Board of Directors

C. V. Gogri
Chairman

M. P. Savla
Vice Chairman

P. M. Patil
Managing Director

S. P. Nachane
Managing Director

H. M. Savla
Jt. Managing Director

H. P. Shah
Whole-time Director

R. C. Gogri
Whole-time Director

U. M. Patil
Whole-time Director

S. T. Shah

R. V. Gogri

P. H. Desai

N. N. Prabhu

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Corporate Information

Company Secretary
Prakash Khedekar

Auditors
M/s. Parikh Joshi & Kothare
49/2341, M.H.B. Colony,
Gandhi Nagar,
Bandra (East),
Mumbai-400 051.

Bankers
Union Bank of India
Bank of Baroda
Bank of India
State Bank of India
Citibank N.A.
Corporation Bank

Registered Office
Plot No. N - 198, M.I.D.C.,
Tarapur,
Village - Pamtembhi,
Taluka - Palghar,
Dist. Thane-401 506,
Maharashtra.

Corporate Office
Mahendra Industrial Estate,
Ground Floor, Plot No. 109-D
Road No. 29, Sion (E),
Mumbai-400 022.

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Solicitors
M/s. M. P. Savla & Co.
Bharat House, 2nd Floor,
104 Mumbai Samachar Marg,
Mumbai - 400 001.

Plants
Plot Nos. N-198, G-60, E-120,
K-40, K-41, E-9/3-4 and E-21/22,
MIDC Industrial Area,
Tarapur, Village Pamtembhi,
Tal-Palghar, Thane - 401 506.

Plot Nos. 2902/2904,
GIDC,
Sarigam-396155,
Dist. Valsad, Gujarat.

R&D Centres
Plot Nos. N-198 & G-60,
MIDC Industrial Area,
Tarapur, Village Pamtembhi,
Tal-Palghar, Thane - 401 506.

Plot Nos. D-277/278
TTC Industrial Area,
Turbhe, Navi Mumbai.

Registrar & Transfer Agent
Sharepro Services (India) Pvt. Ltd.
Satam Estate, 3rd Floor,
Above Bank of Baroda,
Cardinal Gracious Road, Chakala,
Andheri (E), Mumbai - 400 099.

Contents

Boad of Directors	1
Corporate Information	2
Financial Highlights	3
Notice	5
Directors' Report	7
Management Discussion & Analysis	10
Report on Corporate Governance	14
Conservation of Energy etc.	21
Auditors Report	23
Balance Sheet	26
Profit & Loss Account	27
Schedules	28
Balance Sheet Abstract	41
Cash Flow Statement	42
Proxy Form	

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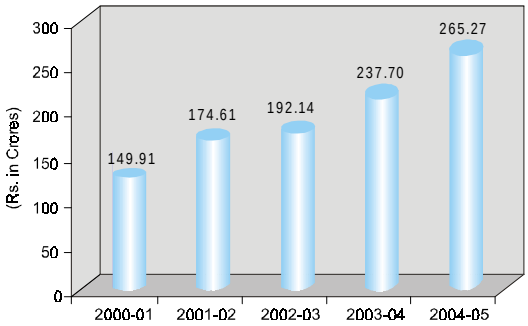
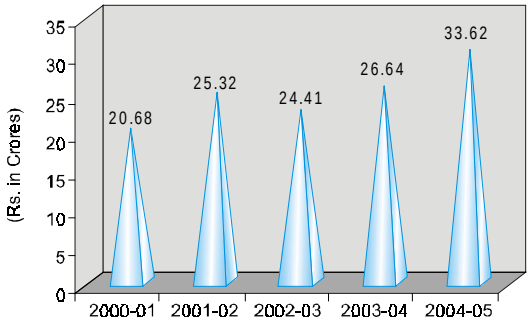
Highlights

