Global Partner of Choice

Aarti Industries Limited | Annual Report 2015-16

Forward-looking statement

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks and uncertainty and that actual results could differ materially from those expressed or implied. Readers are requested caution while placing undue reliance on these statements as many factors could cause differences in the assumptions and the actual results. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management discussion and analysis section part of the Aarti Industries Limited Annual Report, 2015-16.

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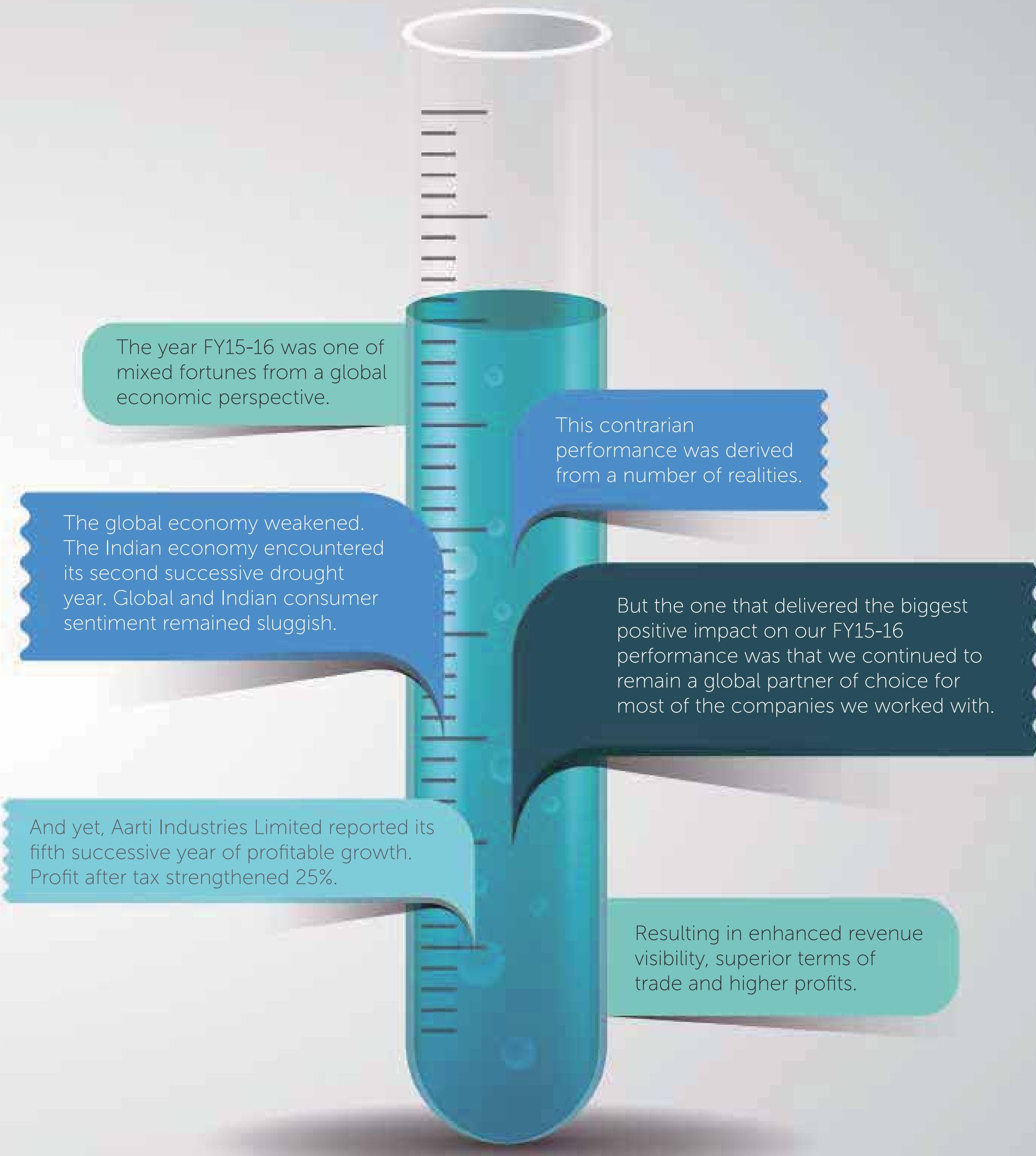
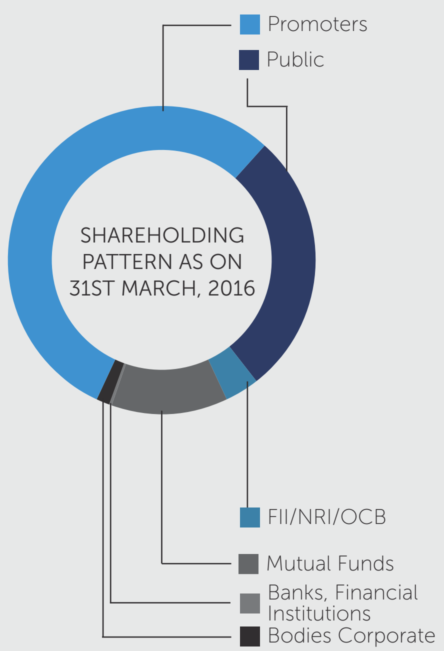

