Percentage holding /interest (%)	
		As at 31 March	
		2013	2012
NATCO Pharma Inc.	United States of America	100.00	100.00
K&C Pharmacy, Partnership Firm	United States of America	-	75.00
Time Cap Overseas Limited	Mauritius	73.00	75.00
NATCO Farma Do Brazil (See note below)	Brazil	66.40	67.50
NATCO Organics Limited ("NOL") (effective 30 June 2012)	India	51.00	-
NATCO Pharma (Canada), Inc (effective 7 November 2012)	Canada	90.00	-

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

#### b. Use of estimates

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

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

**c. Fixed assets**

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

**d. Depreciation**

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

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

**e. Intangible assets***Acquired intangible assets*

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

*Goodwill*

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

*Product research and development costs*

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

**f. Impairment of assets**

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

**g. Investments**

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

**h. Inventories**

Raw material, stock-in-trade, packaging material, stores and spare parts are carried at cost. Cost includes purchase price excluding taxes those are subsequently recoverable by the enterprise from the concerned authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition.

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

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

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

#### i. Revenue recognition

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

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

#### j. Taxes

Tax expense comprises of current and deferred tax. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the entities in the Group.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods. Deferred tax

is measured based on the tax rates and the tax laws enacted or subsequently enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

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

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

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

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

Minimum Alternative tax (MAT) credit is recognized as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in guidance note issued by the ICAI, the said asset is created by way of a credit to the statement of profit and loss and shown as MAT credit entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT

credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

**k. Earnings per equity share**

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

**l. Foreign currency transactions**

*Initial recognition*

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

*Conversion*

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

*Exchange differences*

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

**m. Foreign currency translation**

Exchange difference relating to non-integral foreign operations is disclosed as 'foreign currency translation reserve account' in the consolidated balance sheet until the disposal of the net

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

**n. Employee benefits**

*Defined contribution plan*

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

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

*Defined benefit plan*

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

*Compensated absences*

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



**o. Government grants**

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

**p. Leases**

Leases that do not transfer substantially all of the risks and rewards of ownership are classified as operating leases and recorded as expenses as and when payments are made over the lease term.

**q. Provisions and contingent liabilities**

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

but probably will not, require an outflow of resources.

**r. Cash flow statement**

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

**s. Cash and cash equivalents**

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

**t. Segment reporting**

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013		As at 31 March, 2012	
	Number	Amount	Number	Amount
<b>2. SHARE CAPITAL</b>				
<b>Authorised share capital</b>				
Equity shares of ₹10 each	32,000,000	320,000,000	32,000,000	320,000,000
Preference shares of ₹10 each	3,000,000	30,000,000	3,000,000	30,000,000
<b>Issued, subscribed and fully paid up</b>				
Equity shares of ₹10 each	31,373,074	313,730,740	31,147,952	311,479,520
<b>TOTAL</b>	<b>31,373,074</b>	<b>313,730,740</b>	<b>31,147,952</b>	<b>311,479,520</b>

**(a) Reconciliation of shares**

	As at 31 March, 2013		As at 31 March, 2012	
	Number	Amount	Number	Amount
<b>Equity shares of ₹ 10 each</b>				
Balance at the beginning of the year	31,147,952	311,479,520	28,147,952	281,479,520
Add: Issued during the year	-	-	3,000,000	30,000,000
Add: Shares issued under the employee stock option plan ("ESOP")	225,122	2,251,220	-	-
Balance at the end of the year	<b>31,373,074</b>	<b>313,730,740</b>	<b>31,147,952</b>	<b>311,479,520</b>

**(b) Terms and rights attached to equity shares**

The Company has only one class of equity shares having a par value of ₹ 10 per share. Each holder of equity shares is entitled to one vote per share. The dividend, if any, proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing general meeting.

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

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

	As at 31 March, 2013		As at 31 March, 2012	
	Number	%	Number	%
<b>Equity share of ₹ 10 each</b>				
V C Nannapaneni **	8,023,838	25.58%	8,023,838	25.76%
Time Cap Pharma Labs Limited	3,409,694	10.87%	3,409,694	10.95%
Natsoft Information Systems Private Limited	3,153,500	10.05%	3,153,500	10.12%

\*\* including shares held in the capacity of Karta of HUF of 1,088,009 (31 March 2012:1,088,009)

**(d) Employee stock option scheme ("ESOP")**

- (i) The Company had instituted NATCO Stock Option Plan 2010 ("ESOP 2010") as per the special resolution passed in the annual general meeting of the members held on 30 September 2010. This Scheme has been formulated in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI ESOP Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Act. Pursuant to such approval, the Board is authorized to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to eligible employees based on specific recommendations of the remuneration committee. Each option comprises of one underlying equity share of ₹ 10 each. 236,551 options were granted during August 2011 at an exercise price of ₹ 10 each.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

As at 31 March 2013 the stock option outstanding comprises of Nil (31 March 2012: 225,122) equity shares of ₹ 10 each, fully paid-up at an exercise price of ₹ 10 each to eligible employees, subject to vesting over a period of twelve months from the date of the grant. Shares granted under ESOP 2010 are accounted at intrinsic value of ₹ 253.70 per share, being the difference between the market value, calculated in accordance with the valuation methods prescribed by the SEBI and the grant price and accounted as stock option compensation over the vesting period.

- (ii) During the year ended 31 March 2013 the Company has amortized stock compensation expenses amounting to ₹ 57,112,791 including ₹ 36,202,643 (31 March 2012: ₹ Nil) pertaining to prior period.
- (iii) Changes in number of shares representing stock options outstanding as at the year ended on 31 March 2012 were as follows:

	<u>ESOP 2010</u>
Outstanding as at 1 April 2011	-
Granted during the year	236,551
Exercised and vested	-
Forfeited	11,429
Outstanding as at 31 March 2012	225,122
Exercised and vested	225,122
Forfeited	-
Outstanding as at 31 March 2013	<u>-</u>

- (iv) Proforma disclosures:

Earnings per equity share (EPES) calculated using cost computed under the black and scholes model method is higher than the EPES reported after considering the cost computed using the intrinsic value method, hence no proforma disclosures are presented.

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

	As at 31 March, 2013	As at 31 March, 2012
Equity shares of ₹ 10 each allotted as fully paid-up pursuant to contracts without payment being received in cash.*	332,247	211,600
Equity shares bought back by the Company	-	458,465