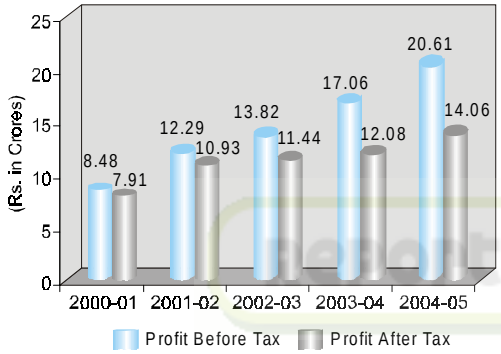
Turnover



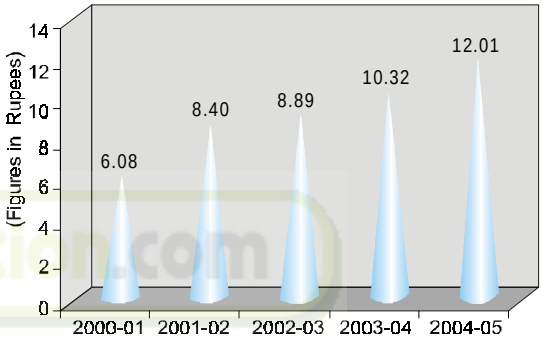
Profit Before Interest, Depreciation & Tax



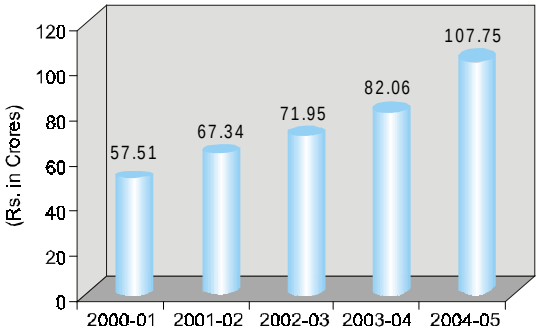
Profit Before & After Tax



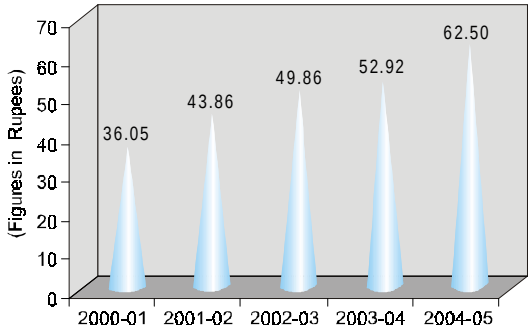
Earning Per Share



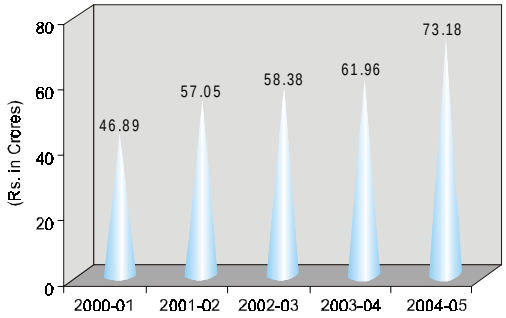
Fixed Assets (Net Block)



Book Value



Net Worth



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Financial Highlihts

(Rupees in Lakhs)

Particulars	31-Mar-01	31-Mar-02	31-Mar-03	31-Mar-04	31-Mar-05
Sales	**14,991.53**	**17,460.79**	**19,214.22**	**23,770.47**	**26,527.27**
Profit Before Interest and Depreciation	2,068.42	2,532.04	2,441.54	2,663.72	3,362.00
Interest	831.35	865.93	549.67	385.82	586.08
Depreciation	389.24	437.51	509.65	572.23	714.70
Profit Before Tax	**847.83**	**1,228.60**	**1,382.22**	**1,705.67**	**2,061.22**
Profit After Tax	**790.83**	**1,092.60**	**1,144.04**	**1,207.67**	**1,406.22**
Dividend (%)	15	10	15	30	30
Payout	**195.14**	**130.09**	**175.63**	**351.26**	**351.26**
Equity Capital	1,300.95	1,300.95	1,170.86	1,170.86	1,170.86
Reserves & Surplus	3,410.96	4,420.19	4,675.71	5,477.57	6,486.07
Less : Miscellaneous Expenditure	22.60	15.76	8.92	451.97	339.32
Net Worth	**4,689.31**	**5,705.38**	**5,837.65**	**6,196.46**	**7,317.61**
Borrowings					
Long Term	2,840.73	2,276.89	2,662.98	3,081.23	4,680.16
Short-Term-Bank	3,178.58	3,938.03	4,463.71	5,368.61	4,524.31
Short-Term-Others	399.82	693.09	1,228.44	2,231.35	4,923.25
Total Borrowings	**6,419.13**	**6,908.01**	**8,355.13**	**10,681.19**	**14,127.72**
Gross Block	7,857.90	9,276.53	10,204.15	11,787.22	15,037.17
Less : Depreciation	2,107.27	2,542.32	3,009.42	3,581.36	4,262.30
Net Block	**5,750.63**	**6,734.21**	**7,194.73**	**8,205.86**	**10,774.87**
Capital Work In Progress	302.59	nil	nil	617.92	2,260.06
Investments	116.99	128.87	132.55	31.44	145.70
Current Assets, Loans and Advances	8,044.98	8,742.51	10,698.51	14,925.62	15,131.79
Current Liabilities	3,106.76	2,992.21	3,448.37	6,152.53	5,866.42
Net Working Capital	**4,938.22**	**5,750.30**	**7,250.15**	**8,773.09**	**9,265.37**
Book Value	36.05	43.86	49.86	52.92	62.50
Earning per share	6.08	8.40	8.89	10.32	12.01

