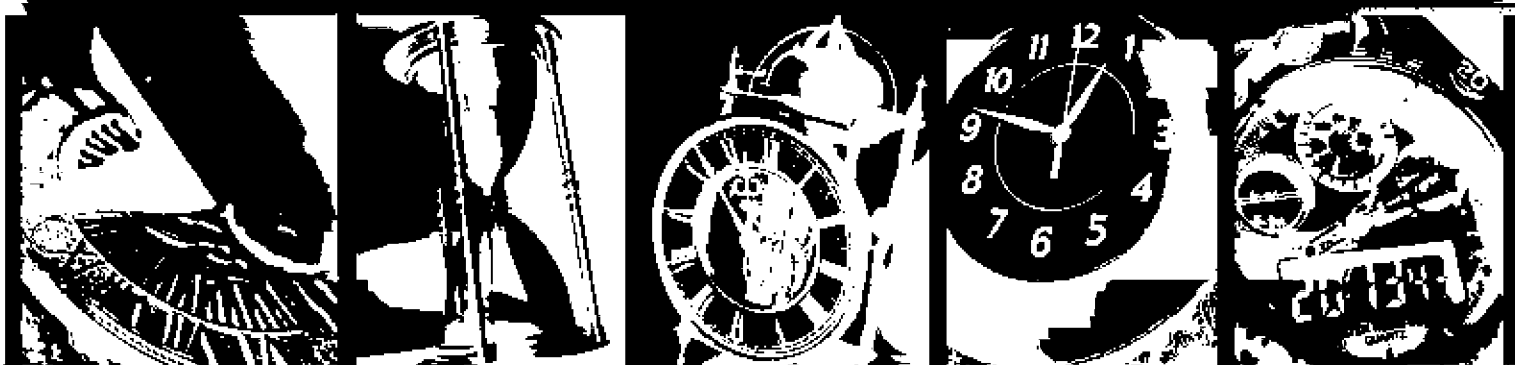




# Aarti Industries Limited

Report  junction.com

## The Right Chemistry for A Brighter Tomorrow



### ANNUAL REPORT 2004 - 2005


**Aarti Industries Limited**

## *The Vision*

*To retain leadership in domestic market*

*To attain significant presence in global market*

*To become supplier of choice to leading Customers*

*To be always committed to the employees, shareholders and the Society at large.*

## *Corporate Mission and Objectives to achieve the Vision*

- *To constantly strive to set up and maintain global size plant facilities.*
- *To become a customer-driven Company by providing customized solutions and service to meet changing customer requirements through excellence in customer service, continuous technology up-gradation, high standards of business ethics and new product developments.*
- *To maintain consistent quality and timely delivery at competitive prices.*
- *To use the best cost effective manufacturing processes, practices and methods supported by proven, eco-friendly and safe technologies.*
- *Commitment to growth by Research and new product developments, progressive increase in exports.*
- *Continuous focus on people and processes to encourage and nurture winning organizational culture to realize their full potentials through continuous learning on the job and through other HRD initiatives.*
- *To set up facilities with US FDA and other Overseas approvals.*
- *To meet the challenges of competition by dynamic management drive.*

### Contents

Board of Directors	1
Letter from Chairman	2
Financial Highlights	4
Notice	6
Directors' Report	12
Management Discussion & Analysis	15
Report on Corporate Governance	19
Auditors' Report	27
Balance Sheet	30
Profit & Loss Account	31
Schedules	32
Balance Sheet Abstract etc.	47
Cash Flow Statement	48
Statement of Interest in Subsidiaries	49
Consolidated Financial Statements	50
Consolidated Cash Flow Statements	65
Corporate Information	66
ECS Form, Proxy & Attendance Slip for AGM	

