28th Annual Report
2010-2011

NATCO

NATCO Pharma Limited

A complete Pharma Company

NATCO TRUST Pediatric Oncology Ward at MNJ Cancer Hospital at Hyderabad inaugurated by Chairman & Managing Director Shri V. C. Nannapaneni

NATCO TRUST
Pediatric Oncology Ward

A view of NATCO TRUST Pediatric Oncology Ward

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BOARD OF DIRECTORS

Sri V.C. Nannapaneni	Chairman & Managing Director
Sri C.P. Ravindranath	Director - Nominee of Export-Import Bank of India
Sri G.S. Murthy	Director
Dr. B.S. Bajaj	Director
Dr. Jasti Samba Siva Rao	Director
Sri Rajeev Nannapaneni	Director & Chief Operating Officer
Dr. P. Bhaskara Narayana	Director & Chief Financial Officer
Dr. A.K.S. Bhujanga Rao	President (R&D and Technical)

CS. M. Adinarayana
Company Secretary &
G.M. (Legal & Corporate Affairs)

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

Auditors
M/s. Walker, Chandiok & Co.
Chartered Accountants,
3rd Floor, Uptown Banjara
Road No. 3, Banjara Hills,
Hyderabad - 500 034.

Registered Office
NATCO House,
Road No.2, Banjara Hills,
Hyderabad 500 033.
www.natcopharma.co.in

NOTICE

Notice is hereby given that the Twenty Eighth Annual General Meeting of the Members of the Company will be held on Friday, the 30th day of September, 2011 at 10.30 a.m. at Daspalla Hotel, Road No. 37, Jubilee Hills, Hyderabad 500 033 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit & Loss account for the year ended 31st March 2011 and the Balance sheet as at 31st March 2011 and the Report of the Directors and Auditors thereon.

2. To confirm the already paid Interim Dividend as Final Dividend on equity shares for the year 2010-2011.

   "RESOLVED THAT the Interim Dividend of ₹2 per share declared by the Board of Directors of the Company at their meeting held on 14th February, 2011 on 2,81,47,952 Equity shares of ₹10/- each absolving a sum of ₹5,62,95,904 be and is hereby approved as the Final Dividend for the year ended 31st March, 2011."

3. To appoint a Director in place of Mr. Rajeev Nannapaneni who retires by rotation and being eligible offers himself for re-appointment.

4. To appoint a Director in place of Dr.P.Bhaskara Narayana who retires by rotation and being eligible offers himself for re-appointment.

5. To appoint a Director in place of Dr.A K S Bhujanga Rao who retires by rotation and being eligible offers himself for re-appointment.

6. To appoint statutory auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the board to fix their remuneration and to pass the following resolution:

   "RESOLVED THAT M/s. Walker, Chandiok & Co., Chartered Accountants, (Firm Registration No. 001076N), Hyderabad, be and are hereby re-appointed as the Statutory Auditors of the Company to hold office from the conclusion of this Annual General Meeting to the conclusion of the next Annual General Meeting on such remuneration as may be decided by the Board of Directors".

SPECIAL BUSINESS:

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

   "RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, 311, 314 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to such sanctions, approvals and other necessary permissions as may be necessary from the Government of India, approval of the Company be and is hereby accorded to the revision in remuneration payable to Mr. Rajeev Nannapaneni as Director & COO in the whole-time employment of the Company for a further period of two years, with effect from 1st day of April, 2011 to 31st March, 2013 as detailed below:

   1. Salary not exceeding ₹75,00,000/- (Rupees seventy five lakhs only) per annum.

   2. Perquisites:

      i. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.

      ii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and

      iii. Encashment of leave at the end of the tenure.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to vary, alter or modify the remuneration as may be agreed to by the Board of Directors and Mr. Rajeev Nannapaneni.

RESOLVED FURTHER THAT notwithstanding as above where in any financial year closing on and after March 31, 2012, if the Company incurs a loss or its profits are inadequate, the Company shall pay to Mr. Rajeev Nannapaneni the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Government from time to time as minimum remuneration.

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

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

"**RESOLVED THAT** pursuant to the provisions of Section 16, 31 and other applicable provisions, if any, of the Companies Act, 1956, the Authorised Share Capital of the Company be and is hereby reclassified into 3,20,00,000 (Three crores and Twenty lakhs only) equity shares of ₹10/-(Rupees ten only) each and 30,00,000 (Thirty lakhs only) preference shares of ₹10/- (Rupees ten only) each and the said preference shares may be convertible, redeemable, cumulative or non-cumulative at the option of the Company and to amend of the Clause V (a) of the Memorandum of Association and Article 7(a) of the Articles of Association of the Company"

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

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

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

V(a) The Authorised Share Capital of the Company is ₹35,00,00,000/- (Rupees thirty five crores only) divided into 3,20,00,000 (Three crores and Twenty lakhs only) equity shares of ₹10/-(Rupees ten only) each and 30,00,000 (Thirty lakhs only) preference shares of ₹10/- (Rupees Ten only) each and the said preference shares may be convertible, redeemable, cumulative or non-cumulative preferences shares at the option of the Company.

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

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

7(a) The Authorised Share Capital of the Company is ₹3,20,00,000 (Three crores and Twenty lakhs only) equity shares of ₹10/-(Rupees ten only) each and 30,00,000 (Thirty lakhs only) preference shares of ₹10/- (Rupees Ten only) each and the said preference shares may be convertible, redeemable, cumulative or non-cumulative preferences shares at the option of the Company."

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

M. Adinarayana
Company Secretary &
G.M. (Legal & Corporate Affairs)

Place : Hyderabad
Date : 12-08-2011

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/ herself on a poll and a proxy need not be a member of the Company. The instrument of proxy in order to be valid must be deposited at the Registered Office of the Company duly completed and signed, at least 48 hours before the commencement of the meeting.
2. Corporate Members intending to send their authorised representative(s) to attend the Meeting are requested to send to the Company a certified copy of the Board Resolution authorising the representative(s) to attend and vote on their behalf at the Meeting.
3. In terms of Section 256 of the Companies Act 1956, Mr. Rajeev Nannapaneni, Dr.P.Bhaskara Narayana and Dr. A K S Bhujanga Rao, Directors, retire by rotation at the ensuing Meeting and being eligible offer themselves for re-appointment. The Board of Directors of the Company commends their respective reappointments.
4. Brief resumes of the retiring Directors is provided at the end of this Notice.
5. Members holding shares in physical form are requested to notify any change in their address immediately to the Registered Office of the Company, Hyderabad and in case of Members holding shares in electronic form are requested to notify any change in their mailing address to their respective Depository Participants.
6. The Members/Proxies are requested to bring the copy of the Annual Report to the Annual General Meeting and hand over the attendance slip at the entrance of the meeting venue along with their Registered Folio No./Client ID and DP ID Numbers for easy identification.
7. In case of Joint Holders attending the Meeting, only such Joint Holder who is higher in the order of names will be entitled to vote.
8. Nomination facility is available as per the guidelines. Share transfers and related matters will be undertaken at the Company's Transfer Agents M/s. Venture Capital and Corporate Investments Limited. Members as per their convenience can correspond with the Share Transfer Agents of the Company or the Legal & Secretarial Department of the Company at the Registered Office of the Company.
9. The Register of Members and Share Transfer Books will remain closed for four days i.e. from 27th September, 2011 to 30th September, 2011 (both days inclusive).
10. Members holding shares in electronic form may note that the Bank Particulars registered against their respective depository accounts will be used by the Company for payment of dividend. The Company or its Registrars and Transfer Agents cannot act on any request received directly from the members holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participants of the Company.
11. Members who wish to claim Dividends, which remain unclaimed, are requested to either correspond with the Legal & Secretarial Department at the Company's registered office or the Company's Registrars and Share Transfer Agents (Venture Capital and Corporate Investments Private Limited). Members are requested to note that dividends not encashed or claimed with in seven years and 30 days from the date of declaration of the Dividend, will, as per Section 205 A(5) read with Section 205 C of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund of Government of India.

    Information as of 31st March, 2011 in respect of such unclaimed Dividend when due for transfer to the Investor Education and Protection Fund of Government of India are given below including the unclaimed amount since 2005:

Financial year	Date of Declaration of Dividend	Unclaimed Amount in ₹	Due date for transfer to Investor Education and Protection Fund
2005 - 2006	24-10-2005	5,92,055	23-11-2012
2006 - 2007	26-10-2006	5,61,367	25-11-2013
2007 - 2008	25-10-2007	4,72,959	24-11-2014
2008 - 2009	25-05-2009	6,23,309	24-06-2016
2009 - 2010	27-01-2010	9,89,996	26-02-2017
2010 - 2011	14-02-2011	9,10,506	13-03-2018

12. Information relating to the Directors seeking re-appointment in Annual General Meeting scheduled to be held on 30th September 2011.

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

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

Item No. 7:

Mr. Rajeev Nannapaneni was reappointed as the whole-time director of the Company for a period of two years in the AGM held on 30-9-2011.

Mr.Rajeev Nannapaneni, Director & COO is associated with the Company for over a decade and who is taking care of the functional operations of the Company including but not limited to Production, Finance, Legal & Secretarial, Marketing of Domestic and international as well as exports, Quality Control, GMP, GCP, GDP etc.

In view of the manifold increase in his job responsibilities and taking into industry standards, the Remuneration Committee recommended to the Board for increasing the remuneration of Mr.Rajeev Nannapaneni subject to the approval of members from ₹48,00,000/- (Rupees forty eight lakhs only) to ₹75,00,000/- (Rupees seventy five lakhs only) per annum for a period of 2 years from 01-04-2011 to 31-03-2013.

Except Mr. Rajeev Nannapaneni & Mr. V.C. Nannapaneni, no other Director, is deemed to be interested or concerned in the re-appointment and remuneration payable to Mr. Rajeev Nannapaneni as a Director & COO in whole-time employment.

The terms of re-appointment of Mr. Rajeev Nannapaneni, as stated in this notice, may be treated as the abstract of terms and conditions of re-appointment.

The Board accordingly recommends the resolution as set out in Item 7 of the Notice for approval of the members.

Item No. 8

The present authorised share capital of the Company is ₹35 Crores (Rupees Thirty Crores) divided into 3,50,00,000 (Three Crore Fifty Lakhs only) Equity shares of ₹10/- (Rupees Ten only) each as per Clause V(a) of Memorandum of Association and Article 7(a) of the Articles of Association, with the power to the Board to convert the unissued Equity sharers into Preference shares and vice versa. The company is planning to augment more funds by issuing convertible, redeemable, cumulative or non-cumulative preferences shares. Infusion of capital from time to time is required for business growth as well as from prudence point of view. It ensures that healthy Capital Adequacy and Debt Equity Ratio is maintained and enhances the borrowing capacity.

The approval of Members is therefore sought for the re-classification in the Authorised Capital of the Company into 3,20,00,000 (Three crores and Twenty lakhs only) equity shares of ₹10/-(Rupees ten only) each and 30,00,000 (Thirty lakhs only) preference shares of ₹10/- (Rupees Ten only) each and the said preference shares may be convertible, redeemable, cumulative or non-cumulative preferences shares at the option of the Company and to amend the Clause V. (a) of the Memorandum of Association and Article 7(a) of the Articles of Association of the Company.

The Board recommends passing of the resolution as special resolution at item No. 8 of the notice. None of the Directors of the Company is in any way, concerned or interested in the said Resolution.

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

M. Adinarayana
Company Secretary &
G.M. (Legal & Corporate Affairs)

Place : Hyderabad
Date : 12-08-2011

Important Communication to Members

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

DIRECTORS' REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

To the Members

Your Directors have pleasure in presenting the 28th Annual Report together with the audited accounts of the Company for the year ended on 31st March, 2011.

Operating Results:

During the year under review, the API division performed well, recording a growth of 19%. The revenues from this division jumped from ₹89 Crores (2009-10) to ₹106 Crores (2010-11). The exports of finished dosage pharmaceutical formulations also exhibited a robust growth of 113%, recording a revenue base of ₹51 Crores (2010-11) as against ₹24 Crores (2009-10). The domestic oncology (finished dosage pharmaceutical formulations) business, however, remained stable, owing to lack of new launches and severe competition, which saw price erosions in respect of a couple of brands.

The following is a summary of the company's performance during the financial year 2010-2011 :

In ₹ Lakhs

Particulars of Revenues*	**2010-2011**	2009-2010
API Division	**10,631**	8,894
Finished Dosage Formulations Division	**34,312**	35,134
Job Work	**1,098**	1,032
Other Income	**2,401**	2,703
TOTAL	**48,442**	47,763

*consolidated revenues.

The company's operations for the year resulted in a surplus of ₹6673 lakhs (as compared to ₹6,238lakhs for the financial year 2009-2010). Your Directors have decided to make the following adjustments from out of the surplus :

In ₹ Lakhs

Particulars	**2010-2011**	2009-2010
Surplus after operational expenditure	**6,673**	6,238
Provision for taxes	**1,496**	1,092
Provision for deferred tax	**-174**	274
Net surplus carried to Balance Sheet	**5,351**	4,872
Interim Dividend declared / paid	**563**	563
Tax on distribution of income	**94**	96
Transfer to General Reserves	**400**	400
Surplus carried to Balance Sheet	**4,294**	3,813

Dividend:

Your Directors had recommended and paid an interim dividend of ₹2.00 per equity share (previous year - ₹2.00 per equity share) during February, 2011. Your Directors recommend that this may be treated as the final dividend and the recommendation / payment ratified.

Review of 2011 performance:

API Division:

A robust growth of 19% was exhibited by the API business during the year under review in spite of continued pressure on realizations as well margins, together with some amount of volatility in the exchange rate of US $ vis-à-vis Indian Rupee, which continued during a part of the year 2011. Domestic sales as well as exports from this segment recorded growth - domestic sales at ₹23 Crores (as against ₹13 Crores last year) and API exports at ₹83 Crores (as against ₹75 Crores last year). This segment could record a revenue base of ₹106 Crores (as against ₹89 Croreslast year).The depreciation in the value of the Indian Rupee against the US Dollar and other foreign currencies has been helpful in sustaining this division's performance.

Efforts would be made to enhance the efficiency, productivity and profitability of this segment during the fiscal 2011-12 as well.

Despite its foray into new products, the Revenues and margins on products from this division continue to experience pressure. The new cyto-toxic API facility being established by the Company's associate - NATCO Organics Limited - has commenced operations and is likely to throw up new avenues of growth, coupled with new products and new markets for this division.

However, your Directors are optimistic about the performance of this Division, with the expected Marketing Authorization approvals from US FDA which would result in large volume supplies to the company's marketing partners. The first mile-stone in this direction - the establishment of dedicated blocks for the manufacture of Glatiramer Acetate is expected to result in increased revenues from this segment and consequently, the performance is likely to record significant growth during the year 2012-13 onwards.

The business strategy for this segment continues to focus on concentrating on high value, low value specialty drugs. The API segment forms the life-line for the company's finished dosage pharmaceutical formulations business as well - as it supplies the raw material for almost all oncology drugs that the company manufactures and markets. This results in substantial cost savings and value addition.

The manufacturing facilities of the Division continue to enjoy **US FDA, Australian TGA** and **ISO:14001** certification. Efforts continue to develop niche products and capture niche markets.

The Company continues to record satisfactory progress in the matter of regulatory filings. The table given in **Annexure A** to this report indicates the updated status relating to filing of Drug Master Files.

Capital Investments & Projects:

Mylan Inc., with whom the Company has a tie-up for the manufacture and supply of Glatiramer Acetate had asked the Company to set-up exclusive dedicated facilities for the product. Accordingly, the Company has initiated the establishment of a multi-production block for Mylan. The cost of this facility is estimated to be around ₹9030 lakhs. While the validations and approvals for this block are expected to take some time, Mylan has asked the Company to make available an existing block for the manufacture of this product, with certain modifications. These modifications are expected to cost around ₹2825 lakhs. Mylan has agreed to extend financial assistance to part-fund these projects. Work on these two blocks is progressing at a rapid pace, so as to be ready by the calendar year end 2011.

Finished Dosage Formulations Division :

The revenues from this division could not sustain the continued growth rates that it exhibited during the last several years. The aggregate revenues from this Division recorded ₹232 Crores (as against ₹202 Crores last year) - recording an increase of about 15%. These figures, however, do not include the revenues from the US retail business, which had dwindled owing to their sale during the year under review. The revenues from the oncology segment remained more or less flat, while the formulations exports have recorded a significant growth of around 113% from ₹24 Crores during 2009-10 to ₹51 Crores during the year under review.

The oncology segment had to face severe competition in the market place which was one of the reasons for the flat performance of this segment. Added to this, the company could not launch any new products in the segment during the current year. As is always, the company makes a careful evaluation before launching a brand as to its utility and market opportunity

During the year under review, the Company launched anti-biotics - Zubact Injection and PT-Max Injection.

Supply & Distribution Agreements :

The company aims to target the US markets, whilst several of its applications for Marketing Authorizations are expected to be approved in the next couple of years. The company's applications have always been aimed at products with significant market size.

The company has filed Abbreviated New Drug Applications - five of which seek to challenge the existing patents. All these products have significant market size and have exhibited good growth during the last couple of years. Out of these five, your Company has obtained the First-to-File status for four products - which would result in a 180-days market exclusivity after the patent expiry, if the said ANDAs are approved. Briefly, these products are :

Molecule / Product	Market Size (US $)	Status	Therapeutic Area
Glatiramer Acetate	2.5 Billion	Second-to-file	Multiple Sclerosis
Lenalidomide	2.0 Billion	First-to-file	Multiple Myeloma
Lanthanum Carbonate	100 Million	First-to-file	Kidney disease
Oseltamavir Phosphate	241 Million	First-to-file	Swine Flu
Lapatinib Ditosylate	115 Million	First-to-file	Breast cancer

The supply and distribution agreements entered into with Mylan Inc., Dr. Reddys' Laboratories Limited, Actavis, Breckinridge Pharmaceuticals, Watson Pharmaceuticals and Lupin Limited present substantial and significant market opportunities for the Company. This is the best way the company can explore and encash its technical abilities while using the vast marketing net work available to the partners. What is more important is that the company is insulated from any kind of litigation, mitigating the legal risks.

Realizing this is the best form suitable for un-locking the hidden value, the company is pursuing more of such opportunities. The existing arrangements are being pursued to their logical conclusion. However, benefits in terms of revenue growth or earnings could be expected only after fiscal 2012.

Up-gradation of Kothur Facility :

A new manufacturing block for liquids and pellets is being planned at Kothur. The cyto-toxic orals manufacturing facility has been commissioned.

During the year, the company's application for Abbreviated New Drug Applications (ANDA) in respect of Trihexyphenidyl Hcl 2 mg / 4 mg tablets, Chloroquine Phosphate 250/500 mg. tablets and Letrozole 2.5 mg. tablets have been approved by the US FDA authorities.

The company has launched some of these products in the USA through its marketing partners.

The applications for Marketing Authorizations which have been applied for would warrant significant amount of capital expenditure and creation of capacity. In view of this sizeable expansions are planned at various facilities as under :

In ₹ Lakhs

Particulars	Estimated Cost
Lansoprazole Cap Block - Kothur	2003
New Tablet Section - Unit IV - Kothur	434
Sixty Kg. Oncology Block - Kothur	1311
Injectables Section - Kothur	250
Lenalidomide Section - Kothur	80
Powder Injection Section - Sagar	558
TOTAL	**4636**

Proposed issue of securities :

To part finance the capital investments required at the various manufacturing facilities, the Company is contemplating issue of securities not exceeding 30 lakh equity shares aggregating in value, up to INR 100 Crores. The Members of the company had, at an Extra-ordinary General Meeting held on 15th December, 2010, approved the issue. The company is exploring various options available for raising these resources.

US Pharmacy business:

On 6th December, 2010, K & C Pharmacy, a general partnership firm registered in the USA (in which the company is a major partner) had sold the assets and business of Nicks Drugs. With the several budgetary cuts imposed by the New Jersey Government in respect of Medicaid reimbursements, the business no longer remained profitable and hence was sold. The loss incurred on the sale of this business has duly been accounted in the books of accounts for the year ended on 31st March, 2011.

SaveMart Pharmacy, Lancaster, Pennsylvania, USA, which was acquired through the company's wholly owned subsidiary, NATCO Pharma Inc., USA also continues to do well and for the year ended on 31st March, 2011, the subsidiary has recorded a net profit, after tax, of ₹176 lakhs(against ₹111 lakhs previous year) after accounting for interest of ₹80 lakhs (previous year ₹129 lakhs) payable to the Company on the loans advanced by the parent company. The subsidiary has also repaid ₹505 lakhs (₹496 lakhs previous year) out of the loan advanced by the Company.

Branded Generics & Institutional Sales :

In spite of lower margins and severe competition, business from these segments is quite satisfactory. The company has made in-roads into new markets in Sri Lanka, Myanmar, Nepal and Bangladesh. The Company has made an offer to the Government of India to set up generic medicine outlets in select government-run hospitals under the Jan Aushadi scheme.

Efforts are being made to introduce branded generics in new therapeutic areas.

Manufacturing facilities:

Finished dosage orals are being manufactured at both the manufacturing facilities situated at Dehradoon and these units continue to be eligible for income-tax and excise duty concessions. However, on and from the accounting year 2011-12, the first unit at Dehradoon would be eligible for a reduced income-tax benefit of 30%, while the profit from the second unit would be completely exempt from the income-tax.

Sales from the manufacturing facilities at Dehradoon, Uttarakhand, for the year ended on 31st March, 2011 amounted to ₹10,093 lakhs as against ₹11,621 lakhs last year.

Abbreviated New Drug Applications (ANDAs) :

Annexure B to this report details the latest status on the Abbreviated New Drug Applications filed by your Company.

The Company continues to sell Granisetron, Anastrazole and Ondansetron tablets in USA and Canada and has been receiving royalties from its constituents as per the agreements in force.

Research Efforts and Intellectual Property

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

The division continuously evaluates several compounds for their efficacy in disease management and control. Multiple teams would be working on several compounds simultaneously. These teams are typically engaged in the development of molecules, processes and products.

In respect of one molecule - NRC 19 - Phase I clinical trials are in their final stage and Phase II clinical trials are expected to commence shortly. Another compound - NRC 2694 - is being evaluated for commissioning of Phase I clinical trials.

Other molecules are continuously being evaluated for their efficacy. Various analogues useful in the field of anti-cancer, anti-depressant and anti-ulcer therapies, and new drug delivery systems are continuously evaluated for taking up for further development.

Contract Manufacturing:

The revenues from contract manufacturing activity continue to be stable around ₹1100 lakhs. The company has an impressive list of clients in this category.

Corporate Social Responsibilities (CSR):

The Company is proud to be associated with NATCO Trust, which continues to actively pursue its social welfare activities. The Trust has expanded its activities to cover new geographical locations, situated near the company's manufacturing locations.

