

AARTI INDUSTRIES LIMITED

GLOBAL PARTNER OF CHOICE

ANNUAL REPORT 2016-17

Contents

Corporate Snapshot	2
Milestones	4
Chairman's Overview	6
Performance	10
Business Model	16
Corporate Information	26
10-Year Consolidated Financials	27
Corporate Social Responsibility	30
Management Discussion and Analysis	34
Directors' Report	46
Report on Corporate Governance	73
Standalone Financial Statements	86
Consolidated Financial Statements	123
Notice	154
Proxy form & Attendance slip	





What made it possible for Aarti Industries to post another successful year of profitable growth?

What made it possible for Aarti Industries to report revenue growth higher than the sectoral average?

What made it possible for Aarti Industries to report a return on employed capital higher than the previous year?

What made it possible for Aarti Industries to enhance EBIDTA by 13 per cent in 2016-17?

There is just one answer: the strength of the company's customer relationships.

Making Aarti Industries the global partner of choice.



AARTI INDUSTRIES LIMITED.

GLOBAL PARTNER OF CHOICE.

BECAUSE IT IS POSITIONED AS AN EXTENSION OF THE CUSTOMER'S PREMISES.

BECAUSE ITS PRODUCT VALUE STRENGTHEN THE CUSTOMER'S BUSINESS.

BECAUSE ITS COMPREHENSIVE PRODUCT RANGE PROVIDES A ONE-STOP CUSTOMER SOLUTION.

Vision

To be a 'Global Partner of Choice' to leading consumers across the globe of Speciality Chemicals and Intermediates for Pharmaceuticals, Agro Chemicals, Polymers, Pigments, Printing Inks, Dyes, Fuel additives, Aromatics, Surfactants and various other speciality chemicals.

Promoters

Aarti Industries was promoted by first-generation technocrats. Five of six promoter Directors are engineers; three of four founder-promoters are chemical engineers from Institute of Chemical Technology (formerly known as UDCT). Mr. Chandrakant Gogri, Founder Chairman, retired in August 2012 and advises the company's strategic direction in his capacity as Chairman Emeritus.

Background

Aarti Industries Limited is a leading Indian manufacturer of Specialty Chemicals and Pharmaceuticals with a global footprint. These products are used in the downstream manufacture of pharmaceuticals, agrochemicals, polymers & additives, fuel additive, rubber chemicals, 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 ₹6,285 cr as on 31st March, 2017.

Our knowledge capital

Aarti Industries comprises knowledge workers consisting of research professionals, senior strategy professionals and skilled shopfloor workers. The company comprises employees with technical, managerial and financial academic degrees.

Respect

Aarti Industries Limited is one of the most respected and competitive benzene-based speciality chemical companies in the world.

The company ranks between the global first and fourth position for 75 per cent of its product portfolio.

The company is a partner of choice for major global and domestic customers.

Competitive advantages

The company's competitiveness has been derived from extensive operational integration where the end product of one of process represents the raw material for the other. Integration across various products represents the basis of the company's cost leadership.

This integration across more than products represents the basis of the company's cost leadership.

The company is present in niche chemistry spaces.

The company is has been engaged in multi-product and multi-year relationships with several leading global customers.

Exports

Aarti Industries is a global provider of speciality chemical products. The company's exports accounted for 50 per cent of its revenues in 2016-17. These products were exported to some of the largest global downstream chemical companies across 60 countries.