## Board of Directors



—| **C.V. Gogri**  
Chairman



**R.V. Gogri** —|  
Vice Chairman &  
Managing Director



—| **S. T. Shah**  
Vice Chairman



### Independent Directors

—|  
**R. M. Gandhi**



—|  
**L. K. Jain**



—|  
**V. H. Patil**

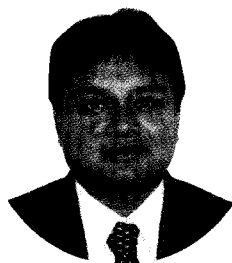


—|  
**H. K. Chheda**



—|  
**P. H. Desai**

### Wholetime Directors



—|  
**M.M. Chheda**



—|  
**R. C. Gogri**



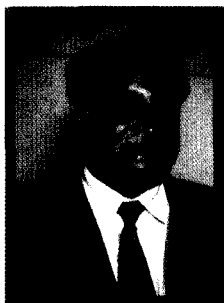
—|  
**Hetal Gogri Gala**



—|  
**K. R. Mehta**



## Letter from the Chairman



Dear Shareholders,

Aarti Industries Limited (AIL) was started as a small venture by a group of technocrats, in 1984. Over the last more than 20 years it has evolved to its present stature crossing several milestones. During this evolution AIL set up a number of expansion and diversification projects, funded by a public issue in 1992, Institutional assistance and from internal accruals. A part of your Company's growth has also been achieved through mergers and acquisitions. Today your Company has its presence in Basic and Speciality chemicals, Pharmaceuticals and Agrochemicals, and its products find applications in Pharmaceuticals, Dyes & Pigments, Agrochemicals, Rubber Chemicals, Perfumeries, Polymers and Surfactants. I would like to place on record my sincere gratitude to the Company's dedicated management team, senior and junior executives, staff and workers, without whom this achievement would not have been possible.

Details regarding your Company's achievements during 2004-05 along with major operational highlights have been elaborated in the Directors' Report, Management discussions and Annual Report, and in this brief letter, I will only dwell on the future of the Company. I am pleased to state that your Company is now on the threshold of reaching the turnover level of Rs.1000 crores with exports of about Rs.400 crores, by the middle of the year 2006-07.

Your Company has always believed in the evolutionary brand of success. It could be in the form of minor achievements or momentous changes, but the fact remains that your Company is proactively engaged in capitalising the opportunities & countering the challenges thrown up by the external environment. More than 20 years of your Company's existence has been a testimony to its penchant for pursuing success in an evolutionary format.

Over the years, your Company has developed the following core competencies, which will act as the main driving force for the Company's future:

### Core Competencies

- Global capacities
- Customer Satisfaction
- Quality and logistics
- Continuous cost control
- High value addition
- Diversified product range
- Loyal work force
- In-house recognized R&D Centres



Your Company today enjoys the No. 1 position in India and is amongst the top 3 to 5 in the world in most of its major products. Your Company's immediate target in the next couple of years would be to enhance its global position with its large number of export customers all across the world.

Over the last couple of years growth in global chemical business has thrown up a lot of opportunities in the fields of Speciality chemicals, Pharmaceuticals and in Custom Synthesis. Leveraging the advantage of a large customer base, the Company is streamlining its operations to cater to these segments. During the past couple of years the Company and its subsidiary have invested about Rs.110 crores in these ventures. It has commissioned a new unit at Vapi for Custom Synthesis Research and Manufacturing. Your Company is also shortly commissioning its new about Rs. 35 crores unit at Tarapur for USFDA approved Pharmaceutical manufacturing. Your Company is also working out marketing tie-ups with multinationals for its existing and new range of products. These facts coupled with the in-house competent R & D team gives opportunities to increase volumes in existing products and to introduce new products.

Thus your Company is in an ideal position to meet its future growth plans through manufacturing activities, which can be summarized amongst the following:

- (a) Increased Presence in the Pharma sector
- (b) Custom Synthesis Research and Contract Manufacturing
- (c) Global leadership in its product range
- (d) Development of new products and better processes

The above steps will augur a bright future for the company in terms of healthier growth rates in topline, export & bottomline.

Your Company's stakeholders, employees, customers, suppliers, bankers and institutions have rendered their unflinching support and goodwill over the years, which has enabled the Company to attain its present size and strength, and I am sure that this support will continue to help the future growth of the company.

