

Board's Report

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

Company Overview

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

Financial Summary

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

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

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

Impact of Covid-19

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

Dividend

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

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

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

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

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

Transfer to Reserves

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

Share Capital

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

Buyback

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

Deposits

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

Change in the nature of Business, if any

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

Subsidiaries

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

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

Particulars of Loans, Guarantees and Investments

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

Corporate Governance and additional Shareholders Information

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

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

Management Discussion and Analysis

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

Board of Directors

In accordance with the provisions of the Companies Act, 2013, Sri Sridhar Sankararaman (DIN: 06794418) is liable to retire by rotation and being eligible offers himself for reappointment at the ensuing Annual General Meeting of the Company.

Board Evaluation

As per provisions of the Companies Act, 2013 and the Listing Regulations as amended from time to time, an evaluation of the performance of the Board was undertaken. The contribution and impact of individual Director(s) were reviewed through a peer evaluation on parameters such as level of engagement and participation in Board/ Committee meetings, flow of information, independence of judgment, conflicts resolution, managing relationships

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

Appointment of Directors and Remuneration Policy

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

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

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

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

Registration of Independent Directors in Independent Directors Databank

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

Confirmation from the Board

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

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

Opinion of the Board

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

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

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

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

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

Meeting of Independent Directors

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

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

Business Risk Management

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

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

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

Business Responsibility Report

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

Internal Financial Controls

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

Insurance

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

Directors Responsibility Statement

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

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

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

- c) The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) The Directors had prepared the annual accounts on a going concern basis;
- e) The Directors had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively; and
- f) The Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Related Party Transactions

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

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

Vigil Mechanism/Whistle Blower Policy

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

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

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Internal Complaints Committee

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

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

Auditors

Statutory Auditors

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

Secretarial Auditor

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

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

Cost Auditors

Pursuant to Section 148 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 and the Companies (Cost Records and Audit) Rules, 2014, the Company maintains the Cost Audit records in respect of its pharmaceutical business. The Board has, on the recommendation of the Audit Committee, appointed M/s. S.S. Zanwar & Associates (Firm Registration No.:100283) as Cost Auditors of the Company for FY 2020-21. The provisions also require that the remuneration of the Cost Auditors be ratified by the shareholders and accordingly the same is put forward to the shareholders for their ratification in the ensuing AGM. The Cost Audit report for the FY 2019-20 will be filed with the Central Government within the stipulated timeline and the relevant Cost Audit reports for FY 2018-19 were filed within the due date to the Central Government.

Auditors' Qualifications/ reservations/ adverse remarks/ Frauds reported

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

Significant and Material Orders Passed by the Courts/ Regulators

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

Corporate Social Responsibility Initiatives

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

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

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

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

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

Employees Stock Option Scheme

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

Credit Rating

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

Particulars of Employees

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

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

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

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

Extract of Annual Return

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

Compliance with Secretarial Standards

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

Green Initiative

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

Acknowledgements

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

For and on behalf of the Board of Directors

V.C. Nannapaneni

Chairman and Managing Director

DIN: 00183315

Place: Hyderabad
Date: June 17, 2020