

# Independent Auditor's Report

To the Members of  
NATCO Pharma Limited

## Report on the Standalone Financial Statements

1. We have audited the accompanying standalone financial statements of NATCO Pharma Limited ('the Company'), which comprise the Balance Sheet as at 31 March 2018, the Statement of Profit and Loss (including Other Comprehensive Income), the Cash Flow Statement and the Statement of Changes in Equity for the year then ended, and a summary of the significant accounting policies and other explanatory information.

## Management's Responsibility for the Standalone Financial Statements

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

## Auditor's Responsibility

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

4. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report

under the provisions of the Act and the Rules made thereunder.

5. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these standalone financial statements are free from material misstatement.
6. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial controls relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.
7. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on these standalone financial statements.

## Opinion

8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India including Ind AS specified under Section 133 of the Act, of the state of affairs of the Company as at 31 March 2018, and its profit (including other comprehensive income), its cash flows and the changes in equity for the year ended on that date.

## Report on Other Legal and Regulatory Requirements

9. As required by the Companies (Auditor's Report) Order, 2016 ('the Order') issued by the Central

Government of India in terms of Section 143(11) of the Act, we give in the Annexure A a statement on the matters specified in paragraphs 3 and 4 of the Order.

10. Further to our comments in Annexure A, as required by Section 143(3) of the Act, we report that:

- (a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (b) in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
- (c) the standalone financial statements dealt with by this report are in agreement with the books of account;
- (d) in our opinion, the aforesaid standalone financial statements comply with Ind AS specified under Section 133 of the Act;
- (e) on the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2018 from being appointed as a director in terms of Section 164(2) of the Act;
- (f) we have also audited the internal financial controls over financial reporting (IFCoFR) of the Company as on 31 March 2018 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date and our report as per Annexure B expressed an unqualified opinion;

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

- i. the Company, as detailed in Note 38 (b) to the standalone financial statements, has disclosed the impact of pending litigations on its financial position;
- ii. the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses;
- iii. there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company;
- iv. the disclosure requirements relating to holdings as well as dealings in specified bank notes were applicable for the period from 8 November 2016 to 30 December 2016 which are not relevant to these standalone financial statements. Hence, reporting under this clause is not applicable.

For **Walker Chandiok & Co LLP**  
Chartered Accountants  
Firm Registration No.: 001076N/N500013

**Adi P. Sethna**  
Partner  
Membership No. 108840

Place: Hyderabad  
Date: 23 May 2018

## Annexure A to the Independent Auditor's Report of even date to the members of NATCO Pharma Limited, on the standalone financial statements for the year ended 31 March 2018

### Annexure A

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

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular program of physical verification of its fixed assets under which fixed assets are verified in a phased manner over

a period of three years, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this program, certain fixed assets were verified during the year and no material discrepancies were noticed on such verification.

- (c) The title deeds of all the immovable properties (which are included under the head 'Property, plant and equipment') are held in the name of the Company except for the following properties which according to the information and explanation given to us, are under dispute pending with Senior Civil Judge, Shadnagar as to the ownership of the property, as stated in note 6 to the standalone statements:

| Nature of property | Total Number of Cases | Whether leasehold / freehold | Gross block as on 31 March 2018 (₹) in millions | Net block on 31 March 2018 (₹) in millions |
|--------------------|-----------------------|------------------------------|---|--|
| Land               | One                   | Freehold                     | 4   | 4  |

- (ii) In our opinion, the management has conducted physical verification of inventory at reasonable intervals during the year, except for goods-in-transit and stocks lying with third parties. For stocks lying with third parties at the year-end, written confirmations have been obtained by the management. No material discrepancies were noticed on the aforesaid verification.
- (iii) The Company has granted unsecured loans to parties (foreign subsidiaries) covered in the register maintained under Section 189 of the Act; and with respect to the same:
- (a) in our opinion the terms and conditions of grant of such loans are not, prima facie, prejudicial to the company's interest;
- (b) the schedule of repayment of principal and payment of interest has been stipulated and the principal and interest amount is not due;
- (c) there is no overdue amount in respect of loans granted to such party.
- (iv) In our opinion, the Company has complied with the provisions of Section 186 in respect of investments and loans. Further, in our opinion, the Company has not entered into any transaction covered under Section 185 and Section 186 of the Act in respect of guarantees and security.
- (v) In our opinion, the Company has not accepted any deposits within the meaning of Sections 73 to 76 of the Act and the Companies (Acceptance of Deposits) Rules, 2014 (as amended). Accordingly, the provisions of clause 3(v) of the Order are not applicable.
- (vi) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under sub-section (1) of Section 148 of the Act in respect of Company's products and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.
- (vii) (a) Undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, goods and service tax, service tax, duty of customs, duty of excise, value added tax, cess and other material statutory dues, as applicable, have generally been regularly deposited with the

appropriate authorities, though there has been a slight delay in a few cases. Further, no undisputed amounts payable in respect thereof were outstanding at the year-end for a period of more than six months from the date they became payable.