Thank you & with best regards,

Sincerely yours,

C.V.Gogri  
Chairman



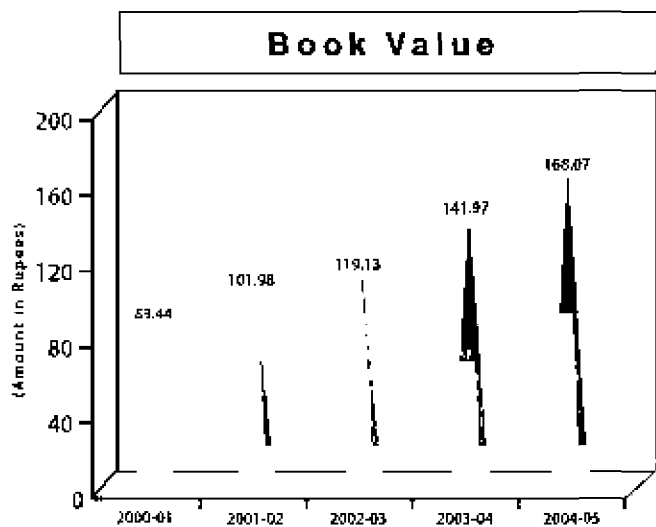
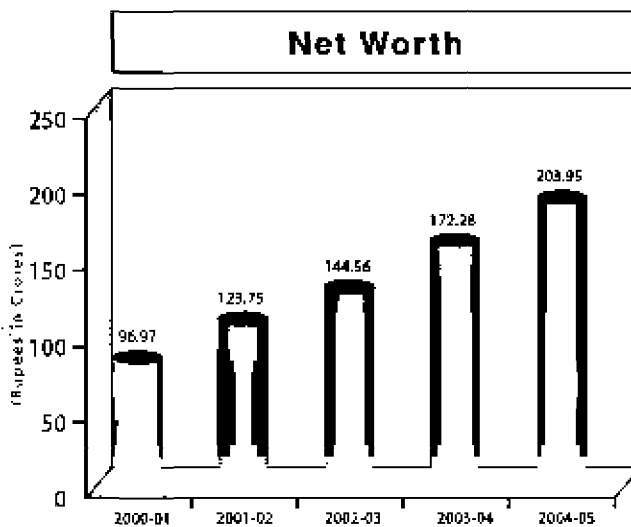