The Company's in-house quarterly magazine "Spandana" continues to receive appreciation from all quarters - both from within and outside the Company.

Financial Matters :

The Company has no derivative contracts outstanding as at 31st March, 2011.

Employees Stock Option Scheme :

No further options have been exercised as at 31st March, 2011 and no fresh options have been granted during the year under review.

NATCO Organics Limited :

NATCO Organics Limited has commenced the trial runs of its cyto-toxic API manufacturing facility near Chennai. Under an arrangement with NATCO Organics Limited, the company would procure these APIs from NATCO Organics Limited and would convert them into finished dosage pharmaceutical formulations for sale in the open markets.

In line with its commitment to this project, the company has opted to convert the advances made by it to NATCO Organics into equity shares of NATCO Organics Limited.

NATCO Farma Do Brasil, Brazil:

The Company had acquired, during the year under review, a small distributing business - called Uniao Distributors, later renamed as NATCO Farma Do Brasil - in Brazil. The acquisition was undertaken by Time Cap Overseas Limited (TCOL), an entity registered in the Republic of Mauritius. While the Company owns 75% of TCOL, 25% is owned by Levomed Inc., USA. TCOL owns 90% of the outstanding quotas of NATCO Farma Do Brasil, while the rest 10% is owned by Mr. Lincoln Gomes, a Brazilian national. Thus, NATCO Farma Do Brasil is a step-down subsidiary of the Company. The company aims to register its products in Brazil and distribute them through this enterprise.

The step-down subsidiary is yet to commence full-scale operations.

Directors :

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

Directors' Responsibility Statement :

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

a) in the preparation of annual accounts, the applicable accounting standards have been followed;

b) the Directors have selected such accounting policies as mentioned in Schedule 18 of the Annual Accounts and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that year;

c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the aforesaid Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and

d) the annual accounts have been prepared on a going concern basis.

Item # 4 of Notes to the Accounts would adequately clarify the observations made by the Statutory Auditors in their report dated 30th May, 2011, pertaining to non-recognition of MAT credit available.

Statutory Auditors :

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

Internal Auditors :

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

Cost Audit :

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

Particulars of Employees :

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

Particulars regarding Energy conservation, etc.

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

Listing Information :

The securities of the Company are listed with and are traded in, dematerialized form on the Bombay Stock Exchange and the National Stock Exchange. The annual listing fees were paid to each of these exchanges for the year 2010-2011. Facilities for dematerialization have become fully operational. The ISIN No. of the Company is INE987B01018.

Fixed Deposits :

There are no outstanding and overdue deposits as at 31st March, 2011. The Company had not accepted any deposits during the year.

Acknowledgements :

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

for and on behalf of the Board
NATCO Pharma Limited

Hyderabad,
12-08-2011

V.C. Nannapaneni
Chairman & Managing Director

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

Name of Employee	Age	Designation	Gross Remuneration	Qualification	Experience in years	Date of Commence-ment	Particular of last Employment
Sri V C Nannapaneni	65	Chairman & Managing Director	1,06,08,000	M.S. (Pharmaceutical Administration)	42	03-10-1981	Time Cap Labs Inc.,

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ANNEXURE A

ACTIVE PHARMACEUTICALS INGREDIENTS

Status of DMFs filed

Therapeutic segment	No. of Products		European Countries		USA		Rest of World		Total No. of DMF(s) Submitted	
	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation
Anti Emetic	4	2	103	1	4	1	4	0	111	2
Anti Migraine	5	2	98	2	6	2	2	1	106	5
Anti Depressants	5	0	209	0	2	0	14	0	225	0
Anti Ulcer	3	0	120	0	4	0	2	2	126	2
Anti Fungal	1	1	46	1	0	1	1	0	47	2
Anti Neoplastic	2	3	6	5	1	4	0	0	7	9
Anti Cancer	3	8	109	8	4	3	0	1	113	12
Benign Prostatic Hyper Trophy	1	0	0	0	1	0	0	0	1	0
Bronchodilator	1	0	65	0	1	0	0	0	66	0
For the treatment urinary incontinence	1	0	11	0	1	0	0	1	12	1
Anxiolytic	0	1	0	1	0	1	0	1	0	3
Bone resorption inhibitor	2	0	70	0	2	0	0	0	72	0
Hyperphos-phataemia	1	0	0	0	1	0	0	0	1	0
Antiparkinsonian	1	0	0	1	1	0	0	0	1	1
TOTAL	**30**	**17**	**837**	**19**	**28**	**12**	**23**	**6**	**888**	**37**

ANNEXURE-B

Status of Regulatory Filings (Finished Products-Formulations)

Status of ANDA's Filed in USA

Therapeutic category	No. of Products	Filed	Under filing	APPROVED
Anti-Depressants	1	1	0	1
Anti Emetic	2	2	0	2
Benign Prostrate Hyper Trophy	1	0	1	0
Anti-Cancer	11	4	7	1
Anti-Malarial	1	2	0	2
Vitamin	1	1	0	0
Anti Ulcer	3	1	2	0
Anxiolytics	1	1	0	0
Anti cholinergic	3	2	1	1
Muscle Relexant	1	1	0	0
Anti hypercholestrolemia	1	1	0	0
Anti Migraine	2	1	1	0
Hyperphosphataemia	1	1	0	0
Immnunomodulator	1	1	0	0
Eugeroics	1	1	0	0
Parkinson's disease	1	0	1	0
Antiviral	1	1	0	0
Antihypertensive	2	0	2	0
Antiretroviral	1	0	1	0
TOTAL	**36**	**21**	**15**	**7**

Status of ANDA's Filed in European Union

Therapeutic category	No. of Products	Filed	Dossiers under filing	APPROVED
Anti-Cancer	7	2	4	1
Anti Emetic	1	1	0	1
Antihypertensive	1	0	1	0
TOTAL	**9**	**3**	**5**	**2**

Status of ANDA's Filed in Canada

Therapeutic category	No. of Products	Filed	Dossiers under filing	APPROVED
Anti-Depressants	1	1	0	1
Anti Emetic	1	1	0	1
Anti cancer	7	1	6	0
Anti migraine	2	0	2	0
Anxiolytics	1	0	1	0
Antihypertensive	1	0	1	0
TOTAL	**13**	**3**	**10**	**2**

ANNEXURE C

Status of Patents granted, and patent applications pending

A. Granted	Indian	International
New Chemical Entities	1	11
API - Process	54	1
Finished Dosage Products	15	2
Natural products	3	0
Design	1	3
TOTAL	**74**	**17**

B. Applied

	Indian	International
New Chemical Entities	7	145
API - Process	117	35
Finished Dosage Products	17	17
Natural Products	3	0
Design	2	4
TOTAL	**146**	**201**

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

<u>FORM A</u> - Form for disclosure of particulars with respect to conservation of energy.

A. POWER & FUEL CONSUMPTION	**For the Year ended 31st Mar'11**	For the Year ended 31st Mar'10
1. Electricity		
a. Purchased Units	**25062486**	18431339
Total Amount (₹)	**99956912**	68818146
Rate / Unit (₹)	**3.99**	3.73
b. Own Generation:		
i) Through Diesel		
Generator Units	**2527158**	2644595
Units/ltr.of Diesel Oil	**3.25**	3.28
Cost/Unit (₹)	**14.56**	10.92
2. Coal D/C Grade		
Quantity (tonnes)	**5731**	4263
Total Amount (₹)	**36,476,622**	20182023
Average rate per tonne(₹)	**6365**	4734
3. Furnace Oil		
Quantity (LTS)	**389254**	353301
Total Amount (₹)	**11820841**	9339826
Average rate per Ltr. (₹)	**30.37**	26.44

FORM B - FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION

RESEARCH AND DEVELOPMENT (R & D)

1.	Specific areas in which R & D Carried out by the Company	Phase 1 clinical trials in respect of a new chemical entity are nearing completion. Evaluation of other molecules for their efficacy is continuing. In addition, regular research is carried out for new process as well.
2.	Benefits derived as a result of the above R & D	Successful completion of the clinical trials and subsequent commercialization would result in immense value addition to the company and would provide relief to suffering masses.
3.	Future plan of action	R & D efforts, in collaboration with multinational companies and established research organizations and universities towards development of new molecules and improvements in process along with new delivery systems will continue.

AMOUNT (₹.in lakhs)

	For the Year ended 31st Mar'11	For the Year ended 31st Mar'10
4. Expenditure on R & D		
a) R & D Expenditure	**1929.87**	868.52
b) Total R & D expenditure as Percentage of total Turnover (including capital expenditure)	**5.92**	3.09

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

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

FORM C - FOREIGN EXCHANGE EARNINGS AND OUTGO

(₹ in thousands)

		For the Year ended 31st Mar'11	For the Year ended 31st Mar'10
A)	Earnings in Foreign Exchange		
	Export of goods calculated on F.O.B basis	**1300936**	964396
B)	CIF value of Imports		
	Raw Materials	**169596**	77889
	Capital Goods & Consumable stores	**153509**	109480
C)	Expenditure in Foreign Currency towards		
	Travelling	**5039**	3819
	Commission	**3040**	1873
	Others	**113524**	14424

for and on behalf of the Board
NATCO Pharma Limited

Place: Hyderabad
Date : 30th May, 2011

V.C. NANNAPANENI
Chairman & Managing Director

Management of Risks at NATCO

The Company has identified the following as the main risks that can affect its operations :

a) Risks relating to property;

b) Risks relating to operations;

c) Risks relating to environment;

d) Risks relating to policies; and

e) Other risks.

The company has a policy of continuously evaluating various risks that the Company is prone to from time to time. Wherever feasible, remedial measures are initiated and suitable follow-up action is taken.

The following gives a gist of the various risks involved in the conduct of the affairs of the Company, and how the Company proposes to deal with these risks :

Property and resource related risks:

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

Human Resources

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

Products / Markets :

While it is economically prudent to operate in a segment which is most profitable, thereby resulting in dependence on a single market, product or customer in certain circumstances, efforts are made by the Company to reduce such dependence to the minimum. Constant efforts are made to widen the business horizon and to enter niche markets and introduce niche products.

The company prides itself in being **numero uno** in oncology segment, while at the same time, making efforts to diversify and introduce new products in new therapeutic areas.

Competition :

Competition is the hall mark of any growing economy and India in general and pharmaceutical industry in particular are no exception. The company has devised several strategies to ward off or minimize the effect of competition, which include, among others, increasing its rapport with the medical profession and generally spreading the knowledge about the company's products by organizing continuous knowledge programs for the medical profession. The company has thus created for itself a niche position among the companies operating in this segment.

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

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

Price Controls :

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

Litigations :

The company has made Ambitious plans to enter the US and European markets and has, in this direction, initiated filing of several Abbreviated New Drug Applications. However, this strategy has fraught with high legal risks and continuous litigation. The company aims to minimize or neutralize these risks by a unique system of tie-ups where the litigation risks are taken-up by the marketing partner rather than the Company itself. In addition, suitable and adequate product liability insurance is also obtained. Patent products, sometimes are launched at risk in India which may be subjected to injunction or damages if the case verdict is adverse.

Regulatory Observations:

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

Global and Environmental Risks :

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

Owing to the global slowdown, the Company has been cautious in its plans for expansion and growth and is carefully evaluating the various business opportunities available to it.

Foreign Currency transactions and associated Risks :

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

Economic and Financial Risks :

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

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

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

Energy and associated risks :

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

Other Risks :

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

CORPORATE SOCIAL RESPONSIBILITY

natcotrust

To learn to live
To live and learn

About the Trust

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

Introduction about the activities/ interventions initiated

The Trust has initiated activities in the areas of Health (school health, community health, referral cases, positioning of counselors in hospital settings, health education), school sanitation, awareness on open defecation and its impact on health), hygiene (personal hygiene and community hygiene); Education (need based support to pre-primary school, anganawadi centers, primary, upper primary schools and high schools in terms of building, sanitation, play materials, learning materials, library, science lab, mid day meal plates, uniforms, sports materials etc.,), Livelihoods(in house vocational trainings and out sourcing) and community based infrastructure.

NATCO TRUST's Areas of Intervention:-

The Trust activities revolve around the following areas-

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

1. Health

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

Natco Mobile Health Clinic:

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

The Natco mobile health clinic (NMHC) is a boon for the community (as apparent by the community); it serves more than 5000 households with a population of more than 32000 in 17 villages of Peddavura and Chandampet Mandals on a rotation basis with a weekly schedule. It has all the basic equipments and free medicines provided apart from the health services health education too provided to the community.

Natco Mobile Health Clinic

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

AIDS AWARENESS CAMPS: As part of the NMHC services AIDS awareness camps were conducted in Pedamunagala, Nagarjunapet, Nayakunithanda and Nellikal. These are conducted mainly to control the spread of the disease in the community. All pregnant ladies were advised to do HIV testing which is done free of cost in Government hospitals.

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

NMHC team works with the government ANM and makes sure that all the antenatal mothers are immunized with 2 doses of TT. Pregnant mothers are advised about the diet, immunization, Family planning…etc. Any issues raised by the pregnant and lactating mothers are discussed with them. All pregnant mothers are motivated to go for institutional delivery. They are discouraged to deliver at homes.

HEALTH EDUCATION: Apart from the health education provided at the Nutrition centers and Schools the community is also given health education on various matters when they come to NMHC to avail the services, by home visit and also by small gatherings. Advice is given on the ways to prevent seasonal diseases like Typhoid, Malaria, Dengue, Acute gastroenteritis, Dysentry…etc. People are advised to boil and filter water before drinking. They were advised to take personal protective measures like using mosquito nets to prevent from the disease spreading mosquitoes biting them.

IMMUNISATION: NMHC is actively involved in the immunization program conducted by government ANMs in the villages. NMHC team will be present in the village at the time of immunization. The missed out children in a particular month are noted. NMHC team visits their houses and discusses with their parents about the failure to get their children immunized. Parents are assured that we will take care if any adverse effects like fever or swelling develop after immunization. As NMHC is visiting and taking care of their health since two years they have got good opinion on us. They have confidence and believe in what we say regarding health related matters. The good will and the confidence that people have on us is used to motivate them for immunization, thus we are facilitating the government run program.

SCHOOL HEALTH: School children are examined and treated for minor ailments. They were given Albendazole tablets to treat worm infestation. Children are made aware about the personal hygiene and causation of diseases. They are educated about having bath daily, cutting nails, washing hands with soap before eating and after going for toilet etc,. They were told not to insert slate pencils, pencils, match sticks… etc into their ears. A total number of 2685 children were examined and treated in these 6 months.

NATCO Mobile Health Clinic - Age wise details of beneficiaries during the year 2010-11

AGE GROUP	No. OF MALES	No. OF FEMALES	TOTAL
0-5 years	1800	1578	3378
6 -10 years	1550	1250	2800
11-15 years	2810	759	3569
16-35 years	4335	4919	9254
36-50 years	3626	3744	7370
51 and above	2307	3566	5873
Total no of patients who got benefitted under NATCO's Mobile Health Clinic			32244

Specialized camps: - Eye camp in convergence with Sankar Eye hospital, Guntur

Community Eye camp:- Apart from the School health camp and NMHC, specialized health camps being conducted on need base, one such specialized eye camp have been conducted in convergence with Sankar eye hospital, Guntur at Thangalli thanda village, in which community from 59 nearby habitations got benefited. Around 695 persons from different thandas got eye screened/ checkups, got free medicines, spectacles and cataract surgery, 152 persons got spectacles and 61 persons got cataract surgery.

Nutrition centers

Nutrition centers at Yerra cheruvu thanda, Nayakuni thanda, Thimmaiah palyam, Chinthalapalyam and Peddamunigala

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

The Nutrition center catered 292 mothers; out of which 88 lactating and 92 are pregnant mothers in 7 villages i.e, Yerracheruvu thanda, Mekaguda, Nayakuni thanda, Thimmaiah palyam, Chinthalapalyam and Peddamunigala and out of 292 benefiaciareis 112 were completed one year (the trust supports a benefiaciary for a period of one year that is from conception (3rd month) to 6 month after delivery. 100 mothers gave safe deliveries, out of which 40 are institutional deliveries and 60 are home deliveries supervised by trained local dhai (nurse)

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

Nutrition center beneficiaries 2010-11

Period	Pregnant mothers	Lactating mothers	Institutional deliveries	Home deliveries	Family planning	IMR	MMR
Annual	92	88	35	60	11	5	2
Total	92	88	40	60	11	5	2
Beneficiaries completed one year 112	The total beneficiaries are 292 out of which 112 beneficiaries completed one year term and currently we have 180 beneficiaries						

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

School medical health camp at Hyderabad

The school medical health camp has been conducted at Natco Government high school, Borabanda, Hyderabad, A team of 10 doctors (2 female and 8 male doctors) from Gandhi hospital conducted the school health camp at Natco Government high school, where in 1177 students belonging to 3 government primary and one high school got benefitted, 78 referral cases identified (opthomology, ENT, Neurology, Dental, General surgery, CT surgery. Skin, General medicine, Ortho and cardio, out of 78 referral cases, 19 students had been refereed to Gandhi hospital, the Natco Counselors facilitated further investigations and treatment for the students.

Institutional support:-

The Mehdi Nawaz Jung Bahadur Institute of Oncology & Regional Cancer Center (MNJIO & RCC), at Hyderabad has approached the NATCO TRUST to support a pediatric oncology ward to meet the need of ever increasing pediatric inpatients to provide better services, as there was no separate ward for the pediatric palliative care. The Natco Trust on request from the MNJIO&RCC cancer hospital has constructed and donated the **"NATCO TRUST Pediatric oncology ward"** to MNJIO&RCC, in Hyderabad. It is a 44 bed ward and first of its kind in the state of Andhra Pradesh for children. It has all the basic facilities to serve the deserving community. Apart from constructing of the ward, the Trust provided 2 patient counselors and supplies medicines on need basis.

INDIAN NATIONAL BRAIN BEE 2010-11

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

Natco organized the Indian National Brain Bee quiz on neurosciences in association with NIMS Hyderabad. Around 40 students (1st inter science students) took part in the regional quiz competition held at Natco corporate office, Hyderabad and the final was held at Chandigarh in association with PGIMER

Patient Counselor support to government hospitals at Hyderabad

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

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

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

Annual	MNJ general	MNJ pediatric palliative care unit	Gandhi	Niloufer	Total
OPD	25749	3166	38676	12662	80253
Referral and networking to other organizations	11	–	19	7	37
Counseling for inpatients	310	–	722	339	1371
Support in getting diff., certificates for DAPs	–	–	70	–	70
Blood bank	139	–	–	24	163
Diagnostic centers	–	–	–	41	41
NGOs	–	–	30	14	44
Group meeting	70	–	1	1	72
Individual support to patients	98	–	187	25	310
Follow up cases	204	–	100	47	351
TOTAL	**26581**	**3166**	**39805**	**13160**	**82712**

EDUCATION ACTIVITIES:

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

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

Natco High School, Rangapur, Kothur Mandal, Mahaboobnagar district

Natco High School was established in the year 1995 under the Natco Trust, to facilitate education in the surrounding villages and also to the employee children of Natco Pharma Ltd. Though the school started with strength of 77 students, 10 rooms and 10 staff members in 1995 by 2010 it has increased to 1233 students, 70 staff and a building of 50 rooms. The service motive of the management has helped many students to pass out with good results. From the initial years the strength of the school was a combination of students from Natco & Non Natco who belonged to the surrounding villages and thandas. The idea behind establishing school remained to impart education with free and subsidized fees.

Initially the system which was adopted in education was suitable to the people around; gradually many changes have taken place. Children were given chance to get exposed to the society. Presently the system which is adopted in school is to create awareness and also to explore the world as it comes. As the years passed by Natco school remained as a mile stone giving importance to different kinds of learning like Sports, Art & Craft, Carpentry, Clay modeling etc. The aim is to build confidence in the students to take up any kind of challenge.

Many activities, workshops, guest lectures and orientation classes are conducted not only to children and teachers but also to parents, to make them realize the importance of education. The staff of Natco School is fully equipped with required training to impart the above said ideas.

In the recent past, the management has also established Computer lab, Science Lab, Activity rooms, library and Audio visual rooms, Butterfly fields which initiates science and math practical activities for the high school and curriculum support for the primary school which is based on activity and child centered education with idiscoveri to facilitate students through different learning experiences. In terms of infrastructure the school is equipped with good furniture for students and teachers, supporting materials and also hygiene drinking water facility with an RO plant fixed in the school premises. Teachers are also supported with residential quarters.

The academic year 2009 -10 came to an end of the annual examination in the month of April. The pass percentage of Grade X student was 100% where as the pass percentage of students from LKG to Gr IX was 98%. The month of May was given as summer vacation and the new academic year 2010 - 11 started in the month of June. The strength of the students increased from 1167 to 1236 teaching staff 57, non - teaching staff -04 and sub staff 10.

The new academic year was taken up with zeal and excitement to reach the motive of providing quality education in school, for which the help of certain aids have been taken up - like.

X- Seed

Adapting X - seed syllabus for grade 6 was a new assignment for academic year of 2010-11, through X-seed program they were able to achieve good communication skills, interpretation skills, drawing, self-confidence and ability to think out of the box among the students. Environment of teaching has been made more existing to the child.

Butterfly fields:

The Butterfly field's activities help children to develop greater skills in subjects like science and mathmatics. Experiments in backyard science using simple material and demonstrations of relevant concepts help them to enhance their thinking and interpretation skills. These sessions are held for students from class VII to X. No of session conducted in the first term: 22

Library:

Library being one of the major learning areas of the school, it has been updated by another 275 books in the new academic year. New activities and competition based on library have also been planned and executed like, active listeners contest & spell bee.

Co - curricular activities:

As these activities also furnish to the needs of the student in developing their skills, they have been made a part of regular course in school. Activities like Quiz, debates essay writing Recitation, singing, Rhymes, Thematic singing show and tell and make and talk have been conducted in the first term. Field trips have also been organized for all the classes, according to their syllabus. For ex: Science Museum, Planetarium, Pillalamarri, Salarjung museum, old age home ect.

Sports.

In sports students have achieved good Laurel in Tchock ball and volley Ball. Three students, Master Harish, Master Naresh and Master Ashok were selected for National championship and played for Andhra Pradesh team. Master Imran, and Master Venkatesh for Tchock ball were selected for Andhra Pradesh team in Volley Ball.

"Natco's Panorama of knowledge - 2010"

Natco's Panorama is a unique blend of learning, research, innovation & experience. The students and teachers of Natco high school have conducted an Educational fair involving 956 students out of 1233. The idea behind the event was to take the children through the process of learning and to exhibit the same to the students of neighboring government schools and teachers, parents and visitors.

The event was scheduled for 2 days with visitors from surrounding villages. The Chief Guest for the opening ceremony was Mr. Purushotham Reddy IAS, Collector Mahaboobnagar Dist.

