Notes

Summary of significant accounting policies and other explanatory information

1. General information

NATCO Pharma Limited ("the Company") is a public limited company domiciled and incorporated in India in accordance with the provisions of the Companies Act, 1956. The registered office of the Company is at NATCO House, Road No. 2, Banjara Hills, Hyderabad – 500034. The equity shares of the Company are listed on the National Stock Exchange and Bombay Stock Exchange.

The Company is engaged in the business of pharmaceuticals which comprises research and development, manufacturing and selling of bulk drugs and finished dosage formulations. The Company has manufacturing facilities in India which caters to both domestic and international markets including regulated markets like United States of America and Europe.

These financial statements for the year ended 31 March 2018 were authorised and approved for issue by the Board of Directors on 23 May 2018.

2. Basis of preparation

The financial statements of the Company have been prepared in accordance with the Indian Accounting Standards as notified under Section 133 of the Companies Act, 2013 ("the Act") read with the Companies (Indian Accounting Standards) Rules 2015 issued by Ministry of Corporate Affairs ('MCA'). The Company has uniformly applied the accounting policies during the periods presented.

Transactions and balances with values below the rounding off norm adopted by the Company have been reflected as "0" in the relevant notes in these financial statements.

The financial statements have been prepared on going concern basis under the historical cost basis except for the following –

- Certain financial assets and liabilities which are measured at fair value;
- Share based payments which are measured at fair value of the options; and
- Contingent consideration

3. Standards, not yet effective and have not been adopted early by the Company

a. Appendix B to Ind AS 21, Foreign currency transactions and advance consideration:

On 28 March 2018, Ministry of Corporate Affairs ("MCA") has notified the Companies (Indian Accounting Standards) Amendment Rules, 2018 containing Appendix B to Ind AS 21, Foreign currency transactions and advance consideration which clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency.

The amendment will come into force from 1 April 2018. The Company has evaluated the effect of this on the financial statements and the impact is not expected to be material.

b. Ind AS 115 - Revenue from Contract with Customers:

Applicable from 1 April 2018. The Core principle of the new standard is that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at an amount to which the entity expects to be entitled. To achieve the core principle the new standard establishes a five step model that entities would need to apply to determine when to recognise revenue, and at what amount. Applying this core principle involves the 5 steps approach.

i. The standard requires to identify contract with customer as a first step.

ii. Having identified a contract, the entity next identifies the performance obligations within that contract. A performance obligation is a promise in a contract with a customer to transfer either a good or service or bundle of goods or services, that are 'distinct'.

iii. Third step in the model is to determine the transaction price and then as a fourth step, such transaction price needs to be allocated to the performance obligation identified in step ii.

Notes

Summary of significant accounting policies and other explanatory information

iv. In accordance with this Standard, entity is required to recognise revenue when the entity satisfies the performance obligations.

The Standard requires extensive disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The effect on adoption of Ind AS 115 is not expected to be significant.

4. Summary of significant accounting policies

The financial statements have been prepared using the accounting policies and measurement basis summarized below.

a. Current versus non-current classification

The Company presents assets and liabilities in the balance sheet based on current/non-current classification.

An asset is classified as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

b. Foreign currency

Functional and presentation currency

The financial statements are presented in Indian Rupee ('INR' or '₹') which is also the functional and presentation currency of the Company.

Transactions and balances

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

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

Exchange differences arising on monetary items on settlement, or restatement as at reporting date, at rates different from those at which they were initially recorded, are recognized in the statement of profit and loss in the year in which they arise.

c. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties collected on behalf of the government.

Excise duty is a liability of the Company as a manufacturer, which forms part of the cost of production, irrespective of whether the goods are sold or not. Therefore, the recovery of excise

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Summary of significant accounting policies and other explanatory information

duty flows to the Company on its own account and hence revenue includes excise duty.

Sales tax/ Value Added Tax [VAT] is not received by the Company on its own account. Rather, it is tax collected on value added to the Goods by the Company on behalf of the government. Accordingly, it is excluded from revenue.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Service Revenue
Service income is recognised as per the terms of contracts with the customers when the related services are performed or the agreed milestones are achieved and are net of service tax, wherever applicable.

Interest Income
Interest income is recognized on time proportion basis taking into account the amount outstanding and rate applicable. For all debt instruments measured at amortised cost, interest income is recorded using the Effective Interest Rate (EIR) method.

Dividend income
Dividend income is recognised at the time when right to receive the payment is established, which is generally when the shareholders approve the dividend.

Profit sharing arrangements
Revenue from profit sharing arrangements on sale of products is recognised based on terms and conditions of arrangements with respective customers.

Licensing and long term supply arrangements:
Revenue from licensing and long term supply arrangements is recognised in the period in which the Company completes all its performance obligations.

d. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. A qualifying asset is one that necessarily takes substantial period of time to get ready for its intended use. All other borrowing costs are charged to the Statement of Profit and Loss as incurred.

e. Property, Plant and Equipment (PPE)

Recognition and initial measurement
Property, plant and equipment are stated at their cost of acquisition. The cost comprises purchase price, borrowing cost if capitalization criteria are met and directly attributable cost of bringing the asset to its working condition for the intended use. Any trade discount and rebates are deducted in arriving at the purchase price.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company. All other repair and maintenance costs are recognised in statement of profit or loss as incurred.

Subsequent measurement (depreciation and useful lives)
Depreciation on property, plant and equipment is provided on the straight-line method, computed on the basis of useful lives as estimated by management which coincides with rates prescribed in Schedule II to the Companies Act, 2013.

Cost of the leasehold land is amortized on a straight-line basis over the term of the lease.

The residual values, useful lives and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Notes

Summary of significant accounting policies and other explanatory information

De-recognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Transition to Ind AS

On transition to Ind AS, the Company has elected to continue with the carrying value of all its property, plant and equipment recognised as at 1 April 2015 measured as per the provisions of Previous GAAP and use that carrying value as the deemed cost of property, plant and equipment.

f. Intangible assets

Recognition and initial measurement

Intangible assets (software) are stated at their cost of acquisition. The cost comprises purchase price, borrowing cost if capitalization criteria are met and directly attributable cost of bringing the asset to its working condition for the intended use. Any trade discount and rebates are deducted in arriving at the purchase price.

Subsequent measurement (amortisation)

The cost of capitalized software is amortized over a period of 6 years, on a straight line basis.

Transition to Ind AS

On transition to Ind AS, the Company has elected to continue with the carrying value of all its intangible assets recognised as at 1 April 2015 measured as per the provisions of Previous GAAP and use that carrying value as the deemed cost of intangible assets.

g. Operating leases

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

h. Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired, based on internal or external factors. If any such indication exists, the Company estimates the recoverable amount of the asset or the cash generating unit. If such recoverable amount of the asset or cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the statement of profit and loss. If, at the reporting date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount. Impairment losses previously recognized are accordingly reversed in the statement of profit and loss.