The year FY15-16 was one of mixed fortunes from a global economic perspective.
The global economy weakened. The Indian economy encountered its second successive drought year. Global and Indian consumer sentiment remained sluggish.
And yet, Aarti Industries Limited reported its fifth successive year of profitable growth. Profit after tax strengthened 25%.
This contrarian performance was derived from a number of realities.
But the one that delivered the biggest positive impact on our FY15-16 performance was that we continued to remain a global partner of choice for most of the companies we worked with.
Resulting in enhanced revenue visibility, superior terms of trade and higher profits.

- Aarti Industries Limited is one of the most competitive benzene-based speciality chemical companies in the world.
- The Company is extensively integrated across more than 70 products; the product of one chemical reaction represents the raw material of another.
- The Company is ranked amongst the top four manufacturers in the world for 75% of its product portfolio. The Company is a global citizen, more than 50% of its revenues derived from exports.
- The Company's pharmaceuticals business continues to grow at a 20% CAGR with 60% of exports generated from regulated markets.
- The Company is also engaged in the manufacture of home and personal care products.

Shareholding pattern as on 31st March, 2016



Category	No. of Shares	%
Promoters	45655698	54.80
Bodies Corporate	1320113	1.58
Banks, Financial Institutions	17366	0.02
Mutual Funds	10306343	12.37
FII/NRI/OCB	3002156	3.60
Public	23018707	27.63
Total	83320383	100.00

Background

Aarti Industries Limited is a leading Indian manufacturer of Speciality Chemicals and Pharmaceuticals with a global footprint. These products are used in the downstream manufacture of pharmaceuticals, agrochemicals, polymers, additives, surfactants, pigments, dyes etc. The Company was promoted by Mumbai-based technocrats.

Presence

The Company's integrated manufacturing plants (backward and forward) manufacture more than 125 products. These units are located in Gujarat, Maharashtra, Madhya Pradesh and Silvassa. The Company is listed on Bombay Stock Exchange and National Stock Exchange (market capitalization ₹4,368.32 crs as on 31st March, 2016).

Our end user markets

Speciality Chemicals

- Polymer and additives
- Agrochemicals and intermediates
- Dyes, pigments, paints and printing inks
- Pharma intermediates
- Fuel additives, rubber chemicals, resins, etc.
- Fertilizers and nutrients

Pharmaceuticals

- Active Pharmaceutical Ingredients
- Intermediates for innovators and generic companies

Home and Personal Care

- Non-ionic surfactants
- Concentrates for shampoo, hand wash and dish wash

Awards and recognition

Lala Shriram Award for Leadership in Chemical Industry for 2015 to Chairman Emeritus and Founder Shri Chandrakant Gogri.