The chief guest Mr. Purushotham Reddy visited every room and spent time talking and listening to the students. He also visited the games zone and encouraged students by playing few games. Food court and scary house was also organized by the students & teachers to raise fund for school library. Parents have encouraged the students by not only visiting but actively participating in all the activities conducted in rooms. The response from the surrounding 15 government schools was splendid and on the request of HMs of 8 more government school the students have been allowed to visit the fair.

Natco School of Learning, Gollamudipadu village, Ponnur Mandal, Guntur District

Natco Trust has initiated the setting up of **NATCOSCHOOL OF learning** (an English Medium School), at Gollamudipadu village, Ponnur Mandal of Guntur District, A.P. with an objective of providing good education to the local community and to many of the surrounding village children.

This School has been set up with well-established infrastructural facilities, well-trained teaching staff, x-seed idiscoveri methodology and activity based learning with an affiliation of CBSE board. It is also facilitated with good transport system and well-equipped Library, Computer Lab and Science Lab etc.

Nagarjuna Sagar, Nalagonda district

Adult Literacy Centers:

In the ALC at Chenchuvani Tanda, by the end of June nearly 23 women were pursuing the program learning Telugu and Math in MGML method. They had learnt till nearly 9th milestone by then, along with solving of additions and subtractions and story problems related to their daily life, which enable them to apply their math skills to their daily life.

After School Tutions for primary and high school students

The objective: to inculcate the activity based learning process amongst the students

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

The Natco trust initiated the after school tuitions to the government schools students in the targeted villages where in the emphasis has been put on inculcating activity based learning process in addition to the class room learning. The child has the freedom to explore and learn in joyful way. Accordingly the learning process has been designed that is Multi grade and multi level methodology has been adopted. Where in the 89 students in 4 villages are getting benefited

A few dropout children are also availing the benefit of this system along with the school children. While these dropouts are taught using MGML method, the school students are taught using MGML or the concept chain method depending upon the suitability.

Pre -primary school - Thangalli thanda:-

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

Thangalli thanda is a rehabilitated village, consisting of 87 households belonging to Schedule tribal community. It has been earlier (palthi thanda) situated on the banks of Krishna River and very often inundated by the backwaters of river Krishna. The Trust has started a pre-primary school for the benefit of the children. The center has 25 students in the age group of 3 to 5 years and they have been imparting activity based play way method learning. The Trust provided all teaching learning materials, play equipments, slates, and books; the center was taken care by a teacher and an ayah.

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

This period has witnessed the completion of one academic year and commencement of another.

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

These activities are being focused only from the second half of the period as first half consists of Exams and vacation time. These are being presently held in YCT Government primary school, through which, they are exposed to various academic and co curricular games and activities enhancing their interest in coming to school.

Summer Camp:

This was held at Nayakuni Tanda for the first time during the summer. It was a 5-day program including various activities like drawing, singing, glass work, and collage works, dramatization etc. It also consisted of Group discussions on various topics related to community and personality development. The elderly people of the village were also involved in teaching the local songs and sharing the stories of their community and a valedictory function was also organized.

Education activities at Hyderabad district

Infrastructure support: - to meet the ever increasing student's strength in the Natco government high school at Borabanda, the Natco trust has extended support for another 10 additional class rooms in convergence with the Rajiv Vidya Mission (SSA) Hyderabad district, the school currently has both Telugu and English mediums of instruction for classes starting from 1st standard to 10th standard with a total strength of 1358 students (600 in primary school and 758 in the high school) and supported snacks to 1 high school, 3 primary schools and 11 anganawadi centers for the independence day celebrations apart from providing the housekeeping services and a watch man for security

As per the requisition of the GHMC Commissioner and District Collector and Rajiv Vidya Mission of Hyderabad, the Natco Trust has took up renovating the existing sanitation and providing new sanitation facilities to 5 government schools at Hyderabad jurisdiction namely

1. Government Primary and High School, Daram Karam Road, Ameerpet,
2. Government Primary and High School, B.S Makta, Begumpet ,
3. Government Girls High School, Sultan Bazar, Koti
4. Natco Government Primary and High School, site III Borabanda (GBHS Nampally) and
5. Government Primary and High School, Jamia Osmania, O.U campus

The renovation of sanitation completed in 3 government schools i.e., Government Primary and High School, Daram Karam Road, Ameerpet, Government Girls High School, Sultan Bazar, Koti and Government Primary and High School, Jamia Osmania, O.U campus and new sanitation (porta cabin sanitation) facility provided at Government Primary and High School, B.S Makta, Begumpet and new sanitation facility extended at Natco Government Primary and High School, site III Borabanda,

Educational support at Guntur district:- Infrastructure support to Zilla Parishad High School at Pachala thatiparu village of Ponnur mandal at Guntur district: - the Natco Trust on the requisition of the Chairperson - Zilla Parishad of Guntur district and the school authorities renovated the existing dilapidated Zilla Parishad high school building at Pachalathati paru village. And the Natco Trust has proposed to start up an educational institution at Gollamudipadu village in Ponnur mandal of Guntur district and the work is under progress.

Education initiation at Uttarkhand state:- The trust initiated educational support to government anganawadi centers at Sela Qui village, Dehradun district in the state of Uttarkhand. The trust has distributed sweaters to 180 students of 6 anganawdi centers at Sela Qui village.

Infrastructure support to Chenchus of Nallamall forest:-

The Trust has took up the initiative to support the chenchus (Primitive tribal adivasi) solar lamps, educational materials to government tribal welfare ashram primary school at appapur village in Linagala and Amarabad mandal of Mahaboobnagar district

Distributed solar lamps to170 families of Chenchu tribes belonging to 9 pentas (thandas) and uniforms and other educational materials to Govt. Tribal welfare Ashram primary school, Appapur

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

Vocational training centers: -

The Trust has started 4 channels of vocational training centers at Hyderabad and Nagarjuna Sagar that is on Fashion designing), Beauty parlor and computer course (one at Hyderabad and the other one at Nagarjuna Sagar). **370 women got trained in different courses (Fashion designing 141 (18 from Nagarjuna Sagar), Beauty parlor 120, Computer course 89 (19 students from Nagarjuna Sagar) and Driving course 20 candidates (male).** Most of them are self employed and facilitated for 134 candidates to get wage employment in different organizations the average salary is ₹5500/- per month. 7 beautician trainees are started their own **beauty** parlors in different locations and earning ₹5000 to 7000/- per month.

Outsourcing

The Trust has sponsored to 20 candidates to undergo driving course, all of them them succeeded in getting the 4 wheeler driving licenses and working as taxi drivers in their locality.

Social categorization and Job placement of vocational training beneficiaries

Social categorization / Courses	STs	SCs	BCs	Mino	OCs	Total
Beautician	–	16	48	51	05	120
Tailoring	07	20	87	18	09	141
Computer	08	23	35	12	11	89
Driving	–	03	08	09	–	20
TOTAL	**15**	**62**	**178**	**90**	**25**	**370**

Sl. No.	Name of the course	No. of candidates positioned	Salary average
1	Beautician	50	₹ 2000 to 3000
2	Tailoring	35	₹ 1500 to 5000
3	Computers	29	₹ 4700 to 6500
4	Driving	20	₹ 5000 to 7500

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

Most of the villages in Nalagonda districts are florosis affected both dental and skeletal, it has a considerable impact on quality of life and hampering the everyday activities. The Natco Trust has provided RO purified drinking water plants in 4 grama panchayats namely Haliya (4000 LPH), Peddavura (2000 LPH), Peddamunigal (3000 LPH) and at Kambalapally 1000 LPH) in each village, that caters 1268 households with a population of 8643; each family has to pays ₹60 per month and get 600 liters of water per month, that is 20 liters of water for ₹2 per day.

The plant has been managed by the community and supervised by a committee consisting of village youth, panchayat raj institution and key person and the Trust extends the technical support for the maintenance. The left over revenue after paying honorarium, electricity bill, maintenance charges etc. would be used for the development of village level government institutions like schools, hospitals etc., Government schools, anganawadi centers get free drinking water services.

The RO purified water plant provided employment for 10 youth directly and another 20 youth indirectly and at Haliya the Grama Panchayat handed over the RO plant to a third party for maintenance.

Sanitation:-

The pride of women has been enhanced and women started enjoying the privacy, the trust has taken up sanitation issue as a priority core area and motivated the community to construct the individual sanitation latrines (ISL), with the active participation of the community, 64 families constructed and using the ISL, the trust as a back end support extended ₹5000/- to each family and the rest has been contributed by the respective families.

Environment - Community Kitchen Gardens (non pesticide management)

The Trust has facilitated and supported 48 community kitchen gardens in 4 villages (Chenchuvani thanda, Nayakuni thanda, Thimmaiah palyam and Yarra Cheruvu thanda) to supplement the nutritious food to the beneficiaries of the nutrition center; it has been maintained by the beneficiaries. The community kitchen garden started yielding the crops, they have cultivated Brinjals and Snake guard, lady fingers, greens etc., by using vermi - compost and they have earned on an average an amount of ₹500/- apart from family consumption

Plantation of saplings and supporting the vermi compost fits:

The Trust facilitated in planting the more than 1300 saplings of different varieties like drum sticks, kanuga etc in 3 thandas i.e., Thangalli thanda, Yerra cheruve thanda and Pilliguntla thanda and supported vermicompost fits for 3 families at Chenchuvani thanda.

REPORT ON CORPORATE GOVERNANCE

The Securities and Exchange Board of India (SEBI) regulates corporate governance practices of companies listed on the Indian Stock Exchanges. These regulations are notified under Clause 49 of the Listing Agreements of all the Stock Exchanges in the country. They specify the standards that Indian companies have to meet, and the disclosures that they have to make, with regard to corporate governance. NATCO Pharma Limited ('NATCO' or 'the Company') has established systems and procedures to comply in letter and in spirit with the provisions of Clause 49 of the Listing Agreement. This chapter, along with the chapters on Additional Information to Shareholders and Management Discussion and Analysis, reports NATCO's compliance in this regard.

1. Company's Policy on Code of Corporate Governance

NATCO is committed to executing sustainable business practices and creating long-term value for all its stakeholders. To pursue this objective, the Company remains steadfast in its value systems that incorporate integrity, transparency and fairness across all its business activities. The Company continues to focus on its commitments towards the development of the community where it operates. It has adopted best practices towards preserving the environment and adherence to the highest safety standards remains a focus area across all operations. NATCO's value systems are based on the foundation of fair and ethical practices in all its dealings with stakeholders including customers, vendors, contractors, suppliers and all others who are part of the Company's business value chain. Towards this end, all Directors and Senior Management are committed to the Company's Code of Conduct, the compliance to which is periodically reviewed.

2. Board of Directors - Composition

I. Composition of the Board

As on 31st March, 2011, the Company has eight Directors on its Board, of which four are Executive Directors and four are Non-Executive Directors all of them being independent and professional Directors. Every year one third of the Directors (except Nominee Director) retire by rotation. Brief resume of Directors seeking reappointment is given in the Notice of the AGM.

II. Directors' attendance record and Directorship held

The names and categories of the Directors on the Board, their attendance at Board meetings during the year and at the last Annual General Meeting, as also the number of Directorships and Committee memberships held by them in other companies are given below:

Name of The Director	Category	No of Board Meetings During The Year		Whether Attended Last AGM Held On 30-09-2010	No. of Directorships in Other Public Companies*	No. of Committees		Relationship Interse Directors
		Held	Attended			Member	Chairman	
V.C. Nannapaneni	Promoter	6	6	Yes	3	4	1	Father of Mr. Rajeev Nannapaneni
C.P.Ravindranath	Independent Director Nominee Exim Bank	6	4	No	2	–	–	
G.S. Murthy	Independent Director	6	5	Yes	–	-	4	
Dr. B.S. Bajaj	Independent Director	6	4	Yes	–	3	–	
Dr. Jasti Samba Siva Rao	Independent Director	6	3	No	-	–	–	
Mr. Rajeev Nannapaneni	Whole time Director	6	6	Yes	2	1	–	Son of V. C. Nannapaneni
Dr. P. Bhaskara Narayana	Whole time Director	6	6	Yes	1	2	–	
Dr. A.K.S. Bhujanga Rao	Whole time Director	6	5	No	–	–	–	

* excluding Pvt. Ltd Companies, Foreign Companies and Companies under Section 25 of the Companies Act, 1956.

None of the Directors on the Board are members of more than ten committees or Chairman of more than five committees across all the companies in which they are Directors as required under Clause 49. All the necessary disclosures regarding Committee positions have been made by the Directors.

The Board periodically reviews compliance reports of all laws applicable to the Company. Steps are taken by the Company to rectify instances of non-compliance, if any.

During 2010-11, the Company did not have any material pecuniary relationship or transactions with Non Executive Directors.

III. Number of Board Meetings

The Board of Directors and its committees meet at regular intervals. The Board meetings are tentatively fixed at the beginning of each financial year. During the year under review, 6 meetings of the Board were held on 16-04-2010, 19-04-2010, 25-06-2010, 31-07-2010, 15-11-2010 and 14-02-2011. Board and Audit Committee meetings were convened on the same day to obviate avoidable travel and recognizing time constraints of independent directors. The intervening period between two board meetings was not more than 4 months as stipulated under Clause 49 of the Listing Agreement as also Companies Act.

IV. Board Agenda

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

3. Audit Committee

The Board has constituted an Audit Committee comprising two-third Independent Directors. The Chairman of Audit Committee is an independent professional Director. The Audit Committee meets at regular intervals not exceeding 4 months between any two meetings and subject to a minimum of 4 meetings in a year. Statutory Auditors, Internal Auditors and Cost Auditors are also present in the meetings as special invitees, whenever required. The Company Secretary acts as the Secretary of the Audit Committee.

The Audit Committee of the Company is constituted in line with the provisions of Clause 49 of the Listing Agreements with the Stock Exchanges read with Section 292A of the Companies Act, 1956.

i. Terms of reference

a) Oversee of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.

b) Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditors and fixation of audit fees. Approval of payment to statutory auditors for any other services rendered by them.

c) Reviewing with management the annual financial statements before submission to the Board, focusing primarily on: Board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956;

d) Reviewing with management, performance of statutory and internal auditors, adequacy of the internal control systems.

e) Reviewing the adequacy of internal audit function, including structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.

f) Discussion with internal auditors any significant findings and follow up thereon.

g) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board for its renew.

h) Discussion with statutory auditors before the audit commences, nature and scope of audit as well as have post audit discussion to ascertain any area of concern.

i) To look into the reasons for substantial defaults in payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

j) Reviewing with management, the quarterly financial statements before submission to the Board for approval.

k) To review the functioning of the Whistle Blower mechanism, in case the same is existing.

l) Carrying out any other function as directed by the Board of Directors.

The Audit Committee constitutes Shri G.S.Murthy, Shri C.P.Ravindranath, Dr.B.S.Bajaj and Shri V.C. Nannapaneni as its members. During the year, the Audit Committee met 4 times on 25-06-2010, 31-07-2010, 15-11-2010 and 14-02-2011.

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

Name of the Member	**Meetings held during the year**	**Attendance at the meeting**	
		Attended	**% of presence**
Shri G.S. Murthy	4	4	100%
Dr. B. S. Bajaj	4	4	100%
Mr. C.P. Ravindranath	4	4	100%
Shri V.C.Nannapaneni	4	4	100%

4. Remuneration Committee

i. Terms of reference

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

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

As of 31st March, 2011, 2 member Remuneration Committee comprised of Non-Executive Director and Independent Directors viz. (1) Shri G.S.Murthy and (2) Dr. B.S. Bajaj. The composition of the Remuneration Committee and the details of meetings held and attended by the member of the Remuneration Committee are given below:

Name of the Member	**Meetings held during the year**	**Attendance at the meeting**	
		Attended	**% of presence**
Shri G.S.Murthy	1	1	100%
Dr. B. S. Bajaj	1	1	100%

iii. Remuneration of Directors

Remuneration paid to Directors during 2010-11

a. Functional Directors:

S. No.	Name	Position	Total ₹
1.	Sri V.C. Nannapaneni	Chairman & MD	1,06,08,000
2.	Mr. Rajeev Nannapaneni	Director & COO	53,76,000
3.	Dr. P. Bhaskara Narayana	Director & CFO	23,30,549
4.	Dr. A.K.S. Bhujanaga Rao	President (R & D and Technical)	26,27,102

b. Non-Functional Directors

A sitting fee of ₹5,000/- (Rupees Five Thousands only) is paid for attending the each Board / Committee meeting in addition to reimbursement of out of pocket expenses. The amount paid is well within the ceiling permissible under Act and the Articles of Association of the Company. The details of the sitting fee paid to the Non Functional Directors during the year 2010-11 is given below:

Amount in ₹

Sl. No.	Name	Position	Sitting Fee paid for the meetings of					Total
			Board meeting	Audit Committee	Investor Grievance Committee	Remune-ration Committee	Compen-sation Committee	
1.	Sri G.S.Murthy	Independent Director	25,000	20,000	10,000	5,000	5,000	65,000
2.	Mr. C.P.Ravindranath	Nominee Director - Exim Bank	20,000	20,000	Not a member	Not a member	Not a member	40,000
3.	Dr. B.S.Bajaj	Independent Director	20,000	20,000	Not a member	5,000	5,000	50,000
4.	Dr. J. S. Rao	Independent Director	15,000	Not a member	Not a member	Not a member	Not a member	15,000

5. Investors Grievance Committee

The Company has constituted a Investor Grievance Committee of Directors to look into the redressal of complaints of investors such as transfer or credit of shares, non-receipt of dividend/notices/annual reports etc. The composition of the Investor Grievance Committee and details of meetings attended by its members are given below:

The Committee met on 31-07-2010 and 14-02-2011.

Attendance of Members at the Meetings of the Investors Grievances Committee held during 2010-11

Members	Meetings held during the year	Meetings attended
Mr. G.S.Murthy	2	2
Mr. V.C. Nannapaneni	2	2
Dr. P. Bhaskara Narayana	2	2

The Company had received 153 requests for various queries during the year 2010-11 and all of them were replied / resolved to the satisfaction of the investors.

6. **Compensation Committee:**

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

The Committee met on 15-11-2010 in the year 2010-11.

7. **Share Transfer Committee**

The transfers of equity shares of the Company are approved by the Share Transfer Committee, which meets once in a month to approve share transfers.

During the Financial year 422 instruments of transfer for 28162 equity shares were received and the same were effected.

8. **General Body Meetings**

a. The following were the details of the location and time of the General Meetings of the Company held in last 3 years:

Sl. No.	Type of AGM	Date of the Meeting	Venue	Time of meeting Business	No. of Special Resolutions/
1.	AGM	26-09-2008 for 2007-2008	Novotel Hotel HICC Complex, Cyberabad, Hyderabad-500 081.	11.30 a.m.	nil
2.	AGM	29-09-2009 for 2008-2009	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad – 500 033.	10.00 a.m.	4
3.	EGM	18-05-2010	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad – 500 033.	10.00 a.m.	4
4.	AGM	30-09-2010 for 2009-2010	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad – 500 033.	10.00 a.m.	4
5.	EGM	15-12-2010	Daspalla Hotel, Road No. 37, Jubilee Hills, Hyderabad - 500 033	10.30 a.m.	1

b. Information on Directors seeking re-appointment as required under Clause 49 of the Listing Agreement with Stock Exchanges is provided in the Notes to the Notice under the heading “Information on Directors seeking re-election at the ensuing Annual General Meeting”.

c. All the resolutions indicated above were passed by show of hands. The Company has not passed any shareholder resolution through postal ballot during the year under reference. During the current year no resolution is proposed to be passed through postal ballot.

8. **Minutes**

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

Minutes of all the Committee meetings of the Board are prepared by the Company Secretary and approved by the Chairman of the Meeting and are circulated to the Board.

9. **Quarterly Reconciliation of Share Capital Audit Report**

A Secretarial Audit on the compliance of Corporate Laws and SEBI regulations was conducted by a Practicing Company Secretary for each of the four quarters during 2010-2011 and submitted to the stock exchanges in the prescribed format within 15 days from the close of each quarter.

10. Secretarial Standards

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

11. Disclosures

a. Legal Compliances

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

b. Code of Business Conduct

The Code of Business Conduct adopted by the Company has been posted on the web site of the Company. The members of the Board and senior management of the Company have submitted their affirmation on compliance with the Code of Business Conduct for the period under review. The declaration by the Chairman & Managing Director to that effect forms part of this report as Annexure 1.

c. Related Party Transactions

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

d. Mandatory & Non-Mandatory Clauses

The Company has complied with all mandatory requirements laid down by the Clause 49. The non-mandatory requirements complied which have been disclosed at the relevant places.

e. Environmental Policy

The Company strives to continually improve our environmental performance and prevention of pollution by compliance with applicable environmental legislations and regulations and other applicable requirements, by incorporating suitable techniques such as waste management, recovery of raw materials, isolating by products and distillations of solvents to control pollutions, by conserving diesel, raw materials, natural resources such as water, coal & electricity, by creating an environmental awareness among employees & suppliers and by providing a frame work for setting and reviewing of environmental objectives and targets. The Company's environmental policy is made available to public and concerned public offices.

12. Compliance with other Mandatory requirements

i) Management Discussion and Analysis

Management Discussion and Analysis Report, along with management of Risks at Natco is made in conformity with the Listing Agreement and is attached to the Directors' Report forming part of the Annual Report of the Company.

ii) Senior Management Declaration:

Senior Management Personnel have declared to the Board that, no material, financial and commercial transactions were entered into by them during 2010-11 where they have personal interest that may have a potential conflict with the interest of the Company at large.

iii) **Subsidiary Companies**

The Company has a fully owned subsidiary named NATCO Pharma Inc. in USA.

iv) **Disclosure of Issue Proceeds**

The Company did not make any Public, Rights or Preferential Issue of securities during 2010-11.

v) **CFO Certification**

CFO Certification by Dr. P. Bhaskara Narayana, Director & CFO as per the Listing Agreement was placed before the Board at its meeting on 12^{th} August, 2011.

vi) **Review of Directors' Responsibility Statement**

The Board in its Report have confirmed that the annual accounts for the year ended 31^{st} March 2011 have been prepared as per applicable accounting standards and policies and that sufficient care has been taken for maintaining adequate accounting records.

13. Compliance with non-mandatory requirements

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

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

iii. **Mechanism for evaluating non-executive Board Members:**

The Company is developing a suitable process for assessing the effectiveness of the Board and the Committees.

iv. **Whistle Blower Policy:**

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

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

vi. SEBI by Circular dt.26/04/07 has directed Stock Exchanges to amend clause 32 of Listing Agreement. This is to facilitate circulation of Abridged Accounts in lieu of full-fledged Annual Report. The Company has however not exercised this option and continues to send Annual Report in full form to all shareholders.

vii. **Audit Qualification:** The Company replied suitably for the qualifications of Auditors which were mentioned else where in this report.

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

The Company has an informal work atmosphere where employees have direct access to top management including the Chairman and other Directors. Hence institution of a formal Whistle Blower Policy is not considered warranted.