Financial instruments

Financial assets

Initial recognition and measurement

All financial assets are recognised initially at fair value and transaction cost that is attributable to the acquisition of the financial asset is also adjusted.

Subsequent measurement

i. **Debt instruments at amortised cost –** A 'debt instrument' is measured at the amortised cost if both the following conditions are met:

   - The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and
   - Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

   After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method.

ii. **Equity investments –** All equity investments in scope of Ind-AS 109 are measured at fair

Notes

Summary of significant accounting policies and other explanatory information

value. Equity instruments which are held for trading are generally classified as at fair value through profit and loss (FVTPL). For all other equity instruments, the Company decides to classify the same either as at fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL). The Company makes such election on an instrument by instrument basis. The classification is made on initial recognition and is irrevocable.

iii. **Mutual funds –** All mutual funds in scope of Ind-AS 109 are measured at fair value through profit and loss (FVTPL).

De-recognition of financial assets

A financial asset is primarily de-recognised when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and transaction cost that is attributable to the acquisition of the financial liabilities is also adjusted. These liabilities are classified as amortised cost.

Subsequent measurement

These liabilities include borrowings and deposits. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

De-recognition of financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified party fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the amount of expected loss allowance determined as per impairment requirements of Ind-AS 109 and the amount recognised less cumulative amortisation.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

i. Investment in instruments of consolidated entities

The Company's investment in equity and optionally convertible instruments in subsidiaries and fellow subsidiaries (direct subsidiaries of Parent Company) are accounted for at cost.

j. Impairment of financial assets

In accordance with Ind-AS 109, the Company applies expected credit loss (ECL) model for measurement and recognition of impairment loss for financial assets.

ECL is the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive. When estimating the cash flows, the Company is required to consider –

- All contractual terms of the financial assets (including prepayment and extension) over the expected life of the assets.
- Cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Notes

Summary of significant accounting policies and other explanatory information

Trade receivables

The Company applies approach permitted by Ind AS 109 Financial Instruments, which requires expected lifetime losses to be recognised from initial recognition of receivables.

Other financial assets

For recognition of impairment loss on other financial assets and risk exposure, the Company determines whether there has been a significant increase in the credit risk since initial recognition and if credit risk has increased significantly, impairment loss is provided.

k. Inventories

Raw material, packaging material, stores and spare parts are carried at cost or net realisable value, whichever is lower. Cost includes purchase price excluding taxes those are subsequently recoverable by the Company from the concerned authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition. Cost of inventories is determined using the weighted average cost method.

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

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

l. Income taxes

Tax expense recognized in statement of profit or loss comprises the sum of deferred tax and current tax except the ones recognized in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and tax laws that have been enacted for the reporting period. Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss (either in other comprehensive income or in equity). Current tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss (either in other comprehensive income or in equity).

m. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, other short-term highly liquid investments (original maturity of 3 months or less) that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes

Summary of significant accounting policies and other explanatory information

n. Post-employment, long-term and short-term employee benefits

Defined contribution plan

The Company's contribution to provident fund and employee state insurance schemes is charged to the statement of profit and loss. The Company's contributions towards Provident Fund are deposited with the Regional Provident Fund Commissioner under a defined contribution plan.

Defined benefit plan

The Company has gratuity as defined benefit plan where the amount that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The liability recognised in the balance sheet for defined benefit plans is the present value of the Defined Benefit Obligation (DBO) at the reporting date net of fair value of plan assets. Management estimates the DBO annually with the assistance of independent actuaries, by adopting the projected unit credit method. Actuarial gains and losses resulting from re-measurements of the liability are included in other comprehensive income.

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹2 Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund.

Other long-term employee benefits

The Company also provides benefit of compensated absences to its employees which are in the nature of long -term benefit plan. Liability in respect of compensated absences becoming due and expected to be availed more than one year after the balance sheet date is estimated on the basis of an actuarial valuation performed by an independent actuary using the projected unit credit method as on the reporting date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in the statement of profit and loss in the year in which such gains or losses arise.

Short-term employee benefits

Short-term employee benefits comprise of employee costs such as salaries, bonus etc. is recognized on the basis of the amount paid or payable for the period during which services are rendered by the employee.

o. Share based payments

The employee benefits expense is measured using the fair value of the employee stock options and is recognised over vesting period with a corresponding increase in equity. The vesting period is the period over which all the specified vesting conditions are to be satisfied.

Transition to Ind AS

On transition to Ind AS, the Company has elected to not consider the charge related to employee stock options for which the vesting period is already over.

p. Provisions, contingent liabilities and contingent assets

Provisions are recognized only when there is a present obligation, as a result of past events, and when a reliable estimate of the amount of obligation can be made at the reporting date. These estimates are reviewed at each reporting date and adjusted to reflect the current best estimates. Provisions are discounted to their present values, where the time value of money is material.

Contingent liability is disclosed for:

- Possible obligations which will be confirmed only by future events not wholly within the control of the Company or

- Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

Contingent assets are neither recognized nor disclosed. However, when realization of income is virtually certain, related asset is recognized.

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Summary of significant accounting policies and other explanatory information

q. Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period is adjusted for events including a bonus issue.

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.

r. Share issue expense

Share issue expenses are charged first against balance available in the securities premium.

5. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company.

Recognition of deferred tax assets: The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions (see note 20).

Recognition of deferred tax liability on undistributed profits: The extent to which the Company can control the timing of reversal of deferred tax liability on undistributed profits of its subsidiaries requires judgement.

Evaluation of indicators for impairment of assets: The evaluation of applicability of indicators of impairment of assets requires assessment of several external and internal factors which could result in deterioration of recoverable amount of the assets.

Recoverability of advances/receivables: At each balance sheet date, based on historical default rates observed over expected life, the management assesses the expected credit loss on outstanding receivables and advances.

Useful lives of depreciable/amortisable assets: Management reviews its estimate of the useful lives of depreciable/amortisable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical and economic obsolescence that may change the utility of certain software, customer relationships, IT equipment and other plant and equipment.

Defined Benefit Obligation (DBO): Management's estimate of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, medical cost trends, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses.

Fair value measurements: Management applies valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Provisions: At each balance sheet date basis the management judgment, changes in facts and legal aspects, the Company assesses the requirement of provisions against the outstanding warranties and guarantees. However, the actual future outcome may be different from this judgement.