Export award

- Trishul Award by Basic Chemicals, Pharmaceuticals & Cosmetics Export Promotion Council (CHEMEXCIL) in recognition of the Company's outstanding export performance in FY14-15.
- The Council also honoured the Company with 'Award of Excellency' for export performance in FY13-14.

125+ Number of products

16 Manufacturing plants

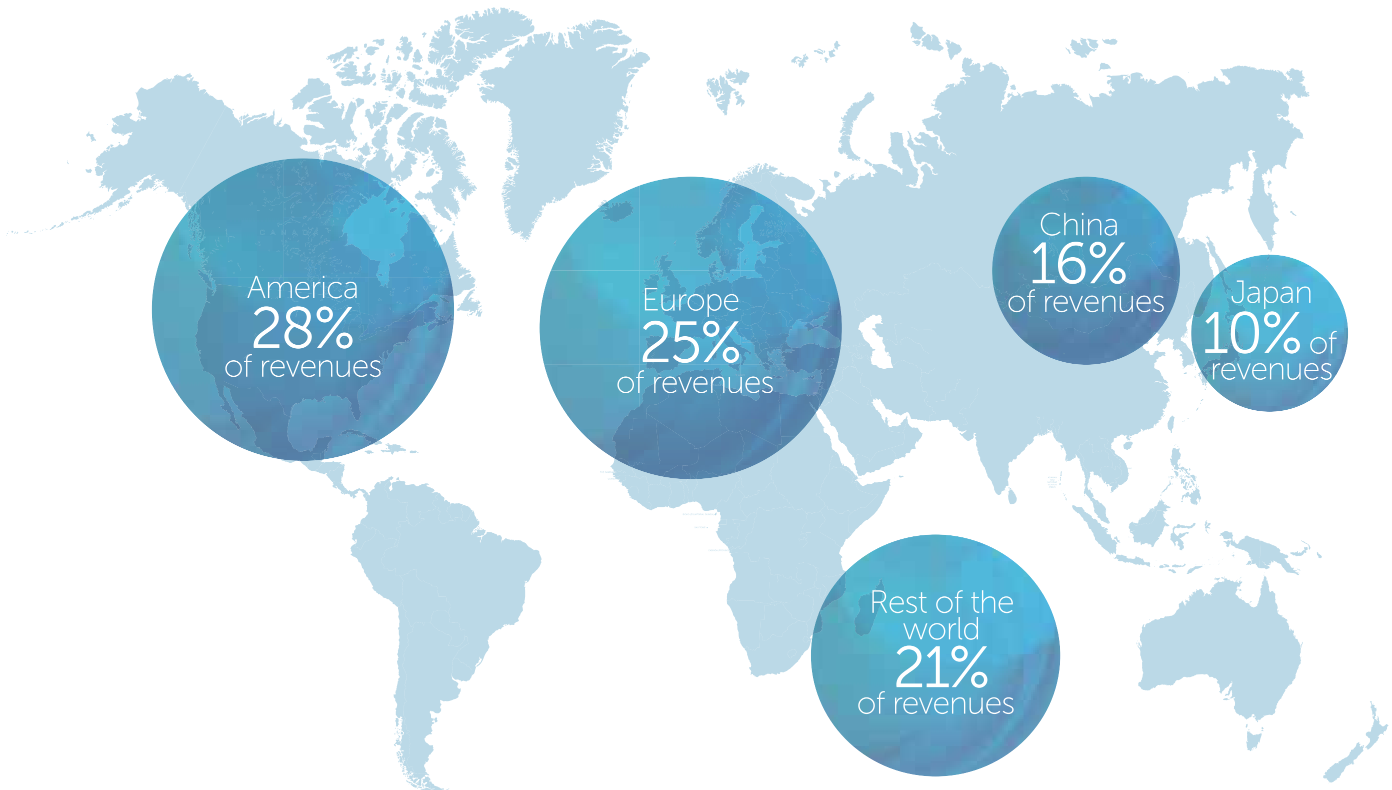
3250+ Employees

2 USFDA units

150+ Global customers

500+ Domestic customers

Our global presence (share of export revenues)