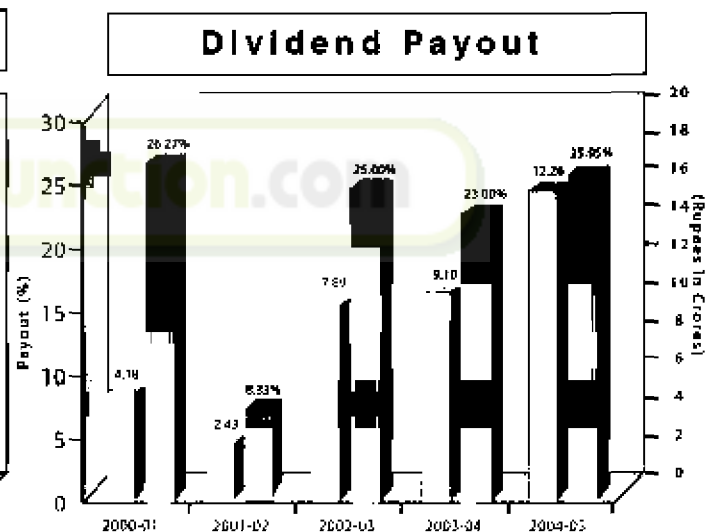
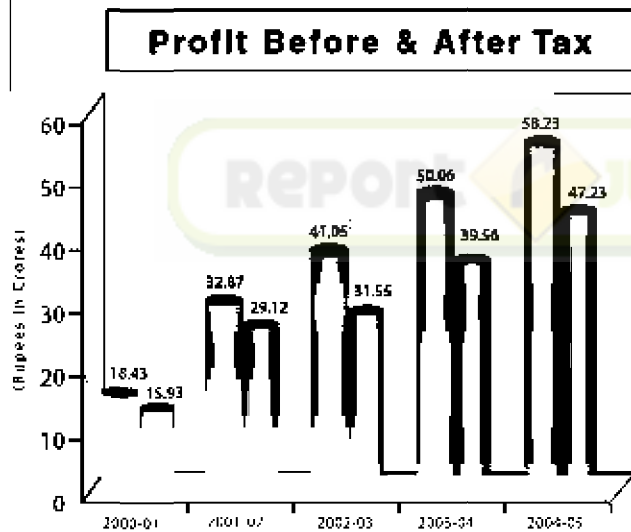
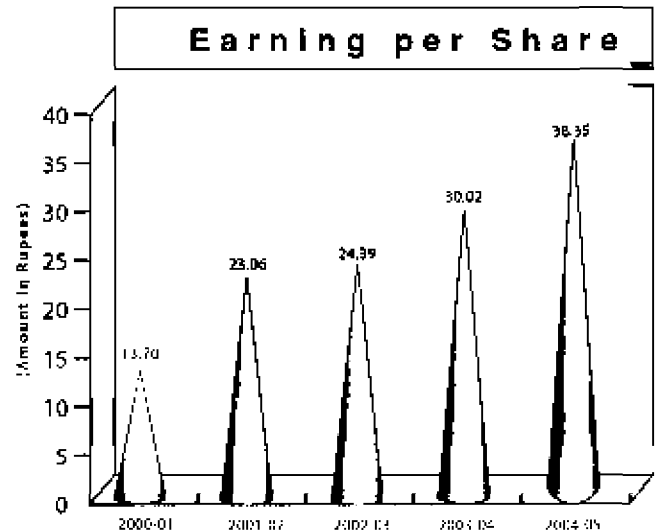
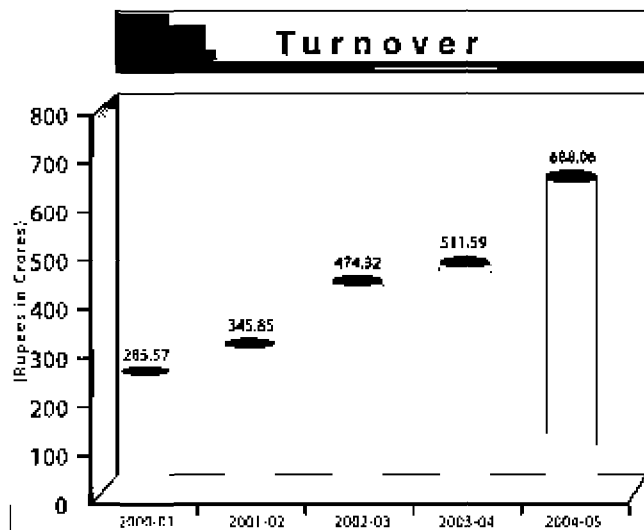
## Financial Highlights