14. Means of Communication

During the year, audited / unaudited quarterly, half-yearly and annual financial results on the standalone basis and on the consolidated basis of the Company were submitted to the stock exchanges soon after the Board meeting approved these and were accordingly published in the newspapers as per norms. These were also promptly put on the Company's website www.natcopharma.co.in. All official news release of relevance to the investors are also made available on the website. Quarterly Unaudited / audited Financial Results of the Company, Press Releases on significant developments in the Company such as product launches, new units / important events, approvals etc. were made available from time to time to the Stock Exchanges where your Company's shares are listed and also to the press and posted on the website of the company.

The Directors' Report including Management Discussion and Analysis along with Management of Risks at Natco has been included elsewhere in this report.

The Company did not send the half-yearly reports to each household of shareholders in the financial year 2010-11. However the Company displays its quarterly, half yearly and yearly results on its website www.natcopharma.co.in. The quarterly financial results of the Company are also published in a National daily and in a Regional vernacular daily and the details of publications are as under:

Quarter Ended	Name of the English Daily	Name of the Regional Daily	Date Of Publication
30th June, 2010	Financial Express	Prajasakti	02-08-2010
30th September, 2010	Financial Express	Prajasakti	16-11-2010
31st December, 2010	Financial Express	Andhra Prabha	15-02-2011
31st March, 2011(audited)	Financial Express	Prajasakti	31-05-2011

Apart from the financial results, all official press releases of the Company are being placed on the Company's website at www.natcopharma.co.in.

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

15. General Information for Shareholders

AGM: Date, Time and Venue

Annual General Meeting Date & Time	30th September, 2011 at 10.30 a.m.
Venue	Daspalla Hotel, Road No. 37, Jubilee Hills, Hyderabad - 500 033
Book Closure dates	27th September, 2011 to 30th September, 2011 (Both days inclusive)

16. Financial calendar 2011-2012

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

17. Financial Reporting - Unaudited Results - Tentative Dates:

For the quarter ending June 30, 2011	12/08/2011
For the quarter ending Sep 30, 2011	On or before 15/11/2011
For the quarter ending Dec 31, 2011	On or before 15/02/2012
For the quarter ending Mar 31, 2012	On or before 31/05/2012
Annual General meeting for 2011-12	On or before September, 2012

18. Listing of Equity Shares

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

NAME OF THE STOCK EXCHANGE	STOCK CODE
Bombay Stock Exchange Limited	524816
National Stock Exchange of India Limited	Natcopharm

19. Listing fees to the Stock Exchanges

The Company has paid the annual listing fees for the year 2011-12 to both of the above stock exchanges.

20. Custodial fees to the Depositories:

The Company has paid Custodial Fee for the year 2010 - 2011 to both National Securities Depository Limited and the Central Depository Service (India) Limited.

21. Market Price Data

The monthly movement of equity share prices during the financial year 2010-11 at BSE & NSE are summarized as herein below:

Month & Year	Bombay Stock Exchange		National Stock Exchange	
	High ₹	Low ₹	High ₹	Low ₹
April, 2010	183.80	133.50	183.40	133.25
May, 2010	176.00	152.60	175.75	152.55
June, 2010	206.70	159.30	206.50	159.35
July, 2010	212.75	187.00	212.75	187.00
August, 2010	278.00	172.00	278.35	183.65
September, 2010	309.00	255.00	309.00	252.50
October, 2010	298.35	265.05	297.80	266.25
November, 2010	345.05	266.10	344.95	267.50
December, 2010	357.90	281.00	357.00	286.00
January, 2011	329.90	275.00	349.00	275.00
February, 2011	288.40	221.40	288.45	218.00
March, 2011	298.00	235.00	297.00	233.55

22. Share Transfer Work For Both Physical & Electronic Forms

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

23. **Share Transfer System**

The Board has delegated the powers of physical share transfers to a Share Transfer Committee, which attend to the share transfer related work at least once in a month. The Share Transfer Committee also considers transmission of shares, issue of duplicate certificates and issue of certificates on split/ consolidation. The work done by the Share Transfer Committee will be reported to the Board.

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

24. **Shareholding Pattern**

Distribution of Shareholding as on 31st March, 2011

S.No.	Category	No of Equity Shares	Percentage
1	Promoters holding	17688497	62.84
2	Individuals / Others	6601622	23.45
3	Mutual Funds, Financial Institutions	1930308	6.86
4	FIIs, NRIs, OCBs	1926185	6.84

25. **Dematerialization of shares**

Nearly 97% of your Company shares are dematerialized as on 31st March, 2011. As the trading is being conducted only in electronic form members are requested to go in for dematerialisation of shares at the earliest.

26. **Shareholding details as on 31st March, 2011**

Your Company has a Shareholder base of 28,900 members as on 31.03.2011 and the paid up capital is ₹28,14,79,520/-.

27. **Investor Grievances**

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

28. **Report on corporate governance**

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

29. **Insider trading guidelines**

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

30. **Compliance Certificate from the Practicing Company Secretary**

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

31. **Plant Locations**

Pharma Division Kothur Post & Mandal Mahaboobnagar Dist. Andhra Pradesh -509 228.	***Pharma Division - Parenterals*** Vijayapuri North, Nagarjunasagar, Nalgonda Dist. Andhra Pradesh – 508 202.
Chemical Division Mekaguda, Kothur Mandal Mahaboobnagar Dist Andhra Pradesh - 509 228.	***R & D Division*** B-13, Industrial Estate Sanathnagar, Hyderabad. Andhra Pradesh – 500 018.
Formulations Division Plot No.19, Pharma City, Selaqui Industrial Area, Vikas Nagar, DEHARADUN 248 001. Uttarakhand.	***Formulations Division*** Plot No.A3, UPSIDC, Selaqui Industrial Area, DEHARADUN 248 001. Uttarakhand.

Regd. Office:

Natco House
Road No.2, Banjara Hills,
Hyderabad - 500 033.
Tel No. (040) 23547532 Fax No. 23548243
Email: investors@natcopharma.co.in

ANNEXURE 1
AFFIRMATION OF COMPLIANCE WITH CODE OF BUSINESS CONDUCT

To
The Shareholders,

I, V.C. Nannapaneni, Chairman & Managing Director, declare that the Board of Directors of the Company has received affirmation on compliance with the Code of Business Conduct for the period from 1st April, 2010 or the date of their joining the Company, whichever is later, to 31st March, 2011 from all Board Members and also Senior Management staff immediately one level below the Board members viz. all functional business heads, Heads of Finance, HR, Legal, EDP Department etc.

Hyderabad
12th August, 2011

V. C. NANNAPANENI
Chairman & Managing Director

ANNEXURE 2

CFO CERTIFICATION TO THE BOARD

(Under Clause 49(V) of Listing Agreement)

I Certify that -

a. I have reviewed the financial statements and the cash flow statement for the year ended 31st March 2011 and that to the best of my knowledge and belief:

- These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
- These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations;

b. There are, to the best of my knowledge and belief, no transactions entered into by the Company during the year ended 31st March, 2011 that are fraudulent, illegal or violative of the Company's code of conduct;

c. I accept responsibility for establishing and maintaining internal controls and that I have evaluated the effectiveness of the internal control systems of the Company and I have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of the internal control, if any, of which I am aware of and the steps I have taken or propose to take to rectify these deficiencies.

d. i) There has not been any significant change in internal control over financial reporting during the year under reference;

ii) There has not been any significant change in accounting policies during the year except as laid down in Accounting Standard (AS) 15 (revised 2005) on Employee Benefits, requiring disclosure in the notes to the financial statements;

iii) I am not aware of any instance during the year of significant fraud with involvement therein of the management or any employee having a significant role in the Company's internal control system over financial reporting.

Sd/-
(Dr. P. BHASKARA NARAYANA)
DIRECTOR & CFO

Date : 12th August, 2011
Place : Hyderabad

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

To
The Members of
Natco Pharma Limited

I have examined the compliance of conditions of Corporate Governance by Natco Pharma Limited, for the year ended on March 31, 2011 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

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

In my opinion and to the best of my information and according to the explanations given to me and the representations made by the Directors and the Management, I hereby certify that the Company has complied with all the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreement.

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

Place : Hyderabad
Date : 12th August, 2011

P. RENUKA
Company Secretary in Practice
CP No.3460

AUDITORS' REPORT

To
The Members of NATCO Pharma Limited

1. We have audited the attached Balance Sheet of NATCO Pharma Limited (the 'Company') as at 31 March 2011, and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto (collectively referred as the 'financial statements'). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003 (the 'Order') (as amended), issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 (the 'Act'), we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

4. *As discussed in note 4 to Schedule 23 to the financial statements, we report that the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement in accordance with the Guidance Note on Accounting for Credit Available in Respect of Minimum Alternative Tax under the Income-tax Act, 1961. Consequently, the Profit for the year ended 31 March 2011 and 2010 is understated by ₹131,527,145 and ₹160,607,929 respectively and the balance in loans and advances and reserves and surplus is understated by ₹292,135,074 and ₹160,607,929 as at 31 March 2011 and 2010 respectively. This had caused us to qualify our audit opinion on the financial statements for the year ended and as at 31March 2010.*

5. *Subject to our comments in paragraph 4 above* and further to our comments in the Annexure referred to above, we report that:

   a. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;

   b. In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   c. The financial statements dealt with by this report are in agreement with the books of account;

   d. On the basis of written representations received from the directors, as on 31 March 2011 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;

   e. In our opinion and to the best of our information and according to the explanations given to us, *except for the affect of adjustment for the matters discussed in paragraph 4 above,* the financial statements dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act and the Rules framed there under and give the information required by the Act, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, in the case of:

      i) the Balance Sheet, of the state of affairs of the Company as at 31 March 2011;

      ii) the Profit and Loss Account, of the profit for the year ended on that date; and

      iii) the Cash Flow Statement, of the cash flows for the year ended on that date.

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

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

Place: Hyderabad
Date: 30 May 2011

Annexure to the Auditors' Report of even date to the members of NATCO Pharma Limited, on the financial statements for the year ended 31 March 2011.

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

i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets, *except for certain plant and machinery assets where the records are maintained for a group of similar assets and not for each individual asset.*

(b) The Company has a regular programme of physical verification of its fixed assets by which fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) In our opinion, a substantial part of fixed assets has not been disposed off during the year.

ii. (a) The inventory has been physically verified during the year by management. In our opinion, the frequency of verification is reasonable.

(b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.

iii. (a) The Company has not granted any loan, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(b) to (d) of the Order are not applicable.

(e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(f) and 4(iii)(g) of the Order are not applicable.

iv. In our opinion, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for purchase of inventory and for the sale of goods and services. *In our opinion, the internal control system for purchases of fixed assets needs to be further strengthened to be commensurate with the size of the Company and the nature of its business. In our opinion, there is a continuing failure to correct a major weakness in certain aspects of internal controls for purchase of fixed assets.*

v. (a) In our opinion, the particulars of all contracts or arrangements that need to be entered into the register maintained under Section 301 of the Act have been so entered.

(b) Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment as to whether the transactions made in pursuance of such contracts or arrangements have been made at prevailing market prices at the relevant time.

vi. The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the Companies (Acceptance of Deposits) Rules, 1975. Accordingly, the provisions of clause 4(vi) of the Order are not applicable.

vii. The Company has an internal audit system, *the scope and coverage of which, in our opinion, requires to be further enhanced to be commensurate with its size and the nature of its business.*

viii. We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government under section 209 (1)(d) of the Act for the maintenance of cost records and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records with a view to determine whether they are accurate or complete.

ix. (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, custom duty, excise duty, cess and other material statutory dues, as applicable, have generally been regularly deposited with the appropriate authorities, *though there have slight delays, except in the case of tax deducted at source on payments to contractors.* No undisputed amounts payable in respect thereof were outstanding at the year end for a period of more than six months from the date they became payable.

(b) There are no amounts in respect of sales tax, income tax, customs duty, wealth tax, service tax, excise duty and cess that have not been deposited with the appropriate authorities on account of dispute, other than those referred below:

Name of the statute	**Nature of dues**	**Amount (₹)**	**Amount deposited under protest (₹)**	**Period to which the amount relates**	**Forum where dispute is pending**
The Central Sales Tax Act	Central sales tax	8,690,000	2,500,000	Financial year 1997-98	Honorable High Court of Andhra Pradesh
The Income Tax Act, 1961	Income tax	6,245,659	–	Assessment year 2005-06	Income Tax Appellate Tribunal, Hyderabad
		9,346,393	9,000,000	Assessment year 2006-07	
		23,261,351	–	Assessment year 2007-08	
		25,808,520	15,485,112	Assessment years 1989-90 to 1998-99	Commissioner of Income Tax (Appeals), Hyderabad
		74,055,385	34,500,000	Assessment year 2008-09	

x. In our opinion, the Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and the immediately preceding financial year.

xi. The Company has no dues payable to debenture holders during the year. In our opinion, the Company has not defaulted in repayment of dues to a financial institution or a bank during the year.

xii. The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, the provisions of clause 4(xii) of the Order are not applicable.

xiii. In our opinion, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4(xiii) of the Order are not applicable.

xiv. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable.

xv. The Company has not given any guarantees for loans taken by others from banks or financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable.

xvi. In our opinion, the term loans were applied for the purpose for which the loans were obtained, though idle/surplus funds which were not required for immediate utilization have been invested in liquid investments, payable on demand.

xvii. In our opinion, no funds raised on short-term basis have been used for long-term investment.

xviii. The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4(xviii) of the Order are not applicable.

xix. The Company has neither issued nor had any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable.

xx. The Company has not raised any money by public issues during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable.

xxi. No fraud on or by the Company has been noticed or reported during the period covered by our audit.

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

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

Place: Hyderabad
Date: 30 May 2011

BALANCE SHEET AS AT 31 MARCH, 2011

(All amounts in ₹, unless otherwise stated)

	Schedules	As at 31 March, 2011	As at 31 March, 2010
I. SOURCES OF FUNDS			
Shareholders' funds			
(a) Capital	1	**281,479,520**	281,479,520
(b) Stock options outstanding	2	**–**	–
(c) Reserves and surplus	3	**3,187,584,367**	2,732,849,431
		3,469,063,887	3,014,328,951
Loan funds			
(a) Secured loans	4	**2,194,722,319**	1,138,102,909
(b) Unsecured loans	5	**4,103,934**	54,868,571
		2,198,826,253	1,192,971,480
Deferred tax liabilities (net)	23 [14]	**250,869,295**	268,344,325
TOTAL		**5,918,759,435**	4,475,644,756
II. APPLICATION OF FUNDS			
Fixed assets	6		
(a) Gross block		**3,540,952,975**	3,189,877,578
(b) Less: Depreciation and amortization		**999,475,587**	857,875,101
(c) Net block		**2,541,477,388**	2,332,002,477
(d) Capital works-in-progress (including capital advances)		**987,145,928**	396,015,749
		3,528,623,316	2,728,018,226
Investments	7	**711,892,721**	792,292,175
Current assets, loans and advances			
(a) Inventories	8	**930,200,557**	656,215,317
(b) Sundry debtors	9	**703,705,811**	546,278,475
(c) Cash and bank balances	10	**319,303,370**	35,032,129
(d) Other current assets	11	**1,075,132**	809,416
(e) Loans and advances	12	**766,489,203**	568,827,161
		2,720,774,073	1,807,162,498
Less: Current liabilities and provisions			
(a) Liabilities	13	**954,612,842**	795,767,680
(b) Provisions	14	**87,917,833**	56,060,463
		1,042,530,675	851,828,143
Net current assets		**1,678,243,398**	955,334,355
TOTAL		**5,918,759,435**	4,475,644,756
Notes to accounts	23		

The schedules referred to above form an integral part of the financial statements.

As per our report of even date

For **Walker, Chandiok & Co**
Chartered Accountants
per **Sanjay Kumar**
Partner

Place : Hyderabad
Date : 30 May 2011

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

V.C. Nannapaneni Chairman & Managing Director
Rajeev Nannapaneni Director & Chief Operating Officer

Dr. P. Bhaskara Narayana Director and Chief Financial Officer
M. Adinarayana Company Secretary & GM (Corp. Affairs)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH, 2011

(All amounts in ₹, unless otherwise stated)

		Schedules	For the year ended 2010-11	For the year ended 2009-10
I.	**INCOME**			
	Sales (gross)		**3,314,575,656**	2,856,607,158
	Less: Excise duty		**54,010,223**	41,731,904
	Sales (net)		**3,260,565,433**	2,814,875,254
	Sale of product dossiers		**75,405,617**	158,395,918
	Job works charges		**109,777,459**	101,093,266
	Other income	15	**89,597,927**	54,773,185
			3,535,346,436	3,129,137,623
II.	**EXPENDITURE**			
	Materials consumed	16	**871,557,927**	736,190,754
	(Increase) / Decrease in inventory	17	**(114,776,062)**	33,490,504
	Purchase of traded goods		**167,273,362**	131,327,930
	Manufacturing expenses	18	**477,695,580**	368,002,445
	Staff costs	19	**513,445,283**	420,311,030
	Operating and other expenses	20	**694,847,977**	544,334,775
	Finance charges	21	**141,978,623**	146,924,868
	Depreciation and amortization	6	**143,480,449**	124,453,840
			2,895,503,139	2,505,036,146
	Profit before taxation and prior period items		**639,843,297**	624,101,477
	Taxes			
	- Current tax		**136,115,500**	107,596,388
	- Deferred tax (benefit)/expense		**(17,475,030)**	27,458,254
	- Fringe benefit tax [Represents excess provision writtenback]		**–**	(3,043,368)
	Profit after taxation and before prior period items		**521,202,827**	492,090,203
	Prior period items	22	**–**	15,459,290
	Net profit		**521,202,827**	476,630,913
	Balance brought forward from last balance sheet		**1,546,906,065**	1,176,138,556
	Profit available for appropriation		**2,068,108,892**	1,652,769,469
	APPROPRIATION			
	Transfer to general reserve		**40,000,000**	40,000,000
	Interim dividend at ₹2.00 (2010: ₹2.00) on equity shares of ₹10 each		**56,295,904**	56,295,904
	Dividend distribution tax on interim dividend		**9,350,046**	9,567,500
	Surplus carried to Balance Sheet		**1,962,462,942**	1,546,906,065
	Earnings per share	23 [5]		
	- Basic		**18.52**	16.95
	- Diluted		**18.52**	16.93
	Notes to accounts	23		

The schedules referred to above form an integral part of the financial statements.

As per our report of even date

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

For **Walker, Chandiok & Co**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni Chairman & Managing Director
Rajeev Nannapaneni Director & Chief Operating Officer

Place : Hyderabad
Date : 30 May 2011

Dr. P. Bhaskara Narayana Director and Chief Financial Officer
M. Adinarayana Company Secretary & GM (Corp. Affairs)

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
SCHEDULE 1: CAPITAL		
Authorised		
35,000,000 (2010: 30,000,000) equity shares of ₹10 each	**350,000,000**	300,000,000
	350,000,000	300,000,000
Issued, subscribed and paid-up		
28,147,952 (2010: 28,147,952) equity shares of ₹10 each fully paid-up	**281,479,520**	281,479,520
	281,479,520	281,479,520
SCHEDULE 2: STOCK OPTIONS OUTSTANDING		
[Refer note 9 on Schedule 23]		
Stock compensation outstanding at the beginning of the year	**–**	14,974,996
Add: Adjustment during the year	**–**	–
	–	14,974,996
Less: Transferred to share premium account on exercise of stock options	**–**	14,974,996
	–	–
SCHEDULE 3: RESERVES AND SURPLUS		
[Refer note 8 on Schedule 23]		
Capital reserve - as per last balance sheet	**197,015,954**	197,015,954
Capital redemption reserve - as per last balance sheet	**4,928,810**	4,928,810
Central subsidy		
As per last balance sheet	**7,056,808**	4,056,808
Additions during the year	**200,000**	3,000,000
	7,256,808	7,056,808
Foreign currency translation reserve		
As per last balance sheet	**20,452,033**	–
Adjustment during the year	**(1,021,941)**	20,452,033
	19,430,092	20,452,033
General reserve		
As per last balance sheet	**137,161,000**	97,161,000
Additions during the year	**40,000,000**	40,000,000
	177,161,000	137,161,000
Share premium account		
As per last balance sheet	**819,328,761**	804,353,765
Additions during the year	**–**	14,974,996
	819,328,761	819,328,761
Balance in profit and loss account	**1,962,462,942**	1,546,906,065
	3,187,584,367	2,732,849,431

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
SCHEDULE 4: SECURED LOANS		
[Refer note 6 on Schedule 23]		
Loans and advances from banks		
Term loans from banks	**549,496,853**	500,000,000
[Repayable within one year ₹137,500,000 (2010: ₹75,000,000)]		
Term loans from others	**925,000,000**	141,457,500
[Repayable within one year ₹97,352,941 (2010: ₹51,012,500)]		
Working capital loans from banks	**720,225,466**	496,645,409
[Payable within one year]		
	2,194,722,319	1,138,102,909
SCHEDULE 5: UNSECURED LOANS		
[Refer note 7 on Schedule 23]		
Short-term loans and advances		
From banks	**–**	50,000,000
[Payable within one year ₹Nil (2010: ₹50,000,000)]		
Other loans and advances		
From others	**4,103,934**	4,868,571
[Repayable within one year ₹1,908,151 (2010: ₹764,637)]		
	4,103,934	54,868,571

SCHEDULES TO THE FINANCIAL STATEMENTS
SCHEDULE 6: FIXED ASSETS

(All amounts in ₹, unless otherwise stated)

Particulars	Gross block				Depreciation and amortization				Net block	
	As at 1 April 2010	Additions during the year	Deletions/ Adjustments during the year	**As at 31 March 2011**	Up to 31 March 2010	Charge for the year*	Deletions/ Adjustments during the year	**Up to 31 March 2011**	**As at 31 March 2011**	As at 31 March 2010
Tangible assets										
Freehold land	231,566,534	28,247,566	–	**259,814,100**	–	–	–	**–**	**259,814,100**	231,566,534
Leasehold land **	16,725,782	–	–	**16,725,782**	942,678	118,028	–	**1,060,706**	**15,665,076**	15,783,104
Buildings #	1,015,869,008	52,980,679	–	**1,068,849,687**	176,747,423	36,689,240	–	**213,436,663**	**855,413,024**	839,121,585
Plant and machinery #	1,755,433,306	232,902,493	–	**1,988,335,799**	569,775,326	91,848,393	–	**661,623,719**	**1,326,712,080**	1,185,657,980
Office equipment	21,799,382	872,342	–	**22,671,724**	7,213,487	1,095,052	–	**8,308,539**	**14,363,185**	14,585,895
Furniture and fittings	18,062,884	6,090,180	–	**24,153,064**	11,405,114	2,175,722	–	**13,580,836**	**10,572,228**	6,657,770
Vehicles	53,059,312	21,673,787	5,028,341	**69,704,758**	28,276,441	5,977,477	1,879,963	**32,373,955**	**37,330,803**	24,782,871
Computers	64,501,510	3,819,313	–	**68,320,823**	60,817,308	2,892,292	–	**63,709,600**	**4,611,223**	3,684,202
	3,177,017,718	346,586,360	5,028,341	**3,518,575,737**	855,177,777	140,796,204	1,879,963	**994,094,018**	**2,524,481,719**	2,321,839,941
Intangible assets										
Software	12,859,860	9,517,378	–	**22,377,238**	2,697,324	2,684,245	–	**5,381,569**	**16,995,669**	10,162,536
	3,189,877,578	356,103,738	5,028,341	**3,540,952,975**	857,875,101	143,480,449	1,879,963	**999,475,587**	**2,541,477,388**	2,332,002,477
Previous year	2,730,735,296	459,142,282	–	**3,189,877,578**	719,246,901	138,628,200	–	**857,875,101**	**2,332,002,477**	2,011,488,395

* Depreciation charge for the year includes ₹Nil (2010: ₹14,174,360) relating to earlier years. The same is classified under prior period items.