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

- (f) In the prior year, NATCO Group Employees Welfare Trust ("Trust") acquired certain equity shares of the Company from the open market for the purposes of further allotment to the employees of the Company. Pursuant to the Circular No. CIR/CFD/DIL/7/2013 dated 13 May 2013 issued by SEBI and as required thereunder, the Trust is in the process of disposing off such shares in compliance with the provisions of the said circular.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>3. RESERVES AND SURPLUS</b>		
<b>Capital reserves</b>		
Balance at the beginning of the year	207,272,762	204,272,762
Add : Additions during the year	-	3,000,000
Balance at the end of the year	207,272,762	207,272,762
<b>Capital redemption reserve - as per last balance sheet</b>	4,928,810	4,928,810
<b>Securities premium reserve</b>		
Balance at the beginning of the year	1,464,328,761	819,328,761
Add : Additions during the year [Refer note 2(d)]	57,112,791	645,000,000
Balance at the end of the year	1,521,441,552	1,464,328,761
<b>General reserve</b>		
Balance at the beginning of the year	247,161,000	177,161,000
Add : Additions during the year	80,000,000	70,000,000
Balance at the end of the year	327,161,000	247,161,000
<b>Foreign currency translation reserve</b>		
Balance at the beginning of the year	79,839,895	33,319,593
Add : Adjustments during the year	(33,107,343)	46,520,302
Balance at the end of the year	46,732,552	79,839,895
<b>Surplus in the statement of profit and loss</b>		
Balance at the beginning of the year	2,421,320,898	2,003,840,226
Add : Profit for the year	718,690,783	596,083,458
Less: Interim dividend - ₹ 4 (31 March 2012: ₹ 3) per share	125,492,296	93,443,856
Less: Tax on distributed profits	20,357,988	15,158,930
Less: Transferred to general reserve	80,000,000	70,000,000
Balance at the end of the year	2,914,161,397	2,421,320,898
	<u>5,021,698,073</u>	<u>4,424,852,126</u>
<b>4. LONG-TERM BORROWINGS</b>		
<b>Secured</b>		
Term loans from		
Banks	1,268,412,628	964,195,612
Other parties	609,176,471	803,647,059
	<u>1,877,589,099</u>	<u>1,767,842,671</u>
<b>Unsecured</b>		
Deferred payment liabilities	542,698	2,193,184
From other parties	21,511,225	-
	<u>1,899,643,022</u>	<u>1,770,035,855</u>
Less: Current maturities of long-term borrowings (note 10)	521,387,737	429,049,290
	<u>1,378,255,285</u>	<u>1,340,986,565</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

### (a) Deferred payment liabilities

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

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

- (i) Term loans amounting to ₹ 696,676,471 (31 March 2012: ₹ 941,147,059) is secured by pari-passu first charge on the entire immovable properties and movable fixed assets both present and future of Mekaguda Unit and part of the loan is further secured by an exclusive charge on all the immovable properties and movable fixed assets of both the units (Plot No-19 and Plot NoA-3) at Dehradun and exclusive charge on the R&D equipment acquired from the loan amount.
- (ii) Term loan amounting to ₹ 327,559,559 (31 March 2012: ₹ 410,814,800) is secured by an exclusive charge over all movable and immovable fixed assets of NATCO Research Center and a part of the loan is secured by first charge on the movable and immovable fixed assets of Mekaguda unit along with other lenders.
- (iii) Term loan amounting to ₹ 853,353,069 (31 March 2012: ₹ 415,880,812) is secured by pari-passu first charge on the entire fixed assets both present and future of Kothur Unit.

All the above loans are guaranteed by Mr. V.C Nannapaneni, Chairman and Managing Director and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 3.53% per annum to 12.75% per annum (31 March 2012: 3.53% per annum to 14% per annum).

### (c) Details of repayment of long term borrowings

	As at 31 March, 2013	As at 31 March, 2012
Up to 1 year	521,387,737	429,049,290
From 1 to 3 years	861,171,952	1,030,006,183
3 years and above	517,083,333	310,980,382
	<u>1,899,643,022</u>	<u>1,770,035,855</u>
<hr/>		
	As at 31 March, 2013	As at 31 March, 2012
<b>5. DEFERRED TAX LIABILITY, NET</b>		
On account of depreciation	472,357,542	313,976,066
On account of employee benefits and others	(29,103,310)	(20,959,242)
Net deferred tax liability	<u>443,254,232</u>	<u>293,016,824</u>
<hr/>		
<b>6. OTHER LONG-TERM LIABILITIES</b>		
Deposits	6,910,411	13,536,275
	<u>6,910,411</u>	<u>13,536,275</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>7. LONG-TERM PROVISIONS</b>		
Provision for gratuity	55,565,507	45,868,185
Provision for leave benefits	30,641,610	20,037,542
	<u>86,207,117</u>	<u>65,905,727</u>

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

**(a) Gratuity**

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

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

	As at 31 March, 2013	As at 31 March, 2012
<b>(i) Change in projected benefit obligation</b>		
Projected benefit obligation at the beginning of the year	73,162,037	58,231,217
Service cost	5,420,329	4,282,414
Interest cost	5,852,963	4,658,497
Actuarial (gain) / loss	13,154,950	7,133,657
Benefits paid	(3,127,649)	(1,143,748)
Projected benefit obligation at the end of the year	<u>94,462,630</u>	<u>73,162,037</u>
<b>(ii) Change in plan assets</b>		
Fair value of plan assets at the beginning of the year	27,293,852	26,078,468
Expected return on plan assets	3,190,969	2,359,132
Employer contributions	12,586,056	-
Benefits paid	(3,127,649)	(1,143,748)
Fair value of plan assets at the end of the year	<u>39,943,228</u>	<u>27,293,852</u>
<b>(iii) Reconciliation of present value of obligation on the fair value of plan assets</b>		
Present value of projected benefit obligation at the end of the year	94,462,630	73,162,037
Funded status of the plans	39,943,228	27,293,852
Net liability recognised in the balance sheet	<u>54,519,402</u>	<u>45,868,185</u>
<b>(iv) Expense recognized in the statement of profit and loss</b>		
Service cost	5,420,329	4,282,414
Interest cost	5,852,963	4,658,497
Expected returns on plan assets	(3,190,969)	(2,359,132)
Recognized net actuarial (gain)/ loss	13,154,950	7,133,657
Net gratuity costs	<u>21,237,273</u>	<u>13,715,436</u>
<b>(v) Key actuarial assumptions</b>		
Discount rate	8.00%	8.00%
Expected return on plan assets	9.25%	9.25%
Salary escalation rate	4.00%	4.00%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>8. SHORT-TERM BORROWINGS</b>		
Loans repayable on demand		
Secured		
From banks	947,559,690	717,089,070
Unsecured		
From banks	529,875,142	99,333,367
	<u>1,477,434,832</u>	<u>816,422,437</u>

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

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

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

	As at 31 March, 2013	As at 31 March, 2012
<b>9. TRADE PAYABLES</b>		
Creditors for purchases and expenses	1,022,570,504	766,413,492
Employee and other payables	120,330,168	157,150,242
	<u>1,142,900,672</u>	<u>923,563,734</u>
<b>10. OTHER CURRENT LIABILITIES</b>		
Current maturities of long-term borrowings	521,387,737	429,049,290
Interest accrued but not due on long-term borrowings	7,241,672	11,093,108
Creditors for capital assets	194,748,273	210,171,583
Book overdraft	46,993,831	31,000,614
Advance from customers	11,323,209	106,307,670
Unpaid dividends	8,303,908	6,031,940
Statutory liabilities	27,688,923	25,438,606
	<u>817,687,553</u>	<u>819,092,811</u>
<b>11. SHORT-TERM PROVISIONS</b>		
Provision for contingencies	-	31,875,000
Provision for taxation [net of advance tax]	7,372,237	155,776
Provision for leave benefits	3,305,980	2,372,716
	<u>10,678,217</u>	<u>34,403,492</u>

(a) Provision for contingencies represents, possible obligations that may arise in view of uncertainties associated with certain revenue transactions entered into by the Company. In the current year, as the terms associated with such revenue transactions has been satisfied, accordingly the Company has reversed such provision.