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Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

6. Property, plant and equipment

	Free hold land#	Lease hold land	Buildings	Plant equipment	Office equipment	Furniture	Vehicles	Computers	Total
Gross carrying amount									
At 1 April 2016	1,226	118	2,609	5,308	31	91	143	123	9,649
Additions	230	144	416	921	1	23	40	16	1,791
Disposals/retirement	-	-	38	7	-	-	13	-	58
Balance as at 31 March 2017	**1,456**	**262**	**2,987**	**6,222**	**32**	**114**	**170**	**139**	**11,382**
Additions	376	-	596	1,510	3	36	33	21	2,575
Disposals/retirement	63	-	-	40	-	-	4	-	107
Balance as at 31 March 2018	**1,769**	**262**	**3,583**	**7,692**	**35**	**150**	**199**	**160**	**13,850**
Accumulated depreciation									
Up to April 2016	-	3	536	1,878	26	34	72	97	2,646
Charge for the year	-	2	88	395	1	7	15	13	521
Adjustments for disposals/retirement	-	-	10	2	-	-	7	-	19
Up to 31 March 2017	**-**	**5**	**614**	**2,271**	**27**	**41**	**80**	**110**	**3,148**
Charge for the year	-	3	109	473	2	11	22	18	638
Adjustments for disposals/retirement	-	-	-	29	-	-	3	-	32
Up to 31 March 2018	**-**	**8**	**723**	**2,715**	**29**	**52**	**99**	**128**	**3,754**
Net book value as at 31 March 2017	**1,456**	**257**	**2,373**	**3,951**	**5**	**73**	**90**	**29**	**8,234**
Net book value as at 31 March 2018	**1,769**	**254**	**2,860**	**4,977**	**6**	**98**	**100**	**32**	**10,096**

(i) Contractual obligations

Refer to note 38 for disclosure of contractual commitments for the acquisition of property, plant and equipment.

(ii) Leasehold land includes land acquired from the State Industrial Development Corporation of Uttarakhand Limited, Uttar Pradesh State Industrial Development Corporation Limited for a period of 90 years and 87 years respectively. Further the Company has also acquired land from Ramky Pharma City (India) Limited under a lease arrangement for a period of 33 years which is renewable for a further period of 2 terms of 33 years each.

Land parcels with an aggregate carrying amount of ₹4 (31 March 2017: ₹4) are under dispute pending in a court as to the ownership of the property. The management, based on available information and advice of legal counsel, is confident of favorable outcome in this case and hence, no adjustments are made in these financial statements.

(iii) Capital work-in-progress*

31 March 2018	4,800
31 March 2017	3,362

*Capital work-in-progress mainly relates to expansion projects on-going at Company's existing facilities and new projects under implementation

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Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

7. Other intangible assets

	Computer Software	Total
Gross carrying amount		
As at 1 April 2016	110	110
Additions	18	18
As at 31 March 2017	**128**	**128**
Additions	18	18
As at 31 March 2018	**146**	**146**
Accumulated amortization		
Up to 1 April 2016	57	57
Charge for the year	15	15
Up to 31 March 2017	**72**	**72**
Charge for the year	17	17
Up to 31 March 2018	**89**	**89**
Net carrying amount		
As at 31 March 2017	56	56
As at 31 March 2018	**57**	**57**

8. Investments

	31 March 2018	31 March 2017
Non-current		
Investments in equity instruments		
Unquoted		
Investments in subsidiaries		
1,000 (31 March 2017: 1,000) fully paid-up, common shares of US$1,000 each in Natco Pharma Inc., Delaware, United States of America	42	42
1,061,612 (31 March 2017: 1,019,012) equity shares of US$10 each, fully paid-up in Time Cap Overseas Limited, Mauritius	638	610
2,783,813 (31 March 2017: 2,783,813) equity shares of Canadian Dollar 1 each, fully paid-up in NATCO Pharma (Canada) Inc., Canada	145	145
1,370,000 (31 March 2017: 915,000) equity shares of Singapore Dollar 1 each, fully paid-up in NATCO Pharma Asia PTE Ltd, Singapore	65	43
853,572 (31 March 2017: 347,600) equity shares of Australian Dollar 1 each, fully paid-up in NATCO Pharma Australia PTY Ltd, Australia	42	18
Total investments in subsidiaries	**932**	**858**
Others		
4,054 (31 March 2017: 4,054) shares of NATIVITA Joint Limited Liability Company	0	0
750 (31 March 2017: 750) equity shares of ₹100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	0	0
109,569 (31 March 2017: Nil) equity shares of ₹10 each, fully paid-up in OMRV Hospital Limited	74	-
588 (31 March 2017: Nil) equity shares of ₹10,000 each, fully paid-up in Endiya Trust	6	-
34,400 (31 March 2017: 34,400) equity shares of ₹10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	0	0
Total investments in other	**81**	**1**
Total investments in equity instruments, Trade (A)	**1,013**	**859**
Unquoted		
27,000 (31 March 2017: 27,000) equity shares of ₹10 each, fully paid-up in Jayalakshmi Spinning Mills Limited	0	0

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Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2018	31 March 2017
Total investments in equity instruments, Others (B)	**0**	**0**
Other investments, unquoted		
National savings certificates	0	0
Total investments in other non-current investments (C)	**0**	**0**
Total non-current investments (A+B+C)	**1,013**	**859**
Less: Provision for diminution in value of investments	0	0
	1,013	**859**
Aggregate book value of unquoted investments	1,013	859
Aggregate market value of unquoted investments	81	-
Aggregate amount of impairment in the value of investments	0	0
Investments carried at cost	932	859
Investments carried at amortised cost	0	0
Investments carried at fair value through other comprehensive income	81	1
Current		
Investments in equity instruments, Quoted, Non trade		
10,000 (31 March 2017: 10,000) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited	7	15
5,500 (31 March 2017: 5,500) equity shares of ₹1 each, fully paid-up in Sun Pharmaceuticals Industries Limited	3	4
778 (31 March 2017: 778) equity shares of ₹2 each, fully paid-up in Alkem Laboratories Limited	2	2
15,000 (31 March 2017: 15,000) equity shares of ₹1 each, fully paid-up in Cadila Healthcare Limited	6	7
100,000 (31 March 2017: 100,000) equity shares of ₹10 each, fully paid-up in Laurus Labs Limited	50	52
150,000 (31 March 2017: 150,000) equity shares of ₹1 each, fully paid-up in Lanco Infratech Limited	0	0
22,700 (31 March 2017: 22,700) equity shares of ₹1 each, fully paid-up in GMR Infrastructure Limited	0	0
50,400 (31 March 2017: 50,400) equity shares of ₹1 each, fully paid-up in GVK Power & Infrastructure Limited	1	0
50,000 (31 March 2017: 50,000) equity shares of ₹1 each, fully paid-up in Panacea Biotech Limited	13	8
3,176 (31 March 2017: 3,176) equity shares of ₹10 each, fully paid-up in ICICI Prudential Life Insurance Company Limited	1	1
Investments in Debentures, unquoted, Non trade		
200 (31 March 2017: Nil) non-convertible debentures of ₹10,00,000 each in Citicorp Finance India Limited	200	-
2,000 (31 March 2017: Nil) non-convertible debentures of ₹1,00,000 each in Citicorp Finance India Limited	200	-
Total current investments	**483**	**89**
Aggregate book value of unquoted investments	400	-
Aggregate book value of quoted investments	83	89
Aggregate market value of quoted investments	83	89
Aggregate amount of impairment in the value of investments	-	-
Investments carried at amortised cost	400	-
Investments carried at fair value through other comprehensive income	83	89
Investments carried at fair value through profit or loss	-	-