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NOTICE

NOTICE is hereby given that the Twentieth Annual General Meeting of the Members of AARTI DRUGS LIMITED will be held on Saturday, 6th day of August, 2005 at 11.00 a.m. at TIMA Hall, MIDC Tarapur, Taluka – Palghar, Dist. Thane 401506, Maharashtra to transact the following ordinary business :

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2005 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors' and Auditors' thereon.
2. To declare final dividend.
3. To appoint a Director in place of Shri. Rashesh C. Gogri. who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Shri. Chandrakant V. Gogri, who retires by rotation and, being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Shri. Manilal P. Savla, who retires by rotation and, being eligible, offers himself for re-appointment.
6. To appoint Auditors and to fix their remuneration.

Registered Office :
Plot No.N-198, MIDC,
Tarapur, Village-Pamtembhi,
Taluka-Palghar,
Dist. Thane 401 506.

By Order Of The Board

Sd/-
Prakash Khedekar
Company Secretary

Place : Mumbai
Date : 25th April, 2005

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE (ON POLL) INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. A PROXY IN ORDER TO BE EFFECTIVE MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE MEETING.
2. The Register of Members and Share Transfer Books of the Company will remain closed from **Friday, 29th July, 2005 to Saturday, 6th August, 2005** (both days inclusive) for determining the names of members eligible for final dividend, if declared, by the Company subject to the provisions of Section 206A of the Companies Act, 1956. In respect of shares held in Electronic Form, the dividend will be paid on the basis of ownership as per details furnished by the Depositories for the purpose. Dividend when declared will be paid on or after 12th August, 2005.
3. **The members are requested to note :**
   (i) **Change of Address /Bank details :** Members are requested to inform the Company or M/s Sharepro Services (India) Private Limited, immediately of any change in their address. Members holding shares in dematerialized form are requested to intimate all changes with respect to their address, bank details, mandate etc. to their respective Depository Participants. These changes will then be automatically reflected in the Company's records. This will help the Company to provide efficient and better service to the members.

   (ii) **Electronic Clearing Service (ECS) Facility :** We are pleased to offer the facility of electronic credit of dividend directly to your bank account through ECS. This facility is currently made available at Ahmedabad, Bangalore, Bhubaneshwar, Chandigarh, Chennai, Guwahati, Hydarabad, Jaipur, Kanpur, Kolkata, Mumbai, Nagpur, New Delhi, Patna, Thiruvananthapuram.

   Shareholders holding shares **in the physical form** who wish to avail ECS facility, may authorise the Company with their ECS mandate in the prescribed form, which is enclosed herewith separately. Requests for payment of dividend through ECS for the year 2004-2005 should be lodged with M/s Sharepro Services (India) Private Limited on or before 25th July, 2005.

   (iii) **Shares of the Company are traded compulsorily in dematerialized form** for all investors. Shareholders are requested to open an account with Depository Participants, if not done so far.

