



37th Annual General Meeting, 15th October 2020, Hyderabad

Chairman Speech

Dear Shareholders,

A very good morning!

On behalf of the Board of Directors, I welcome all of you to the 37th Annual General Meeting of your company.

The year started with macroeconomic challenges and ended with the Covid-19 outbreak that had the world facing a massive threat to lives and livelihoods. In such a year, we can say with confidence that what mattered most to NATCO was employee safety, fiscal discipline, and securing our business. We preserved this with utmost care.

For the financial year ending March 31st, 2020, your company has recorded consolidated total revenue of INR 2,022.4 Crore, with net profits, after tax (PAT), of INR 458.1 Crore. Despite several headwinds, we kept the top line revenue stable. While our PAT dropped during the year, we remain upbeat about our performance for the coming years due to several high value product launches across our business segments. The Earnings before Interest, Tax, Depreciation & Amortization (EBITDA) margin for the company stood at a healthy ~34%.

NATCO has overcome several challenges during its unique journey of innovation and business growth of over 35 years. During the year under review, as we faced difficulties in the form of pricing pressures, competitive intensity and macroeconomic headwinds, we stayed course; we remained focused on future and are confident of good growth in the coming years.

Domestic Market: A tough year

Our domestic India business was around 29% of the total consolidated revenue. It was a tough year for NATCO on a few fronts of the domestic business. Our oncology segment suffered due to pricing controls from the government and our Hepatitis-C business continued to decline due to reduction in market size. Over this, during Q4, COVID-19 outbreak resulted in cancer patients postponing their hospital visits and chemotherapy procedures. These factors collectively pushed the business to decline marginally during the year.

In spite of these factors that caused the domestic business downturn, we continued to retain our market position in key segments. As we withstand challenges with new normal in the economy, the company is focused and excited about its growth potential in pharma & on its foray into Crop Health Sciences

International markets: Business was strong

Our total international business, including subsidiaries, is around 62% of the consolidated revenue. During the year under consideration, our US-based business remained strong despite pricing pressures and competition for our antiviral flu medicine, Oseltamivir. Revenue contribution from Glatiramer acetate and Liposomal doxorubicin continued to grow in the year, aided by a strong exchange rate. We did not see any compliance issues for our facilities, which cater to international markets. NATCO continued to file ANDAs, some of which we believe to be First to File (FTF). We also observed a more stabilized pricing scenario in the US market.

We are excited about our product pipeline for launch over the next few years, including our blockbuster product Lenalidomide that would catapult us to the next trajectory of growth. Our business in Canada has done well during the year while our efforts in Brazil show potential for growth. We continue to lay good foundation for business growth in the Asia-Pacific region.

We have also made it a strategic priority to concentrate more of our efforts in 'Rest of the World' market to improve our revenues and profitability. We see good growth potential in Canada and Brazil going forward, amongst other markets.

Overcoming hurdles to grow sustainably

Sustainability comes from putting our mission first, consistently doing what we do best, learning to manage resources prudently, and building trusting relationships.

During 2019-20, the Company faced business challenges along with the pandemic pressures towards the last phase of the year. Despite these, the Company moved with agility to re-prioritize activities and opportunities. As constraints due to the pandemic continue, we are focused on employee health, re-energizing the practice of keeping the work environment cleaner and safer.

Learning to adapt to the new environment reminds us of the essence of being flexible and agile, which is core to our DNA. Year after year, we deepen sustainability in the business as we bring more drugs at an affordable price to meet unmet needs of the patient. To make this happen, we navigate around patent limitations, improve our product development capabilities and partnership strengths.

The use of renewable energy is an area of sustainable operations which we pivot to meet energy requirements in an environmentally responsible manner. As of March 31, 2020, NATCO's total renewable energy (RE) capacity is 4.2 MW in wind and 5.2 MW in solar onsite in addition to renewable power through third party purchase agreements.

We remain optimistic that we will continue to focus and act upon sustainability initiatives, creating value and developing opportunities for our stakeholders.

Investing in future

Our strategy remains intact as we invest prudently in our research, manufacturing plants and enriching of skill sets. We are on track on our goal to launch 8-10 new products every year across our pharma business segments in India. We also have some interesting filings and high-value launches in our International markets in the coming years.

In line with our business approach of picking molecules that have high entry barriers, the Company has further increased focus on R&D catering to requirements in both pharma and agri sectors. We continue to place emphasis on chemistry and niche molecule development with strong backward integration support of our Active Pharmaceutical Ingredients (API).

During the year, we incurred capital expenditure of INR 3,49.3 crore, a majority of which was used to enhance our capabilities in our manufacturing facilities. A significant portion of this capex was done at our Vizag facility. The remaining part was primarily used in our formulation facilities across the country. We also spent 8.65% of our standalone revenue towards R&D, which is one of the core pillars of the Company's growth.

With diversification and sustainability in mind, the Company has invested in Crop Health Sciences division targeting niche products. The greenfield project in Nellore district of Andhra Pradesh is close to completion and expected to be commissioned during FY 2020-21. We are building a strong team of personnel in product development, manufacturing, sales and marketing to bring NATCO's products to farmers in the country and other growers across the world.

Making a difference

Our tradition of empowering our people, living our values, and building trustful relationships holds us in good stead as we navigate challenging times.

At NATCO, Corporate Social Responsibility (CSR) is an integral part of our outreach and we believe in fostering participatory growth with the communities we work with. The work with the communities, ranging from education, health, and livelihoods showcase our commitment to the society. Schools run by NATCO Trust are a significant value-add in the communities. We see tangible benefits of investing in infrastructure upgradation in our schools and government schools and simultaneously upgrading the facilities. Our healthcare services and farm-based livelihood programs have gained community trust and confidence.

This year NATCO High School, Kothur has completed 25 years of existence while we helped the ZP High School, Indiranagar, Siddipet in Telangana to build a block named, 'NATCO Trust block'. In July, 2020, a state-of-the-art Comprehensive NATCO Cancer Centre was inaugurated at the Guntur General Hospital spread over 80,000 sq ft.

Being thankful

At NATCO, we are steadfast in our commitment to our customer, as well as our partners and associates, especially our investors, towards creating value. Our innovation and our quality are the strengths of our brand, serving to fulfil our mission, which is to make specialty medicines available to all.

Your company's market capitalization stood at approx INR 9,200 crore as of March 31, 2020. During the year, we gave four interim dividends amounting to INR 1,22.9 crore. The interim dividend resulted in total pay-out of 25.9% of the standalone profit after tax of Company for the year under review.

It is heartening to see that we are succeeding in our mission each day as we touch millions of lives through our medicines. This has been possible primarily due to the efforts of our workforce of over 5000 personnel, partners, and other key stakeholders. Together, we make one strong team. We are grateful to our investors for their continued trust and confidence.

We look forward to your continued support to help create a successful business enterprise of tomorrow. I thank one and all.

Chairman

NATCO PHARMA LIMITED

Note: This does not purport to be a record of the proceedings of the 37th Annual General Meeting of the Members of the Company.