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Annual Report 20 05



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Aarti Drugs Ltd.

Getting Global
.....▶▶▶▶▶.....

Mission

Aarti Drugs Limited
will seek global
market leadership

Development and
growth in the product
will be our focus

We will continue to
create a winning
culture, operating in
highest standards
of ethics and values
with co-operation
among competitors

We will strive for
excellence in
customer service,
quality and R&D

Vision

To be the preferred
vendor for the
product in India
and the world

USFDA compliant Plant

Our state-of-the-art USFDA
compliant plant spread over
15,600 sq. mt. has already been
commissioned in June 2005
and validation batches have
been taken for 7 APIs till date.





Aarti Drugs Limited (ADL), with two decades of manufacturing experience behind it, has now transformed itself into 8 multi-ton, multi-location GMP compliant state-of-the-art facility manufacturing over 50 bulk actives, several key intermediates and speciality chemicals.

All our plants are designed with appropriate waste management systems and operate in harmony with the ecosystem around. At the heart of all our in-house R&D endeavour is the societal concern of pollution control, energy conservation and cost-savings.



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Our focus to access potential US generic business was the driving force behind the commissioning of our new USFDA compliant multipurpose manufacturing facility.

In addition to the various therapeutic segments that we already cater to, we plan to increase our focus on intermediates and speciality chemicals where we see substantial margins.

Our first milestone payment from our contract research (CRAMS) endeavour has been received paving the way for developing this revenue stream in a full-fledged manner in the near future.

Our Chinese joint venture, Huanggang Yinhe Aarti Pharmaceutical Company Limited is aimed at creating a manufacturing base in China. The last quarter of the current year should see commercial production and sales from this unit.

Aarti Drugs Limited has already established itself as a strong player in the global as well as domestic market and is a market leader in more than fifteen principal products. In other therapeutic segments too, it is confident of increasing its share in the near future.

With the desire to build world-class capabilities, we have been successful in developing state-of-the-art R&D Center at Tarapur which is recognized by the Department of Science and Industrial Research, Government of India. The Center has successfully developed around 30 new molecules in the past four years and is in the process of continuously developing newer value-added molecules through innovative and cost-effective process routes so as to cash in on the opportunity presented by patent expiry of many blockbuster molecules in the near future.

Today with a total reaction capacity of 1000 KL spread over 8 manufacturing locations, consisting of SS and GL reactors varying in sizes from 0.5 KL to 12 KL, we have the capability and the flexibility to manage projects that range from grams to tons with system checks to ensure strict confidentiality.

Our expertise, capabilities and long term experience of multi-step synthesis and fractionations at high temperatures provides us an excellent position as a manufacturing partner.

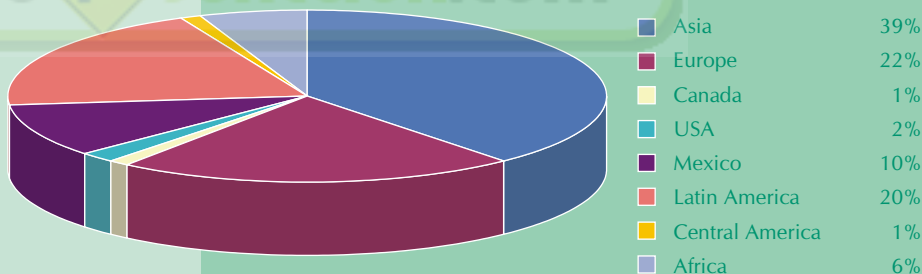


With manufacturing facilities for 10000 tons
we facilitate custom synthesis for the following reactions :

Nitration	Sulphonation
Cyclocondensation	Alkylation
Ammonolysis (Amidation)	Methoxylation
Epoxidation (Chiral & Achiral)	Halogenation (Cl, Br, I)
Reduction	Acetylation
Dehalohydrogenation	Diazotization & Related Chemistry
Condensation	Grignard Reaction
Noble Metal Hydrogenation (Catalytic Reduction)	Friedel Craft
Oxidation	Aldol Condensation
Fischer Indolization	Cynation
Balz - Schiemann (Halex) (Flurination of Amines)	Chloro Sulphonation
Esterification (Including Asymmetri Esterification)	

Globalisation of business operations is one of our thrust areas and the initiatives undertaken on this front have resulted in high growth of both exports of APIs and Speciality Chemicals. Today with exports to more than 86 countries worldwide our clientele list boasts of top MNCs in India and abroad. With our inherent strengths of timely responses, competitive pricing, firm commitments, we have come to be known as a dependable and reliable source of bulk actives and its intermediates in the international markets. Our joint venture in China further reinforces our endeavour of **getting global**.