** Lease hold land include lease of land for a period of 90 years from the State Industrial Development Corporation of Uttaranchal Limited, amounting to ₹9,695,646 and lease from Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years, amounting to ₹7,030,136.

\# inludes borrowing costs capitalized of ₹21,713,199 (2010: ₹6,845,498).

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
SCHEDULE 7: INVESTMENTS		
[Refer note 13 on Schedule 23]		
I. Long term, unquoted and at cost		
Trade:		
750 (2010: 750) equity shares of ₹100 each, fully paid–up, in Jeedimetla Effluent Treatment Limited	**75,000**	75,000
34,400 (2010: 34,400)equity shares of ₹10 each, fully paid–up, in Pattancheru Enviro–Tech Limited	**344,000**	344,000
Share application money in NATCO Organics Limited	**602,459,898**	602,459,898
	602,878,898	602,878,898
In subsidiary:		
1,000 (2010: 1,000) fully paid–up, non–assessable shares of US$1,000 each in Natco Pharma Inc., Delaware, United States of America	**41,849,274**	41,849,274
Share application money in Timecap Overseas Limited, Mauritius	**30,770,188**	–
In partnership firm:		
75% share in K & C Pharmacy [a partnership firm based in United States of America, wherein the Company and Mr. Krishnayya Bikkina shares profit/loss in the ratio of 75:25 respectively]	**165,678,749**	165,678,749
Less: Drawings from the firm	**(88,079,151)**	–
Less: Share of loss from the firm	**(64,365,517)**	(21,190,095)
	13,234,081	144,488,654
	688,732,441	789,216,826
Non Trade:		
Investment in portfolio management services	**15,000,000**	–
National savings certificates [pledged with government authorities]	**3,910**	3,910
	703,736,351	789,220,736
II. Long term, non trade, quoted and at cost		
27,000 (2010: 27,000) equity shares of ₹10 each, fully paid–up in Jayalakshmi Spinning Mills Limited	**270,000**	270,000
III. Current, non trade and quoted		
45,194 (2010: Nil) equity shares of ₹10 each, fully paid–up in Neuland Laboratories Limited	**5,287,698**	–
24,250 (2010: Nil) equity shares of ₹10 each, fully paid–up in JB Chemicals Limited	**2,868,672**	–
	8,156,370	–
IV. Current, non trade and unquoted		
Investment in mutual funds [Nil units of ICICI Prudential mutal funds (2010: 268,189)]	**–**	3,071,439
	–	3,071,439
Total investments	**712,162,721**	792,562,175
Less: Provision for diminution in the value of investments	**270,000**	270,000
	711,892,721	792,292,175
Notes:		
Aggregate cost of quoted investments	**8,426,370**	270,000
Aggregate value of unquoted investments	**703,736,351**	792,292,175
Market value of quoted investments	**8,495,973**	–

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
Schedule 8: Inventories		
[Refer note 15 (e) of Schedule 23]		
Stores and spares	**114,090,134**	66,251,608
Packing materials	**49,505,272**	35,928,516
Raw materials	**242,390,179**	176,378,850
Work-in-progress	**348,374,790**	265,955,090
Finished goods	**145,658,653**	110,462,916
Stock in transit	**30,181,529**	1,238,337
	930,200,557	656,215,317
SCHEDULE 9: SUNDRY DEBTORS		
(Unsecured, considered good)		
Outstanding for more than six months	**36,441,254**	20,799,332
Other debts	**667,264,557**	525,479,143
	703,705,811	546,278,475
(Unsecured, considered doubtful)		
Outstanding for more than six months	**10,334,519**	5,070,194
Other debts	**–**	–
	714,040,330	551,348,669
Less: Provision for doubtful debts	**10,334,519**	5,070,194
	703,705,811	546,278,475
SCHEDULE 10: CASH AND BANK BALANCES		
Cash balances on hand	**5,074,553**	2,921,018
Balances with Scheduled banks		
on current accounts	**42,740,395**	3,613,223
on deposit accounts*	**267,338,230**	24,774,286
on unpaid dividend accounts	**4,150,192**	3,723,602
*₹12,165,509 (2010: ₹11,774,286) represents margin money towards guarantees issued by banks	**319,303,370**	35,032,129
SCHEDULE 11: OTHER CURRENT ASSETS		
(Unsecured, considered good)		
Interest accrued on fixed deposits	**1,075,132**	809,416
	1,075,132	809,416

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
SCHEDULE 12: LOANS AND ADVANCES		
(Unsecured, considered good)		
Advance recoverable in cash or in kind or for value to be received		
- Prepaid expenses	**10,560,575**	3,888,587
- Advance for purchases and expenses	**363,057,883**	86,113,460
- Other advances	**27,637,090**	153,813,000
Advances to a subsidiary company	**109,684,681**	153,209,854
Deposits with others	**15,584,362**	14,628,287
Advance tax, net of provision	**80,857,658**	39,320,797
Balances with government authorities	**159,106,954**	117,853,176
	766,489,203	568,827,161
SCHEDULE 13: LIABILITIES		
[Refer note 17 on schedule 23]		
Sundry creditors		
-Total outstanding dues of creditors other than micro enterprises and small enterprises	**889,791,244**	707,863,750
	889,791,244	707,863,750
Unpaid dividends	**4,150,192**	3,723,602
Interest accrued but not due on loans	**1,485,256**	510,125
Advance received from customers	**26,804,530**	55,970,300
Trade deposits	**12,486,275**	11,795,411
Other liabilities	**19,895,345**	15,904,492
	954,612,842	795,767,680
SCHEDULE 14: PROVISIONS		
[Refer note 10 on schedule 23]		
- For contingencies	**31,875,000**	–
- For gratuity	**32,152,749**	32,840,925
- For compensated absences	**23,890,084**	23,219,538
	87,917,833	56,060,463

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 2010-11	For the year ended 2009-10
SCHEDULE 15: OTHER INCOME		
Interest on fixed deposits (gross)	**2,188,849**	6,712,103
[Tax deducted at source of ₹2,26,865 (2010: ₹753,615)]		
Interest on loans and advances	**8,043,338**	12,909,843
Export incentives	**27,384,341**	19,581,813
Foreign exchange fluctuations, net	**20,186,901**	–
Miscellaneous income	**31,794,498**	15,569,426
	89,597,927	54,773,185
SCHEDULE 16: MATERIALS CONSUMED		
Raw materials		
Opening stock	**176,378,850**	146,954,128
Add: Purchases	**937,569,256**	815,785,230
	1,113,948,106	962,739,358
Less: Written off	**–**	50,169,754
Less: Closing stock	**242,390,179**	176,378,850
	871,557,927	736,190,754
SCHEDULE 17: (INCREASE) / DECREASE IN INVENTORY		
Opening stocks		
- Finished goods	**110,462,916**	120,945,944
- Work in progress	**265,955,090**	288,962,566
	376,418,006	409,908,510
Closing stocks		
- Finished goods	**142,819,278**	110,462,916
- Work in progress	**348,374,790**	265,955,090
	491,194,068	376,418,006
Net (increase)/decrease in inventory	**(114,776,062)**	33,490,504
SCHEDULE 18: MANUFACTURING EXPENSES		
Consumption of packing materials	**88,546,203**	73,205,645
Power and fuel	**208,874,913**	144,513,060
Stores consumed	**66,218,865**	67,469,426
Factory maintenance expenses	**66,836,104**	54,763,757
Analysis charges	**47,219,495**	28,050,557
	477,695,580	368,002,445
SCHEDULE 19: STAFF COST		
[Refer note 10 on schedule 23]		
Salaries, wages and bonus	**388,140,780**	314,387,678
Contributions to provident and other funds	**32,800,676**	24,570,684
Contributions to employee welfare trust	**4,600,000**	–
Staff welfare expenses	**82,886,118**	59,997,143
Gratuity	**2,942,124**	19,096,468
Leave encashment	**2,075,585**	2,259,057
	513,445,283	420,311,030

SCHEDULES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 2010-11	For the year ended 2009-10
SCHEDULE 20: OPERATING AND OTHER EXPENSES		
Power and fuel	**2,980,625**	3,521,339
Rent	**6,356,142**	5,915,960
Repairs and maintenance		
- Buildings	**20,291,854**	24,421,156
- Plant and machinery	**63,883,922**	41,356,982
- Others	**25,408,956**	18,330,682
Legal and professional fees	**64,583,790**	29,055,302
Insurance	**16,285,642**	8,070,672
Rates and taxes	**24,514,526**	16,660,034
Communication expenses	**14,041,609**	16,316,539
Office maintenance and other expenses	**20,588,295**	18,382,312
Travelling and conveyance	**45,560,791**	35,047,514
Printing and stationery	**13,884,019**	14,121,587
Research and development expenses	**110,461,866**	77,886,058
Sales promotion expenses including sales commssion	**80,893,583**	74,196,997
Donations	**18,516,594**	6,555,484
Advertisements	**4,110,670**	3,360,219
Carriage and frieght outwards	**38,594,314**	25,526,527
Directors remuneration	**20,941,561**	16,213,025
Directors sitting fee	**170,000**	150,000
Auditors' remuneration		
- Audit fee	**750,000**	750,000
- Certification fee	**25,000**	80,665
- Other matters	**300,000**	100,000
- Out of pocket expenses	**3,500**	–
Exchange fluctuation loss, net	**–**	2,091,824
Advances written off	**77,927**	10,135,436
Provision for doubtful debts	**5,264,325**	5,070,194
Share of loss in partnership firm	**43,175,422**	21,975,721
Loss on sale of asset	**900,377**	-
Diminution in the value of investments	**500,358**	23,759
Provision for contingencies	**31,875,000**	-
Inventory written-off	**2,260,108**	56,811,487
Miscellaneous expenses	**17,647,201**	12,207,300
	694,847,977	544,334,775
SCHEDULE 21: FINANCE CHARGES		
Interest on:		
- Fixed period loans	**52,784,365**	72,338,782
- Others	**72,106,633**	58,032,289
Bank charges	**17,087,625**	16,553,797
	141,978,623	146,924,868
SCHEDULE 22: PRIOR PERIOD ITEMS		
Operating and other expenses	**–**	3,811,169
Depreciation and amortization	**–**	14,174,360
Other income	**–**	(2,526,239)
	–	15,459,290

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE 23: NOTES TO ACCOUNTS

(All amounts in ₹, unless otherwise stated)

1. Company overview

NATCO Pharma Limited ("the Company" or "NATCO") incorporated on 19 September 1981 in accordance with the provisions of the Indian Companies Act, 1956 ("the Act") is a limited liability company. The Company was originally incorporated as Natco Fine Pharmaceuticals Private Limited changed its name to NATCO Pharma Limited, in 1994.

The Company is primarily engaged in manufacturing of active pharmaceuticals ingredients and finished dosage formulations.

2. Significant accounting policies

a. Basis of preparation of financial statements

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

b. Use of estimates

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

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

c. Fixed assets

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

d. Depreciation

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

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

e. Intangible assets

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

f. Impairment of assets

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

g. Government grants

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

h. Investments

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

i. Inventories

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

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

j. Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on research and development is capitalized as fixed assets and depreciated in accordance with the depreciation policy of the Company.

k. Revenue recognition

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

- Revenue from sale of goods is recognized when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from domestic sales of formulation products is recognized on dispatch of products to stockiest by clearing and forwarding agents of the Company. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on dispatch of products from the factories of the Company. Revenue from export sales is recognized on shipment of products.

- Revenue from product sales is stated exclusive of sales tax and applicable trade discounts and allowances.
- Revenue from sale of dossiers is recognized in accordance with the terms of the relevant agreements as generally accepted and agreed with the customers.
- Dividend income is recognized when the unconditional right to receive the income is established. Income from interest on deposits, loans and interest bearing securities is recognized on the time proportionate methods taking into account the amount outstanding and the rate applicable.
- Export entitlements are recognized as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.
- Revenue from licensing and long term supply arrangements is recognized in the period in which the Company completes all its performance obligations.

l. Taxes

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

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

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

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

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

m. Earnings per share

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

n. Foreign currency transactions

Initial recognition

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

Conversion

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

Exchange differences

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

o. Employee benefits

Provident fund

The Company contributes to the provident fund maintained by the Regional Provident Fund Commissioner, in accordance with Employees provident fund and Miscellaneous Provision Act, 1952. The provident fund plan is a defined contribution plan and contribution paid or payable is recognized as an expense in the period in which the employee renders services. There are no other obligations of the Company other than the contributions made to the fund.

Gratuity

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

Employee state insurance

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

Leave encashment

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

Employee share based payments:

Measurement and disclosure of the employee share-based payment plans is done in accordance with Securities Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase

(All amounts in ₹, unless otherwise stated)

Scheme) Guidelines, 1999 and the guidance note on 'Accounting for Employee Share Based Payments', issued by the Institute of Chartered Accountants of India (ICAI). The excess of market value of the stock on the date of grant over the exercise price of the option is recognized as deferred employee stock compensation and is charged to profit and loss account on straight-line method over the vesting period of the options. The unamortized portion of cost is shown under stock options outstanding.

p. Leases

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

q. Provisions and contingent liabilities

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

Notes to the accounts

3. Commitments and contingent liabilities

	As at 31 March, 2011	As at 31 March, 2010
Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	**380,896,183**	95,245,770
Contingent liabilities		
Disputed statutory liabilities	**147,407,308**	51,883,190
Claims against the Company not acknowledged as debts	**156,290,615**	157,052,546

4. The Company has not recognized MAT credit available to it as it opines that it would not be in a position to utilize such credit in view of the continued tax holiday being available for the profits arising out of manufacture and sales made from two of its manufacturing facilities. In the eventuality of the Company being made to pay tax on a regular basis, it would make suitable adjustments by taking credit for the MAT entitlement available at such point of time.

5. Earnings per share

Reconciliation of basic and diluted shares used in computation of earnings per share

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Net profit as per profit and loss account	**521,202,827**	476,630,913
Weighted average number of shares considered for computation of basic earnings per share	**28,147,952**	28,124,473
Add: Effect of potential dilutive stock options	**–**	23,186
Weighted average number of shares considered for computation of diluted earnings per share	**28,147,952**	28,147,659
Nominal value per share	**10**	10

(All amounts in ₹, unless otherwise stated)

6. Secured loans

Loans availed from the financial institutions and banks are fully secured by way of hypothecation of fixed assets, capital work in progress and other assets of the Company. The term loans from banks are further guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director in his personal capacity.

7. Unsecured loans

Unsecured loans represent loans taken from Citibank amounting to ₹Nil (2010: ₹50,000,000) and interest free sales tax deferment amounting to ₹4,103,934 (2010: ₹4,868,571), availed under the 'TARGET 2000' Scheme of the State Government of Andhra Pradesh. The unsecured loan from Citibank is guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director in his personal capacity.

8. Government grants

The Company has received ₹200,000 (2010: ₹3,000,000) towards the investment subsidy for the purpose of setting up and expansion of an industrial unit in the State of Uttaranchal.

9. Employee stock options

The Company had instituted NATCO Stock Option Plan 2010 ("ESOP 2010"). The scheme was formulated in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Act, and was duly approved by way of a special resolution passed in the annual general meeting of the members held on 30 September 2010, authorizing the Board to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to eligible employees based on specific recommendations of the Remuneration Committee under the plan. Each option comprises of one underlying equity share of ₹10 each, however, no options were granted under the said plan as of 31 March 2011.

10. Employee benefits

Provident fund

During year ended 31 March 2011 the Company contributed ₹27,822,377 (2010: ₹21,818,451) to the Provident Fund.

Employee state insurance

During year ended 31 March 2011 the Company contributed ₹4,978,299 (2010: ₹2,752,233) to the Employee's State Insurance Corporation.

Gratuity

The Company has obtained the actuarial valuation report in line with the requirements of Accounting Standard -15 'Employee Benefits', in respect of gratuity liability and the estimated liability as at 31 March 2011 is provided in the books of accounts. The details of present value of obligations, current service cost and actuarial assumptions are given hereunder:

The amounts recognized in the profit and loss account are as follows:

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Current service cost	**3,494,236**	4,730,892
Interest cost	**4,406,546**	4,043,794
Expected return on plan assets	**(2,086,285)**	(1,790,826)
Recognised net actuarial loss	**(2,872,373)**	12,112,608
Total included in 'employee benefit expenses'	**2,942,124**	19,096,468

(All amounts in ₹, unless otherwise stated)

Details of provision recognised in the balance sheet

	As at 31 March, 2011	As at 31 March, 2010
Defined benefit obligation	**58,231,217**	55,081,820
Fair value of plan assets	**26,078,468**	22,240,895
Net provision for gratuity	**32,152,749**	32,840,925

Changes in present value of defined benefit obligation representing reconciliation of opening and closing balance thereof are as follows:

	As at 31 March, 2011	As at 31 March, 2010
Defined benefit obligation at beginning of the year	**55,081,820**	35,405,852
Current service cost	**3,494,236**	4,730,892
Interest cost	**4,406,546**	4,043,794
Benefits paid	**(1,879,012)**	(1,211,326)
Actuarial (gain)/loss	**(2,872,373)**	12,112,608
Defined benefit obligation at the end of the year	**58,231,217**	55,081,820

Changes in the fair value of plan assets representing reconciliation of opening and closing balances thereof are as follows:

	As at 31 March, 2011	As at 31 March, 2010
Fair value of plan assets at beginning of the year	**22,240,895**	18,461,734
Actual return on plan assets	**2,086,285**	1,476,939
Actuarial gains	**–**	328,656
Contribution by employer	**3,630,300**	3,184,892
Benefits paid	**(1,879,012)**	(1,211,326)
Fair value of plan assets at the end of the year	**26,078,468**	22,240,895

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	As at 31 March, 2011	As at 31 March, 2010
Investments with insurer	**100%**	100%

The assumptions used in accounting for the gratuity plan are set out as below:

Particulars	Year ended 31 March, 2011	Year ended 31 March, 2010
Discount rate	**8%**	7.5%
Expected return on plan assets	**9.25%**	7.5%
Attrition rate	**5%**	1% to 3%
Salary escalation	**4%**	4%

The estimates of future salary increase, considered in actuarial valuation, take account of inflation, seniority, promotions and other relevant factors such as supply and demand in the employment market. The Company evaluates these assumptions annually based on its long term plans of growth and industry standards.

(All amounts in ₹, unless otherwise stated)

Information relating to amounts recognized in the profit and loss account, change in fair value of plan assets was not disclosed in the report issued by the Life Insurance Corporation of India, hence the comparative information could not be disclosed.

11. Related party disclosures

i. Names of related parties and nature of relationship

Names	**Nature of relationship**
NATCO Pharma Inc., United States of America	Subsidiary Company
Time Cap Overseas Limited, Mauritius (from 8 November 2010)	Subsidiary Company
NATCO Farma Do Brazil (formerly Uniao Distributors), Brazil (from 27 January 2011)	Ultimate Subsidiary Company
K & C Pharmacy, United States of America	Partnership firm in which the Company is a partner
NATCO Organics Limited, Chennai	Entity in which directors are interested
Time Cap Pharma Labs Limited, Hyderabad	Entity in which directors are interested
NATCO Trust, Hyderabad	Entity in which directors are interested
NATCO Group Employees Welfare Trust	Entity in which directors are interested
NDL Infratech Private Limited, Hyderabad	Entity in which directors are interested
V C Nannapaneni, Chairman and Managing Director	Key management personnel
Rajeev Nannapaneni, Director and COO	Key management personnel
Durga Devi Nannapaneni	Relatives of a key management personnel
Dr. P BhaskaraNarayana, Director and CFO	Key management personnel
Dr. A K S Bhujanga Rao President (R&D and Technical)	Key management personnel

ii. Nature of transactions

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Transactions with subsidiary company		
NATCO Pharma Inc		
- Interest received on loans and advances	**8,043,338**	12,909,843
Time Cap Overseas Limited, Mauritius		
- Share application money	**30,770,188**	–
Transactions with the partnership firm in which the Company is a partner		
K & C Pharmacy		
- Share of loss from the firm	**(43,175,422)**	(21,975,721)
Transactions with entities in which directors Are interested		
NATCO Organics Limited		
- Share application money	**–**	260,555,202
- Advance towards future supplies	**306,077,225**	–
- Rental expense	**1,140,000**	–
Time Cap Pharma Labs Limited		
- Income from Job work charges and sales	**6,220,841**	4,570,897
- Income from rent	**120,000**	120,000

(All amounts in ₹, unless otherwise stated)

Nature of transactions (Contd.)

Particulars	Year ended 31 March, 2011	Year ended 31 March, 2010
- Commission and expenses reimbursement	**5,341,493**	5,102,535
- Purchases	**2,678,000**	2,775,760
- Rental expense	**1,620,000**	1,800,000
- Advances given	**5,42,34,580**	10,28,73,994
- Dividends paid	**6,796,358**	6,749,358
NATCO Trust		
- Donations given	**9,800,000**	2,202,611
NATCO Group Employees Welfare Trust		
- Donations given	**4,600,000**	–
NDL Infratech Private Limited		
- Rental expense	**–**	960,000
Transactions with key management personnel		
- Managerial remuneration		
V C Nannapaneni	**10,608,000**	10,608,000
Rajeev Nannapaneni	**5,376,000**	2,400,000
Dr. P Bhaskara Narayana	**2,330,549**	1,372,800
Dr. A K S Bhujanga Rao	**2,627,012**	1,832,225
- Rental expense		
V C Nannapaneni	**1,440,000**	1,440,000
Rajeev Nannapaneni	**720,000**	720,000
- Dividends paid		
V C Nannapaneni	**15,993,918**	15,879,918
Durga Devi Nannapaneni	**1,655,640**	1,655,640
Rajeev Nannapaneni	**1,813,220**	1,813,220
Dr. P Bhaskara Narayana	**15,000**	15,000
Dr. A K S Bhujanga Rao	**14,000**	14,000

iii. Balance receivable/(payable)

	As at 31 March, 2011	As at 31 March, 2010
NATCO Pharma Inc., United States of America	**109,684,681**	153,209,854
NATCO Organics Limited	**306,077,225**	–
Time Cap Pharma Labs Limited, Hyderabad	**(2,092,838)**	1,904,556
NDL Infratech Private Limited, Hyderabad	**7,066,105**	3,947,919
V C Nannapaneni	**(1,686,151)**	(254,899)
Rajeev Nannapaneni	**(913,403)**	(117,133)
Dr. P Bhaskara Narayana	**(165,511)**	(108,949)
Dr. A K S Bhujanga Rao	**(120,308)**	(224,482)

12. Segment reporting

In accordance with AS 17 - Segment Reporting, segment information has been given in the consolidated financial statements of NATCO Pharma Limited and therefore no separate disclosure on segment information is given in these financial statements.