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

9. Loans

(Unsecured, considered good)

	31 March 2018	31 March 2017
Non-current		
Loans to related parties	78	-
Total non-current loans	**78**	**-**
Current		
Loans to employees	46	34
Loans to related parties	-	32
Total current loans	**46**	**66**

10. Other financial assets

	31 March 2018	31 March 2017
Non-current		
Restricted deposits*	57	55
Security deposits	87	71
Interest accrued on deposits	5	5
	149	**131**
*Given against bank guarantees/performance guarantees		
Current		
Deposits with financial institutions	5,942	693
Interest accrued on fixed deposits	179	29
Insurance claim receivable	-	7
Other advances	19	5
	6,140	**734**

11. Other assets

	31 March 2018	31 March 2017
Non-current		
Capital advances	575	353
Prepaid leasehold	18	-
Balances with statutory authorities	16	125
	609	**478**
Current		
Advances to material/service providers	193	201
Prepaid expenses	125	74
Export incentives receivable	228	147
Balances with statutory authorities	1,288	731
	1,834	**1,153**

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

12. Inventories

(at lower of cost and net realisable value)

	31 March 2018	31 March 2017
Raw materials [including goods-in-transit of ₹16 (31 March 2017: ₹14)]	1,587	1,123
Work-in-progress	1,239	1,021
Finished goods	621	613
Stores and spares [including goods-in-transit of ₹26 (31 March 2017: ₹20)]	580	350
Packing materials [including goods-in-transit of ₹0 (31 March 2017: ₹1)]	193	245
Stock-in-trade (in respect of goods acquried for trading)	38	17
	4,258	**3,369**

i) During the year, ₹87 (31 March 2017: ₹44) was recognised as an expense for the inventories at net realisable value.

13. Trade receivables

(Unsecured)

	31 March 2018	31 March 2017
Trade receivables, gross		
- Considered good	6,060	4,689
- Considered doubtful	-	-
	6,060	**4,689**
Less: Allowance for doubtful debts	-	-
	6,060	**4,689**

14. Cash and cash equivalents

	31 March 2018	31 March 2017
Balances with banks in current accounts	86	122
Cash on hand	15	6
	101	**128**

There are no repatriation restrictions with regard to cash and cash equivalents as at the end of the reporting period.

15. Bank balances other than cash and cash equivalents

	31 March 2018	31 March 2017
Bank deposits		
With maturity of more than three months and upto twelve months	1,600	106
In unclaimed dividend accounts	20	17
	1,620	**123**

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

16. Equity share capital

i. Authorised share capital

	31 March 2018		31 March 2017	
	Number	Amount	Number	Amount
Equity shares of ₹2 each	20,00,00,000	400	20,00,00,000	400

ii. Issued, subscribed and fully paid up

	31 March 2018		31 March 2017	
	Number	Amount	Number	Amount
Equity shares of ₹2 each	18,44,93,400	369	17,43,07,800	349
	18,44,93,400	369	17,43,07,800	349

iii. Reconciliation of number of equity shares outstanding at the beginning and at the end of the year

	31 March 2018		31 March 2017	
	Number	Amount	Number	Amount
Equity shares				
Balance at the beginning of the year	17,43,07,800	349	17,41,74,245	348
Add: Issued during the year*	1,01,85,600	20	1,33,555	1
Balance at the end of the year	**18,44,93,400**	**369**	**17,43,07,800**	**349**

*In accordance with provisions of Chapter VIII of the Securities Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended and pursuant to the approval accorded by the shareholders in the Extra-Ordinary General Meeting on 29 November 2017, the Company has raised a sum of ₹ 9,150 million during the current year by allotment of 10,000,000 equity shares of ₹ 2 each at a premium of ₹ 913 per share through Qualified Institutional Placement.

iv. Rights, preferences and restrictions attached to equity shares

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

v. The Board of Directors have recommended two interim dividends of ₹1.25 and ₹7 during the current financial year.

vi. Details of shareholder holding more than 5% share capital

	31 March 2018		31 March 2017	
	Number	% holding	Number	% holding
Name of the equity shareholder				
V C Nannapaneni*	4,07,51,315	22.09%	4,07,36,815	23.37%
Time Cap Pharma Labs Limited	1,71,57,220	9.30%	1,71,57,220	9.84%
Natsoft Information Systems Private Limited	1,57,67,500	8.55%	1,57,67,500	9.05%

*including shares held in the capacity of Karta of HUF aggregating to 5,440,045 (31 March 2017: 5,440,045)

vii. Shares reserved for issue under options

(a) The Company has instituted the NATCO Employee Stock Option Plan 'ESOP-2015', NATCO Employee Stock Option Plan 'ESOP-2016' and the NATCO Employee Stock Option Plan 'ESOP-2017' ("the Schemes"). The Schemes were formulated in accordance with the Securities Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 issued by the Securities and Exchange Board of India ("SEBI"). Pursuant to the terms of the Scheme, the Board of the Directors of the Company have granted 750,000 options (post split),

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

174,330 (post split) and 600,000 (post split) to eligible employees on 12 August 2015, 11 November 2016 and 02 November 2017 respectively. The terms of the Scheme provide that each option entitles the holder to one equity share of ₹2 each (post split) and that the options can be settled only by way of issue of equity shares. The options vest on an annual basis over a period ranging from 4 to 5 years from the date of grant and the options are entirely time-based with no performance conditions.

(b) During the year ended 31 March 2018, the Company had incurred stock compensation cost of ₹180 (31 March 2017: ₹123) in respect of ESOP 2015, ESOP 2016 and ESOP 2017 schemes.

The details of options are as follows :

	31 March 2018		31 March 2017	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at the beginning of the year	7,90,775	2	7,50,000	2
Granted during the year	6,00,000	2	1,74,330	2
Forfeited during the year	-	-	-	-
Exercised during the year	1,85,600	2	1,33,555	2
Expired during the year	60,795	-	-	-
Outstanding at the end of the year	11,44,380	2	7,90,775	2
Exercisable at the end of the year	-	-	-	-

The weighted average exercise price at the date of exercise for stock options exercised during the year was ₹2 post split (31 March 2017: ₹2 post split). The stock options outstanding as at 31 March 2018 had a weighted average exercise price of ₹2 post split (31 March 2017: ₹2 post split), and the weighted average remaining contractual life of unvested options is 22.98 months (31 March 2017: 29.41 months).

