

# Board's Report

Your Board takes pleasure in presenting the 35th Annual Report of the Company along with the audited financial statements and other reports for the year ended 31 March 2018.

## Company Overview

NATCO Pharma (NATCO) is an Indian based vertically integrated pharmaceutical company having presence in multiple speciality therapeutic segments. Over the years, NATCO has developed an innate ability to deliver molecules, which tend to have limited competition upon launch. The Company has manufactured speciality medicines and niche pharmaceutical products.

## Financial Summary

Standalone Financials for Year ended 31 March			Consolidated Financials for Year ended 31 March	
2017	2018		2017	2018
20028	21,085	Revenue from operations	20,650	22,020
6341	8,876	Profit before tax	6,244	8,872
4948	6,982	Profit for the year	4,849	6,952
(22)	(47)	Other comprehensive Income for the year (not to be reclassified to P&L)	(22)	(44)
6012	9,544	Surplus brought forward from last balance sheet	5,650	9,094
4948	6,982	Profit available for appropriation	4,860	6,962
		Appropriations:		
(1176)	(1,509)	Dividend	(1,176)	(1,509)
(240)	(308)	Tax on dividend	(240)	(308)
9544	14,709	Surplus carried forward	9,094	14,239

(₹ in million)

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

## Dividend

The Company declared two interim dividends for the FY 2017-18, the details of which are as follows:

S. No.	Date of Board Meeting	Date of payment	Interim dividend declared per equity share of face value of ₹2/- each (in ₹)
1.	7 August 2017	23 August 2017	1.25
2.	6 February 2018	22 February 2018	7.00
<b>Total</b>			<b>8.25</b>

The total dividend pay-out amounted to ₹1,509.34 million (excluding dividend distribution tax) resulting in a pay-out of 21.62% of the standalone profit after tax of the Company.

The two Interim Dividends have been paid to all eligible shareholders and no further dividends are proposed/

NATCO is driven by its commitment to improve patient care with its nuclei of focus on innovation and differentiation. Its products are now available to patients across geographies at affordable prices. With an emphasis on innovation ingrained in NATCO's philosophy, the speciality product range is constantly expanded through tenacity in selective research programmes.

NATCO is constantly driven by its mission to 'make specialty medicines accessible to all'. Operating in an evolving industry scenario, the Company is also strategically repositioning itself to explore many opportunities of organic growth and at the same time fortifying its manufacturing capabilities to reinforce its impact.

recommended by the Board. Accordingly your Directors recommend that the above two interim dividend amounts be treated as the final dividend of the Company for the Financial Year 2017-18. The Company's Dividend Distribution Policy is attached as "Annexure VIII" to this Board's Report.

## Transfer to Reserves

The Company has not transferred any amount to the general reserve for the financial year ended 31 March 2018.

## Share Capital

During the year under review, 1,00,00,000 equity shares were issued and allotted under Qualified Institutional Placement (QIP) and 1,85,600 equity shares were issued and allotted under Employee Stock Option Schemes

(ESOP-NATSOP 2015 & NATSOP 2016). Accordingly, the issued and subscribed share capital of the Company as on 31 March 2018 stood at ₹369 million divided into 18,44,93,400 equity shares of ₹2/- each as against ₹349 million divided into 17,43,07,800 equity shares of ₹ 2/- each as on 31 March 2017.

### Deposits

During FY 2017-18, the Company did not accept any fixed deposit within the meaning of sections 73 and 74 of the Companies Act, 2013 read together with the Companies (Acceptance of Deposits) Rules, 2014 and therefore no amount of principal or interest was outstanding, as on the date of balance sheet.

### Change in the nature of Business, if any

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

### Subsidiaries

The Company has five (5) international subsidiaries (excluding one (1) step down subsidiary) as on 31 March 2018. The consolidated financial statement of the Company and all its subsidiaries prepared under Indian Accounting Standards (Ind AS) specified under Section 133 of the Companies Act, 2013 form part of this annual report. Further, a statement containing the salient features of the financial statement of our subsidiaries in the prescribed Form AOC-1, is attached as 'Annexure I' to the Board's Report. This statement also provides the details of the performance and financial position of each subsidiary. In accordance with Section 136 of the Companies Act, 2013, the audited financial statements and related information of the subsidiaries, where applicable, will be available for inspection during regular business hours at the Company's registered office in Hyderabad, Telangana.

### Particulars of Loans, Guarantees and Investments

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

### Corporate Governance and additional Shareholders Information

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

A certificate from CS P Renuka, Company Secretary in Practice (C.P.No. 3460) on the compliance with the conditions of corporate governance is attached to this Annual Report.

### Management Discussion and Analysis

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

### Board of Directors

In accordance with the provisions of the Companies Act, 2013, Dr. D.Linga Rao (DIN: 07088404) is liable to retire by rotation and being eligible offers himself for reappointment at the ensuing Annual General Meeting of the Company.

Mr. Vivek Chhachhi (DIN: 00496620) resigned as a Non-Executive and Non-Independent Director w.e.f. 23 May 2018 due to professional obligations and other pre-occupations. Board had accepted his resignation.

Mr. Sridhar Sankararaman (DIN: 06794418) was appointed as a Non-Independent and Non-Executive Additional Director by the Board of Directors of the Company w.e.f. 23 May 2018 in accordance with the provisions of the Companies Act, 2013 who holds office up to the date of this Annual General Meeting. He was also inducted as a member of Audit Committee and Nomination and Remuneration Committee of your Company.