(All amounts in ₹, unless otherwise stated)

13. Investments

Investment in Time Cap Overseas Limited, Mauritius

During the year ended 31 March 2011, the Company has entered into an arrangement with LevoMed Inc, ('LevoMed') New Jersey, USA and has established a company viz., Time Cap Overseas Limited ('Time Cap), in the Republic of Mauritius. Pursuant to the terms of arrangement, the Company has paid and / or incurred preliminary expenses aggregating of ₹30,770,188 to be adjusted towards subscription to the common stock of Time Cap. Pending allotment of shares, investment, by way of share application money has been accounted as investment in subsidiaries and has been considered for the purposes of preparation of consolidated financial statements of the Company and its subsidiaries for the year ended 31 March 2011.

Investment in portfolio management services

As at 31 March 2011 the Company has made an investment, aggregating to ₹15,000,000 in the private equity opportunities fund of Anand Rathi Financial Services Limited (ARFSL). By virtue of shareholders' agreement and share subscription agreement, both dated 29 November 2010, ARFSL has invested, among others, the investment made by the Company, in the Compulsorily Convertible Preference Shares of Ravindranath GE Medical Associates Private Limited. The company's investment in the private equity opportunities fund of ARFSL provides for a return of 20% in excess of 16% on a gross pre-tax IRR basis. In the absence of reasonable certainty of realization of return, no income was accrued on such investment for the year ended 31 March 2011.

Sale of partnership interest in K & C Pharmacy, United States of America

On 6 December 2010, K & C Pharmacy, USA, a general partnership firm, in which the Company has a substantial interest, has sold its only Drug Store to Crystal Drugs, Inc. Pending formal dissolution of the said firm, remaining investment in the firm is carried at cost based on the net assets of the firm as at 31 March 2011.

14. Deferred tax liability, net

Particulars	**As at 31 March, 2011**	As at 31 March, 2010
Deferred tax liability on account of depreciation	**269,485,323**	268,344,325
Deferred tax asset on account of gratuity and leave encashment	**18,616,028**	–
Net deferred tax liability	**250,869,295**	268,344,325

15. Additional information pursuant to the provisions of paragraph 3, 4C and 4D of Part II of Schedule VI to the Act, to the extent applicable.

(a) Managerial remuneration

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Salaries and other perquisites	**18,996,781**	14,737,889
Contribution to provident and other funds	**1,944,780**	1,475,136
TOTAL	**20,941,561**	16,213,025

The above figures do not include provision for gratuity payable to the Directors as the same is actuarially determined for the Company as a whole.

(All amounts in ₹, unless otherwise stated)

(b) Expenditure incurred in foreign currency

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Travelling expenses	**5,038,633**	3,818,536
Commission	**3,040,115**	1,872,643
Others	**113,524,031**	14,424,391
TOTAL	**121,602,779**	20,115,570

(c) Amounts remitted during the year in foreign currency on account of dividends

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Amount remitted	**1,089,976**	1,098,036
Number of non-resident shareholders	**16**	11
Number of shares held by non-resident shareholders	**544,988**	549,018
The year to which the interim dividend relates	**2010-2011**	2009-2010

(d) Capacity and production

Capacity

Class of goods	Unit of measurement	**As at 31 March 2011**		As at 31 March 2010	
		Licensed capacity	**Installed capacity**	Licensed capacity	Installed capacity
Bulk drugs and drug intermediates	Kilolitres	**384**	**384**	384	384
Formulations	Million units	**2,221**	**2,221**	2,221	2,221

Note: Licensed and installed capacities are as certified by Management and have not been verified by the Auditors as this is a technical matter.

Production

Class of goods	Unit of measurement	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Bulk drugs and drug intermediates	KGs	**26,254**	32,382
Formulations	Million units	**240**	143

Note: Actual production of formulation products excludes 835 (previous year: 789) million units produced on loan licensing basis from outside parties.

(e) Particulars of opening stock, production, sale of finished goods and closing stock

Particulars	Unit of measurement	**For the year ended 31 March, 2011**		For the year ended 31 March, 2010	
		Quantity	**Value**	Quantity	Value
Opening stock					
Bulk drug and drug intermediaries	Kgs	**1,253**	**28,260,551**	2223	49,234,710
Formulations	No in millions	**14**	**50,138,353**	21	44,030,413
Traded goods	No in millions	**23**	**32,064,012**	18	27,680,821
TOTAL			**110,462,916**		120,945,944

(All amounts in ₹, unless otherwise stated)

Particulars	Unit of measurement	For the year ended 31 March, 2011		For the year ended 31 March, 2010	
		Quantity	**Value**	Quantity	Value
Purchases					
Trading formulations	No in millions	**97**	**167,273,362**	109	131,327,930
Closing stock					
Bulk drug and drug intermediaries	Kgs	**1,652**	**41,662,590**	1,253	28,260,551
Formulations	No in millions	**11**	**63,592,365**	14	50,138,353
Traded formulations	No in millions	**19**	**40,403,698**	23	32,064,012
TOTAL			**145,658,653**		110,462,916
Sales					
Bulk drug and drug intermediates	Kgs	**25,855**	**1,058,533,308**	33,352	885,614,418
Formulations	No in millions	**243**	**2,056,526,748**	150	1,840,794,864
Traded formulations	No in millions	**101**	**199,515,600**	104	130,197,876
Job work charges			**109,777,459**		101,093,266
TOTAL			**3,424,353,115**		2,957,700,424

(f) Raw materials consumed

Particulars	Unit of measurement	During the year ended 31 March, 2011		During the year ended 31 March, 2010	
		Quantity	**Value**	Quantity	Value
Stannous Chloride	Kgs	**51,157**	**38,739,245**	45,861	29,021,341
2-Chloro Methyl-3-Methyl-4-(2,2,2-	Kgs	**4,800**	**25,823,286**	4,705	25,674,479
Racemic Sertraline Hydrochloride (St-V)	Kgs	**48,661**	**75,117,242**	50,400	76,183,548
5 Bromo Phthalide	Kgs	**10,850**	**20,792,393**	9,200	16,859,231
1-Bromo-3-Chloro Propane	Kgs	**56,745**	**14,957,480**	43,750	10,355,138
Chloroform	Kgs	**681,122**	**30,255,118**	596,770	18,559,650
Ethyl Acetate	Kgs	**330,423**	**18,072,036**	302,417	16,990,015
Isopropyl Alcohol	Kgs	**864,409**	**62,424,216**	723,023	45,359,620
Iso Propyl Ether	Kgs	**111,352**	**16,521,149**	97,809	9,835,392
Methanol	Kgs	**1,689,860**	**35,823,845**	1,447,787	26,581,047
Methylene Chloride	Kgs	**439,068**	**24,140,656**	385,019	16,101,684
Tetra Hydro Furan	Kgs	**157,702**	**31,942,278**	106,531	13,438,507
Toluene	Litres	**416,102**	**19,384,031**	267,066	14,335,770
Phosphorous Pentoxide	Kgs	**66,572**	**18,603,182**	56,391	16,192,490
Others *			**438,961,770**		400,702,842
TOTAL			**871,557,927**		736,190,754

*Others include no item which in value individually accounts for 10% or more of the total value of raw materials consumed

(All amounts in ₹, unless otherwise stated)

(g) Details of imported and indigenous items

Particulars	Unit of measurement	During the year ended 31 March, 2011		During the year ended 31 March, 2010	
		Value	**% of total consumption**	Value	% of total consumption
Raw materials					
- Imported	KG	**140,779,994**	**16.15%**	73,865,605	10.03%
- Indigenous	KG	**730,777,933**	**83.85%**	662,325,149	89.97%
		871,557,927	**100%**	736,190,754	100%
Packing materials					
- Imported	Nos	**21,674,812**	**24.48%**	9,239,868	12.62%
- Indigenous	Nos	**66,871,391**	**75.52%**	63,965,777	87.38%
		88,546,203	**100%**	73,205,645	100%
TOTAL		**960,104,130**		809,396,399	

(h) Value of imports calculated on CIF basis

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Raw materials and packing materials	**169,596,725**	77,889,444
Capital equipments (including spares and components)	**153,509,707**	109,479,535
TOTAL	**323,106,432**	187,368,979

(i) Earnings in foreign currency (on accrual basis)

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Exports on FOB basis	**1,300,936,954**	964,396,223
Interest on loans to a subsidiary company	**8,043,338**	12,909,843
Income from royalty	**18,940,113**	5,045,004
TOTAL	**1,327,920,405**	982,351,070

16. Unhedged foreign exchange exposure

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Sundry debtors	**278,273,541**	66,684,031
Due to vendors	**16,947,305**	14,612,693

17. Payable to micro enterprises and small enterprises

On the basis of the information and records available with management, there are no dues/ overdue principal amounts payable to micro and small enterprises as at 31 March 2011 and there is no interest is paid / payable for the year ended 31 March 2011.

18. Prior year comparatives

The previous year figures are regrouped /rearranged to confirm to current period presentation.

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

	V.C. Nannapaneni	Chairman & Managing Director
	Rajeev Nannapaneni	Director & Chief Operating Officer
Place : Hyderabad	**Dr. P. Bhaskara Narayana**	Director and Chief Financial Officer
Date : 30 May 2011	**M. Adinarayana**	Company Secretary & GM (Corp. Affairs)

CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2011

(All amounts in ₹, unless otherwise stated)

	For the year ended 2010-11	For the year ended 2009-10
A. Cash flows from operating activities		
Profit before tax and after prior period items	**639,843,297**	608,642,187
Adjustments for		
Depreciation and amortization	**143,480,449**	138,628,200
Share in loss of partnership firm	**43,175,422**	21,975,721
Unrealised foreign exchange (gain) / loss	**1,197,960**	778,510
Interest income	**(10,232,187)**	(19,621,946)
Interest expenses	**124,890,998**	130,371,071
Loss on sales of fixed assets	**900,377**	–
Provision for doubtful debtors	**5,264,325**	5,070,194
Provision for gratutity and compensated absences	**(17,630)**	15,896,807
Provision for contingencies	**31,875,000**	–
Inventory written-off	**2,260,108**	56,811,487
Loss on sale of investments	**18,674**	–
Diminution in the value of investments	**500,358**	23,759
Advances written-off	**77,927**	10,135,436
Operating profit before working capital changes	**983,235,078**	968,711,426
Increase in inventories	**(276,245,348)**	(66,303,234)
Increase/(decrease) in sundry debtors	**(165,758,578)**	19,563,751
Decrease/(increase) in loans and advances	**106,348,944**	(7,857,326)
Increase/(decrease) in current liabilities	**159,262,237**	(63,226,032)
Cash from operating activities	**806,842,333**	850,888,585
Income taxes paid	**(177,652,361)**	(163,110,012)
Net cash from operating activities	**629,189,972**	687,778,573
B. Cash flows from investing activities		
Purchase of fixed assets	**(925,320,718)**	(375,679,741)
Interest recevied	**1,923,133**	8,963,914
Contributions recevied from partnership firm	**88,079,151**	40,339,050
Loans and advances recovered from subsidaries	**50,546,570**	48,839,511
Increase in long term advances	**(306,077,225)**	–
Proceeds from sale of fixed assets	**2,248,001**	–
Increase in restricted cash and cash equivalent	**(391,223)**	5,290,578
Proceeds from sale of investments	**3,052,765**	–
Investment in shares and securities	**(23,656,728)**	(3,071,439)
Increase in Share application money	**(30,770,188)**	(260,555,203)
Net cash used in investing activities	**(1,140,366,462)**	(535,873,330)

(Contd.)

CASH FLOW STATEMENT (Contd.)

(All amounts in ₹, unless otherwise stated)

	For the year ended 2010-11	For the year ended 2009-10
C. Cash flows from financing activities		
Proceeds from long term borrowings	**1,260,000,000**	750,000,000
Proceeds from issue of shares	**–**	1,071,250
Finance charges	**(145,629,066)**	(138,161,895)
Proceeds/(repayment) from short term borrowings, net	**172,815,420**	(62,749,412)
Repayment of long term borrowings	**(426,960,647)**	(756,219,645)
Dividends including tax on dividend	**(65,219,360)**	(106,422,421)
Net cash from/(used in) financing activities	**795,006,347**	(312,482,123)
Net change in cash and cash equivalents during the year (A+B+C)	**283,829,857**	(160,576,880)
Cash and cash equivalents at the beginning of the year	**23,308,004**	183,884,884
Cash and cash equivalents at the end of the year (Refer Note 1 below)	**307,137,861**	23,308,004
Notes 1:		
Cash and bank balances (as per Schedule 10)	**319,303,370**	35,032,129
Less: Margin money deposits	**12,165,509**	11,774,286
Add: Effect of exchange gain on cash and cash equivalents	**–**	50,161
Cash and cash equivalents considered for cash flow	**307,137,861**	23,308,004

The schedules referred to above form an integral part of the financial statements.

As per our report of even date

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

For **Walker, Chandiok & Co**
Chartered Accountants
per **Sanjay Kumar**
Partner

V.C. Nannapaneni Chairman & Managing Director
Rajeev Nannapaneni Director & Chief Operating Officer

Place : Hyderabad
Date : 30 May 2011

Dr. P. Bhaskara Narayana Director and Chief Financial Officer
M. Adinarayana Company Secretary & GM (Corp. Affairs)

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

The Company has a wholly owned subsidiary - NATCO Pharma Inc - incorporated in the State of Delaware, USA and a step-down subsidiary - NATCO Farma Do Brasil - incorporated in Brazil.

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

a) The consolidated financial statements of the Company include the financial statements pertaining to the subsidiaries - (duly audited in respect of NATCO Pharma Inc.)

b) The said financial statements have been prepared in strict compliance with the Accounting Standards and theListing Agreement as prescribed by SEBI.

c) While the reporting currency for the subsidiary is US Dollars, the relevant information pertaining to the subsidiaryis given below, in terms of Indian Rupees based on the prevailing exchange rate (one US $ = Indian ₹44.65, Average Exchange Rate is being one US $ = Indian ₹45.58) as on 31st March, 2011:

Particulars (all figures in Indian Rupees)	**NATCO Pharma Inc.**	**NATCO Farma Do Brasil**
Capital	44,650,000	37,702,951
Reserves	45,073,371	-5,331,701
Total Assets	246,051,951	32,371,250
Total Liabilities	156,328,580	Nil
Details of Investment	Nil	Nil
Turnover	788,901,922	Nil
Profit before taxation	32,010,652	-5,331,701
Provision for taxation	13,473,175	Nil
Profit after taxation	18,537,477	Nil
Proposed Dividend	Nil	Nil

The annual accounts of the subsidiary companies and the related detailed information will be made available tothe investors seeking such information at any point of time. The annual accounts of the subsidiary companieswill also be available for inspection by any investor at the Registered Office of the Company and that of NATCOPharma, Inc., on all working days during business hours and is also available on the company's website www.natcopharma.co.in

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To
The Board of Directors
NATCO Pharma Limited

1) We have audited the attached Consolidated Balance Sheet of NATCO Pharma Limited (the 'Company') and its subsidiaries (collectively referred as the 'Group'), as at 31 March 2011 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year ended on that date annexed thereto (collectively referred as the 'consolidated financial statements'). These consolidated financial statements are the responsibility of the Company's management and have been prepared by management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2) We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3) We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets of ₹307,436,903 as at 31 March 2011, the total revenue of ₹1,115,861,042 and net cash outflows amounting to ₹32,170,986 for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us and our opinion is based solely on the report of other auditors.

4) We report that the consolidated financial statements have been prepared by management of the Company in accordance with the requirements of Accounting Standards (AS) 21, 'Consolidated Financial Statements' notified pursuant to the Companies (Accounting Standards) Rules, 2006, as amended.

5) *As discussed in note 4 to Schedule 24 to the consolidated financial statements, we report that the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement in accordance with the Guidance Note on Accounting for Credit Available in Respect of Minimum Alternative Tax under the Income-tax Act, 1961. Consequently, the Profit for the year ended 31 March 2011 and 2010 is understated by ₹131,527,145 and ₹160,607,929 respectively and the balance in loans and advances and reserves and surplus is understated by ₹292,135,074 and ₹160,607,929 as at 31 March 2011 and 2010 respectively. This had caused us to qualify our audit opinion on the consolidated financial statements for the year ended and as at 31March 2010.*

6) Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components and to the best of our information and according to the explanations given to us, *except for the affect of adjustment for the matters discussed in paragraph 5 above,* we are of the opinion that the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India, in the case of:

   i) the consolidated balance sheet, of the state of affairs of the Group as at 31 March 2011;

   ii) the consolidated profit and loss account, of the profit for the year ended on that date; and

   iii) the consolidated cash flow statement, of the cash flows for the year ended on that date.

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

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

Place: Hyderabad
Date: 30 May 2011

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH, 2011

(All amounts in ₹, unless otherwise stated)

	Schedules	As at 31 March, 2011	As at 31 March, 2010
I. SOURCES OF FUNDS			
Shareholders' funds			
(a) Capital	1	**281,479,520**	281,479,520
(b) Stock options outstanding	2	**–**	–
(c) Reserves and surplus	3	**3,242,851,152**	2,775,897,438
		3,524,330,672	3,057,376,958
Minority interest	4	**10,589,929**	49,401,682
Loan funds			
(a) Secured loans	5	**2,195,620,632**	1,140,161,970
(b) Unsecured loans	6	**4,103,934**	54,868,571
		2,199,724,566	1,195,030,541
Deferred tax liabilities, net	24 [15]	**250,869,295**	268,344,325
TOTAL		**5,985,514,462**	4,570,153,506
II. APPLICATION OF FUNDS			
Fixed assets	7		
(a) Gross block		**3,743,670,715**	3,568,613,011
(b) Less: Depreciation and amortization		**1,042,098,702**	950,584,943
(c) Net block		**2,701,572,013**	2,618,028,068
(d) Capital works-in-progress (including capital advances)		**987,145,928**	396,015,749
		3,688,717,941	3,014,043,817
Investments	8	**626,039,178**	605,954,247
Current assets, loans and advances			
(a) Inventories	9	**1,022,324,134**	774,356,131
(b) Sundry debtors	10	**709,790,043**	572,364,475
(c) Cash and bank balances	11	**333,282,570**	81,182,317
(d) Other current assets	12	**1,075,132**	809,416
(e) Loans and advances	13	**691,959,789**	494,370,527
		2,758,431,668	1,923,082,866
Less: Current liabilities and provisions			
(a) Liabilities	14	**986,293,401**	915,136,519
(b) Provisions	15	**101,380,924**	57,790,905
		1,087,674,325	972,927,424
Net current assets		**1,670,757,343**	950,155,442
TOTAL		**5,985,514,462**	4,570,153,506
Notes to consolidated accounts	24		

The schedules referred to above form an integral part of the Consolidated financial statements.

As per our report of even date

For **Walker, Chandiok & Co**
Chartered Accountants
per **Sanjay Kumar**
Partner

Place : Hyderabad
Date : 30 May 2011

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

V.C. Nannapaneni Chairman & Managing Director
Rajeev Nannapaneni Director & Chief Operating Officer

Dr. P. Bhaskara Narayana Director and Chief Financial Officer
M. Adinarayana Company Secretary & GM (Corp. Affairs)

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2011

(All amounts in ₹, unless otherwise stated)

		Schedules	For the year ended 2010-11	For the year ended 2009-10
I.	**INCOME**			
	Sales (gross)		**4,427,849,287**	4,349,262,621
	Less: Excise duty		**54,010,223**	41,731,904
	Sales (net)		**4,373,839,064**	4,307,530,717
	Sale of product dossiers		**75,405,617**	158,395,918
	Job works charges		**109,777,459**	101,093,266
	Other income	16	**84,142,000**	46,230,487
			4,643,164,140	4,613,250,388
II.	**EXPENDITURE**			
	Materials consumed	17	**871,557,927**	736,190,754
	(Increase) / Decrease in inventory	18	**(87,520,488)**	70,330,728
	Purchase of finished goods		**994,371,896**	1,294,139,921
	Manufacturing expenses	19	**477,695,580**	368,002,445
	Staff costs	20	**642,929,802**	572,546,112
	Operating and other expenses	21	**792,102,344**	596,229,592
	Finance charges	22	**141,978,623**	146,924,868
	Depreciation and amortization		**158,816,096**	197,328,824
			3,991,931,780	3,981,693,244
	Profit before taxation and prior period items		**651,232,360**	631,557,144
	Provision for taxation			
	- Current tax		**149,587,578**	112,197,076
	- Deferred tax (benefit)/expenses		**(17,475,030)**	27,458,254
	- Fringe benefit tax [Represents excess provision writtenback]		**–**	(3,043,368)
	Profit after taxation		**519,119,812**	494,945,182
	Prior period items	23	**–**	15,459,290
	Net profit		**519,119,812**	479,485,892
	Minority interest		**(15,991,318)**	(7,695,235)
	Profit after minority interest		**535,111,130**	487,181,127
	Balance brought forward from last balance sheet		**1,574,375,046**	1,193,057,323
	Profit available for appropriation		**2,109,486,176**	1,680,238,450
	APPROPRIATION			
	Transfer to general reserve		**40,000,000**	40,000,000
	Interim dividend at ₹2.00 (2010: ₹2.00) on equity shares of ₹10 each		**56,295,904**	56,295,904
	Dividend distribution tax		**9,350,046**	9,567,500
	Surplus carried to Balance Sheet		**2,003,840,226**	1,574,375,046
	Earnings per share	**24 [6]**		
	- Basic		**19.01**	17.32
	- Diluted		**19.01**	17.31
	Notes to consolidated accounts	**24**		

The schedules referred to above form an integral part of the Consolidated financial statements.