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(iv) Section 109A of the Companies Act, 1956 provides for **Nomination** by the shareholders of the Company in the prescribed Form No. 2B (which will be made available on request). Shareholders are requested to avail this facility.

(v) Members desirous of obtaining any **information or clarification concerning the accounts** or intending to raise any query are requested to forward the same at least 10 days before the date of the meeting to the Company at the Registered Office, so that the same may be attended to appropriately to the extent possible.

(vi) **Unclaimed Dividends :** The Company has already transferred all unpaid dividends declared up to financial years 1994-95 to the General Revenue Account of the Central Government as required by the Companies Unpaid Dividend (Transfer to General Revenue Account of the Central Government) Rules, 1978. Shareholders who have so far not claimed or collected their dividend up to the aforesaid financial year are requested to claim their dividend from the Registrar of Companies, Maharashtra, CGO Complex, 2nd floor, "A" Wing, CBD-Belapur, Navi Mumbai 400 614 in the prescribed form. The amount of unclaimed dividend for the year 1995-96 has been transferred to the Investor Education and Protection Fund (IEPF) of the Central Government, pursuant to Section 205C of the Companies Act, 1956. Members who have not encashed their dividend warrant(s) for the below mentioned financial years are requested to approach to the Company's Registrar and Transfer Agents, M/s Sharepro Services (India) Private Limited. Any such amounts of dividend remaining unclaimed for a period of seven years from the date of payment shall be transferred to the IEPF of the Central Government, pursuant to Section 205C of the Companies Act, 1956. **Kindly note that no claim shall lie against the Company or the said Fund in respect of the amounts remaining unclaimed after unclaimed dividend are transferred to the said Fund.**

Financial Year Ended	Due Date for transfer to IEP Fund
31.03.1998	25/10/2005
31.03.1999	27/10/2006
31.03.2000 (1st Interim)	26/02/2007
31.03.2000 (2nd Interim)	26/04/2007
31.03.2001	12/08/2008
31.03.2002	30/10/2008
31.03.2003	07/08/2009
31.03.2004 (Interim)	29/11/2010
31.03.2004 (Final)	05/08/2011
31.03.2005 (Interim)	28/11/2011

4. Brief resumes of Directors seeking re-election are as under:

Name of the Director	Shri R. C. Gogri	Shri. C. V. Gogri	Shri. M. P. Savla
Age	31 Years	58 Years	68 Years
Date of Appointment	31.10.2001	28.09.1984	28.06.1996
Qualification	B.E. (Production)	B. Chem	Solicitor
Expertise in specific functional areas	10 Years	30 Years	40 Years
Chairmanship/ Directorship held in other public companies	1. Aarti Industries Ltd. 2. Ganesh Polychem Ltd.	1. Aarti Industries Ltd. 2. Aarti Healthcare Ltd. 3. Aarti Corporate Services Ltd. 4. Transmetal Ltd. 5. Surfactant Specialities Ltd.	NIL
Membership held in Committees of such Boards of other public companies	NIL	Shareholder Grievence Committee and Remuneration Committee of Aarti Industries Ltd. Audit Committee of Surfactant Specialities Ltd.	NIL

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Directors' Report

Dear Shareholders,

Your Directors take pleasure in presenting the 20th Annual Report and Audited Statement of Accounts for the year ended 31st March, 2005.

FINANCIAL RESULTS

(Rupees in Lakhs)

	2004-2005	2003-2004
Gross Sales / Income from Operations	26527	23770
Less : Excise Duty & Sales Tax	2378	2075
Net Sales / Income from operations	24149	21695
(Increase) / Decrease in stock in trade	101	(490)
Consumption of Raw Materials	16294	15080
Staff Cost	621	635
Other Expenditure	3850	3902
Total Expenditure	20866	19127
Operating Profit Before Interest, Depreciation & Tax	3283	2568
Non Operating Income	79	96
Profit before Interest, Depreciation & Tax	3362	2664
Interest	586	386
Depreciation	715	572
Profit Before Tax & Extra-ordinary Items	2061	1706
Provision for taxation – Current	405	132
– Deferred	250	366
Profit After Tax	1406	1208
Add : Profit brought forward – previous year	4685	4004
Profit available for appropriation	6091	5212
Appropriations:		
Tax For earlier years	—	9
Transfer to General Reserve	141	121
Interim Dividend (14%)	164	141
Proposed Dividend (16%)	187	211
Tax on Dividend	46	45
Balance carried to Balance Sheet	5553	4685
Earning Per Share (Rs.)	12.01	10.32

DIVIDEND

Your Company had paid interim dividend of Rs.1.40 ps. @ 14% per equity share of Rs.10/- each. Your Directors are pleased to recommend a Final Dividend of Rs.1.60 ps @ 16% per share for the year ended 31st March, 2005.