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

	ESOP 2017	ESOP 2016	ESOP 2015
Risk-free interest rate	6.14% - 6.61%	6.82% - 8.05%	7.14% - 8.18%
Expected life	1-4 years	1-5 years	1-5 years
Expected volatility	39.82%-43.28%	37.28%-43.76%	40.59%- 49.91%
Expected dividend yield	0.75%	0.20%	0.20%

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

	Number of shares	
	1 April 2013 to 31 March 2018	1 April 2012 to 31 March 2017
Aggregate number of equity shares allotted*	11,28,030	20,68,040

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

(a) During the year ended 31 March 2015, the Company has issued 808,875 equity shares (post split) of ₹2 each, fully paid-up at a premium of ₹238 per equity share (post split) to the erstwhile shareholders of Natco Organic Limited ('NOL') in exchange of 19,310,000 equity shares of ₹10 each at face value held in NOL.

(b) Balance equity shares comprising of 319,155 (31 March 2017: 1,259,165) (post split) were allotted during the period of five years, on exercise of the options granted under the employee stock option plan wherein part consideration was received in the form of employee services.

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

17. Other equity

	31 March 2018	31 March 2017
Reserve and surplus		
Securities premium reserve	15,209	6,178
Capital reserve	207	207
Capital redemption reserve	5	5
General reserve	595	595
Share options outstanding account	242	154
Retained earnings	14,709	9,544
Total reserves and surplus	**30,967**	**16,683**
Other reserves		
Gain/(loss) on FVTOCI equity securities	37	42
Remeasurement of defined benefit plans	(119)	(77)
	(82)	**(35)**
	30,885	**16,648**

(i) Nature and purpose of other reserves

Securities premium reserve

Securities premium reserve is used to record the premium on issue of shares. The reserve is utilised in accordance with provisions of the Act.

Capital reserve

Capital reserve was created on amalgamation of certain entities into the Company in the earlier years. The Company uses capital reserve for transactions in accordance with the provisions of the Act.

Capital redemption reserve

In accordance with the requirements of the Companies Act, 1956, the Company has created capital redemption reserve on buyback of shares. The Company uses capital redemption reserve for transactions in accordance with the provisions of the Act.

General reserve

The Company generally appropriates a portion of its earnings to the general reserve to be used for contingencies. These reserves are freely available for use by the Company.

Share options outstanding account

The reserve represents the excess of the fair value of the options on the grant date over the exercise price which is accumulated by the Company in respect of all options that have been granted. The Company transfers the proportionate amounts, outstanding in this account, in relation to options exercised to securities premium account on the date of exercise of such options.

Gain/(loss) on FVTOCI equity securities

The Company has elected to recognise the change in fair value of certain investments in equity shares in other comprehensive income. These changes are accumulated within the FVOCI equity instruments reserve within equity. The Company transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.

Remeasurement of defined benefit obligation

The reserve represents the remeasurement gains/(losses) arising from the actuarial valuation of the defined benefit obligations of the Company. The remeasurement gains/(losses) are recognized in other comprehensive income and accumulated under this reserve within equity. The amounts recognized under this reserve are not reclassified to profit or loss.

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

18. Borrowings

	31 March 2018	31 March 2017
Current		
Loans repayable on demand		
Working capital loans (secured)	986	1,446
Working capital loans (unsecured)	744	760
	1,730	**2,206**

(i) Working capital loans represents cash credit, overdraft, commercial paper, bills purchased and discounted with various banks and carry interest linked to the respective Bank's base lending rate/marginal cost of lending rate and range from 1.50% per annum to 10.05% per annum (31 March 2017: 1.00% per annum to 12.70% per annum).

(ii) Working capital loans 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, Ms. Durga Devi Nannapaneni and Dr. N. Ramakrishna Rao, relatives of Chairman and Managing Director.

(iii) A portion of the unsecured loans is personally guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director.

19. Other financial liabilities

	31 March 2018	31 March 2017
Non-current		
Security deposits from customers	8	8
	8	**8**
Current		
Interest accrued but not due on borrowings	-	2
Capital creditors	666	658
Unpaid dividend on equity shares	20	17
Employee related payables	321	295
Other payables	2	2
	1,009	**974**

20. Provision for employee benefits

	31 March 2018	31 March 2017
Non-current		
Gratuity	229	139
Compensated absences	95	80
	324	**219**
Current		
Gratuity	58	15
Compensated absences	79	3
	137	**18**

(a) Gratuity

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹2 (31 March 2017: ₹1). Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund.

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

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.

		31 March 2018	31 March 2017
(i)	**Change in projected benefit obligation**		
	Projected benefit obligation at the beginning of the year	213	157
	Past service cost	60	-
	Service cost	38	16
	Interest cost	17	13
	Actuarial (gain) / loss	51	41
	Benefits paid	(9)	(14)
	Projected benefit obligation at the end of the year	**370**	**213**
(ii)	**Change in plan assets**		
	Fair value of plan assets at the beginning of the year	61	63
	Expected return on plan assets	5	5
	Employer contributions	26	7
	Benefits paid	(9)	(14)
	Fair value of plan assets at the end of the year	**83**	**61**
(iii)	**Reconciliation of present value of obligation on the fair value of plan assets**		
	Present value of projected benefit obligation at the end of the year	370	213
	Funded status of the plans	(83)	(61)
	Net liability recognised in the balance sheet	**287**	**152**
(iv)	**Expense recognized in the statement of profit and loss**		
	Service cost	38	16
	Past service cost	60	-
	Interest cost	17	13
	Expected returns on plan assets	(5)	(5)
	Premium expenses	-	0
	Net gratuity costs in statement of profit and loss	**110**	**24**
(v)	**Expense recognized in other comprehensive reserves**		
	Recognized net actuarial (gain)/ loss	51	41
	Return on Plan Assets (gain)/ loss	1	1
		52	42
(vi)	**Key actuarial assumptions**		
	Discount rate	8.00%	8.00%
	Expected return on plan assets	8.00%	8.25%
	Salary escalation rate	10.00%	8.00%

Assumptions regarding future mortality experience are set in accordance with the published statistics by the Life Insurance Corporation of India.

Plan assets does not comprise any of the Company's own financial instruments or any assets used by the Company. The Company has the plan covered under a policy with the Life Insurance Corporation of India Limited.

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, the salary growth rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. However, the impact of these changes is not ascertained to be material by the management.