As per our report of even date

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

For **Walker, Chandiok & Co**
Chartered Accountants
per **Sanjay Kumar**
Partner

Place : Hyderabad
Date : 30 May 2011

V.C. Nannapaneni Chairman & Managing Director
Rajeev Nannapaneni Director & Chief Operating Officer

Dr. P. Bhaskara Narayana Director and Chief Financial Officer
M. Adinarayana Company Secretary & GM (Corp. Affairs)

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
SCHEDULE 1: CAPITAL		
Authorised		
35,000,000 (2010: 30,000,000) equity shares of ₹10 each	**350,000,000**	300,000,000
	350,000,000	300,000,000
Issued, subscribed and paid-up		
28,147,952 (2010: 28,147,952) equity shares of ₹10 each fully paid-up	**281,479,520**	281,479,520
	281,479,520	281,479,520
SCHEDULE 2: STOCK OPTIONS OUTSTANDING		
[Refer note 10 on Schedule 24]		
Stock compensation outstanding at the beginning of the year	**–**	14,974,996
Add: Adjustment during the year	**–**	–
	–	14,974,996
Less: Transferred to share premium account on exercise of stock options	**–**	14,974,996
	–	–
SCHEDULE 3: RESERVES AND SURPLUS		
Capital reserve - as per last balance sheet	**197,015,954**	197,015,954
Capital redemption reserve - as per last balance sheet	**4,928,810**	4,928,810
Capital subsidy		
As per last balance sheet	**7,056,808**	4,056,808
Additions during the year	**200,000**	3,000,000
	7,256,808	7,056,808
Foreign currency translation reserve		
As per last balance sheet	**36,031,059**	(4,758,748)
Additions during the year	**(2,711,466)**	40,789,807
	33,319,593	36,031,059
General reserve		
As per last balance sheet	**137,161,000**	97,161,000
Additions during the year	**40,000,000**	40,000,000
	177,161,000	137,161,000
Share premium account		
As per last balance sheet	**819,328,761**	804,353,765
Additions during the year	**–**	14,974,996
	819,328,761	819,328,761
Balance in profit and loss account	**2,003,840,226**	1,574,375,046
	3,242,851,152	2,775,897,438

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
SCHEDULE 4: MINORITY INTEREST		
As per last balance sheet	**49,401,682**	69,510,417
Add: Contributions during the year	**7,813,750**	–
	57,215,432	69,510,417
Add: Loss for the year	**(15,991,318)**	(7,695,235)
Less: Partnership distribution	**30,634,185**	12,413,500
	10,589,929	49,401,682
SCHEDULE 5: SECURED LOANS		
[Refer note 7 on Schedule 24]		
Term loans from banks	**549,496,853**	500,000,000
[Repayable within one year ₹137,500,000 (2010: ₹75,000,000)]		
Term loans from others	**925,000,000**	141,457,500
[Repayable within one year ₹97,352,941 (2010: ₹51,012,500)]		
Working capital loans from banks	**720,225,466**	496,645,409
[Payable within one year]		
Finance lease obligations	**898,313**	2,059,061
[Secured against the underlying assets]		
	2,195,620,632	1,140,161,970
SCHEDULE 6: UNSECURED LOANS		
[Refer note 8 on Schedule 24]		
Short-term loans and advances		
From banks	**–**	50,000,000
[Payable within one year ₹Nil (2010: ₹50,000,000)]		
Other loans and advances		
From others	**4,103,934**	4,868,571
[Repayable within one year ₹1,908,151 (2010: ₹764,637)]		
	4,103,934	54,868,571

NATCO

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

SCHEDULE 7: FIXED ASSETS

Particulars	Tangible assets								Intangible assets			
	Freehold land	Leasehold land**	Buildings#	Plant and machinery#	Office equipment~	Furniture and fittings	Vehicles	Computers	Goodwill	software	Total	Previous year
Gross block												
As at 1 April 2010	231,566,534	16,725,782	1,015,869,008	1,755,433,306	36,636,494	25,180,649	54,494,132	69,832,860	350,014,386	12,859,860	3,568,613,011	3,105,692,541
Additions during the year	28,247,566	–	52,980,679	232,902,493	1,619,611	6,340,758	21,990,952	4,579,161	32,029,945	9,517,378	390,208,543	460,380,518
Deletions/adjustments	–	–	–	–	3,137,230	3,385,500	5,649,016	2,387,319	198,698,742	–	213,257,807	53,665,671
Foreign exchange adjustments	–	–	–	–	(142,191)	(45,607)	(15,284)	(47,401)	(1,642,549)	–	(1,893,032)	56,205,623
As at 31 March 2011	**259,814,100**	**16,725,782**	**1,068,849,687**	**1,988,335,799**	**34,976,684**	**28,090,300**	**70,820,784**	**71,977,301**	**181,703,040**	**22,377,238**	**3,743,670,715**	**3,568,613,011**
Depreciation and amortization												
Up to 31 March 2010	–	942,678	176,747,423	569,775,326	13,985,043	16,884,921	29,106,502	64,814,693	75,631,033	2,697,324	950,584,943	762,489,729
Charge for the year*	–	118,028	36,689,240	91,848,393	3,357,260	2,932,525	6,187,305	3,584,655	11,414,445	2,684,245	158,816,096	211,503,184
On sales/adjustments	–	–	–	–	2,774,233	2,941,282	2,290,548	2,009,886	56,684,857	–	66,700,806	10,676,179
Foreign exchange adjustments	–	–	–	–	1,170,103	(918,056)	44,543	(472,111)	(426,010)	–	(601,531)	(12,731,791)
As at 31 March 2011	**–**	**1,060,706**	**213,436,663**	**661,623,719**	**15,738,173**	**15,958,108**	**33,047,802**	**65,917,351**	**29,934,611**	**5,381,569**	**1,042,098,702**	**950,584,943**
Net block												
As at 31 March 2011	**259,814,100**	**15,665,076**	**855,413,024**	**1,326,712,080**	**19,238,511**	**12,132,192**	**37,772,982**	**6,059,950**	**151,768,429**	**16,995,669**	**2,701,572,013**	**2,618,028,068**
As at 31 March 2010	231,566,534	15,783,104	839,121,585	1,185,657,980	22,651,451	8,295,728	25,387,630	5,018,167	274,383,353	10,162,536	2,618,028,068	2,343,202,811

* Depreciation charge for the year includes ₹Nil (2010: ₹14,174,360) relating to earlier years. The same is classified under prior period items.

** Lease hold land include lease of land for a period of 90 years from the State Industrial Development Corporation of Uttaranchal Limited, amounting to ₹9,695,646 and lease from Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years, amounting to ₹7,030,136.

\# includes borrowing costs capitalized of ₹21,713,199 (2010: ₹6,845,498).

~ Gross block and net block of office equipment include ₹2,220,802 (2010: ₹1,965,486) and ₹879,900 (2010: ₹826,293) on account of office equipment acquired under finance lease arrangement.

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
SCHEDULE 8: INVESTMENTS		
[Refer note 5 on Schedule 24]		
I. Long term, unquoted and at cost		
Trade:		
750 (2010: 750) equity shares of ₹100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	**75,000**	75,000
34,400 (2010: 34,400) equity shares of ₹10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	**344,000**	344,000
Share application money in NATCO Organics Limited	**602,459,898**	602,459,898
	602,878,898	602,878,898
Non Trade:		
Investment in portfolio management services	**15,000,000**	–
National savings certificates [pledged with government authorities]	**3,910**	3,910
	15,003,910	3,910
II. Long term, non trade, quoted and at cost		
27,000 (2010: 27,000) equity shares of ₹10 each, fully paid-up in Jayalakshmi Spinning Mills Limited	**270,000**	270,000
III. Current, non trade and quoted		
45,194 (2010: Nil) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited	**5,287,698**	–
24,250 (2010: Nil) equity shares of ₹10 each, fully paid-up in JB Chemicals	**2,868,672**	–
	8,156,370	–
IV. Current, non trade and unquoted		
Investment in mutual funds [Nil units of ICICI Prudential mutal funds (2010: 268,189)]	**–**	3,071,439
	626,309,178	606,224,247
Less: Provision for diminution in the value of long term investments	**270,000**	270,000
	626,039,178	605,954,247
Notes:		
Aggregate cost of quoted investments	**8,426,370**	270,000
Aggregate value of unquoted investments	**617,882,808**	605,954,247
Market value of quoted investments	**8,495,973**	–

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
Schedule 9: Inventories		
Stores and spares	**114,090,134**	66,251,608
Packing materials	**49,505,272**	35,928,516
Raw materials	**242,390,179**	176,378,850
Work-in-progress	**348,374,790**	265,955,090
Finished goods	**237,782,230**	229,842,067
Stock in transit	**30,181,529**	–
	1,022,324,134	774,356,131
SCHEDULE 10: SUNDRY DEBTORS		
(Unsecured, considered good)		
Outstanding for more than six months	**36,441,254**	20,095,983
Other debts	**673,348,789**	552,268,492
	709,790,043	572,364,475
(Unsecured, considered doubtful)		
Outstanding for more than six months	**10,334,519**	5,070,194
Other debts	**4,465,000**	–
	724,589,562	577,434,669
Less: Provision for doubtful debts	**14,799,519**	5,070,194
	709,790,043	572,364,475
SCHEDULE 11: CASH AND BANK BALANCES		
Cash balances on hand	**5,074,553**	2,921,018
Balances with banks		
on current accounts	**56,719,595**	49,763,411
on deposit accounts*	**267,338,230**	24,774,286
on unpaid dividend accounts	**4,150,192**	3,723,602
* ₹12,165,509 (2010: ₹11,774,286) represents margin money towards guarantees issued by banks		
	333,282,570	81,182,317
SCHEDULE 12: OTHER CURRENT ASSETS		
(Unsecured, considered good)		
Interest accrued on fixed deposits	**1,075,132**	809,416
	1,075,132	809,416

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2011	As at 31 March, 2010
SCHEDULE 13: LOANS AND ADVANCES		
(Unsecured, considered good)		
Advance recoverable in cash or in kind or for value to be received		
- Prepaid expenses	**10,560,575**	3,888,587
- Advance for purchases and expenses	**363,057,883**	120,069,428
- Other advances	**35,750,933**	166,577,509
Notes receivable	**26,566,750**	29,747,260
Deposits with others	**16,059,036**	16,913,770
Advance tax, net of provision	**80,857,658**	39,320,797
Balances with government authorities	**159,106,954**	117,853,176
	691,959,789	494,370,527
SCHEDULE 14: LIABILITIES		
Sundry creditors		
-Total outstanding dues of creditors other than micro enterprises and small enterprises	**920,292,329**	827,232,589
	920,292,329	827,232,589
Unpaid dividends	**4,150,192**	3,723,602
Interest accrued but not due on loans	**1,485,256**	510,125
Advance received from customers	**26,804,530**	55,970,300
Trade deposits	**12,486,275**	11,795,411
Other liabilities	**21,074,819**	15,904,492
	986,293,401	915,136,519
SCHEDULE 15: PROVISIONS		
- for taxation, net of advance tax	**7,881,841**	1,730,442
- for contingencies	**31,875,000**	–
- for gratuity	**32,152,749**	32,840,925
- for compensated absences	**29,471,334**	23,219,538
	101,380,924	57,790,905

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 2010-11	For the year ended 2009-10
SCHEDULE 16: OTHER INCOME		
Interest on fixed deposits (gross)	**2,209,130**	8,438,950
[Tax deducted at source of ₹226,865 (2010: ₹753,615)]		
Export incentives	**27,384,341**	19,581,813
Foreign exchange fluctuations, net	**20,186,901**	–
Miscellaneous income	**34,361,628**	18,209,724
	84,142,000	46,230,487
SCHEDULE 17: MATERIALS CONSUMED		
Raw materials		
Opening stock	**176,378,850**	146,954,128
Add: Purchases	**937,569,256**	815,785,230
	1,113,948,106	962,739,358
Less: Written off	**–**	50,169,754
Less: Closing stock	**242,390,179**	176,378,850
	871,557,927	736,190,754
SCHEDULE 18: (INCREASE) / DECREASE IN INVENTORY		
Opening stocks		
- finished goods	**229,842,067**	277,165,319
- work in progress	**265,955,090**	288,962,566
	495,797,157	566,127,885
Closing stocks		
- finished goods	**234,942,855**	229,842,067
- work in progress	**348,374,790**	265,955,090
	583,317,645	495,797,157
Net (increase) / decrease in inventory	**(87,520,488)**	70,330,728
SCHEDULE 19: MANUFACTURING EXPENSES		
Consumption of packing materials	**88,546,203**	73,205,645
Power and fuel	**208,874,913**	144,513,060
Stores consumed	**66,218,865**	67,469,426
Factory maintenance expenses	**66,836,104**	54,763,757
Analysis charges	**47,219,495**	28,050,557
	477,695,580	368,002,445
SCHEDULE 20: STAFF COST		
Salaries, wages and bonus	**493,241,437**	465,525,888
Contributions to provident and other funds	**34,120,702**	22,915,323
Contributions to employee welfare trust	**4,600,000**	–
Staff welfare expenses	**102,122,594**	62,749,376
Gratuity	**2,942,124**	19,096,468
Leave encashment	**5,902,945**	2,259,057
	642,929,802	572,546,112

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 2010-11	For the year ended 2009-10
SCHEDULE 21: OPERATING AND OTHER EXPENSES		
Power and fuel	**5,227,080**	6,756,189
Rent	**21,643,250**	26,174,685
Repairs and maintenance		
- Buildings	**20,291,854**	26,888,561
- Plant and machinery	**63,883,922**	41,356,982
- Others	**26,881,662**	18,330,682
Legal and professional fees	**79,110,230**	35,355,713
Insurance	**21,209,522**	11,606,497
Rates and taxes	**36,944,411**	16,821,309
Communication expenses	**15,380,959**	17,955,185
Office maintenance and other expenses	**28,100,270**	20,378,267
Travelling and conveyance	**50,225,069**	36,376,554
Printing and stationery	**13,884,019**	14,121,587
Research and development expenses	**110,461,866**	77,886,058
Sales promotion expenses including sales commssion	**80,893,583**	90,041,252
Donations	**19,671,725**	6,638,469
Advertisements	**12,932,007**	10,013,055
Carriage and frieght outwards	**38,594,314**	25,526,527
Directors remuneration	**20,941,561**	16,213,025
Directors sitting fee	**170,000**	150,000
Auditors' remuneration		
- Audit fee	**750,000**	750,000
- Certification fee	**25,000**	80,665
- Other matters	**300,000**	100,000
- Out of pocket expenses	**3,500**	–
Exchange fluctuation loss, net	**–**	3,419,551
Advances written off	**77,927**	10,135,436
Provision for doubtful debts	**9,729,325**	5,070,194
Bad debts written off	**41,247**	4,148,017
Loss on sale of assets	**55,921,488**	–
Diminution in the value of investments	**500,358**	23,759
Provision for contingencies	**31,875,000**	-
Inventory written-off	**2,260,108**	56,811,487
Miscellaneous expenses	**24,171,087**	17,099,886
	792,102,344	596,229,592
SCHEDULE 22: FINANCE CHARGES		
Interest on:		
- Fixed period loans	**52,784,365**	72,338,782
- Others	**72,106,633**	58,032,289
Bank charges	**17,087,625**	16,553,797
	141,978,623	146,924,868
SCHEDULE 23: PRIOR PERIOD ITEMS		
Operating and other expenses	**–**	3,811,169
Depreciation and amortization	**–**	14,174,360
Other income	**–**	(2,526,239)
	–	15,459,290

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SCHEDULE 24: NOTES TO CONSOLIDATED ACCOUNTS

(All amounts in ₹, unless otherwise stated)

1. **Company overview**

NATCO Pharma Limited ("the Company" or "NATCO") incorporated on 19 September 1981 in accordance with the provisions of the Companies Act, 1956 of India ("the Act") is a limited liability company. The Company was originally incorporated as Natco Fine Pharmaceuticals Private Limited and changed its name to NATCO Pharma Limited in 1994.

The Company is primarily engaged in manufacturing of active pharmaceuticals ingredients and finished dosage formulations.

2. **Significant accounting policies**

a. **Basis of consolidation**

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

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

The financial statements of the consolidating entities are added on a line-by-line basis and inter-company balances and transactions including unrealized gain and loss from such transactions are eliminated upon consolidation.

The following subsidiaries have been considered for the purpose of preparation of consolidated financial statements:

Names of the consolidating entities	Country of Incorporation	Percentage holding /interest (%)	
		As at 31 March, 2011	As at 31 March, 2010
NATCO Pharma Inc.	United States of America	**100**	100
K&C Pharmacy, Partnership Firm	United States of America	**75**	75
Time Cap Overseas Limited (Incorporated on 8 November 2010)	Mauritius	**70**	–
NATCO Farma Do Brazil (formerly Uniao Distributors) (acquired with effect from 27 January 2011)	Brazil	**63**	–

b. Use of estimates

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

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

c. Fixed assets

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

d. Depreciation

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

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

e. Intangible assets

Intangible assets are recorded at the consideration paid for acquisition. Intangible assets in the nature of software are amortized over a period of 6 years, on a straight line basis. Goodwill is amortized over a period of 15 years, on a straight line basis.

f. Impairment of assets

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

g. Investments

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

h. Inventories

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

Manufactured finished goods and traded goods are valued at the lower of cost and net realizable value. Cost of work in progress and manufactured finished goods is determined on weighted average 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.

Inventory of prescription medication are valued at the lower of cost and net realizable value.

i. Research and development

Revenue expenditure on research and development is expensed as incurred. Capital expenditure incurred on research and development is capitalized as fixed assets and depreciated in accordance with the depreciation policy of the Company.

j. Revenue recognition

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

- Revenue from sale of goods is recognized when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from domestic sales of formulation products is recognized on dispatch of products to stockiest by clearing and forwarding agents. Revenue from domestic sales of active pharmaceutical ingredients and intermediates and export sales are recognized on dispatch of products from the factories of the Company.
- Revenue from product sales is stated exclusive of sales tax and applicable trade discounts and allowances.
- Service income is recognized as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.
- Dividend income is recognized when the unconditional right to receive the income is established. Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate methods taking into account the amount outstanding and the rate applicable.
- Export entitlements are recognized as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.
- Revenue from licensing and long term supply arrangements is recognized in the period in which the Company completes all its performance obligations.

k. Taxes

Tax expense comprises of current and deferred tax. The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the entities in the Group. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

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

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

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

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

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

l. Earnings per share

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

m. Foreign currency transactions

In accordance with the accounting principles prescribed under Accounting Standard 11 'The Effects of Changes in Foreign Exchange Rates' as notified by the Rules, the Group has designated all its foreign operations, as 'non-integral foreign operations'.

Initial recognition

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

Conversion

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

Exchange differences

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

n. Employee benefits

Defined benefit contribution plan

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

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

Defined benefit contribution plan

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

Leave encashment

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

Employee share based payments:

Measurement and disclosure of the employee share-based payment plans is done in accordance with Securities Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the guidance note on 'Accounting for Employee Share Based Payments', issued by the Institute of Chartered Accountants of India (ICAI). The excess of market value of the stock on the date of grant over the exercise price of the option is recognized as deferred employee stock compensation and is charged to profit and loss account on straight-line method over the vesting period of the options. The unamortized portion of cost is shown under stock options outstanding.

o. Leases

Assets taken on lease where the Group acquires substantially the entire risks and rewards incidental to ownership are classified as finance leases. The amount recorded is the lesser of the present value of the minimum lease rental and other incidental expenses during the lease term or the asset's fair value. The rental obligations, net of interest charges, are reflected in secured loan. Leases that do not transfer substantially all of the risks and rewards of ownership are classified as operating leases and recorded as expenses as and when payments are made over the lease term.

p. Provisions and contingent liabilities

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

(All amounts in ₹, unless otherwise stated)

q. Cash flow statement

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

r. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments.

s. Segment information

Inter segment transactions are generally accounted at cost and the same have been eliminated in consolidation. The accounting policies of the segments are substantially the same as those described in the 'Summary of significant accounting policies' as above.

3. Commitments and contingent liabilities

	As at 31 March, 2011	As at 31 March, 2010
Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	**380,896,183**	95,245,770
Contingent liabilities		
Disputed statutory liabilities	**147,407,308**	51,883,190
Claims against the Company not acknowledged as debts	**156,290,615**	157,052,546

4. The Company has not recognized MAT credit available to it as it opines that it would not be in a position to utilize such credit in view of the continued tax holiday being available for the profits arising out of manufacture and sales made from two of its manufacturing facilities. In the eventuality of the Company being made to pay tax on a regular basis, it would make suitable adjustments by taking credit for the MAT entitlement available at such point of time.

5. Investments

Investment in Time Cap Overseas Limited, Mauritius

During the year ended 31 March 2011, the Company has entered into an arrangement with LevoMed Inc, ('LevoMed') New Jersey, USA and has established a company viz., Time Cap Overseas Limited ('Time Cap), in the Republic of Mauritius. Pursuant to the terms of arrangement, the Company has paid and / or incurred preliminary expenses aggregating of ₹30,770,188 to be adjusted towards subscription to the common stock of Time Cap. Pending allotment of shares, investment, by way of share application money has been accounted as investment in subsidiaries and has been considered for the purposes of preparation of consolidated financial statements of the Company and its subsidiaries for the year ended 31 March 2011.

Investment in portfolio management services

As at 31 March 2011 the Company has made an investment, aggregating to ₹15,000,000 in the private equity opportunities fund of Anand Rathi Financial Services Limited (ARFSL). By virtue of shareholders' agreement and share subscription agreement, both dated 29 November 2010, ARFSL has invested, among others, the investment made by the Company, in the Compulsorily Convertible Preference Shares of Ravindranath GE Medical Associates Private Limited. The company's investment in the private equity opportunities fund of ARFSL provides for a return of 20% in excess of 16% on a gross pre-tax IRR basis. In the absence of reasonable certainty of realization of return, no income was accrued on such investment for the year ended 31 March 2011.

(All amounts in ₹, unless otherwise stated)

Sale of partnership interest in K & C Pharmacy, United States of America

On 6 December 2010, K & C Pharmacy, USA, a general partnership firm, in which the Company has a substantial interest, has sold its only Drug Store to Crystal Drugs, Inc. Pending formal dissolution of the said firm, remaining investment in the firm is carried at cost based on the net assets of the firm as at 31 March 2011.

Acquisition of NATCO FARMA DO BRASIL (formerly Uniao Distributors) Brazil

During the year ended 31 March 2011, the subsidiary of the Company Time Cap has entered into an arrangement along with Lincoln Colares Gomes ('Lincoln'), Brazil to acquire the entire stock of a distribution company Uniao Distributors ('Uniao'), Brazil. Pursuant to the terms of the arrangement 90% of the outstanding equity of NATCO FARMA DO BRASIL is owned by Time Cap, as confirmed by subsequent events. Pending requisite regulatory approvals obtained subsequent to 31 March 2011, investment in NATCO FARMA DO BRASIL has been accounted as investment in subsidiary for the purposes of preparation of consolidated financial statements for the year ended and as at 31 March 2011.