**NOTES TO THE FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

**12. TANGIBLE ASSETS**

Gross block	Freehold land	Leasehold land	Buildings	Plant and equipment	Office equipment	Furniture	Vehicles	Computers	Total
<b>Balance as at 1 April 2011</b>	<b>259,814,100</b>	<b>16,725,782</b>	<b>1,068,849,687</b>	<b>1,988,335,799</b>	<b>34,976,684</b>	<b>28,090,301</b>	<b>70,820,785</b>	<b>71,977,301</b>	<b>3,539,590,439</b>
Additions	69,823,025	-	200,203,695	335,477,601	2,051,229	11,300,565	6,685,026	4,548,236	630,089,377
Foreign exchange adjustments	-	-	-	-	1,844,478	640,840	162,630	559,890	3,207,839
<b>Balance as at 31 March 2012</b>	<b>329,637,125</b>	<b>16,725,782</b>	<b>1,269,053,382</b>	<b>2,323,813,400</b>	<b>38,872,391</b>	<b>40,031,706</b>	<b>77,668,441</b>	<b>77,085,427</b>	<b>4,172,887,655</b>
On acquisition of a subsidiary	195,959,000	-	163,749,970	153,435,851	1,742,877	1,149,294	2,540,043	2,562,394	521,139,429
Additions	115,703,075	-	533,867,152	1,496,208,770	2,627,046	15,888,528	18,404,634	20,806,311	2,203,505,517
Disposals / adjustments	-	-	-	12,000	6,757,553	-	2,720,744	-	9,490,297
Foreign exchange adjustments	-	-	14,032,917	25,127,140	911,572	(28,521)	67,121	106,781	40,217,011
<b>Balance as at 31 March 2013</b>	<b>641,299,200</b>	<b>16,725,782</b>	<b>1,980,703,421</b>	<b>3,998,573,161</b>	<b>37,396,332</b>	<b>57,041,008</b>	<b>95,959,496</b>	<b>100,560,913</b>	<b>6,928,259,315</b>
<b>Accumulated depreciation</b>									
<b>Up to 1 April 2011</b>	-	1,060,706	213,436,663	661,623,719	15,738,172	15,958,107	33,047,803	65,917,351	1,006,782,521
Depreciation charge	-	188,536	36,638,885	103,133,452	3,711,867	4,119,975	4,963,216	2,135,801	154,891,733
Foreign exchange adjustments	-	-	-	-	1,408,264	299,610	84,926	342,025	2,134,824
<b>Up to 31 March 2012</b>	-	<b>1,249,242</b>	<b>250,075,548</b>	<b>764,757,171</b>	<b>20,858,303</b>	<b>20,377,692</b>	<b>38,095,945</b>	<b>68,395,177</b>	<b>1,163,809,078</b>
On acquisition of a subsidiary	-	-	6,791,805	9,829,323	486,949	202,340	294,772	524,633	18,129,822
Depreciation charge	-	188,536	49,639,956	147,439,793	2,144,094	3,784,329	6,156,296	4,796,190	214,149,194
Reversal on disposal	-	-	-	893	6,169,585	-	1,775,640	-	7,946,118
Foreign exchange adjustments	-	-	-	-	736,751	147,242	60,047	112,982	1,057,021
<b>Up to 31 March 2013</b>	-	<b>1,437,778</b>	<b>306,507,309</b>	<b>922,025,394</b>	<b>18,056,511</b>	<b>24,511,603</b>	<b>42,831,420</b>	<b>73,828,982</b>	<b>1,389,198,997</b>
<b>Net block</b>									
<b>Balance as at 31 March 2012</b>	<b>329,637,125</b>	<b>15,476,540</b>	<b>1,018,977,834</b>	<b>1,559,056,229</b>	<b>18,014,088</b>	<b>19,654,014</b>	<b>39,572,496</b>	<b>8,690,250</b>	<b>3,009,078,577</b>
<b>Balance as at 31 March 2013</b>	<b>641,299,200</b>	<b>15,288,004</b>	<b>1,674,196,112</b>	<b>3,076,547,767</b>	<b>19,339,821</b>	<b>32,529,405</b>	<b>53,128,076</b>	<b>26,731,931</b>	<b>5,539,060,318</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

### 13. INTANGIBLE ASSETS

	Computer Software	Goodwill	Total
<b>Gross block</b>			
<b>Balance as at 1 April 2011</b>	22,377,238	181,703,040	204,080,278
Additions	5,301,609	-	5,301,609
Deletions/Adjustments	-	7,123,512	7,123,512
Foreign exchange adjustments	17,416	28,110,749	28,128,166
<b>Balance as at 31 March 2012</b>	<b>27,696,263</b>	<b>202,690,277</b>	<b>230,386,541</b>
On acquisition of a subsidiary	40,500	-	40,500
Additions	38,558,338	64,252,394	102,810,732
Foreign exchange adjustments	(91,080)	8,250,271	8,159,192
<b>Balance as at 31 March 2013</b>	<b>66,204,021</b>	<b>275,192,942</b>	<b>341,396,965</b>
<b>Accumulated amortisation</b>			
<b>Up to 1 April 2011</b>	5,381,569	-	5,381,569
Amortization charge	4,187,183	-	4,187,183
Foreign exchange adjustments	4,936	-	4,936
<b>Up to 31 March 2012</b>	<b>9,573,688</b>	-	<b>9,573,688</b>
On acquisition of a subsidiary	6,565	-	6,565
Amortization charge	7,073,396	-	7,073,396
Foreign exchange adjustments	(136,465)	-	(136,465)
<b>Up to 31 March 2013</b>	<b>16,517,184</b>	-	<b>16,517,184</b>
<b>Impairment loss</b>			
<b>Up to 1 April 2011</b>	-	29,934,610	29,934,610
Foreign exchange adjustments	-	4,362,140	4,362,140
<b>Up to 31 March 2012</b>	-	<b>34,296,750</b>	<b>34,296,750</b>
Impairment charge for the year	-	-	-
Foreign exchange adjustments	-	2,167,360	2,167,360
<b>Up to 31 March 2013</b>	-	<b>36,464,110</b>	<b>36,464,110</b>
<b>Net block</b>			
Balance as at 31 March 2012	18,122,576	168,393,527	186,516,103
<b>Balance as at 31 March 2013</b>	<b>49,686,838</b>	<b>238,728,832</b>	<b>288,415,671</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>14. NON-CURRENT INVESTMENTS</b>		
<b>Investments in equity instruments, Trade, Unquoted</b>		
<i>Others</i>		
750 (2011: 750) equity shares of ₹ 100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	75,000	75,000
34,400 (2011: 34,400) equity shares of ₹ 10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	344,000	344,000
Share application money in NATCO Organics Limited	-	602,459,898
<b>Total investments in equity instruments, Trade (A)</b>	<b>419,000</b>	<b>602,878,898</b>
<b>Investments in equity instruments, Others, Quoted</b>		
27,000 (31 March 2012: 27,000) equity shares of ₹ 10 each, fully paid-up in Jayalakshmi Spinning Mills Limited	270,000	270,000
<b>Total investments in equity instruments, Others (B)</b>	<b>270,000</b>	<b>270,000</b>
<b>Other non-current investments, Others, Unquoted</b>		
Investment in portfolio management services		
15,000,000 (31 March 2012: 15,000,000) compulsorily convertible preference shares of ₹ 1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited.	15,000,000	15,000,000
National savings certificates	3,910	3,910
<b>Total investments in other non-current investments (C)</b>	<b>15,003,910</b>	<b>15,003,910</b>
<b>Total non-current investments (A+B+C)</b>	<b>15,692,910</b>	<b>618,152,808</b>
Less: provision for diminution in value of investments	270,000	270,000
	<b>15,422,910</b>	<b>617,882,808</b>
Quoted investments	270,000	270,000
Market value of quoted investments	-	-
Unquoted investments [including share application money]	15,422,910	617,882,808
Provision for diminution in value of investments	270,000	270,000