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

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

	31 March 2018	31 March 2017	31 March 2016	31 March 2015	31 March 2014
Defined benefit obligation	370	213	157	120	117
Planned Assets	83	61	63	54	47
Surplus/(deficit)	(287)	(152)	(94)	(66)	(71)
Experience adjustment to planned liabilities	51	41	31	(9)	(14)
Experience adjustment to planned assets	-	-	-	-	-

(vii) Sensitivity analysis:

	31 March 2018
Defined benefit obligation without effect of projected salary growth	370
Salary escalation up by 1%	25
Salary escalation down by 1%	(23)
Withdrawal rate up by 1%	0
Withdrawal rate down by 1%	0
Discount rate up by 1%	(23)
Discount rate down by 1%	26

21. Deferred tax liabilities (net)

	31 March 2018	31 March 2017
Deferred tax liabilities arising on account of :		
Property, plant and equipment	144	144
Provision for employee benefits	3	13
Deferred tax assets arising on account of :		
Investments	9	7
	138	**150**

(a) The Company has not recognized deferred tax assets in respect of unused tax credits (minimum alternate tax credits) of ₹1,737 (31 March 2017: ₹2,016). The above MAT credit expire at various dates ranging from 2023 through 2032.

(b) Movement in deferred tax liabilities (net)

	As at 31 March 2017	Statement of profit and loss	Other equity	As at 31 March 2018
Property, plant and equipment	144	-	-	144
Provision for employee benefits	13	-	(10)	3
Investments	(7)	-	(2)	(9)
	150	**-**	**(12)**	**138**

	As at 31 March 2016	Statement of profit and loss	Other equity	As at 31 March 2017
Property, plant and equipment	144	-	-	144
Provision for employee benefits	5	-	8	13
Investments	(3)	-	(4)	(7)
	146	**-**	**4**	**150**

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

22. Other liabilities

	31 March 2018	31 March 2017
Current		
Payable to statutory authorities	124	109
Advance from customers	184	145
	308	**254**

23. Trade payables

	31 March 2018	31 March 2017
Due to micro and small enterprises*	41	15
Due to related parties	7	8
Due to others	2,406	2,491
	2,454	**2,514**

* Disclosure under the Micro, Small and Medium Enterprises Development Act, 2006 ("MSMED Act, 2006") as at 31 March 2018 and 31 March 2017:

Particulars	31 March 2018	31 March 2017
i) the principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year;	41	15
ii) the amount of interest paid by the buyer in terms of section 16, along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;	-	-
iii) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act;	-	-
iv) the amount of interest accrued and remaining unpaid at the end of each accounting year; and	0	1
v) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under section 23.	-	-

The above information regarding Micro, Small and Medium Enterprises has been determined to the extent such parties have been identified on the basis of information available with the Company.

24. Revenue from operations

	For the year ended 31 March 2018	For the year ended 31 March 2017
Sale of products*	20,675	19,795
Sale of services	66	69
	20,741	**19,864**
Less: Refund of service income received in earlier years	-	(158)
	20,741	**19,706**
Other operating revenues		
Job work charges	62	71
Export incentives & Budgetary support	263	232
Scrap sales	19	19
	21,085	**20,028**

* Excise duty on sales was included under "Revenue from operations" and disclosed separately under Expenses upto introduction of the Goods and Services Tax (GST) with effect from 1 July 2017. Post implementation of GST, revenue from operations is reported net of GST and hence to that extent is not comparable with the previous financial year.

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

25. Other income

	For the year ended 31 March 2018	For the year ended 31 March 2017
Dividend income from investments designated at FVOCI	2	-
Liabilities no longer required, written back	5	-
Interest income from fixed deposits	248	76
Profit on sale of property, plant and equipment	103	-
Profit on sale of investment	0	-
Foreign exchange - gain (net)	33	50
Other non-operating income	3	6
	394	**132**

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

Raw material and packing material at the beginning of the year	1,368	1,686
Add: Purchases during the year	4,317	4,890
Less: Raw material and packing material at the end of the year	1,780	1,368
	3,905	**5,208**

27. Changes in inventories of finished goods, Stock-in -trade and work-in-progress

Opening balance		
- Finished goods	613	492
- Work-in-progress	1,021	986
- Stock-in-trade	17	6
	1,651	**1,484**
Closing balance		
- Finished goods	621	613
- Work-in-progress	1,239	1,021
- Stock-in-trade	38	17
	1,898	**1,651**
	(247)	**(167)**

28. Employee benefits expenses

Salaries, wages and bonus	2,525	1,937
Contribution to provident fund and other funds	172	132
Gratuity expense	110	13
Employee stock compensation expenses	180	123
Staff welfare expenses	135	116
	3,122	**2,321**

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

29. Finance costs

	For the year ended 31 March 2018	For the year ended 31 March 2017
Interest on borrowings	126	134
Interest - others	-	22
Other borrowing costs	21	19
	147	**175**

30. Other expenses

Consumption of stores and spares	383	325
Power and fuel	561	505
Rental charges	12	12
Repairs and maintenance		
- Buildings	78	67
- Plant and equipment	256	186
- Others	52	35
Insurance	97	77
Rates and taxes	208	126
Factory maintenance expenses	251	213
Analysis charges	122	126
Carriage and freight outwards	56	80
Donations	99	48
Corporate social responsibility (CSR) expenses	69	36
Communication expenses	59	46
Office maintenance and other expenses	60	59
Travelling and conveyance	248	180
Legal and professional fees	192	230
Payment to auditors		
- As auditor*	3	3
- For reimbursement of expenses	-	0
Directors sitting fee	1	1
Bad debts (net of related liabilities) written off	133	238
Assets written off	-	24
Royalty expense	222	285
Sales promotion expenses including sales commission	924	1,208
Research and development expenses	387	390
Printing and stationery	80	49
Miscellaneous expenses	69	62
	4,622	**4,611**

*Excludes ₹5 (31 March 2017: ₹Nil) charged to securities premium reserve in respect of share issue expenses incurred for shares issued through Qualified Institutional Placement.

(i) Details of CSR expenditure :

(a) Gross amount required to be spent by the Company during the year	68	35
(b) Amount spent on eligible activities	69	36

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

31. Income tax

	31 March 2018	31 March 2017
Tax expense comprises of:		
Current income tax	1,894	1,353
Tax for earlier years	-	40
Income tax expense reported in the statement of profit or loss	**1,894**	**1,393**

The major components of income tax expense and the reconciliation of expected tax expense based on the domestic effective tax rate of the Company at 34.608% and the reported tax expense in profit or loss are as follows:

Reconciliation of tax expense and the accounting profit multiplied by India's tax rate		
Profit before tax	8,876	6,341
Tax at the Indian tax rate (34.608%)	3,072	2,194
Adjustments:		
CSR expense	40	21
Weighted deduction on research and development expense	(288)	(528)
Deferred taxes not recognized in the books	(175)	485
Tax incentives	(457)	(819)
Capital gain tax	(19)	-
MAT credit utilisation	(279)	-
Tax for earlier years	-	40
Others	-	0
Income tax expense	**1,894**	**1,393**

32. Earnings Per Share (EPS)

The following reflects the income and share data used in the basic and diluted EPS computations:

	31 March 2018	31 March 2017
Profit attributable to equity shareholders	6,982	4,948
Weighted average number of equity shares outstanding during the year	17,73,13,783	17,42,25,837
Effect of dilution:		
Employee stock options	6,28,391	1,83,863
Weighted average number of equity shares adjusted for the effect of dilution	17,79,42,175	17,44,09,700
Earnings per equity share:		
Basic	39.38	28.27
Diluted	39.24	28.24
Nominal Value per share equity share	₹2	₹2

33. Fair value measurements

(i) Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: Quoted prices (unadjusted) in active markets for financial instruments.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data rely as little as possible on entity specific estimates.