- (b) The dues outstanding in respect of sales-tax, service-tax, duty of customs, on account of disputes, are as follows:

| Name of the statute         | Nature of dues    | Amount (₹ in millions) |                           | Period to which the amount relates | Forum where dispute is pending        |
|-----------------------------|-------------------|------------------------|---------------------------|------------------------------------|---------------------------------------|
|                             |                   | Total Claim            | Amount paid under protest |                                    |                                       |
| The Central Sales Tax, 1956 | Central Sales Tax | 9                      | 3                         | FY 1997-98                         | High Court of Judicature at Hyderabad |
| The Customs Act, 1962       | Customs Duty      | 2                      | -                         | July 2006 to 2010                  | CESTAT                                |
| The Finance Act, 1994       | Service Tax       | 2                      | 1                         | FY 2011-12                         | CESTAT                                |

There were no disputed dues in respect of income tax duty of excise and value added tax.

- (viii) The Company has not defaulted in repayment of loans or borrowings to any bank during the year. The Company has no loans or borrowings payable to financial institutions or government and does not have any outstanding debentures during the year.
- (ix) The Company did not raise moneys by way of initial public offer or further public offer (including debt instruments) and did not have any term loans outstanding during the year. Accordingly, the provisions of clause 3(ix) of the Order are not applicable.
- (x) No fraud by the Company or on the company by its officers or employees has been noticed or reported during the period covered by our audit.
- (xi) Managerial remuneration has been paid / provided by the company in accordance with the requisite approvals mandated by the provisions of Section 197 of the Act read with Schedule V to the Act.
- (xii) In our opinion, the Company is not a Nidhi Company. Accordingly, provisions of clause 3(xii) of the Order are not applicable.
- (xiii) In our opinion all transactions with the related parties are in compliance with Sections 177 and 188 of Act, where applicable, and the requisite details have been disclosed in the standalone statements etc., as required by the applicable Ind AS.
- (xiv) During the year, the company has made private placement of shares. In respect of the same, in our opinion, the company has complied with the requirement of Section 42 of the Act and the Rules framed thereunder. Further, in our opinion, the amounts so raised were applied for the purposes for which these securities were issued, though idle funds which were not required for immediate utilisation have been invested in liquid investments, payable on demand. During the year, the company did not make preferential allotment/private placement of fully/partly convertible debentures.
- (xv) In our opinion, the company has not entered into any non-cash transactions with the directors or persons connected with them covered under Section 192 of the Act. Accordingly, the provisions of Clause 3 (xv) of the order are not applicable.
- (xvi) The company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934.

For **Walker Chandiok & Co LLP**  
Chartered Accountants  
Firm Registration No.: 001076N/N500013

**Adi P. Sethna**  
Partner  
Membership No. 108840

Place: Hyderabad  
Date: 23 May 2018

## Annexure B to the Independent Auditor's Report of even date to the members of NATCO Pharma Limited on the standalone financial statements for the year ended 31 March 2018

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

1. In conjunction with our audit of the standalone financial statements of NATCO Pharma Limited ('the Company') as at and for the year ended 31 March 2018, we have audited the internal financial controls over financial reporting ('IFCoFR') of the Company as at that date.

#### Management's Responsibility for Internal Financial Controls

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

#### Auditor's Responsibility

3. Our responsibility is to express an opinion on the Company's IFCoFR based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India ('ICAI') and deemed to be prescribed under Section 143(10) of the Act, to the extent applicable to an audit of IFCoFR, and the Guidance Note. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate IFCoFR were established and

maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the IFCoFR and their operating effectiveness. Our audit of IFCoFR includes obtaining an understanding of IFCoFR, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's IFCoFR.

#### Meaning of Internal Financial Controls over Financial Reporting

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

### **Inherent Limitations of Internal Financial Controls over Financial Reporting**

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

### **Opinion**

8. In our opinion, the Company has, in all material respects, adequate internal financial controls over

financial reporting and such controls were operating effectively as at 31 March 2018, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note.

For **Walker Chandiok & Co LLP**  
Chartered Accountants  
Firm Registration No.: 001076N/N500013

**Adi P. Sethna**  
Partner  
Membership No. 108840

Place: Hyderabad  
Date: 23 May 2018