Our big numbers

17
Manufacturing plants

2
USFDA units

3800+
Employees

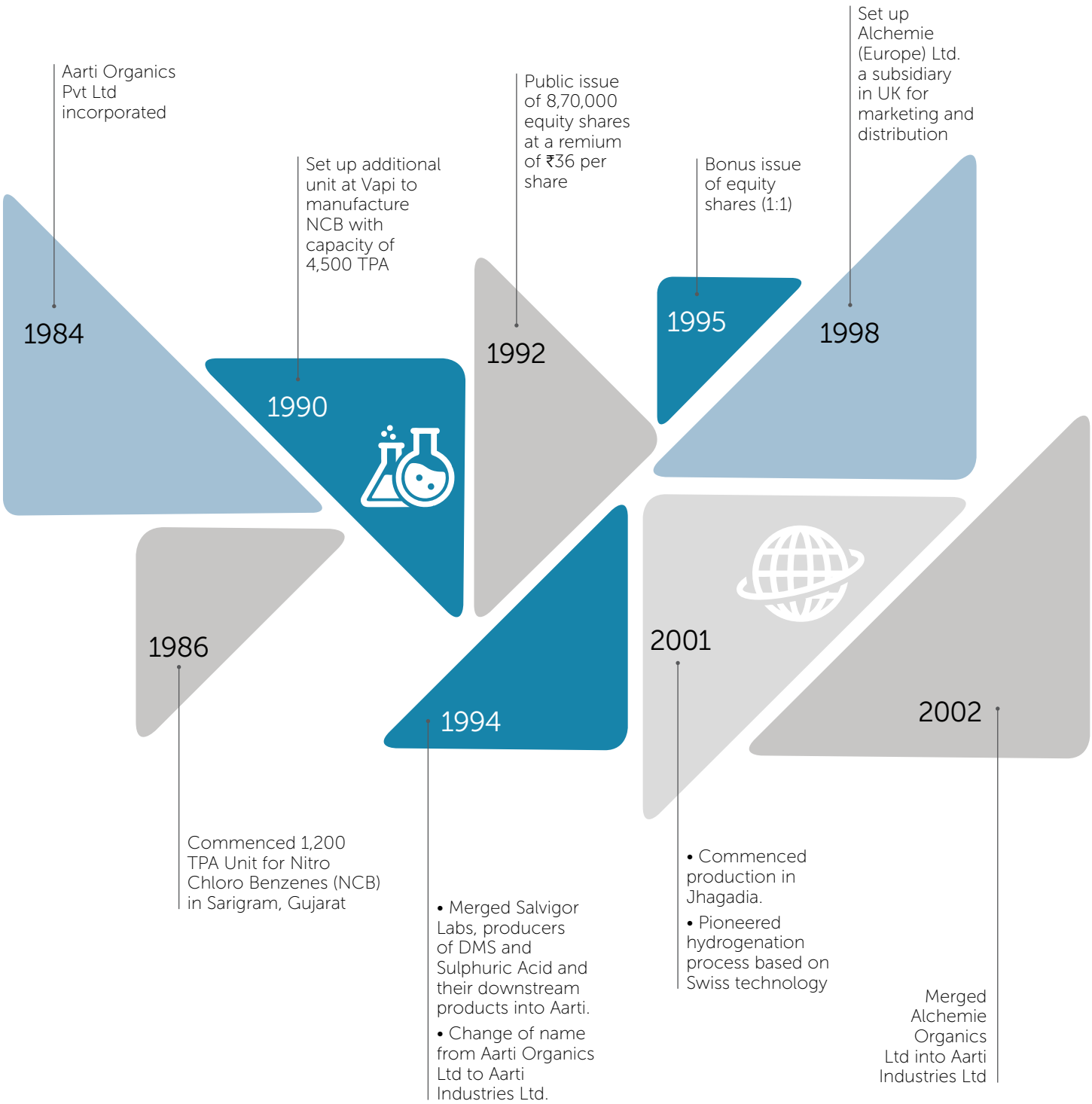
125+
Products

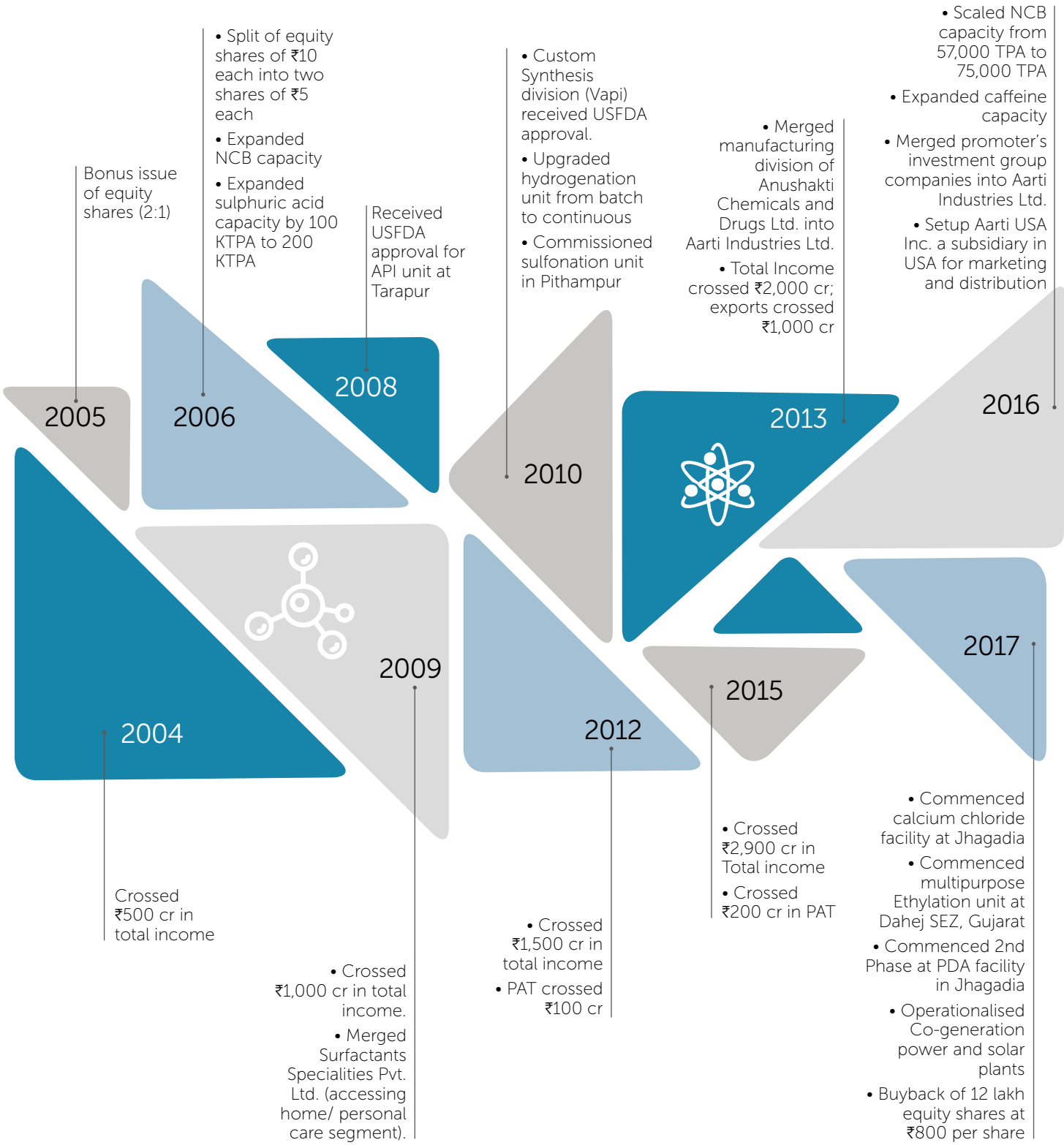
150+
Global customers

500+
Domestic customers

Aarti exports accounted for 50 per cent of its revenues in 2016-17

THIS IS HOW WE HAVE GROWN OVER THE YEARS




2004
Crossed ₹500 cr in total income
2005
Bonus issue of equity shares (2:1)
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 ₹1,000 cr 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 ₹1,500 cr in total income
• PAT crossed ₹100 cr
2013
• Merged manufacturing division of Anushakti Chemicals and Drugs Ltd. into Aarti Industries Ltd.
• Total Income crossed ₹2,000 cr; exports crossed ₹1,000 cr
2015
• Crossed ₹2,900 cr in Total income
• Crossed ₹200 cr in PAT
2016
• Scaled NCB capacity from 57,000 TPA to 75,000 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
2017
• Commenced calcium chloride facility at Jhagadia
• Commenced multipurpose Ethylation unit at Dahej SEZ, Gujarat
• Commenced 2nd Phase at PDA facility in Jhagadia
• Operationalised Co-generation power and solar plants
• Buyback of 12 lakh equity shares at ₹800 per share



CHAIRMAN'S OVERVIEW

GLOBAL PARTNER OF CHOICE

At Aarti Industries, Global Partner of Choice is a relevant theme for this year's annual report.