PARTICULARS	(Rupees in Lacs)									
	FINANCIAL YEAR ENDED ON									
	31/3/96	31/3/97	31/3/98	31/3/99	31/3/2000	31/3/2001	31/3/2002	31/3/2003	31/3/2004	31/3/2005
<b>Total Income</b>	<b>13016.57</b>	<b>17266.52</b>	<b>20443.22</b>	<b>19977.11</b>	<b>24688.83</b>	<b>28557.21</b>	<b>34584.68</b>	<b>47432.01</b>	<b>51159.01</b>	<b>68805.76</b>
Gross profit	2181.75	2966.32	3138.74	3845.14	4940.23	4292.25	6482.90	7170.98	7643.99	9183.19
Interest	711.79	995.00	1033.82	1194.00	1137.22	1279.27	1584.28	1377.6	946.01	1354.32
Depreciation	262.22	322.44	406.27	672.13	1008.13	1170.33	1611.48	1688.27	1691.82	2006.19
Extra-ordinary loss			253.00							
<b>Profit before tax</b>	<b>1207.74</b>	<b>1648.88</b>	<b>1445.65</b>	<b>1979.01</b>	<b>2794.87</b>	<b>1842.65</b>	<b>3287.14</b>	<b>4105.04</b>	<b>5006.16</b>	<b>5822.68</b>
<b>Profit after tax</b>	<b>1067.74</b>	<b>1398.88</b>	<b>1235.65</b>	<b>1724.01</b>	<b>2144.87</b>	<b>1592.65</b>	<b>2912.14</b>	<b>3155.04</b>	<b>3956.16</b>	<b>4600.00</b>
Dividend %	18	22	25	27	35	36	20	65	75	100
<b>Pay out</b>	<b>194.42</b>	<b>237.62</b>	<b>270.02</b>	<b>314.13</b>	<b>406.78</b>	<b>418.41</b>	<b>242.70</b>	<b>788.77</b>	<b>910.12</b>	<b>1225.00</b>
Equity Capital	1080.10	1080.10	1080.10	1163.43	1162.23	1162.23	1213.49	1213.49	1213.49	3640.47
Reserve & Surplus	3705.41	4838.95	5799.37	7283.29	7840.92	8647.99	11263.37	13333.68	16090.52	16938.52
Less: Misc. Expenditure	NIL	15.74	15.74	14.67	12.96	113.06	101.73	90.81	75.36	83.15
<b>Networth</b>	<b>4785.51</b>	<b>5903.31</b>	<b>6863.73</b>	<b>8432.05</b>	<b>8990.19</b>	<b>9697.16</b>	<b>12375.13</b>	<b>14456.36</b>	<b>17228.65</b>	<b>20395.84</b>
<b>Borrowings</b>										
Long Term	2168.56	1798.26	2586.35	3427.61	3311.39	4550.00	4584.29	4608.00	6934.10	6820.80
Short Term - Bank	2721.95	3678.61	4497.41	4276.36	4706.12	5844.94	6140.69	8604.63	12045.17	1536.72
Short Term - Others	77.00	502.38	62.26	147.53	828.01	1093.96	1550.96	2165.97	1439.48	1133.72
<b>Total Borrowings</b>	<b>4967.52</b>	<b>5979.25</b>	<b>7146.02</b>	<b>7851.50</b>	<b>8845.51</b>	<b>11488.90</b>	<b>12275.94</b>	<b>15378.60</b>	<b>20418.75</b>	<b>22491.24</b>
Gross Block	5640.17	6598.74	7459.93	9773.19	11566.40	14780.50	20423.23	22606.79	27858.39	31102.58
Less: Depreciation	917.67	1240.12	1597.78	2482.40	4178.81	5312.69	7585.85	8921.31	10504.61	12488.09
<b>Net Block (Fixed Assets)</b>	<b>4722.50</b>	<b>5358.62</b>	<b>5862.15</b>	<b>7290.80</b>	<b>7387.59</b>	<b>9467.81</b>	<b>12837.38</b>	<b>13685.48</b>	<b>17353.77</b>	<b>18614.49</b>
Capital work in progress	82.27	Nil	34.68	98.94	320.75	598.40	268.35	351.73	201.72	1862.28
Investments	231.51	438.75	495.75	686.29	630.32	1009.74	696.17	1754.14	813.25	2433.11
Current Assets	7667.25	10244.67	11618.53	12372.92	13350.61	15123.57	17884.03	21169.93	26527.28	33576.88
Less: Current Liabilities	2950.50	4159.48	4001.36	4165.39	3853.54	5013.45	5941.04	5833.24	5576.06	11629.72
<b>Net Working capital</b>	<b>4716.75</b>	<b>6085.19</b>	<b>7617.17</b>	<b>8207.53</b>	<b>9497.07</b>	<b>10110.12</b>	<b>11942.98</b>	<b>15336.69</b>	<b>20951.22</b>	<b>21947.16</b>
<b>Book Value(Rs)per Share</b>	<b>44.31</b>	<b>54.66</b>	<b>63.55</b>	<b>72.48</b>	<b>77.35</b>	<b>83.44</b>	<b>101.98</b>	<b>119.13</b>	<b>141.97</b>	
Bonus Shares (Ratio)	-	-	-	-	-	-	-	-	-	