6. Earnings per share

Reconciliation of basic and diluted shares used in computation of earnings per share

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Net profit as per consolidated profit and loss account	**535,111,130**	487,181,127
Weighted average number of shares considered for computation of basic earnings per share	**28,147,952**	28,124,473
Add: Effect of potential dilutive stock options	**–**	23,186
Weighted average number of shares considered for computation of diluted earnings per share	**28,147,952**	28,147,659
Nominal value per share	**10**	10

7. Secured loans

Loans availed from the financial institutions and banks are fully secured by way of hypothecation of fixed assets, capital work in progress and other assets of the Company. The term loans from banks are further guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director in his personal capacity.

8. Unsecured loans

Unsecured loans represent loans taken from Citibank amounting to ₹Nil (2010: ₹50,000,000) and interest free sales tax deferment amounting to ₹4,103,934 (2010: ₹4,868,571), availed under the 'TARGET 2000' Scheme of the State Government of Andhra Pradesh. The unsecured loan from Citibank is guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director in his personal capacity.

9. Government Grants

The Company has received ₹200,000 (2010: ₹3,000,000) towards the investment subsidy for the purpose of setting up and expansion of an industrial unit in the State of Uttaranchal.

10. Employee stock options

The Company had instituted NATCO Stock Option Plan 2010 ("ESOP 2010"). The scheme was formulated in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and all other applicable provisions of the Act, and was duly approved by way of a special resolution passed in the annual general meeting of the members held on 30 September 2010, authorizing the Board to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to eligible employees based on specific recommendations of the Remuneration Committee under the plan. Each option comprises of one underlying equity share of ₹10 each, however, no options were granted under the said plan as of 31 March 2011.

11. Employee benefits

Provident fund

During year ended 31 March 2011 the Company contributed ₹27,822,377 (2010: ₹21,818,451) to the Provident Fund.

Employee state insurance

During year ended 31 March 2011 the Company contributed ₹4,978,299 (2010: ₹2,752,233) to the Employee's State Insurance Corporation.

Gratuity

The Company has obtained the actuarial valuation report in line with the requirements of Accounting Standard -15 'Employee Benefits', in respect of gratuity liability and the estimated liability as at 31 March 2011 is provided in the books of accounts. The details of present value of obligations, current service cost and actuarial assumptions are given hereunder:

The amounts recognized in the profit and loss account are as follows:

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Current service cost	**3,494,236**	4,730,892
Interest cost	**4,406,546**	4,043,794
Expected return on plan assets	**(2,086,285)**	(1,790,826)
Recognised net actuarial loss	**(2,872,373)**	12,112,608
Total included in 'employee benefit expenses'	**2,942,124**	19,096,468

Details of provision recognised in the balance sheet

Particulars	**As at 31 March, 2011**	As at 31 March, 2010
Defined benefit obligation	**58,231,217**	55,081,820
Fair value of plan assets	**26,078,468**	22,240,895
Net provision for gratuity	**32,152,749**	32,840,925

Changes in present value of defined benefit obligation representing reconciliation of opening and closing balance thereof are as follows:

Particulars	**As at 31 March, 2011**	As at 31 March, 2010
Defined benefit obligation at beginning of the year	**55,081,820**	35,405,852
Current service cost	**3,494,236**	4,730,892
Interest cost	**4,406,546**	4,043,794
Benefits paid	**(1,879,012)**	(1,211,326)
Actuarial (gain)/loss	**(2,872,373)**	12,112,608
Defined benefit obligation at the end of the year	**58,231,217**	55,081,820

(All amounts in ₹, unless otherwise stated)

Changes in the fair value of plan assets representing reconciliation of opening and closing balances thereof are as follows:

Particulars	As at 31 March, 2011	As at 31 March, 2010
Fair value of plan assets at beginning of the year	**22,240,895**	18,461,734
Actual return on plan assets	**2,086,285**	1,476,939
Actuarial gains	**–**	328,656
Contribution by employer	**3,630,300**	3,184,892
Benefits paid	**(1,879,012)**	(1,211,326)
Fair value of plan assets at the end of the year	**26,078,468**	22,240,895

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

Particulars	As at 31 March, 2011	As at 31 March, 2010
Investments with insurer	**100%**	100%

The assumptions used in accounting for the gratuity plan are set out as below:

Particulars	Year ended 31 March, 2011	Year ended 31 March, 2010
Discount rate	**8%**	7.5%
Expected return on plan assets	**9.25%**	7.5%
Attrition rate	**5%**	1% to 3%
Salary escalation	**4%**	4%

The estimates of future salary increase, considered in actuarial valuation, take account of inflation, seniority, promotions and other relevant factors such as supply and demand in the employment market. The Company evaluates these assumptions annually based on its long term plans of growth and industry standards.

Information relating to amounts recognized in the profit and loss account, change in fair value of plan assets was not disclosed in the report issued by the Life Insurance Corporation of India, hence the comparative information could not be disclosed.

12. Related party disclosures

1. Names of related parties and nature of relationship

Names	Nature of relationship
NATCO Organics Limited, Chennai	Entity in which directors are interested
Time Cap Pharma Labs Limited, Hyderabad	Entity in which directors are interested
NATCO Trust, Hyderabad	Entity in which directors are interested
NATCO Group Employees Welfare Trust, Hyderabad	Entity in which directors are interested
NDL Infratech Private Limited, Hyderabad	Entity in which directors are interested
V C Nannapaneni, Chairman and Managing Director	Key management personnel
Rajeev Nannapaneni, Director and Chief Operating Officer	Key management personnel
Dr. A K S Bhujanga Rao	Key management personnel
Dr. P Bhaskara Narayana, Director and Chief Financial Officer	Key management personnel

(All amounts in ₹, unless otherwise stated)

2. Nature of transactions

Particulars	**Year ended 31 March, 2011**	Year ended 31 March, 2010
Transactions with entities in which directors Are interested		
NATCO Organics Limited		
- Share application money	**–**	260,555,202
- Advance towards future supplies	**306,077,225**	–
- Rental expense	**1,140,000**	–
Time Cap Pharma Labs Limited		
- Income from Job work charges and sales	**6,220,841**	4,570,897
- Income from rent	**120,000**	120,000
- Commission and expenses reimbursement	**5,341,493**	5,102,535
- Purchases	**2,678,000**	2,775,760
- Rental expense	**1,620,000**	1,800,000
- Advances given	**5,42,34,580**	10,28,73,974
- Dividends paid	**6,796,358**	6,749,358
NATCO Trust		
- Donations given	**9,800,000**	2,202,611
NATCO Group Employees Welfare Trust		
- Donations given	**4,600,000**	–
NDL Infratech Private Limited		
- Rental expense	**–**	960,000
Transactions with key management personnel		
- Managerial remuneration		
V C Nannapaneni	**10,608,000**	10,608,000
Rajeev Nannapaneni	**5,376,000**	2,400,000
Dr. P Bhaskara Narayana	**2,330,549**	1,372,800
Dr. A K S Bhujanga Rao	**2,627,012**	1,832,225
- Rental expense		
V C Nannapaneni	**1,440,000**	1,440,000
Rajeev Nannapaneni	**720,000**	720,000
- Dividends paid		
V C Nannapaneni	**15,993,918**	15,879,918
Durga Devi Nannapaneni	**1,655,640**	1,655,640
Rajeev Nannapaneni	**1,813,220**	1,813,220
Dr. P Bhaskara Narayana	**15,000**	15,000
Dr. A K S Bhujanga Rao	**14,000**	14,000

(All amounts in ₹, unless otherwise stated)

3. Balance receivable/(payable)

Particulars	**As at 31 March, 2011**	As at 31 March, 2010
Time Cap Pharma Labs Limited, Hyderabad	**(2,092,838)**	1,904,556
NATCO Organics Limited	**306,077,225**	–
NDL Infratech Private Limited, Hyderabad	**7,066,105**	3,947,919
V C Nannapaneni	**(1,686,151)**	(254,899)
Rajeev Nannapaneni	**(913,403)**	(117,133)
Dr. P Bhaskara Narayana	**(165,511)**	(108,949)
Dr. A K S Bhujanga Rao	**(120,308)**	(224,482)

13. Operating Leases

The Group has entered into operating lease agreements for office premises at certain locations in USA. There are no restrictions imposed by lease arrangements. The maximum obligations on non-cancelable operating leases payable as per the rentals stated in the respective agreements are as follows:

Particulars	**As at 31 March, 2011**	As at 31 March, 2010
Lease expense for the year	**8,838,782**	8,737,989
Minimum lease payments:		
Not later than one year	**7,381,582**	13,682,521
Later than one year but not later than five years	**15,850,750**	23,487,290

14. Segment reporting

The primary and secondary reportable segments are business segments and geographical segments respectively.

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

The group's business is organized in two key geographical segments. Revenues are attributable to individual geographic segments based on the location of the customer.

Effective 1 April 2010, the management of the group has decided to consider retail pharmacy as a separate operating and reportable segment basis on the analysis of predominant source of risk and rewards of retail pharmacy being different from other operating segments. Accordingly, the segment information for previous year ended 31 March 2010 is also disclosed based on the revised classification.

(All amounts in ₹, unless otherwise stated)

For the year 2010-11:

A. Primary segment

Particulars	Bulk Chemicals	Finished dosage Formulations	Job Works	Pharmacy	Others	Elimination	Total
Revenue							
External sales (Gross)	1,059,883,793	2,239,357,919	–	1,113,273,631	15,333,944	–	4,427,849,287
Inter – segment sales	150,149,588	–	–	–	–	(150,149,588)	–
	1,210,033,381	2,239,357,919	–	1,113,273,631	15,333,944	(150,149,588)	4,427,849,287
Less: Excise duty	22,381,866	31,628,357	–	–	–	–	54,010,223
Total Sales	**1,187,651,515**	**2,207,729,562**	**–**	**1,113,273,631**	**15,333,944**	**(150,149,588)**	**4,373,839,064**
Sale of dossiers	–	–	–	–	75,405,617	–	75,405,617
Job work charges	–	–	109,777,459	–	–	–	109,777,459
Other Income	27,427,417	29,241,007	–	2,567,130	–	–	59,235,554
Segment revenues	1,215,078,932	2,236,970,569	109,777,459	1,115,840,761	90,739,561	(150,149,588)	4,618,257,694
Interest income							2,209,130
Other unallocable income							22,697,316
Total revenue							**4,643,164,140**
Result							
Segment result	145,781,773	1,100,137,241	87,239,642	(18,431,602)	16,506,729	–	1,331,233,783
Interest expenditure							141,978,623
Other un–allocable expenditure							538,022,800
Net Profit before tax							651,232,360
Income tax expense							132,112,548
Profit / (loss) before minority interest							519,119,812
Minority interest							(15,991,318)
Profit for the year after minority interest							535,111,130

(All amounts in ₹, unless otherwise stated)

As at 31 March 2011

Particulars	Bulk Chemicals	Finished dosage Formulations	Job Works	Pharmacy	Others	Elimination	Unallocable	Total
Segment assets	3,055,342,322	2,633,261,903	21,630,653	307,436,903	14,307,722	–	1,041,209,284	7,073,188,787
Segment liabilities excl Minority Interest	641,256,032	294,264,470	–	82,279,591	31,875,000	(37,135,941)	2,525,729,034	3,538,268,186
Minority Interest	–	–	–	–	–	–	10,589,931	10,589,931
Capital expenditure	304,624,512	495,454,988	–	32,211,773	–	–	149,047,449	981,338,722
Depreciation, amortization and impairment loss	52,627,514	63,194,773	–	15,335,647		–	27,658,162	158,816,096
Non cash expenses other than depreciation	296,937	3,273,300	2,718,152	59,527,357	33,111,044	–	8,258,917	107,185,707

(All amounts in ₹, unless otherwise stated)

For the year 2009-2010

A. Primary segment

Particulars	Bulk Chemicals	Finished dosage Formulations	Job Works	Pharmacy	Others	Elimination	Total
Revenue							
External sales (Gross)	889,200,766	1,967,406,392	–	1,492,655,463	–	–	4,349,262,621
Inter – segment sales	163,043,879	–	–		–	(163,043,879)	–
	1,052,244,645	1,967,406,392	–	1,492,655,463	–	(163,043,879)	4,349,262,621
Less: Excise duty	15,016,237	26,715,667	–	–	–		41,731,904
Total Sales	**1,037,228,408**	**1,940,690,725**	**–**	**1,492,655,463**	**–**	**(163,043,879)**	**4,307,530,717**
Sale of dossiers	–	–	–	–	158,395,918	–	158,395,918
Job work charges	–	–	101,093,266	–	–	–	101,093,266
Other Income	23,161,303	4,683,255	–	4,367,145	–	–	32,211,703
Segment revenues	**1,060,389,711**	**1,945,373,980**	**101,093,266**	**1,497,022,608**	**158,395,918**	**(163,043,879)**	**4,599,231,604**
Interest income							8,438,950
Other unallocable income							5,579,834
Total revenue							**4,613,250,388**
Result							
Segment result	80,800,964	819,531,163	78,550,095	(282,481)	123,727,590	–	1,102,327,331
Interest expenditure							146,924,868
Other un–allocable expenditure							323,845,319
Net Profit before tax							631,557,144
Income tax expense							136,611,962
Profit / (loss) before prior period items							494,945,182
Prior period items							15,459,290
Profit / (loss) before minority interest							479,485,892
Minority interest							(7,695,235)
Profit for the year after minority interest							487,181,127

(All amounts in ₹, unless otherwise stated)

As at 31 March 2010

Particulars	Bulk Chemicals	Finished dosage Formulations	Job Works	Pharmacy	Others	Elimination	Unallocable	Total
Segment assets	1,776,133,990	2,364,375,173	34,565,744	521,199,846	1,675,397	–	845,130,780	5,543,080,930
Segment liabilities excl Minority Interest	611,694,307	259,502,429	–	242,412,227	–	(123,632,050)	1,199,061,276	2,436,302,290
Minority Interest	–	–	–	–	–	–	49,401,682	49,401,682
Capital expenditure	147,305,344	216,684,266	–	1,238,236	–	–	21,535,629	386,763,475
Depreciation, amortization and impairment loss	67,758,155	57,692,771	–	72,874,984	–	–	13,177,274	211,503,184
Non cash expenses other than depreciation	50,169,754	6,641,643	–	4,148,107	–	–	31,904,705	92,864,209

(All amounts in ₹, unless otherwise stated)

B. Secondary segment

Sales revenues by geographic markets (gross of excise duty)

Particulars	**As at 31 March, 2011**	As at 31 March, 2010
India	**2,187,456,718**	2,129,894,017
United States of America	**1,232,293,535**	1,538,525,146
Europe	**504,105,655**	460,739,850
Others	**719,308,231**	484,091,375
TOTAL	**4,643,164,139**	4,613,250,388

15. Deferred tax liability, net

Particulars	**As at 31 March, 2011**	As at 31 March, 2010
Deferred tax liability on account of depreciation	**269,485,323**	268,344,325
Deferred tax asset on account of gratuity and leave encashment	**18,616,028**	–
Net deferred tax liability	**250,869,295**	268,344,325

16. Prior year comparatives

The previous year figures are regrouped /rearranged to confirm to current period presentation.

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

V.C. Nannapaneni	Chairman & Managing Director
Rajeev Nannapaneni	Director & Chief Operating Officer
Dr. P. Bhaskara Narayana	Director and Chief Financial Officer
M. Adinarayana	Company Secretary & GM (Corp. Affairs)

Place : Hyderabad
Date : 30 May 2011

CONSOLIDATED CASH FLOW STATEMENT FOR YEAR ENDED 31 MARCH 2011

(All amounts in ₹, unless otherwise stated)

	For the year ended 2010-11	For the year ended 2009-10
A. Cash flows from operating activities		
Profit before tax and after prior period items	**651,232,360**	616,097,854
Adjustments for		
Depreciation, amortization and impairment	**158,816,096**	211,503,184
Unrealised foreign exchange (gain) / loss	**1,197,960**	778,509
Interest income	**(2,209,130)**	(8,438,950)
Interest expense	**124,890,998**	146,924,868
Loss/(Profit) on sales of fixed assets	**55,921,488**	(764,621)
Provision for doubtful debtors	**9,729,325**	5,070,194
Bad debt written-off	**41,247**	4,148,017
Provision for gratutity and compensated absences	**5,563,620**	15,896,807
Provision for contingencies	**31,875,000**	–
Inventory written-off	**2,260,108**	56,811,487
Loss on sale of investments	**18,674**	–
Diminution in the value of investments	**500,358**	23,759
Advances written-off	**77,927**	10,135,436
Operating profit before working capital changes	**1,039,916,031**	1,058,186,544
Increase in inventories	**(250,228,111)**	(28,224,673)
(Increase)/decrease in sundry debtors	**(150,263,057)**	35,484,626
Decrease/(increase) in loans and advances	**149,946,897**	(45,147,897)
Increase/(decrease) in current liabilities	**71,573,957**	(74,484,943)
Cash from operating activities	**860,945,717**	945,813,657
Income taxes paid	**(184,973,040)**	(172,119,173)
Net cash from operating activities	**675,972,677**	773,694,484
B. Cash flows from investing activities		
Purchase of fixed assets	**(959,425,523)**	(374,858,916)
Interest recevied	**1,943,414**	10,690,760
Proceeds from sale of fixed assets	**90,635,513**	14,006,853
Increase in long term advances	**(306,077,225)**	–
Increase in restricted cash and cash equivalent	**(391,223)**	5,290,578
Proceeds from sale of investments	**3,052,765**	–
Investment in shares and securities	**(23,656,728)**	–
Investment in mutual fund	**–**	(3,071,439)
Increase in Share application money	**–**	(260,555,203)
Net cash used in investing activities	**(1,193,919,007)**	(608,497,367)

(Contd.)

CONSOLIDATED CASH FLOW STATEMENT (Contd.)

(All amounts in ₹, unless otherwise stated)

	For the year ended 2010-11	For the year ended 2009-10
C. Cash flows from financing activities		
Proceeds from long term borrowings	**1,260,000,000**	750,000,000
Proceeds from issue of shares	**–**	1,071,250
Finance charges	**(145,629,066)**	(154,715,692)
(Repayment)/Proceeds from short term borrowings, net	**172,815,420**	(62,749,412)
Repayment of long term borrowings	**(428,121,395)**	(756,219,645)
Minority interest contribution received	**7,813,750**	
Share of distribution of minority interest	**(30,634,185)**	(12,413,500)
Dividends including tax on dividend	**(65,219,360)**	(106,422,421)
Net cash (used in)/from financing activities	**771,025,164**	(341,449,420)
Effect of currency translation adjustment (D)	**(1,419,965)**	(28,147,606)
Net change in cash and cash equivalents during the year (A+B+C+D)	**251,658,869**	(204,399,909)
Cash and cash equivalents at the beginning of the year	**69,458,192**	273,858,101
Cash and cash equivalents at the end of the year (Refer Note 1 below)	**321,117,061**	69,458,192
Notes 1:		
Cash and bank balances (as per Schedule 11)	**333,282,570**	81,182,317
Less: Margin money deposits	**12,165,509**	11,774,286
Add: Effect of exchange gain on cash and cash equivalents	**–**	50,161
Cash and cash equivalents considered for cash flow	**321,117,061**	69,458,192

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

V.C. Nannapaneni Chairman & Managing Director
Rajeev Nannapaneni Director & Chief Operating Officer

Place : Hyderabad
Date : 30 May 2011

Dr. P. Bhaskara Narayana Director and Chief Financial Officer
M. Adinarayana Company Secretary & GM (Corp. Affairs)

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

1. REGISTRATION DETAILS

Registration No.	003201	State Code	01
Balance Sheet (Date / Month / Year)	31 / 03 / 2011		

2. CAPITAL RAISED DURING THE YEAR (Amount in ₹ Thousands)

Public Issue	NIL	Rights Issue	NIL
Bonus Issue	NIL	ESOP's	NIL

3. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (Amount in ₹ Thousands)

Total Liabilities	5918759	Total Assets	5918759

SOURCES OF FUNDS

Paid-up Capital	281480	Reserves & Surplus	1225121
Secured Loans	2194722	Unsecured Loans	4104
Deferred Tax Liability	250869	Profit & Loss Account	1962463

APPLICATION OF FUNDS

Net Fixed Assets	3528623	Investments	711893
Net Current	1678243	Misc. Expenditure	NIL

4. PERFORMANCE OF THE COMPANY (Amount in ₹ Thousands)

Turnover (Gross Revenue)	3535346	Total Expenditure	2895503
Profit before Tax	639843	Profit after Tax Inclusive of Deffered Tax	521203
EPS Basic	18.52	Dividend Rate %	20.00
Diluted	18.52		

5. GENERIC NAMES OF PRINCIPAL PRODUCTS/SERVICES OF THE COMPANY (As per Monetary Items)

Item Code No. (ITC Code)	29420039
Product Description	CITALOPRAM
Item Code No. (ITC Code)	29420090
Product Description	SUMATRIPTAN SUCCINATE
Item Code No. (ITC Code)	29420090
Product Description	SERTRALINE

ATTENDANCE SLIP

NATCO PHARMA LIMITED

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

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

DPID* :	Folio No. :
Client ID* :	

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

I / We hereby record my / our presence at the 28th ANNUAL GENERAL MEETING of the Company held on Friday, the 30^{th} day of September, 2011 at 10:30 a.m. at Daspalla Hotel, Road No. 37, Jubilee Hills, Hyderabad - 500 033.

Signature of the Shareholder or Proxy

* Applicable for investors holding shares in Electronic Form.

— Tear Here —

PROXY FORM

NATCO PHARMA LIMITED

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

DPID* :	Folio No. :
Client ID* :	

I/We --

of -- being a member/members of Natco Pharma Limited hereby appoint --

of -- or failing him/her -- of as my/our proxy to vote for me/us and on my/our behalf at the 28^{th} ANNUAL GENERAL MEETING to be held on Friday, the 30^{th} day of September, 2011 at 10:00 a.m. or at any adjournment thereof.

Signed this --------------------- day of ----------------------------- 2011.

Affix
1 Rupee
Revenue
Stamp

* Applicable for investors holding shares in Electronic Form.

Note: i. The Proxy Form should be signed across the stamp as per specimen signature registered with the Company.

ii. The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting.

iii. The Proxy need not be a member of the Company.

Corporate Social Responsibility (CSR) activities taken up by the Company under the aegis of NATCO TRUST

NATCO Government High School, Hyderabad

NATCO School of Learning at Gollamudipadu, Guntur Dist.

Mr. Puroshotham Reddy,IAS, District Collector , Mahaboobnagar made a visit to the Water Treatment Plant

Distributed sweaters to Anganawdi centers, Deharadun

Child club activities, Nagarjunasagar, Nalgonda Dist.

NATCO pre primary school students having mid day meal, Nagarjunasagar, Nalgonda Dist.

A child being examined by medical officer as part of NMHC

A student being examined as part of school health camp

NATCO Pharma Limited
NATCO House
Road No.2, Banjara Hills, Hyderabad - 500 033.
Ph : 040-23547532