These four words do not just represent a thematic positioning; they encapsulate our operating philosophy. The statement describes not just what we do, but fundamentally what we are and what we believe.

The core philosophy of this statement resolves around one critical word: relationships. At Aarti Industries, we have always believed that the most successful those have inevitably been companies driven by the power of enduring relationships – with customers, vendors, employees and communities. The more stable this relationship, the stronger the business sustainability and related stakeholder value.

At Aarti Industries, this relationship-driven approach has paid rich dividends.

Our company has reported profitable growth (profit growth higher than revenue growth) in five years out of the last five.

Our Company enhanced EBITDA from ₹253 cr to ₹655 cr in the five years ending 2016-17.

Our company enhanced return on employed capital from 19 per cent five years ago to 24 per cent in 2016-17.

Our company was valued higher on the markets: from ₹470 cr as on 31 March 2012 to ₹6,285 cr as on 31 March 2017.

Aarti derived 43 per cent of revenues from the international markets in 2011-12; this increased to 50 per cent during the year under review

We believe that the improvements were achieved because we enriched our entire eco-system.

We generated more than 85 per cent of our 2016-17 revenues from customers with whom we had worked for five years or longer; virtually every single customer reported a larger quantum of purchase; and yet, our largest customer accounted for no more than 9 per cent of our 2016-17 revenues, indicating business broadbasing and corresponding de-risking.

Contextual background

At Aarti Industries, we believe that our partnership or relationship-driven approach is insurance in a challenging global industrial environment.

The global industrial environment has been marked by extensive global shifts over the last couple of decades.

The biggest shift has been the emergence of China as a competitive manufacturer of virtually every product, delivering in many cases products at prices that do not cover the conversion costs of manufacturers in developed countries.

The second driver of shift has been increased ageing in developed markets, making it difficult to replenish experienced professionals with younger talent. Besides, a number of these markets have been marked by higher capital expenditure and operating costs, making it necessary for a number of industrial companies to moderate their direct manufacture and increase their outsourcing.

The third driver has been the Black Swans of the global environment manifested in unexpected shocks that have often diverted the attention of industrial companies away from their core competence to fire-fighting, necessitating a wider managerial bandwidth.

The fourth driver has been a large expansion in global markets, partly arising out of wider global access to more markets on the one hand and partly out of increased incomes in the less-developed markets that have been driving consumption and enhanced lifestyle standards.

The net result of these phenomena is that a larger number of companies have capped their investments in facilities inside developed markets, commissioned facilities in developing markets – or taken a strategic call to moderate their manufacturing exposure and focused on product development and marketing.

As an extension of this reality, a number of large global customers have also graduated from having a large number of outsourcing vendors to a smaller number. The result is that whereas these companies brought small volumes from a large number of vendors or partners in the hope of deriving the most competitive prices from them, there has been a rethink towards the procurement of large volumes from few vendors today.

Even within this evolution in engagement format and frequency there has been a sensitive transformation: a larger number of global industrial players are graduating from vendor enlistments to strategic partnerships; the conventional cost arbitrage model is being replaced by knowledge arbitrage; short-term opportunism is being replaced by long-term stability and sustainability.