**Investment in portfolio management services**

The Company has made an investment, aggregating to ₹ 15,000,000 in the private equity opportunities fund of Anand Rathi Financial Services Limited (ARFSL). By virtue of shareholders agreement and share subscription agreement, both dated 29 November 2010, ARFSL has invested, the Company's fund in the Compulsorily Convertible Preference Shares of Ravindranath GE Medical Associates Private Limited. The company's investment in the private equity opportunities fund of ARFSL provides for a return of 20% in excess of 16% on a gross pre-tax IRR basis. In the absence of reasonable certainty of realization of return, no income was accrued on such investment for the year ended 31 March 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>15. LOANS AND ADVANCES</b>		
(Unsecured, considered good)		
<b>Long-term</b>		
Capital advances	310,647,055	177,290,805
Security deposits	29,464,415	20,655,957
Advance tax, net	143,367,501	140,517,257
Loans and advances to related parties	-	255,566,941
Balances with government authorities	88,487,912	68,174,760
	<u>571,966,883</u>	<u>662,205,720</u>
<b>Short-term</b>		
Loans and advances to related parties	12,743,400	170,000,000
Prepaid expenses	15,556,316	17,440,864
Balances with government authorities	293,597,772	141,964,952
Notes receivable	-	29,203,505
Advances for purchases and expenses	49,301,944	69,377,065
Other advances	32,885,392	37,073,841
	<u>404,084,824</u>	<u>465,060,227</u>
<b>16. OTHER NON-CURRENT ASSETS</b>		
(Unsecured, considered good)		
Margin money deposit with banks*	1,264,844	4,220,803
	<u>1,264,844</u>	<u>4,220,803</u>
*Bank deposits held with banks as margin money with a maturity period of more than 12 months.		
<b>17. CURRENT INVESTMENTS</b>		
<b>Investments in equity instruments, Quoted, Non trade</b>		
140,000 (31 March 2012: 93,365) equity shares of ₹ 10 each, fully paid-up in Neuland Laboratories Limited	7,613,556	6,866,996
1,000 (31 March 2012: 1,000) equity shares of ₹ 10 each, fully paid-up in Sun Pharmaceuticals Industries Limited	507,970	507,970
	<u>8,121,526</u>	<u>7,374,966</u>
<i>Aggregate amount of</i>		
Quoted investments	8,121,526	7,374,966
Market value of quoted investments	13,845,950	7,436,946
Unquoted investments	-	7,374,966
Provision for diminution in value of investments	-	3,265,855

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>18. INVENTORIES</b>		
Raw materials [including goods-in-transit of ₹ 4,833,327 (31 March 2012: ₹ 25,975,063)]	406,389,009	328,601,728
Work-in-progress	544,128,311	368,403,712
Finished goods	155,069,614	86,729,795
Stores and spares [including goods-in-transit of ₹ 4,083,462 (31 March 2012: ₹ 7,432,065)]	128,379,870	101,949,782
Packing materials [including goods-in-transit of ₹ 87,384 (31 March 2012: ₹ 307,012)]	83,465,474	56,461,910
Stock-in-trade [including goods-in-transit of ₹ Nil (31 March 2012: ₹ 404,705)]	142,807,763	161,745,880
	<u>1,460,240,041</u>	<u>1,103,892,807</u>
<b>19. TRADE RECEIVABLES</b>		
Due for a period exceeding six months		
Unsecured, considered good	70,661,175	24,349,617
Unsecured, considered doubtful	15,309,640	15,450,169
	<u>85,970,815</u>	<u>39,799,786</u>
Less: Provision for doubtful receivables	15,309,640	15,450,169
	<u>70,661,175</u>	<u>24,349,617</u>
Other debts		
Unsecured, considered good	1,226,468,432	922,552,736
	<u>1,297,129,607</u>	<u>946,902,353</u>
<b>20. CASH AND BANK BALANCES</b>		
<b>Cash and cash equivalents</b>		
Balances with banks		
- on current accounts	66,507,265	58,736,632
- on deposit accounts	2,500,000	275,895,797
Cash on hand	30,510,594	11,812,460
	<u>99,517,859</u>	<u>346,444,889</u>
<b>Other bank balances</b>		
Unpaid dividend account	8,303,908	6,031,940
Bank deposits held with banks as margin money	18,686,153	13,835,153
	<u>26,990,061</u>	<u>19,867,093</u>
	<u>126,507,920</u>	<u>366,311,982</u>
<b>21. OTHER CURRENT ASSETS</b>		
<i>(Unsecured, considered good)</i>		
Interest accrued on fixed deposits	6,128,016	11,350,425
Export incentives receivable	27,365,174	27,029,723
	<u>33,493,190</u>	<u>38,380,148</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>22. REVENUE FROM OPERATIONS</b>		
Sale of products	6,100,469,454	5,078,367,817
Sale of services, net of service tax	148,348,214	38,483,783
<b>Other operating revenues</b>		
Job work charges	94,360,434	89,549,686
Export incentives	44,549,118	30,907,494
Scrap sales	60,130,615	32,292,603
Technology Income	112,125,000	-
Others	121,027,256	36,765,277
	<u>432,192,423</u>	<u>189,515,060</u>
<b>Total revenue from operations</b>	<u><b>6,681,010,091</b></u>	<u><b>5,306,366,660</b></u>
<b>23. OTHER INCOME</b>		
Interest income	23,509,704	24,874,055
Dividend income	4,808	220,720
Net gain on sale of investments	11,766,528	747,897
Foreign exchange gain, net	52,065,143	61,343,675
Provision no longer required, written back	31,875,000	-
Other non-operating income	4,842,526	4,252,075
	<u><b>124,063,709</b></u>	<u><b>91,438,422</b></u>
<b>24. COST OF RAW MATERIALS CONSUMED (INCLUDING PACKING MATERIALS CONSUMED) #</b>		
Opening stock	385,063,638	304,754,481
Add: On acquisition of a subsidiary	4,653,252	-
Add: Purchases during the year	1,875,799,545	1,257,032,427
Less: Closing stock	<u>489,854,483</u>	<u>385,063,638</u>
	<u><b>1,775,661,952</b></u>	<u><b>1,176,723,270</b></u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>25. Changes in inventories of finished goods, work-in-progress and stock-in-trade</b>		
<b>Opening stock</b>		
- Finished goods	86,729,795	115,616,979
- Work-in-progress	368,403,712	348,374,790
- Stock-in-trade	161,745,880	124,787,723
	<u>616,879,387</u>	<u>588,779,492</u>
<b>On acquisition of a subsidiary</b>		
- Work-in-progress	119,932	-
<b>Closing stock</b>		
- Finished goods	155,069,614	86,729,795
- Work-in-progress	544,128,311	368,403,712
- Stock-in-trade	142,807,763	161,745,881
	<u>842,005,688</u>	<u>616,879,388</u>
<b>Currency translation adjustment</b>	<u>(5,916,885)</u>	<u>(13,913,059)</u>
	<u>(219,089,484)</u>	<u>(14,186,837)</u>
<b>26. EMPLOYEE BENEFIT EXPENSE</b>		
Salaries and wages	824,778,673	650,520,355
Contribution to provident and other funds	72,933,854	62,838,845
Employee stock option compensation	57,112,791	-
Staff welfare expenses	68,066,872	87,114,307
	<u>1,022,892,190</u>	<u>800,473,507</u>
<b>27. FINANCE COSTS</b>		
Interest expense	249,458,783	211,796,315
Other borrowing costs	13,609,404	18,563,065
	<u>263,068,187</u>	<u>230,359,380</u>