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(ii) Financial assets and financial liabilities measured at fair value

	31 March 2018		31 March 2017	
	Level 1	Level 3	Level 1	Level 3
Financials assets				
Equity instruments (other than subsidiaries)	83	81	89	1

Financial instruments by category

For amortised cost instruments, carrying value represents the best estimate of fair value.

	31 March 2018			31 March 2017		
	FVTPL	FVOCI	Amortised cost	FVTPL	FVOCI	Amortised cost
Financial assets						
Investments						
- Equity instruments	-	164	1	-	90	1
- Debentures	-	-	400	-	-	-
- Other investments	-	-	0	-	-	-
Trade receivables	-	-	6,060	-	-	4,689
Loans	-	-	124	-	-	66
Cash and cash equivalents	-	-	101	-	-	128
Bank balances other than cash and cash equivalents	-	-	1,620	-	-	123
Other financial assets	-	-	6,289	-		865
Total financial assets	**-**	**164**	**14,595**	**-**	**90**	**5,872**

	31 March 2018			31 March 2017		
	FVTPL	FVOCI	Amortised cost	FVTPL	FVOCI	Amortised cost
Financial liabilities						
Borrowings	-	-	1,730	-	-	2,206
Trade payables	-	-	2,454	-	-	2,514
Other financial liabilities	-	-	1,017	-	-	982
Total financial liabilities	**-**	**-**	**5,201**	**-**	**-**	**5,702**

The Company's principal financial liabilities comprise of borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include loans, trade and other receivables, and cash and cash equivalents that derive directly from its operations. The Company also holds FVOCI investments and investment in it's subsidiaries.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's Board of Directors oversees the management of these risks. The Company's Board of Directors is supported by the senior management that advises on financial risks and the appropriate financial risk governance framework for the Company. The senior management provides assurance to the Company's board of directors that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives.

Notes
Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

The carrying amounts reported in the statement of financial position for cash and cash equivalents, trade and other receivables, trade and other payables and other liabilities approximate their respective fair values due to their short maturity.

34. Financial instruments risk management

A. Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, FVOCI investments, trade receivables and other financial instruments.

The sensitivity analysis in the following sections relate to the position as at 31 March 2018 and 31 March 2017. The analysis exclude the impact of movements in market variables on: the carrying values of gratuity and other post retirement obligations; provisions; and the non-financial assets and liabilities.

i. Interest rate risk:

The Company's entire borrowings are carried at amortised cost are variable rate instruments and are subject to fluctuation because of a change in market interest rates. The Company considers the impact of fair value interest rate risk on variable rate borrowings as not material.

The Company's variable rate borrowing is subject to interest rate risk. Below is the details of exposure to fixed rate and variable rate instruments:

Particulars	31 March 2018	31 March 2017
Fixed rate instruments		
Financial assets	7,999	748
Financial liabilities	-	-
Variable rate instruments		
Financial assets	-	-
Financial liabilities	1,730	2,206

ii. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency).

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Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

The Company's exposure to foreign currency financial assets and financial liabilities are as follows:

Financial assets

	31 March 2018		31 March 2017	
	Trade receivables	Loans	Trade receivables	Loans
- USD	3,759	78	2,665	-
- EUR	79	-	60	-
- CAD	135	-	76	32
- AUD	-	-	-	-
- SGD	1	-	0	-

Financial liabilities

	31 March 2018		31 March 2017	
	Borrowings	Trade payables	Borrowings	Trade payables
- USD		135	-	251
- EUR	-	47	-	41
- CAD	-	1	-	15
- AUD	-	1	-	-
- SGD	-	2	-	-

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in USD. The Company's exposure to foreign currency changes for all other currencies is not material.

Particulars	Impact on profit after tax	
	31 March 2018	31 March 2017
USD sensitivity		
₹/USD - Increase by 2%	74	48
₹/USD - Decrease by 2%	(74)	(48)

iii. Equity price risk:

The Company's exposure to equity securities price risk arises from investments held by the Company and classified in the balance sheet as FVOCI (Note 8).

To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set up by the Company.

The majority of the Company's equity investments are publicly traded and are listed on the National Stock Exchange (NSE).

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

The table below summarises the impact of increase/decrease of the index on the Company's equity and profit for the period. The analysis is based on the assumption that the equity index had increased/decreased by 10% with all other variables held constant, and that off the Company's equity instruments moved in line with the index.

Particulars	Impact on other components of equity	
	31 March 2018	31 March 2017
NSE Nifty 50 - Increase by 10%	16	9
NSE Nifty 50 - Decrease by 10%	(16)	(9)

B. Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company, leading to a financial loss. The Company is mainly exposed to the risk of its balances with the bankers and trade and other receivables.

Ageing of receivable is as follows:

	31 March 2018	31 March 2017
Neither past due nor impaired	5,499	3,684
Past due not impaired:		
0-30 days	325	844
31-60 days	76	99
61-90 days	25	19
91-180 days	84	32
Greater than 180 days	51	11
	6,060	**4,689**

C. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. Due to the nature of the business, the Company maintains flexibility in funding by maintaining availability under committed facilities.

Management monitors rolling forecasts of the Company’s liquidity position and cash and cash equivalents on the basis of expected cash flows. The Company takes into account the liquidity of the market in which the entity operates. In addition, the Company’s liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The Company's principal sources of liquidity are the cash flows generated from operations. The Company has no long term borrowings and believes that the working capital is sufficient for its current requirments. Accordingly, no liquidity risk is perceived.

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

Maturities of financial liabilities

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is insignificant.

31 March 2018	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Non-derivatives				
Borrowings	1,730	-	-	1,730
Trade and other payables	2,454	-	-	2,454
Other financial liabilities	1,009	8	-	1,017
Total	**5,193**	**8**	**-**	**5,201**

31 March 2017	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Non-derivatives				
Borrowings	2,206	-	-	2,206
Trade payable	2,514	-	-	2,514
Other financial liabilities	974	8	-	982
Total	**5,694**	**8**	**-**	**5,702**

35. Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for stakeholders. The Company also proposes to maintain an optimal capital structure to reduce the cost of capital. Hence, the Company may adjust any dividend payments, return capital to shareholders or issue new shares. Total capital is the equity as shown in the statement of financial position. Currently, the Company primarily monitors its capital structure on the basis of gearing ratio. Management is continuously evolving strategies to optimize the returns and reduce the risks. It includes plans to optimize the financial leverage of the Company.