Total export turnover of the Company of Rs. 10405 lakhs is spread across the world in following proportion :



Regulatory Strength

- The Company has already started commercial production of intermediates in USFDA compliant plant.
- ADL already possess Certificate of Suitability for seven of our leading products and have filed for two more.
- ADL has Drug Master Files in CTD format for almost whole product range with another four under preparation.
- The speciality chemicals plant is ISO 9002 certified.
- The intermediate plant for the USFDA compliant facility is ISO 9001:2000 certified.
- ADL has Government Recognized Export House Status for the past many years.



Advantage

India ADL

In its figures for 2005, IMS Health (NYSE:RX), the world's leading provider of market intelligence on the pharmaceutical and healthcare industries have indicated a definite shift in the pharmaceutical market in the years to come. China, India and Brazil, the three fast growing economies are going to play a decisive role in the pharmaceutical scene in the years to come judging by their current rate of growth and cost advantages as against the relatively slow growth of top ten markets.

A recent McKinsey report on the Indian pharmaceutical industry says that it is poised to grow to a staggering \$25 billion by 2010. It ranks very high in the third world, in terms of technology, quality and range of medicines manufactured. From simple headache pills to sophisticated antibiotics and complex cardiac compounds, almost every type of medicine is now made indigenously.

Globally, pharmaceutical companies are facing increased pressure on profit margins, absence of blockbuster molecules, spiraling R & D costs, pricing pressures and increased overheads. In such a scenario, many global pharmaceutical giants are turning to India for outsourcing their manufacturing, research, clinical trials and data management to third-party providers as a viable strategic option.

The outlook on the Indian Pharma market is positive. With the introduction of product patent regime, the Indian market will be an attractive option for introduction of research based products. The global giants are looking at India for contract manufacturing. ADL is well equipped to grab these opportunities. In order to strengthen its position in domestic as well as international market we have taken following initiatives :

The USFDA compliant plant has been commissioned in June 2005 and validation batches have been taken for 7 APIs till date. 2 Drug Master Files have been prepared with stability studies and forwarded to overseas customers, The first ANDA is expected to be filed by third quarter of 2006 - 2007.

We have made entry in the Chinese market through a joint venture which is expected to become operational in the last quarter of current calendar year.

Our Contract Research endeavors have resulted in orders from foreign firms. We are aggressively working on plans to enter into long term supply contracts in this segment.

In the Contract Manufacturing space, we have successfully developed an anti-fouling agents for a top MNC firm.

In addition to the various therapeutic segments, we plan to focus on intermediates and speciality chemicals which will help to augment our bottomline.

In order to overcome pricing pressures and decreasing margins, we are focusing on our core competencies and optimization of product mix, de-bottlenecking and concentrating on yield improvements.



Our core competence in manufacturing is due to our constant efforts to update processes, implement safety measures and focus on consistency in product quality.



The Company is well poised to take the challenges of the new age Pharma Industry with its modern technology and skilled human resources and its clear vision to become a leading manufacturer of bulk drugs and high value Active Pharmaceutical Ingredients.



The Gross Sales for the year ended 31st March, 2006 is Rs. 279 crores as against Rs. 265.27 crores in the year 2004-2005.

EBDIT for the year 2005-06 has been Rs. 3077 Lakhs and Profit after Tax for the year 2005-06 has been Rs. 1271 Lakhs.

The Gross Block of Fixed Assets of ADL has grown to Rs. 200 crores.

ADL has been consistent in declaring dividend over past several years. The Board has recommended dividend of Rs.1.50 paise per share for the year of 2005-06.

With a careful selection of product portfolio, consolidation of established products and markets and no over-dependence on either any one product or market, we expect the growth to be reasonably risk-free.

Forward-looking Statement

This Annual Report includes forward-looking statements and projections which are based on our current expectations and forecasts about future events. By this nature, these expectations and projections are only estimates and actual results could differ from these in the future.