\* Dividend % is based on pre bonus equity of 12.13 crore



## Highlights



Notes: Earning Per Share & Book Value Per Share are Pre Bonus.  
Post Bonus: Earning Per Share is Rs. 12.78 & Book Value Per Share is Rs. 56.03



## NOTICE

Notice is hereby given that the Twenty second Annual General Meeting of the Members of AARTI INDUSTRIES LIMITED will be held at the registered office of the Company at Plot No. 801,801/23, GIDC Estate, Phase III, Vapi-396195, Dist Valsad, Gujarat, on Friday, 30th September, 2005 at 10.30 a.m. to transact the following business:

### 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. Shantilal T. Shah, who is liable to retire by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Shri. Parimal H. Desai, who is liable to retire by rotation and being eligible, offers himself for reappointment.
5. To appoint a Director in place of Shri. Rashesh C. Gogri, who is liable to retire by rotation and being eligible, offers himself for reappointment.
6. To appoint a Director in place of Shri. Haresh K. Chheda, who is liable to retire by rotation and being eligible, offers himself for reappointment.
7. To appoint Auditors and fix their remuneration.

### SPECIAL BUSINESS

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

**"RESOLVED THAT** in super session of the earlier resolution passed by the Company pursuant to Section 293(1)(d) and other applicable provisions, if any, of the Companies Act, 1956 ("the Act"), consent of the Company be and is hereby accorded to the Board of Directors of the Company under the said provisions of the Act, for borrowing from time to time any sum or sums of money as they may deem requisite for the purposes of the Company, notwithstanding that moneys to be borrowed together with moneys already borrowed by the Company (apart from temporary loans obtained from the Company's Bankers in the ordinary course of business) from the Financial Institutions, Company's bankers and/or from any other person or persons, firms or bodies corporate whether by way of loans, advances, deposits, or bill discounting, issue of debentures, bonds or otherwise and, whether secured or unsecured, will or may exceed the aggregate of the paid-up capital of the Company and its free reserves, that is to say, reserves not set apart for any specific purpose, provided that the total amount up to which moneys may be borrowed by the Board of Directors and remaining outstanding at any one time shall not exceed in the aggregate Rs.500 Crores (Rupees Five Hundred Crores) over and above the aggregate of the Paid-up Capital and free reserves of the Company for the time being, exclusive of interest and other charges and the Board of Directors be and is hereby further authorised to execute such debenture trust deeds or other deeds and instruments or writings containing such conditions and covenants as they may think fit."

9. **To consider and, if thought fit, to pass with or without modification following resolution as an Ordinary Resolution:**

**"RESOLVED THAT** in super session of the earlier resolution passed by the Company pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 ("the Act"), consent of the Company be and is hereby accorded to the Board of Directors of the Company under the said provisions of the Act, to create mortgages/charges on all or any of the immovable and movable properties and assets, both present and future, and/ or the whole or substantially the whole of the undertaking or the undertakings of the Company, ranking pari-passu with or second or subservient or subordinate to the mortgages/charges already created or to be created in future by the Company for securing any loans and/or advances and/or guarantees and/or any financial assistance obtained or that may be obtained from financial institutions, banks or credit agencies incorporated or constituted in India or abroad, machinery suppliers and/ or other persons or institutions providing finance for purchase of assets/business of the Company or for working capital or for purchase of specific items of machinery and equipments under any deferred payment scheme or bills rediscounting scheme or in favour of trustees for debenture holders/bondholders appointed or that may be appointed hereafter, as security for the debentures/bonds issued or that may be issued by the





## Aarti Industries Limited

Company, with power to take over the management, business and concern thereof in certain events of default, on such terms and conditions and at such times and in such form and manner as the Board of Directors may deem fit, so that the total outstanding amount at any time so secured shall not exceed the aggregate of the amounts consented by the Company by the Resolution passed at this meeting pursuant to Section 293(1)(d) of the Companies Act, 1956 and all the borrowings from the Company's bankers, together with interest thereon, and further interest, if any, costs, charges, expenses, remuneration and other monies payable to the trustees and all other monies payable by the Company.

**RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised to and cause to prepare, finalise, approve and execute on behalf of the Company with the lending financial institutions, banks, credit agencies, machinery suppliers, institutions and trustees for the debenture/bond holders, the documents, deeds, agreements, declarations, undertakings and writings as may be necessary and are expedient for giving effect to the foregoing resolutions.

**RESOLVED FURTHER THAT** the Board of Directors of the Company be and is hereby authorised to vary and/or alter the terms and conditions of the security created/to be created as aforesaid in consultation with the Trustees and other Mortgagees as they may deem fit."