Milestones

1984
Aarti Organics Pvt Ltd incorporated.

1986
Commenced 1,200 TPA manufacturing plant for Nitro Chloro Benzenes (NCB) in Sarigram, Gujarat.

1990
Set up additional unit at Vapi to manufacture NCBs with capacity of 4,500 TPA.

1992
Public issue of 8,70,000 equity shares at a premium of ₹36 per share.

1994
- Merged Salvigor Labs, producers of DMS and Sulphuric Acid and their downstream products into Aarti.
- Change of name from Aarti Organics Ltd to Aarti Industries Ltd.

1995
Bonus issue of equity shares (1:1).

1998
Set up Alchemie (Europe) Ltd. a subsidiary in UK for marketing and distribution.

2001
- Commenced production in Jhagadia.
- Pioneered hydrogenation process based on Swiss technology.

2002
Merged Alchemie Organics into Aarti Industries Ltd.

2004
Crossed ₹500 crs in total income.

2005
Bonus issue of equity shares (2:1).

CHEMEXCIL presented the Company 'Trishul Award' for outstanding export performance for FY14-15 and 'Award of Excellency' for the consistency in export performance for FY13-14 .

2006

- Split of equity shares of ₹10 each into two shares of ₹5 each.
- Expanded NCB capacity.
- Expanded sulphuric acid capacity by 100 KTPA to 200 KTPA.

2008

Received USFDA approval for API unit at Tarapur.

2009

- Crossed ₹1000 crs in total income.
- Merged Surfactants Specialities Pvt. Ltd. (accessing home/ personal care segment).

2010

- Custom Synthesis division (Vapi) received USFDA approval.
- Upgraded hydrogenation unit from batch to continuous.
- Commissioned sulfonation unit in Pithampur.

2012

Crossed ₹1500 crs in total income; PAT crossed ₹100 crs.

2013

- Merged manufacturing division of Anushakti Chemicals and Drugs Ltd. into Aarti Industries Ltd.
- Total Income crossed ₹2000 crs; exports crossed ₹1000 crs.

2015

- Total income crosses ₹2900 crs.
- PAT crossed ₹200 crs.

2016

- Scaled NCB capacity from 57000 TPA to 75000 TPA.
- Expanded caffeine capacity.
- Merged promoter's investment group companies into Aarti Industries Ltd.
- Setup Aarti USA Inc. a subsidiary in USA for marketing and distribution.

At Aarti Industries, we are a differentiated speciality chemicals company from others in our space

Most chemical companies focus on a handful of products.
At Aarti Industries, our product mix comprises more than 125 research-led products.

Most chemical companies focus on a fragmented standalone product mix.
At Aarti Industries, we have focused on the manufacture of integrated derivatives.

Most chemical companies do not have a diversified geographic mix.
At Aarti Industries, we have selected to focus on customers across continents.

Most chemical companies are completely dependent on external resource supplies.
At Aarti Industries, we generate a substantial proportion of raw materials in-house.

Most chemical companies select to be present in large spaces marked by extensive competition.
At Aarti Industries, we have selected to be present in niche chemistry spaces with relatively low competition.

Most chemical companies seek to work with small global companies as a market-entry strategy.
At Aarti Industries, we have been engaged in multi-year relationships with a large number of leading global downstream customers.

At Aarti Industries, our business model complements that of our global customers

Most global downstream customers focus on downstream products and branding.
Aarti Industries has emerged as a dependable raw material provider for their growing needs (N-1 and N-2 stages).

Most global downstream customers are largely B2B or B2C in their engagement.
Aarti Industries is a dedicated B2B-focused company.

Most global downstream customers may need to absorb cost increases during volatile scenarios.
Aarti Industries is engaged in relationships that make it possible to pass cost variations to customers.