Interest expenses is after capitalization of ₹ 67,243,782 (31 March 2012: ₹ 82,659,494) to fixed assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>28. Other expenses</b>		
Consumption of stores and spare parts	160,077,786	89,829,648
Power and fuel	387,471,609	268,813,296
Rent	20,454,391	24,445,071
Repairs and maintenance		
- Buildings	48,650,938	33,649,113
- Plant and equipment	104,917,854	84,107,172
- Others	22,972,608	11,782,095
Insurance	28,690,897	24,365,923
Rates and taxes	96,535,615	58,064,943
Factory maintenance expenses	121,744,104	84,671,336
Analysis charges	46,252,799	44,927,149
Carriage and freight outwards	66,109,115	42,796,289
Donations	30,556,433	25,842,325
Communication expenses	19,721,674	16,474,740
Office maintenance and other expenses	35,943,911	29,883,064
Travelling and conveyance	88,547,263	81,617,511
Legal and professional fees	83,750,005	68,328,911
Payment to auditors		
- As auditor	1,450,000	1,050,000
- For other services	-	900,000
- For reimbursement of expenses	14,321	4,236
Adjustments to the carrying amount of current investments	-	3,265,855
Inventory written-off	8,401,436	3,751,630
Bad debts	33,203	6,039,770
Directors sitting fee	150,000	180,000
Sales promotion expenses including sales commission	82,097,507	147,442,852
Research and development expenses	146,336,413	84,270,985
Printing and stationery	19,635,270	18,368,924
Miscellaneous expenses	33,763,228	50,550,230
	<b>1,654,278,380</b>	<b>1,305,423,068</b>

### 29. Exceptional item

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

**30. RELATED PARTY DISCLOSURES****(a) Names of the related parties and nature of relationship**

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

**(b) Transactions with related parties**

	<b>For the year ended 31 March, 2013</b>	<b>For the year ended 31 March, 2012</b>
<b>NATCO Organics Limited</b>		
Advance towards future supplies	43,782,194	159,343,231
Rental expense	285,000	1,140,000
Purchases	3,132,500	41,250,559
Sales	-	3,021,097
<b>Time Cap Pharma Labs Limited</b>		
Income from Job work charges and sales	2,862,350	1,965,240
Re-imbursement of expenses	120,000	120,000
Commission and expenses reimbursement	39,33,976	4,885,751
Purchases	1,663,200	1,681,961
Rental expense	1,800,000	1,620,000
Advances given	4,000,000	19,021,759
Dividends paid	13,650,776	10,209,582
<b>Natsoft Information Systems Private Limited</b>		
Dividends paid	12,614,000	9,460,500
<b>NDL Infratech Private Limited</b>		
Interest on loans granted	-	853,694
<b>NATCO Trust</b>		
Donations given	24,400,000	22,500,000

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>NATCO Group Employees Welfare Trust</b>		
Donations for the welfare of employees	-	17,211,557
Dividends paid	336,000	252,000
<b>Transactions with key management personnel</b>		
<b>V C Nannapaneni</b>		
Managerial remuneration	13,383,000	10,608,000
Rental expenses	1,800,000	1,440,000
Dividends paid	32,095,352	24,071,514
Personal guarantees against loans taken by the Company	830,000,000	1,110,814,800
Rajeev Nannapaneni		
Managerial remuneration	10,690,000	8,400,000
Rental expenses	960,000	720,000
Dividends paid	1,826,440	2,719,830
<b>P Bhaskara Narayana</b>		
Managerial remuneration	3,200,000	3,200,000
Dividends paid	6,800	22,500
Stock options		
1,700 (31 March 2012: Nil) equity shares granted at an exercise price of ₹ 10 per share under the employee stock option scheme framed by the Company.	431,285	-
<b>A K S Bhujanga Rao</b>		
Managerial remuneration	2,948,628	3,119,599
Dividends paid	34,800	21,000
Stock options		
1,700 (31 March 2012: Nil) equity shares granted at an exercise price of ₹ 10 per share under the employee stock option scheme framed by the Company.	431,285	-
<b>Transactions with a relatives of key management personnel</b>		
<b>Durga Devi Nannapaneni</b>		
Dividends paid	3,311,280	2,483,460
Personal guarantees against loans taken by the Company	-	145,000,000
<b>Neelima Nannapaneni</b>		
Dividends paid	1,586,368	1,189,776
<b>Dr. N Ramakrishna Rao</b>		
Dividends paid	567,928	425,946
Personal guarantees against loans taken by the Company	-	145,000,000



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2013	As at 31 March, 2012
<b>(c) Balances receivable / (payable)</b>		
NATCO Organics Limited	-	425,478,283
Time Cap Pharma Labs Limited	(1,526,076)	2,001,778
Natsoft Information Systems Private Limited	-	16,667
NATCO Group Employees Welfare Trust	-	10,000
NATCO Trust	10,816	61,991
V C Nannapaneni	(616,763)	(483,008)
Rajeev Nannapaneni	(494,539)	(329,630)
P Bhaskara Narayana	(122,438)	(179,984)
A K S Bhujanga Rao	(358,765)	(489,858)
Outstanding guarantees		
V C Nannapaneni	4,421,589,099	3,624,842,671
Dr. N Ramakrishna Rao	1,328,000,000	1,328,000,000
Durga Devi Nannapaneni	1,328,000,000	1,328,000,000

**31. Contingent liabilities and commitments**

	As at 31 March, 2013	As at 31 March, 2012
<b>(a) Commitments</b>		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	147,103,904	67,213,981
<b>(b) Contingent liabilities</b>		
Claims against the company not acknowledged as debt	204,227,280	320,068,008
Disputed sales tax liabilities	8,690,000	8,690,000
Disputed income tax liabilities	26,028,878	169,259,702

Claims against the Company not acknowledged as debt, represents claim including interest lodged by SMS Pharmaceuticals Limited, against the Company. During the current year, the Hon'ble City Civil Court, Hyderabad has passed the judgement against the Company. Based on a legal advice received, the Company has preferred an appeal before the Hon'ble High Court of Andhra Pradesh as the management is confident of favorable outcome and has recorded an expense aggregating to ₹ 115,840,728 in the accompanying financial statements.

Disputed tax liabilities primarily represents additional tax demanded by the Tax Authorities, challenging the Company's basis of computing profits of units covered by the provisions of Section 80IC of the Income Tax Act, 1961. Pending final outcome of such matters and in view of the order for Assessment Year 2007-08 and 2008-09 being set aside by appellate authorities, management is confident of favorable outcome of the proceedings.