Corporate Information

Board of Directors

Chandrakant V. Gogri
Chairman

Prakash M. Patil
Managing Director & CEO

Satish P. Nachane
Managing Director & CEO

Harshit M. Savla
Jt. Managing Director & CFO

Harit P. Shah
Whole-time Director

Rajendra V. Gogri
Non-Executive Director

Uday M. Patil
Whole-time Director

Ramdas M. Gandhi

Dr. Vilas G. Gaikar

Bhavesh R. Vora

Sunil M. Dedhia

Company Secretary & Compliance Officer
Prakash Khedekar

Auditors

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

Solicitors

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

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.

Bankers

Union Bank of India
Bank of Baroda
Bank of India
State Bank of India
Citibank N.A.
Corporation Bank
Standard Chartered Bank
DBS Bank Limited
ING Vysya Bank Limited

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.

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, Tal-Palghar,
Dist. Thane - 401 506, Maharashtra.

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, Dist. Thane - 401 506, Maharashtra.

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

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Financial Highlights

(Rupees in Lakhs)

Particulars	31-Mar-02	31-Mar-03	31-Mar-04	31-Mar-05	31-Mar-06
Sales	17,460.79	19,214.22	23,770.47	26,527.27	27,900.01
Profit Before Interest and Depreciation	2,532.04	2,441.54	2,663.72	3,362.00	3,144.38
Interest	865.93	549.67	385.82	586.08	841.68
Depreciation	437.51	509.65	572.23	714.70	791.80
Profit Before Tax	1,228.60	1,382.22	1,705.67	2,061.22	1,510.90
Profit After Tax	1,092.60	1,144.04	1,207.67	1,406.22	1,272.86
Dividend (%)	10.00	15.00	30.00	30.00	15.00
Payout	130.09	175.63	351.26	351.26	175.62
Equity Capital	1,300.95	1,170.86	1,170.86	1,170.86	1,170.86
Reserves & Surplus	4,420.19	4,675.71	5,477.57	6,486.07	7,556.89
Less : Miscellaneous Expenditure	15.76	8.92	451.97	339.32	226.92
Net Worth	5,705.38	5,837.65	6,196.46	7,317.61	8,500.83
Borrowings					
Long Term	2,276.89	2,662.98	3,081.23	4,680.16	3,094.12
Short-Term-Bank	3,938.03	4,463.71	5,368.61	4,524.31	6,701.47
Short-Term-Others	693.09	1,228.44	2,231.35	4,923.25	8,413.26
Total Borrowings	6,908.01	8,355.13	10,681.19	14,127.72	18,208.85
Gross Block	9,276.53	10,204.15	11,787.22	15,037.17	20,059.68
Less : Depreciation	2,542.32	3,009.42	3,581.36	4,262.30	5,095.16
Net Block	6,734.21	7,194.73	8,205.86	10,774.87	14,964.52
Capital Work In Progress	Nil	Nil	617.92	2,260.06	Nil
Investments	128.87	132.55	31.44	145.70	2,040.49
Current Assets, Loans and Advances	8,742.51	10,698.51	14,925.62	15,131.79	17,098.48
Current Liabilities	2,992.21	3,448.37	6,152.53	5,866.42	6,298.15
Net Working Capital	5,750.30	7,250.15	8,773.09	9,265.37	10,800.32
Book Value	43.86	49.86	52.92	62.50	72.60
Earning per share	8.40	8.89	10.32	12.01	10.85



Aarti Drugs Ltd.