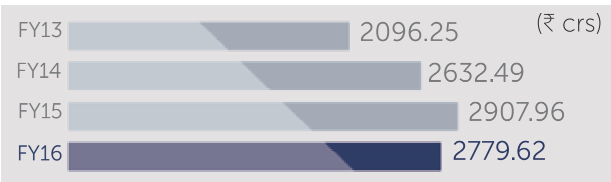
Most global downstream customers largely outsource their requirements.
Aarti Industries is engaged in insourcing its needs, emerging as a dependable outsourcing partner.

How we generated multi-year

REVENUES

-₹128 crs

Revenues



DEFINITION
Sales growth after deducting excise duties.

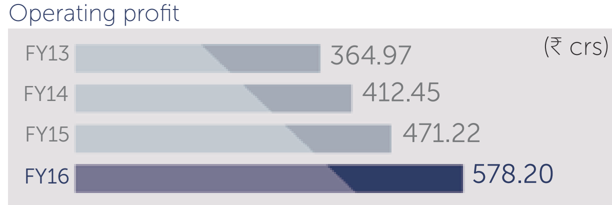
WHY WE MEASURE
This measure reflects the result of our capacity to understand market needs and service them with corresponding research, product launch and manufacture, stronger supply chain and funds management – the entire eco-system.

PERFORMANCE
Our aggregate sales (including subsidiaries) declined 4.41% to ₹2779.62 crs in FY15-16 on account of weakening crude prices, which influenced the Company's realizations, inspite of volume growth of about 10%.

OPERATING PROFIT

+₹107 crs

Operating profit



DEFINITION
What the Company earned before the deduction of interest, depreciation, extraordinary items and tax.

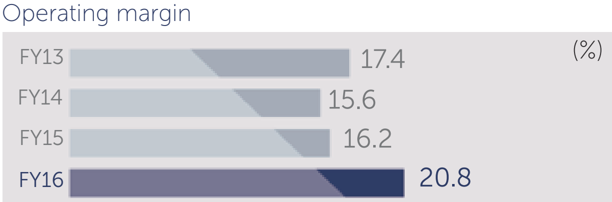
WHY WE MEASURE
This measure is an index of the Company's operating profitability.

PERFORMANCE
The Company's operating profit grew every single year through the last five years. The Company reported a 22.7% increase in its operating profit in FY15-16, which was one of the sharpest increases reported by the Company in any single year. This was the result of capacity investments, cost reduction, product mix changes and a larger share of the customer's wallet. A part of this growth was on account of a new subsidiary added in FY15-16.

OPERATING MARGIN MOVEMENT

+460 bps

Operating margin



DEFINITION
The movement in percentage points in operating profit before interest, depreciation, exceptional items and tax when divided by the Company's revenues.

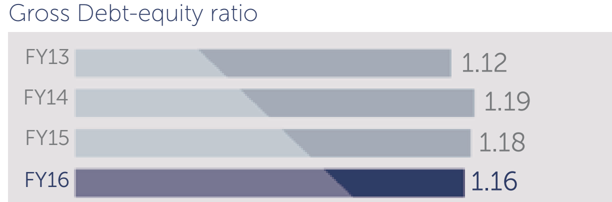
WHY WE MEASURE
This movement indicates whether the business is becoming more efficient or not. Aarti Industries is focused on a consistent increase in margins, higher than the sectoral average.

PERFORMANCE
Operating margin may not be a best index of appraisal review as the same is linked with input prices. In FY15-16, an associate was converted into a subsidiary, resulting in increase in operating profits and OPM. Hence this chart may not be a fair comparison of performance for the year under review.

GEARING

-0.02

Gross Debt-equity ratio



DEFINITION
This is derived through the ratio of debt to net worth (less revaluation reserves).

WHY WE MEASURE
This is one of the defining measures of a Company's financial health, indicating the ability of the Company to remunerate shareholders over debt providers. In turn, it indicates the ability of the Company to sustain growth in profits, margins and shareholder value.

PERFORMANCE
We recommend that this ratio be read in conjunction with net debt: operating profit (declining, indicating a growing ability to service debt). The Company's gearing strengthened from 1.18 to 1.16 in FY15-16.