**10. To consider and, if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution.:**

**"RESOLVED THAT** pursuant to Section 309, and 310 of the Companies Act 1956 (including any statutory modifications(s) or re- enactment there of, for the time being in force) and Clause 49(I)(B) of the Listing Agreement entered in to by the Company with the Stock Exchanges, the Non-executive Directors including independent Directors of the Company may be paid sitting fees up to maximum of Rs.20000/- or such higher amount as may be prescribed by the Central Government from time to time under the provisions of the said Act for attending each of the meetings of the Board of Directors or any committee of Directors constituted for any specific purpose or as per the Corporate Governance requirements of the Listing Agreement.

**RESOLVED THAT** the Board of Directors of the Company be and is hereby authorized to fix and/or vary from time to time, the actual amount of fees / allowances payable to such Directors for the purpose aforesaid within the maximum limit fixed as aforesaid."

**11. To consider and, if thought fit, to pass with or without modification following resolution as an Ordinary Resolution :**

**"RESOLVED THAT** in accordance with the provisions of Section 198, 309, and 310 read with Schedule XIII and all other applicable provisions, if any of the Companies Act, 1956 including any statutory modifications or re-enactment thereof, for the time being in force, (hereinafter referred to as "the Act") and subject to all such sanctions as may be necessary, the Company hereby approves the variation of the terms of remuneration payable to each one of the following Directors, namely, Shri. Rajendra V. Gogri, Vice Chairman & Managing Director, Shri. Parimal H. Desai, Shri. Manoj M. Chheda, Shri. Rashesh C. Gogri, Mrs. Hetal Gogri Gala and Shri. Kirit R. Mehta, Wholtime Directors of the Company, with effect from 1<sup>st</sup> April, 2005, for the remainder of the tenure of their respective terms as such as set out in the respective draft supplemental Agreements to be entered into by the Company with each one of the said Directors and submitted to this meeting duly initialed by the Chairman, which draft Supplemental Agreements are hereby specifically sanctioned.

**RESOLVED FURTHER THAT** the Board of Directors of the Company be and hereby authorised to alter or vary the said terms of remuneration, in any one or more cases and either at a time or at different times and in such manner as the Board in its absolute discretion deem fit within the limits specified in the Schedule XIII of the Act."

Registered Office.:  
Plot No. 801,801/23,  
GIDC Estate, Phase III,  
Vapi-396195,  
Dist Valsad, Gujarat  
Place:Mumbai.  
Date: 12th July, 2005

BY ORDER OF THE BOARD

Sd/-  
**Mohan P. Sonar**  
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 OF THE MEETING.
2. The register of members and Share transfer books of the Company shall remain closed from Friday, 23rd September, 2005 to Friday, 30th September, 2005( both days inclusive) for determining the names of the members eligible for dividend, if declared, by the Company, subject to the provisions of section 206A of the Companies Act, 1956. In respect of the Shares held in Electronic Form, the dividend will be paid on the basis of ownership as per the details furnished by the Depositories for the purpose. Dividend when declared will be paid on or after 7th October 2005.

### 3. The Members are requested to note:

- (i) **Registrar & Share Transfer Agent:** The Registrar & Share Transfer Agent of the Company has changed its name from Sharepro Services to Sharepro Services (India) Pvt. Ltd. which is at Satam Estate, 3<sup>rd</sup> Floor, Above Bank Of Baroda, Cardinal Gracious Road, Chakala, Andheri(E), Mumbai – 400099 (Tel.No.28215168 /28329828) and the members are requested to send / address all their shares related matters / correspondence directly to them.
- (ii) **Change of Address and Bank details:** Members are requested to inform the Company or M/s Sharepro Services (India) Pvt. Ltd., 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 be automatically reflected in the companies records. This will help the Company to provide efficient and better services to the members.
- (iii) **Electronic Clearing Service (ECS) Facility :** The facility of electronic credit of dividend directly to your bank account through ECS is being made available at-Ahmedabad, Bangalore, Bhubaneshwar, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Kolkata, Mumbai, Nagpur, New Delhi, Patna and Thiruvanthapuram.  
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 20th September, 2005.
- (iv) 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.
- (v) 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.
- (vi) 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.
- (vii) **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, Gujarat, 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.**