**32. Acquisition of a subsidiary**

Effective 30 June 2012, the Company has acquired 51% stake in the share capital of NATCO Organics Limited ("acquired entity"). The acquisition of the interest in the acquired entity is accounted in accordance with the accounting principles laid down under AS 21. Accordingly, the excess of the purchase price over the net assets acquired has been recorded as Goodwill in the Consolidated Financial Statements. Transactions relating to statement of profit and loss of the acquired entity have been included in the Consolidated Statement of Profit and Loss from the effective date of acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹ unless otherwise stated)

- (a) The interest of the Company in the net assets of the acquired entity and resulting goodwill as on the date of acquisition is given as under:

		As at 30 June 2012 (Unaudited)
Purchase consideration	(A)	202,417,700
Company's share in net assets as on the date of acquisition*	(B)	138,165,306
Goodwill	(A-B)	<u>64,252,394</u>

- (b) Summary of post acquisition operating results of the acquired entity included in the Consolidated Statement of Profit and Loss for the year ended 31 March 2013:

Total revenue	(A)	34,006,314
Total expenses, including tax expense	(B)	101,037,805
	(C) = (A-B)	<u>(67,031,491)</u>
Share of loss of minority share holders transferred	(D)	<u>(32,845,431)</u>
	(C-D)	<u><u>(34,186,060)</u></u>

- (c) The assets and liabilities of the acquired entity included in the Consolidated Balance Sheet as at 31 March 2013 are:

### Liabilities

Minority interest	99,901,622
Non-current liabilities, including deferred tax	1,036,608,329
Current liabilities	<u>29,250,921</u>
	<u>1,165,760,872</u>

### Assets

Goodwill	64,252,394
Non-current assets	1,168,597,507
Current assets	<u>101,142,604</u>
	<u>1,333,992,505</u>

Note: In the absence of audited financial statement for the computation of goodwill and disclosure of summary of post acquisition operating results, the same are presented based on management prepared accounts.

### 33. Disposal of a subsidiary

During the year, the Company has realised an amount aggregating to ₹ 18,848,513 on dissolution of its partnership firm K&C Pharmacy, United States of America ("K&C") effective 14 June 2012. The accompanying Consolidated Statement of Profit and Loss for the year ended 31 March 2013 include no items of Statement of Profit and Loss of K&C for the period 1 April 2012 to 14 June 2012. The effect of such disposal of the subsidiary on the financial position on the reporting date, the results for the reporting period and on the corresponding amounts for the previous year are given below:

	As at 14 June, 2012	As at 31 March, 2012
<b>Liabilities</b>	-	-
<b>Assets</b>		
Current assets	<u>29,203,505</u>	<u>29,203,505</u>
	<u><u>29,203,505</u></u>	<u><u>29,203,505</u></u>

Note: In the absence of audited financial statement of the K&C Pharmacy, the above disclosure is presented based on management prepared accounts.

**34. Segment reporting**

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

**Business segment****For the year ended 31 March 2013**

Particulars	Bulk chemicals	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
<b>Revenue</b>							
External sales	2,220,916,178	2,842,971,380	-	1,036,581,896	-	-	6,100,469,454
Inter-segment sales	158,106,950	-	-	-	-	(158,106,950)	-
	2,379,023,128	2,842,971,380	-	1,036,581,896	-	(158,106,950)	6,100,469,454
Less: Excise duty	30,446,736	45,303,685	-	-	-	-	75,750,421
	2,348,576,392	2,797,667,695	-	1,036,581,896	-	(158,106,950)	6,024,719,033
Revenue [Net]	-	-	-	-	148,348,214	-	148,348,214
Sale of dossiers	-	-	-	-	-	-	94,360,434
Job work charges	-	-	94,360,434	-	-	-	337,831,989
Other income	53,305,111	139,050,075	-	-	162,197,530	(16,720,727)	6,605,259,670
<b>Total segment revenue</b>	<b>2,401,881,503</b>	<b>2,936,717,770</b>	<b>94,360,434</b>	<b>1,036,581,896</b>	<b>310,545,744</b>	<b>(174,827,677)</b>	
<b>Results</b>							
Segment result	468,120,996	1,283,219,696	76,735,149	(35,888,628)	248,826,641	-	2,041,013,854
Unallocated corporate expenses							762,975,823
Finance cost							263,068,187
Other income							124,063,709
Exceptional item							115,840,728
Profit before tax							1,023,192,825
Income tax [Including deferred tax]							364,363,577
Profit before minority interest							658,829,248
Minority interest							(59,861,536)
<b>Net profit for the year</b>							<b>718,690,784</b>

**34. Segment reporting (Contd.)**  
**Other information as at 31 March 2013**

Particulars	Bulk chemicals	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Segment assets	5,590,840,266	3,731,025,105	9,351,917	223,971,921	44,926,918	-	9,600,116,128
Unallocated corporate assets	-	-	-	-	-	-	1,204,007,856
<b>Total assets</b>	<b>5,590,840,266</b>	<b>3,731,025,105</b>	<b>9,351,917</b>	<b>223,971,921</b>	<b>44,926,918</b>	<b>-</b>	<b>10,804,123,984</b>
Segment liabilities	1,721,885,901	456,829,111	-	227,256,880	-	(1,140,582,545)	1,265,389,347
Minority interest	-	-	-	-	-	-	105,366,852
Unallocated corporate liabilities	-	-	-	-	-	-	4,097,938,972
<b>Total liabilities</b>	<b>1,721,885,901</b>	<b>456,829,111</b>	<b>-</b>	<b>227,256,880</b>	<b>-</b>	<b>(1,140,582,545)</b>	<b>5,468,695,171</b>
Capital expenditure	886,900,040	276,967,091	-	6,689,099	250,073,786	-	1,420,630,016
Depreciation and amortisation	104,982,565	97,252,301	-	3,632,861	15,354,863	-	221,222,590
Non cash expenses, other than depreciation	-	8,401,436	-	-	76,959,216	-	85,360,652

## 34. Segment reporting

## Business segment

For the year ended 31 March 2012

(All amounts in ₹, unless otherwise stated)

Particulars	Bulk chemicals	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
<b>Revenue</b>							
External sales	1,476,615,867	2,721,281,476	-	880,470,473	-	-	5,078,367,816
Inter-segment sales	159,518,699	-	-	-	-	(159,518,699)	-
	1,636,134,566	2,721,281,476	-	880,470,473	-	(159,518,699)	5,078,367,817
Excise duty	19,532,790	49,604,983	-	-	-	-	69,137,773
Total Sales	1,616,601,776	2,671,676,493	-	880,470,473	-	(159,518,699)	5,009,230,044
Sale of dossiers	-	-	-	-	38,483,783	-	38,483,783
Job work charges	-	-	89,549,686	-	-	-	89,549,686
Other Income	25,992,767	53,712,506	-	2,156,742	18,103,359	-	99,965,374
<b>Total segment revenue</b>	<b>1,642,594,543</b>	<b>2,725,388,999</b>	<b>89,549,686</b>	<b>882,627,215</b>	<b>56,587,142</b>	<b>(159,518,699)</b>	<b>5,237,228,887</b>
<b>Results</b>							
Segment result	294,299,888	1,180,018,766	75,407,230	(12,436,141)	45,409,142	-	1,582,698,885
Unallocated corporate expenses							465,482,717
Operating profit							1,117,216,168
Finance cost							230,359,380
Other income							91,438,422
Profit before tax and minority interest							795,418,366
Income tax [Including deferred tax]							210,748,252
Profit before minority interest							584,670,114
Minority interest							(11,413,344)
<b>Net profit for the year</b>							<b>596,083,458</b>

**Segment reporting (Contd.)**

**34. Other information as at 31 March 2012**

(All amounts in ₹ unless otherwise stated)