The capital for the reporting year under review is summarized as follows:

	31 March 2018	31 March 2017
Total borrowings (note 18)	1,730	2,206
Less: Cash and cash equivalents (note 14)	(101)	(128)
Net debt	**1,629**	**2,078**
Total equity	31,254	16,997
Total capital	**32,883**	**19,075**
Net debt to equity ratio (%)	5%	11%

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Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

36. Related party disclosures, as per Ind AS 24

(a) Names of the related parties and nature of relationship (to the extent transactions have taken place during the year, except for control relationships, where all names are disclosed)

Names of related parties	Nature of relationship
NATCO Pharma Inc., United States of America	Subsidiary company
Time cap Overseas Limited, Mauritius	
NATCO Pharma (Canada) Inc., Canada	
NATCO Pharma Asia PTE Ltd., Singapore	
NATCO Pharma Australia PTY Ltd., Australia	
NATCO Farma Do Brazil Ltda., Brazil	Step-down subsidiary company
Time Cap Pharma Labs Limited	Entities in which KMP have control or have significant influence
NATCO Trust	
V. C. Nannapaneni	Key management personnel ("KMP")
Rajeev Nannapaneni	
Durga Devi Nannapaneni	Relative of KMP
Dr. Ramakrishna Rao	

(b) Transactions with related parties

	For the year ended	
	31 March 2018	31 March 2017
Time Cap Overseas Limited		
Investment in equity shares	28	106
Loan given	77	-
Interest on loan	1	-
NATCO Pharma (Canada) Inc.		
Investment in equity shares	-	12
Sales	118	85
Loan given	-	39
Loan repaid	32	-
NATCO Pharma Asia PTE Ltd		
Investment in equity shares	22	11
Loan given	-	80
Loan repaid	80	0
Sales	4	0
NATCO Farma Do Brazil Ltd		
Commission on sales	4	4
NATCO Pharma Australia PTY Ltd		
Investment in equity shares	17	13
Time Cap Pharma Labs Limited		
Sales promotion expenses	7	13
Purchase of raw-materials	-	0
Rental expense	5	5
NATCO Trust		
Donations	82	25
CSR contribution	69	36
V. C. Nannapaneni		
Short-term employee benefits	19	16
Leave encashment paid	1	1
Rental expenses	2	2
Commission on profits	70	49
Rajeev Nannapaneni		
Short-term employee benefits	17	14
Leave encashment paid	1	1
Rental expenses	1	1

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

(c) Balances receivable / (payable)

	As at	
	31 March 2018	31 March 2017
Time Cap Pharma Labs Limited	(3)	(5)
Time Cap Overseas Limited	78	-
NATCO Pharma (Canada) Inc.	109	106
NATCO Farma Do Brazil Ltda.,	-	(2)
V. C. Nannapaneni	(71)	(50)
Rajeev Nannapaneni	(1)	(1)
NATCO Pharma Asia PTE Ltd.	0	-

Note:

(i) Mr. V. C. Nannapaneni has extended personal guarantees in connection with the loans availed by the Company. Refer note 18.

(ii) Mrs. Durga Devi Nannapaneni and Dr. Ramakrishna Rao has extended personal guarantees in connection with the loans availed by the Company. Refer note 18.

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

Loans and Advances in the nature of loans, including interest accrued to subsidiaries and to companies in which directors are interested. None of subsidiaries hold shares in the Company at any point of time.

	31 March 2018	31 March 2017
Outstanding balance		
NATCO Pharma (Canada) Inc.	-	32
Time Cap Overseas Limited	78	-
Maximum balance outstanding at any time during the year		
NATCO Pharma Asia PTE Ltd	-	80
Time Cap Overseas Limited	78	-
NATCO Pharma (Canada) Inc.	32	32

The above loans have been given to the subsidiaries solely in connection with the business operations.

(e) Transaction with related parties

In accordance with the applicable provisions of the Income Tax Act, 1961, the Company is required to use certain specified methods in assessing that the transactions with the related parties, are carried at an arm's length price and is also required to maintain prescribed information and documents to support such assessment. The appropriate method to be adopted will depend on the nature of transactions / class of transactions, class of associated persons, functions performed and other factors as prescribed. Based on certain internal analysis carried out, management believes that transactions entered into with the related parties were carried out at arms length prices. The Company is in the process of updating the transfer pricing documentation for the financial year ended 31 March 2018. In opinion of the management, the same would not have an impact on these financial statements. Accordingly, these financial statements do not include the effect of the transfer pricing implications, if any.

37. Segment reporting

In accordance with Ind AS 108 - 'Operating segments', segment information has been given in the consolidated financial statements of the Company and therefore no separate disclosure on segment information is given in these standalone financial statements.

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

38. Contingent liabilities and commitments

		31 March 2018	31 March 2017
(a)	**Commitments**		
	Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	1,067	619

During the year, the Company has agreed to provide necessary financial support for the continuing operations of it's subsidiaries as to enable them to meet their liabilities as they fall due and carry on its business over the next 12 months from the balance sheet date.

		31 March 2018	31 March 2017
(b)	**Contingent liabilities**		
	(i) Matters under appeal with tax authorities:		
	Disputed sales tax liabilities	9	9
	Disputed service tax liabilities	2	2
	Disputed customs liability	2	2

(ii) The Company is contesting certain patent infringement cases filed against it by the innovators. A few of these cases pertain to products already launched by the Company in the market. These cases are pending before different authorities / courts and the outcome cannot be ascertained with reasonable certainty. Accordingly, a reliable estimate of the liability towards damages/penalties, if any, cannot be made at present. These amounts will be recognised during the periods in which such liabilities can be reasonably measured. Further, at present, the management does not expect such liabilities to be significant.

39. Amounts incurred on research and development expenses

	31 March 2018	31 March 2017
Salaries and wages	462	271
Consumption of materials, spares	278	228
Power and fuel	26	19
Other research and development expenses	513	392
Capital equipments	386	306
	1,665	**1,216**

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

Notes

Summary of significant accounting policies and other explanatory information

(All amounts in ₹ millions, except share data and where otherwise stated)

40. Net debt reconciliation

The following table sets out an analysis of the movements in net debt for the year:

	Current borrowings	Interest accrued	Cash and cash equivalents	Net debt
Net debt as at 31 March 2017	2,206	2	128	2,080
Cash flows	(476)	-	(27)	(449)
Finance cost	-	147	-	147
Interest paid	-	(149)	-	(149)
Net debt as at 31 March 2018	**1,730**	**-**	**101**	**1,629**

41. Corresponding previous period's figures have been regrouped/reclassified wherever necessary.

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

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

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

Rajeev Nannapaneni
Vice Chairman & CEO
(DIN: 00183872)

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

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

Place: Hyderabad
Date: 23 May 2018