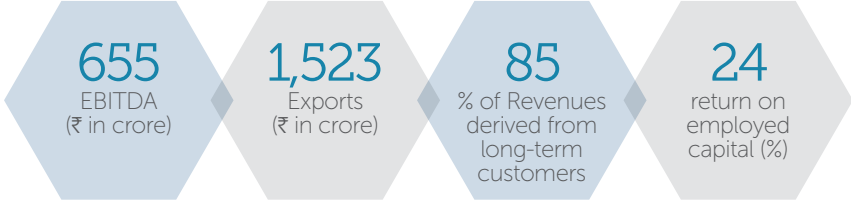
This contextual background represents the single most defining reason behind the significant transformation of Aarti Industries from a small-cap company a decade ago to one of the most prominent companies in its space India today.

Global

At Aarti Industries, the word 'global' is more than a geographic reference; it is also a reference to an excellence-driven mindset.

Over the years, we have graduated from a completely Indian focus to a global perspective. We derived 43

WHAT OUR GLOBAL DELIVERY MODEL ACHIEVED IN 2016-17



At Aarti, we believe that the value of our education has been immeasurable, the more demanding the client, the greater the education

per cent of our revenues from the international markets in 2011-12; this increased to 50 per cent during the year under review. Our international revenues were derived from over 60 countries.

Over the years, the increased proportion of revenues derived out of the global markets did more than merely enhance our revenues; it helped mature our company through an enhanced exposure to demanding (and often evolving) global standards; it exposed us to cutting-edge technologies; it exposed us to the highest standards of customer service; it exposed us to global mindsets in terms of business models; it exposed us to incipient shifts in marketplace realities.

We believe that the value of this education has been immeasurable, the more demanding the client, the greater the education. In turn, this inspired a number of one-time and on-going changes that have since strengthened our business sustainability.

In view of this, the word 'global is not intended to denote the destination of our sale; it stands for the origin of our ambition to graduate our company to the next level.

Partner

At Aarti, one of the biggest cascades arising out of our global presence has been in the evolution of our personality: from a vendor into a partner.

There is a significant difference between the two: a vendor stands outside the customer's personality; a partner represents an extension of the customer's personality. A vendor engagement could be one-off and transactional; a partner relationship is enduring. A vendor engagement provides profits for the moment; a partner relationship assures revenue visibility. A vendor engagement could be largely about profitability; a partner relationship is about business sustainability.

The most challenging phase in the existence of our company was in our evolution from vendor to partner. I am pleased to report that the company graduated with speed for a number of reasons that extended beyond timely and quality delivery. Most vendors offered customers a value that was derived out of a cost arbitrage; at Aarti, we graduated to a knowledge arbitrage that resulted in our offering enhanced product value to the customer's table. Most vendors provided products of the grades and standards that customers desired; Aarti went one step ahead to offer what we felt would take the business of our customers ahead. Most vendors delivered products; we provided the complete cultural eco-system comprising governance, values and client confidentiality. Most vendors provided an assurance of adequate product delivery for the day; Aarti offered the comfort of a robust Balance Sheet that made it possible to invest periodically out of accruals to service the growing consumption appetite of our customers.

They began to see possibilities that when they expanded their capacities of downstream products we would be in a position to invest proactively and participate in their growth; somewhere down the line, they recognised that we possessed the organizational depth to provide a range of products needed by their different plants across different countries, graduating us from the usual make-to-stock to the trusted make-to-order partner;

Choice

At Aarti Industries, we are under no illusion that large global downstream buyers have a number of choices when it comes to selecting vendors.

We believe that this reality is humbling, keeps us grounded and insecure in a positive kind of way.

Having said this, we derived security from the fact that we provide our customers one of the most compelling price-value propositions.

So what is this price-value proposition?

At Aarti Industries, we believe the core of this superior value is derived from one of the most competitive cost structures that we possess in the global speciality chemicals sector. This in turn translates into enhanced value in the hands of our customers, coupled with the superior service that we provide clients with speed.

What a number of our customers were quietly impressed was that Aarti had grown from its technocrat-originating background to a balance of hands-on promoter interests and pool of professional talent. They respected our decision to invest proactively in process and product research ahead of the curve; they were favourably inclined with our mix of conservatism and aggression; they were impressed with our specialised understanding of the benzene and toluene chains; the appreciated the fact that were a visible and listed company valued attractively on the Indian stock exchanges; they