Particulars	Bulk chemicals	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
<b>Other information</b>							
Segment assets	3,763,505,540	3,296,007,759	17,805,779	380,667,207	9,273,893	-	7,467,260,178
Unallocated corporate assets	-	-	-	-	1,584,838,104	-	1,584,838,104
<b>Total assets</b>	<b>3,763,505,540</b>	<b>3,296,007,759</b>	<b>17,805,779</b>	<b>380,667,207</b>	<b>1,594,111,997</b>	<b>-</b>	<b>9,052,098,282</b>
Segment liabilities	554,234,118	423,946,554	-	137,976,403	132,822,000	(48,812,640)	1,200,166,435
Minority interest	-	-	-	-	8,838,771	-	8,838,771
Unallocated corporate liabilities	-	-	-	-	3,106,761,430	-	3,106,761,430
<b>Total liabilities</b>	<b>554,234,118</b>	<b>423,946,554</b>	<b>-</b>	<b>137,976,403</b>	<b>3,248,422,201</b>	<b>(48,812,640)</b>	<b>4,315,766,636</b>
Capital expenditure	860,566,325	535,804,039	-	6,567,011	118,752,717	-	1,521,690,092
Depreciation and amortisation	59,232,826	82,515,234	-	5,027,221	12,303,634	-	159,078,915
Other non-cash expenses	-	9,506,463	-	284,937	15,501,465	-	25,292,865

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

Particulars	For the year ended and as at 31 March 2013			For the year ended and as at 31 March 2012		
	Segment revenue	Segment assets	Capital expenditure	Segment revenue	Segment assets	Capital expenditure
India	2,659,998,209	9,505,590,182	1,413,941,007	2,458,035,549	8,154,695,201	1,515,123,081
America	2,025,584,039	911,211,423	6,689,009	1,411,292,494	455,328,766	6,567,011
Europe	1,226,323,014	203,395,859	-	971,314,500	304,707,538	-
Rest of the world	693,354,408	183,926,520	-	396,586,344	137,366,777	-
<b>TOTAL</b>	<b>6,605,259,670</b>	<b>10,804,123,984</b>	<b>1,420,630,016</b>	<b>5,237,228,887</b>	<b>9,052,098,282</b>	<b>1,521,690,092</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2013	For the year ended 31 March, 2012
<b>35. EARNINGS PER EQUITY SHARE (EPES)</b>		
Net profit as per Consolidated Statement of Profit and Loss	<b>718,690,784</b>	596,083,458
Weighted average number of equity shares considered in computation of basic EPES	<b>31,236,767</b>	29,041,395
Add: Effect of dilutive equity shares	<b>133,348</b>	-
Weighted average number of equity shares considered in computation of diluted EPES	<b>31,370,115</b>	29,041,395

**36. COMPARATIVES**

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

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

For and on behalf of Board of Directors of  
**NATCO Pharma Limited**For **Walker, Chandio & Co.**  
Chartered Accountants**V.C. Nannapaneni**  
Chairman & Managing Director**Rajeev Nannapaneni**  
Vice Chairman & CEOper **Sanjay Kumar Jain**  
Partner**Dr. P. Bhaskara Narayana**  
Director & Chief Financial Officer**M. Adinarayana**  
Company SecretaryPlace : Hyderabad  
Date : 6 June, 2013

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ATTENDANCE SLIP



**NATCO PHARMA LIMITED**

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

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

DPID* :
Client ID* :

Folio No. :
-------------

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

I / We hereby record my / our presence at the 30<sup>th</sup> ANNUAL GENERAL MEETING of the Company held on Saturday, the 28<sup>th</sup> day of September, 2013 at 10:30 a.m. at Dasgalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033

Signature of the Shareholder or Proxy

\* Applicable for investors holding shares in Electronic Form.

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

PROXY FORM



**NATCO PHARMA LIMITED**

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

DPID* :
Client ID* :

Folio No. :
-------------

I/We -----  
of ----- being a member/members of Natco Pharma  
Limited hereby appoint -----  
of ----- or failing  
him/her ----- of  
as my/our proxy to vote for me/us and on my/our behalf at the 30<sup>th</sup> ANNUAL GENERAL MEETING to be held on  
Saturday, the 28<sup>th</sup> day of September, 2013 at 10:30 a.m. or at any adjournment thereof.

Signed this ----- day of ----- 2013.

\* Applicable for investors holding shares in Electronic Form.

Affix  
1 Rupee  
Revenue  
Stamp

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



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



Students in a Government School playing with Outdoor Sports materials donated by Natco Trust

Skill development orientation at Guntur



Soothe your Mind, Body and Soul at NSL - Guntur

NMHC Medical Officer examining the patients





**NATCO Pharma Limited**

Natco House

Road No. 2, Banjara Hills, Hyderabad - 500 034.

Ph : 040-23547532

**FORM A**  
**(Clause 31 (a) of Listing Agreement)**

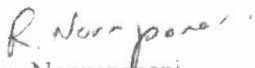

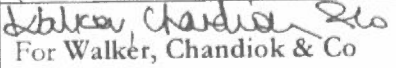
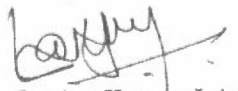

**Covering letter of the annual audit report for filing with the stock exchanges**

1.	Name of the Company:	NATCO Pharma Limited
2.	Annual financial statements for the year ended :	31 March 2013
3.	Type of Audit observation	<p>Observations in the annexure to the Independent Auditor's Report under the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956:</p> <p>i) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets, <i>except in certain instances where the records for plant and machinery, furniture and other assets are maintained for a group of similar assets and not for each individual asset.</i></p> <p>ii) The Company has granted an interest free loan to a subsidiary covered under Section 301 of the Act. According to explanation provided by the management, the terms and conditions of such loan is not, prima facie, prejudicial to the interest of the Company due to concessional trade arrangement with such party. <i>In view of such trade arrangement, we are unable to comment as to whether the rate of interest or other terms and conditions are prejudicial to the interest of the Company.</i></p> <p>iii) In our opinion, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and for the sale of goods and services. <i>In our opinion, the internal control system for purchase of fixed assets needs to be strengthened to be commensurate with the size of the Company and the nature of its business. In our opinion, there is a continuing failure to correct major weakness in the internal controls for purchase of fixed assets.</i></p> <p>iv) Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment as to whether the transactions made in pursuance of such contracts or arrangements have been made at the prevailing market prices at the relevant time</p> <p>v) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, custom duty, excise duty, cess and other material statutory dues, as applicable, have generally been regularly deposited with the appropriate authorities, though there has been a slight delay in a few cases. Further, no undisputed amounts payable in respect thereof were outstanding at the year-end for a</p>



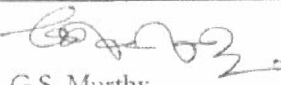
**FORM A**  
**(Clause 31 (a) of Listing Agreement)**