Total Dividend for the year 2004-2005 would thus be Rs. 3/- @ 30% per share (Previous year : Rs.3/- @ 30%) subject to declaration of final dividend at the forthcoming Annual General Meeting (AGM). Total cash outflow on account of total dividend payment including dividend tax will be Rs.397.70 lakhs (Previous year: Rs. 396.81 lakhs).

The final dividend after approval by the shareholders at the AGM will be paid on or after 12th August, 2005 to the eligible shareholders.

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OPERATIONS REVIEW

During the year under review, the Company has achieved Sales turnover of Rs. 26527 lakhs (Previous Year : Rs. 23770 lakhs) registering a growth of 12%.

Operating Profit before Interest, Depreciation & Tax was Rs 3283 lakhs (Previous Year : Rs. 2568 lakhs), registering a growth of 28%.

Profit after Tax was Rs.1406 lakhs (Previous Year : Rs. 1208 lakhs), registering a growth of 16%.

During the years the company has achieved an export turnover of Rupees 9116 lakhs. The Company has been exporting its products to more than 80 countries. Strategic initiatives are being considered and planned to achieve quantum growth more particularly in regulated and untapped markets.

The Company's initiatives for growth have resulted in the following achievements :

(i) Negotiations are on with some key USA companies to finalize deals on contract manufacturing for a Number of new molecules.

(ii) The Company has shortlisted reliable partners to setup or acquire manufacturing facilities to serve the local Chinese market.

(iii) More than 30 new molecules have already been launched by the Company. Additionally, another 10 new molecules are planned to be commercialized.

(iv) The Company has already started commercial production at its newly setup Intermediate Plant at Tarapur. Production at the USFDA Compliant plant is expected to start in July, 2005. The Company proposes to file at least 6 to 8 DMF during current year.

(v) Capital expenditure is planned for Debottlenecking and Balancing Equipments to expand existing capacities for Ciprofloxacin/ Metformin/ Nimesulide and for new aquisitions. The new Research & Development facility at Turbhe has been developed to commercialize new products.

(vi) Focus is now being shifted from old commodity products to new molecules which are high value which would substantially improve the profitability.

ISSUE OF FOREIGN CURRENCY CONVERTIBLE BONDS

The Company has issued Unsecured Foreign Currency Convertible Bonds (FCCBs) of US$12,750,000 (US Dollar Twelve Million Seven Hundred Fifty Thousand only) during April, 2005 to fund expansions, modernization and corporate investments in Industrial Sector. The said FCCBs are listed on the Luxembourg Stock Exchange.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956, we hereby state :

(i) That in the preparation of the annual accounts for the Year ended March 31, 2005 the applicable accounting standards have been followed. There are no material departures from the applicable accounting standards;

(ii) That the Directors had selected such accounting policies and applied them consistently and made judgements 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 of the Company for that year;

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

(iv) That the Directors had prepared the annual accounts on a going concern basis.

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DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri. Rashesh C. Gogri , Shri. Chandrakant V. Gogri and Shri. Manilal P. Savla retire by rotation and being eligible, offer themselves for re-appointment.

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis Report prescribed under the Listing Agreement is included as a part of the Annual Report.

CORPORATE GOVERNANCE

Report on Corporate Governance compliance is included as a part of the Annual Report along with the Auditor's Certificate.

RESEARCH AND DEVELOPMENT

The Company is concentrating more and more on R&D with a view to exploit high growth potential expected in pharma sector. After completing initial development on laboratory scale at R&D Centres, Further development is carried out on pilot scale at respective plants. Company has successfully carried out Research and Development in Anti-Fouling Agents for a Multi National Company.