### Board Evaluation

As per provisions of the Companies Act, 2013 and the Listing Regulations, an evaluation of the performance of the Board was undertaken. The contribution and impact of individual Directors were reviewed through a peer evaluation on parameters such as level of engagement and participation, flow of information, independence of judgement, conflicts resolution and their contribution in enhancing the Board's overall effectiveness. The feedback obtained from the interventions was discussed in detail and, where required, independent and collective action points for improvement were put in place.

### Appointment of Directors and Remuneration Policy

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

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

### Declaration by Independent Directors

All Independent Directors of the Company have submitted requisite declarations confirming that they continue to meet the criteria of independence as prescribed under Section 149(6) of the Companies Act, 2013 and Regulation 16(1) (b) of the Listing Regulations. The Independent Directors have also confirmed that they have complied with the Company's Code of Conduct.

### Committees of Board, Number of Meetings of the Board and Board Committees

The Board currently has six committees, namely, Audit Committee, Stakeholders Relationship Committee, Nomination and Remuneration Committee, Compensation Committee, Allotment Committee and Corporate Social Responsibility Committee. All the recommendations made by the Committees of Board including the Audit Committee were accepted by the Board. During the year the Board constituted a Committee of Directors for the purpose of Qualified Institutional Placement (QIP).

A detailed update on the Board, its composition, detailed charter including terms of reference of various Board Committees, number of Board and Committee meetings held during FY 2017-18 and attendance of the Directors at each meeting is provided in the Report on Corporate Governance, which forms part of this Annual Report.

### Business Risk Management

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

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

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

### Business Responsibility Report

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

and Economic Responsibilities of Business framed by the Ministry of Corporate Affairs.

### Internal Financial Controls

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

### Insurance

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

### Directors Responsibility Statement

Pursuant to Section 134(3)(c) of the Companies Act, 2013 in relation to financial statements of the Company for the year ended 31 March 2018, the Board of Directors state that:-

- a) The applicable accounting standards have been followed in preparation of the financial statements and there are no material departures from the said standards.
- b) Reasonable and prudent accounting policies have been used in preparation of the financial statements and that they have been consistently applied and that reasonable and prudent judgements and estimates have been made in respect of items not concluded by the year end, so as to give a true and fair view of the state of affairs of the Company as at 31 March 2018 and of the profit for the year ended on that date.
- c) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- d) The financial statements have been prepared on a going concern basis.
- e) Proper internal financial controls were in place and were adequate and operating effectively and

- f) Proper systems were devised to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

### Related Party Transactions

In accordance with Section 134(3)(h) of the Companies Act, 2013 and Rule 8(2) of the Companies (Accounts) Rules, 2014, the particulars of contract or arrangement entered into by the Company with related parties referred to in Section 188(1) in Form AOC-2 is attached as **"Annexure II"** to this Board's Report.

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

### Vigil Mechanism/Whistle Blower Policy

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

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

### Internal Complaints Committee

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

### Green Initiative

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

### Auditors

#### Statutory Auditors

The shareholders at their 31st Annual General Meeting (AGM) held on 27 September 2014, approved the re-appointment of M/s. Walker Chandiook & Co LLP, Chartered Accountants (Firm Registration No.: 001076N/

N500013), as statutory auditors of the Company, to hold office from the conclusion of the 31st AGM up to the conclusion of the 36th AGM to be held for the financial year 2018-2019.

#### Secretarial Auditor

Pursuant to Section 204 of the Companies Act, 2013 and the Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014, CS Balachandra Sunku (CP No. 12745) a, practicing Company Secretary conducted the secretarial audit of the Company for FY 2018. The Secretarial Audit Report in form No. MR-3 is attached as **"Annexure III"** to this Board's Report.

The Board has re-appointed CS Balachandra Sunku (CP No. 12745), a Practicing Company Secretary, as secretarial auditor of the Company for FY 2019.

#### Cost Auditors

Pursuant to Section 148 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 and the Companies (Cost Records and Audit) Amendment Rules, 2014, the Company maintains the cost audit records as specified by the Central Government in respect of its pharmaceutical business. The Board has, on the recommendation of the Audit Committee, appointed M/s. S.S. Zanwar & Associates (Firm Registration No.:100283) as cost auditors of the Company for FY 2018. The provisions also require that the remuneration of the cost auditors be ratified by the shareholders and accordingly the same is put forward to the shareholders in the ensuing AGM for their ratification. The cost audit report for the FY 2018 will be filed with the Central Government within the stipulated timeline and the relevant cost audit reports for FY 2017 were filed within the due date to the Central Government.

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

During FY 2018, there were no significant and/or material orders, passed by any Court or Regulator or Tribunal, which may impact the going concern status or the Company's operations in future.

### Corporate Social Responsibility Initiatives

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

The details about the CSR initiatives taken during the FY 2018 are discussed in a separate chapter "Empowering our Communities" which forms a part of this Annual Report.

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

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

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

### Employees Stock Option Scheme

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

### Credit Rating

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

### Particulars of Employees

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

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

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

### Extract of Annual Return

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

### Acknowledgements

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

For and on behalf of the Board of Directors

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

Place: Hyderabad  
Date: 8 August 2018