**Covering letter of the annual audit report for filing with the stock exchanges**

		<p>period of more than six months from the date they became payable.</p> <p>vi) The dues outstanding in respect of income-tax, sales-tax, wealth tax, service tax, custom duty, excise duty, cess on account of any dispute, are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 15%;">Name of the statute</th> <th style="width: 15%;">Nature of dues</th> <th style="width: 15%;">Amount ( )</th> <th style="width: 15%;">Amount Paid Under Protest ( )</th> <th style="width: 15%;">Period to which the amount relates</th> <th style="width: 20%;">Forum where dispute is pending</th> </tr> </thead> <tbody> <tr> <td>The Central Sales Tax Act</td> <td>Central Sales Tax</td> <td>8,690,000</td> <td>2,500,000</td> <td>Financial year 1997-98</td> <td>Honorable high Court of Andhra Pradesh</td> </tr> <tr> <td rowspan="3">The Income Tax Act, 1961</td> <td rowspan="3">Income Tax</td> <td>6,924,266</td> <td>6,924,266</td> <td>AY: 2009-10</td> <td>Income Tax Appellate Tribunal, Hyderabad</td> </tr> <tr> <td>18,447,645</td> <td>18,447,645</td> <td>AY: 1989-90 to 1998-99</td> <td rowspan="2">Honorable High Court of Andhra Pradesh.</td> </tr> <tr> <td>656,967</td> <td>656,967</td> <td></td> </tr> </tbody> </table>	Name of the statute	Nature of dues	Amount ( )	Amount Paid Under Protest ( )	Period to which the amount relates	Forum where dispute is pending	The Central Sales Tax Act	Central Sales Tax	8,690,000	2,500,000	Financial year 1997-98	Honorable high Court of Andhra Pradesh	The Income Tax Act, 1961	Income Tax	6,924,266	6,924,266	AY: 2009-10	Income Tax Appellate Tribunal, Hyderabad	18,447,645	18,447,645	AY: 1989-90 to 1998-99	Honorable High Court of Andhra Pradesh.	656,967	656,967	
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		18,447,645	18,447,645	AY: 1989-90 to 1998-99	Honorable High Court of Andhra Pradesh.																						
		656,967	656,967																								
4.	Frequency of observation	Observations (i) and (iii) are repetitive from the financial year ended 31 March 2010 and 31 March 2011 respectively, observation (ii), appeared for the first time for the financial year ended 31 March 2013 and observation (iv), (v) and (vi), are repetitive in nature.																									
5.	To be signed by-																										
	CEO/Managing Director	 Rajeev Nannapaneni (Vice Chairman & Chief Executive Officer)																									
	CFO	 Dr. P. Bhaskara Narayana (Director & Chief Financial Officer)																									
	Auditor of the company	 For Walker, Chandiok & Co Chartered Accountants Firm Registration No.: 001076N  per Sanjay Kumar Jain Partner Membership No.: 207660 <div style="text-align: right;">  </div>																									

**FORM A**  
**(Clause 31 (a) of Listing Agreement)**

**Covering letter of the annual audit report for filing with the stock exchanges**

		Place: Hyderabad Date: 4 <sup>th</sup> September, 2013
	Audit Committee Chairman	 G.S. Murthy (Director)



**FORM B**  
**(Clause 31 (a) of Listing Agreement)**

**Covering letter of the annual audit report for filing with the stock exchanges**

1.	Name of the Company:	NATCO Pharma Limited
2.	Annual financial statements for the year ended	31 March 2013
3.	Type of Audit qualification	<p>Qualified opinion.</p> <p><b><u>The report of the Statutory Auditors contains the following qualification on the Standalone Financial Statements</u></b></p> <p>i) Pending outcome of the on-going tax assessments, the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement as required by the Guidance Note on "Accounting for Credit available in respect of Minimum Alternative Tax under the Income Tax Act, 1961", issued by the Institute of Chartered Accountants of India. Had the Company accounted for such MAT credit, the profit after tax and the balance in loans and advances for the year ended 31 March 2013 would have been higher by ₹623,262,102 (31 March 2012: ₹404,902,653). This matter had caused us to qualify our audit report for the year ended 31 March 2012.</p> <p><b><u>The report of the Statutory Auditors contains the following qualification on the Consolidated Financial Statements</u></b></p> <p>ii) Pending outcome of the on-going tax assessments, the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement as required by the Guidance Note on "Accounting for Credit available in respect of Minimum Alternative Tax under the Income Tax Act, 1961", issued by the Institute of Chartered Accountants of India. Had the Company accounted for such MAT credit, the profit after tax and the balance in loans and advances for the year ended 31 March 2013 would have been higher by ₹623,262,102 (31 March 2012: ₹404,902,653). This matter had caused us to qualify our audit report for the year ended 31 March 2012.</p> <p>iii) The Consolidated Financial Statements as at and for the year ended 31 March 2013 include management prepared unaudited financial statements of its subsidiary Timecap Overseas Limited, Mauritius and K&amp;C Pharmacy for the previous year ended 31 March 2012. In the absence of audited financial statements of the said subsidiary, we are unable to express an opinion to the extent of total assets, total revenues and net cash outflow pertaining to the said subsidiary amounting to ₹12,598,216 (31 March 2012: ₹47,355,832); ₹Nil (31 March 2012: ₹Nil) and ₹172,555 (31 March 2012: ₹5,383,349) respectively, included in the Consolidated Balance Sheet as at 31 March 2013, Consolidated Statement of Profit and Loss and Consolidated Cash Flow for the year ended 31 March 2013 respectively. This matter had caused us to qualify our audit report for the year ended 31 March 2012.</p>





**FORM B**  
**(Clause 31 (a) of Listing Agreement)**

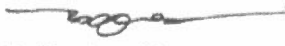

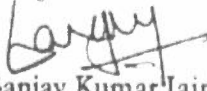
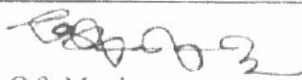
**Covering letter of the annual audit report for filing with the stock exchanges**

4.	Frequency of qualification	Qualifications (i) and (ii) in the Independent Auditors' Report on Standalone and Consolidated Financial Statements, are repetitive from the financial year ended 31 March 2010 and qualification (iii) in the Independent Auditors' Report on Consolidated Financial Statements is repetitive from financial year ended 31 March 2012.
5.	Draw attention to relevant notes in the annual financial statements and management response to the qualification in the directors report:	<p><b>Qualification (i) and (ii):</b></p> <p><b>Management Response:</b> The Company has not recognized MAT credit available to it as it opines that it would not be in a position to utilize such credit owing to pending ongoing tax assessments for earlier year's, where-in the Assessing Officer has restricted the Company's claim of deduction under Section 80-IC of the Income Tax Act, 1961. The company has filed an appeal before the Income tax Appellate Tribunal in respect of Assessment Years 2007-08, 2008-09 and 2009-10 and the Honorable Tribunal has directed the Assessing Officer to re-do the assessment. Pending such re-assessment and in view of the continued tax holiday being available for the profits arising out of manufacture and sales made from two of its manufacturing facilities, the company has not recognized the MAT credit available. In the eventuality of the Company being made to pay tax on a regular basis, it would make suitable adjustments by taking credit for the MAT entitlement available at such point of time.</p> <p><b>Qualification (iii):</b></p> <p><b>Management Response:</b> The notes and remarks of Auditors are self-explanatory and therefore do not require any further clarifications.</p> <p><i>Refer page no 18 of annual report for management response to the qualifications and auditor's comment in the director's report.</i></p>
6.	Additional comments from the board/audit committee chair:	The director's report on the auditor's qualification, sufficiently explains the management response and hence no additional comments are required.
7.	To be signed by-	
	CEO/ <del>Managing Director</del>	<p style="text-align: center;"><i>R. N. Nannapaneni</i></p> <p>Rajeev Nannapaneni (Vice Chairman &amp; Chief Executive Officer)</p>



**FORM B**  
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**Covering letter of the annual audit report for filing with the stock exchanges**

	CFO	 Dr. P. Bhaskara Narayana (Director & Chief Financial Officer)
	Auditor of the company	 For Walker, Chandiok & Co Chartered Accountants Firm Registration No.: 001076N  per Sanjay Kumar Jain Partner Membership No.: 207660  Place: Hyderabad Date: 4 <sup>th</sup> September, 2013
	Audit Committee Chairman	 G.S. Murthy (Director)