DISCLOSURE OF PARTICULARS

Particulars required under Section 217(1)(e) of the Companies Act, 1956 read with Rule 2 of the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, research & development, technology absorption, foreign exchange earnings and outgo are given in the annexure to this Report.

There are no particulars to be disclosed under Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended up to date.

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AUDITORS

Messrs. Parikh Joshi & Kothare, Mumbai retire as Auditors of the Company at the ensuing Annual General Meeting and are eligible for reappointment. Members are requested to appoint Auditors and to fix their remuneration.

HUMAN RESOURCES

Cordial and harmonious relations with our employees continued to prevail throughout the year under review.

ACKNOWLEDGEMENT

We take this opportunity to place on record our appreciation of the dedicated service and contribution by the employees at all levels. Our sincere appreciation is also due to all our customers and suppliers.

We also thank our Bankers, financial institutions, shareholders for their continued support to the Company and its management.

By Order of the Board

Sd/-
Chandrakant V. Gogri
Chairman

Mumbai, April 25, 2005

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MANAGEMENT DISCUSSION AND ANALYSIS

Pharmaceutical Industry – Global & Indian

The Indian Pharmaceutical industry ended the year 2004 with estimated sales of over Rs. 206 billion, growth of 6.5% over the previous year. After a growth of just 5% in 2003, the Industry seems to be on a recovery path and recorded good growth. However, this trend has been impacted in the first quarter of 2005 primarily due to reduced buying by the trade on account of proposed introduction of Value Added Tax (VAT) from April, 2005.

For Indian bulk drug manufacturers, the high impact opportunities present themselves in two forms – export of off-patent bulk drugs to regulated market of US and Europe, and contract manufacturing of patent-protected bulk drugs for patent/license holders. India offers the advantage of its low production cost, quality production, and abundant skills in chemistry. More and more Indian pharmaceutical companies are going for the US FDA compliant plants and this has resulted in increased volume, margins, and profits.

The US is the biggest market for Indian pharmaceutical exports followed by Germany, Russia, UK, and China. India's skills in chemistry and cost competitiveness along with quality facilitate exports. Over the last 2-3 years, India has emerged as a country with maximum number of US FDA approved plants outside the US.

India has emerged as a preferred source for quality medicines at affordable prices. In addition to opportunities in the domestic market, there are various opportunities for exporting to regulated and unregulated markets.

India offers a competitive advantage in outsourcing due to its abundance of scientific and technical manpower, large and diverse patient pool for conducting clinical trials and technical capability of producing active pharmaceutical ingredients as well as finished dosage forms, All these services will be highly cost competitive and they offer several opportunities to small as well as mid-sized pharmaceutical companies.

Introduction of product patents from 2005 presents an opportunity for the growth of the pharmaceuticals industry, depending on the implementation and enforcement of the product patent regime. It is hoped that this will facilitate speedier introduction of new research products, attracts investment in research and lead to development of the industry and market. This coupled with India's growing population and increasing health awareness should further open up the avenues for growth of industry.

The proposed New Drugs Policy and Price Control Order promised reduced span of price control and an opportunity for the industry to invest and grow the market. The implementation of this new Policy has been pending for the past over two years. The absence of a clear objective and transparent policy on drug price control is impacting the overall industry direction.

Business Strategy -

In order to translate the above into reality for the Company, we plan to harness our existing strengths and implement the following strategy:

- In addition to the existing established molecules, Aarti Drugs Limited (ADL) is now focusing on **selected value-added molecules from therapeutic segments like cardio-vascular, anti-diabetes, anti-fungal, antibiotics, anti-allergic, anti- arthritis**, etc. as the choice of molecules and composition of product portfolio would be critical to the future growth of the company.
- Concentration on **niche markets** like China along with **increased presence in the regulated markets** will continue to remain an area of priority. It has already filed for import drug permit for Tinidazole and Nimesulide with China FDA so that ADL will be freely allowed to sell the product in the Chinese market.
- The Company has already started commercial production at its newly setup Intermediate Plant at Tarapur. Production at the USFDA Compliant plant is expected to start in July, 2005. The Company proposes to file at least 6 to 8 DMF during current year.
- **Acquisitions of synergic projects** or mergers would remain another focus area.

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