Notice

NOTICE is hereby given that the Twenty First Annual General Meeting of the Members of AARTI DRUGS LIMITED will be held on Monday, 31st day of July, 2006 at 11.00 a.m. at TIMA Hall, MIDC Tarapur, Taluka Palghar, Dist.: Thane - 401 506 Maharashtra to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2006 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 dividend.
3. To appoint a Director in place of Mr. Harshit M. Savla, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Rajendra V. Gogri, who retires by rotation and, being eligible, offers himself for re-appointment.
5. To appoint Auditors and to fix their remuneration.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT Mr. Ramdas M. Gandhi be and is hereby appointed as a Director of the Company."
7. To consider and, if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT Dr. Vilas G. Gaikar be and is hereby appointed as a Director of the Company."
8. To consider and, if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT Mr. Bhavesh R. Vora be and is hereby appointed as a Director of the Company."
9. To consider and, if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT Mr. Sunil M. Dedhia be and is hereby appointed as a Director of the Company."
10. To consider and, if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT pursuant to provisions of Sections 198, 269, 310 and all other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956 ("the Act") and subject to all such sanctions, if any, as may be necessary, the Company hereby approves :
 - (i) variation in the basic salaries payable to Mr. Prakash M. Patil and Mr. Satish P. Nachane, Managing Directors, Mr. Harshit M. Savla, Joint Managing Director and Mr. Harit P. Shah, Wholetime Director of the Company with effect from 1st April, 2006 as detailed in the explanatory statement to this item annexed hereto;
 - (ii) encashment of the leave at the end of each financial year by the said aforesaid Directors and that relevant clause in the respective Agreements entered into by the Company with each of the aforesaid Directors shall stand altered accordingly."
11. To consider and, if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT pursuant to provisions of Sections 198, 269, 309 and all other applicable provisions, if any, read with Schedule XIII of the Companies Act, 1956 ("the Act") and subject to all such sanctions as may be necessary, the Company hereby approves the reappointment of Mr. Harit P. Shah as the Wholetime Director of the Company for a period of five years with effect from 1st July, 2006 on the terms and conditions including remuneration as set out in the draft Agreement to be entered into by the Company with him and submitted to this meeting duly initialled by the Chairman for the purpose of the identification which agreement is specifically sanctioned with liberty to the Board of Directors to alter and vary the terms and conditions of the said agreement so as not to exceed the limits specified in Schedule XIII to the Companies Act, 1956 as may be agreed between the Board of Directors and Mr. Harit P. Shah".
12. To consider and, if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:
"RESOLVED THAT in accordance with the provisions of Section 198, 309 and 310 read with all other

applicable provisions, if any of the Companies Act, 1956 ("the Act") and subject to all such sanctions as may be necessary, the Company hereby approves the revised remuneration payable to Mr. Uday M. Patil being Director in the wholetime employment of the Company with effect from 1st April, 2006 as under:

Remuneration	Per Annum	
	Existing	Revised
Salary (Basic)	Rs.1,38,000/-	Rs.1,80,000/-
House Rent Allowance	Rs. 24,000/-	Rs. 26,400/-
Ex-Gratia	Rs. 11,500/-	Rs. 15,000/-
Leave Travel Allowance	Rs. 11,500/-	Rs. 15,000/-
Medical Allowance	Rs. 15,000/-	Rs. 15,000/-
Conveyance	-	Rs. 6,240/-
Provident Fund	-	Rs. 9,360/-

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to increase the said remuneration upto 50 % in such manner as the Board in its absolute discretion deem fit within the limits specified in the Schedule XIII of the Act.

RESOLVED FURTHER THAT the above remuneration shall be paid to Mr. Uday M. Patil notwithstanding the inadequacy of profits or no profits in any financial year during the tenure of his office as such."

13. 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 314 and other applicable provisions, if any, of the Companies Act, 1956, consent be and is hereby accorded to Mr. Rashesh C. Gogri holding and continuing to hold an Office of Profit as President-Marketing under the Company from 1st January, 2006 on a gross remuneration of Rs. 5,79,000 /- per annum inclusive of perquisites/allowances as are normally provided by the Company."

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

"RESOLVED THAT in accordance with Section 314(1B) and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Central Government, consent be and is hereby accorded to Mr. Rashesh C. Gogri holding and continuing to hold an Office of Profit as President-Marketing under the Company from 1st August, 2006 on terms and conditions as set out in the explanatory statement annexed hereto with power to the Board of Directors of the Company to make annual increments up to 50% every year notwithstanding that such increased remuneration may exceed the ceiling limit fixed under Section 314(1B) of the said Act."

Registered Office :

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

Place: Mumbai

Date : 10th May, 2006

By Order of the Board

Sd/-

Prakash Khedekar
Company Secretary

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 Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of the Special Business at Item Nos. 6 to 14 above is annexed hereto and forms part of the Notice.
3. The Register of Members and Share Transfer Books of the Company will remain closed from, Friday 21st July, 2006 to Friday 28th July, 2006 (both days inclusive) for determining the names of members eligible for 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 7th August, 2006.