

# Letter to the Shareholders

Dear Shareholders,

On September 15, 2017, our Company completed 70 years of incorporation – we reflect, with a sense of respect, upon how our predecessors built its foundations and with humility, upon how it has withstood the test of time. We do realise the responsibility we have to secure its future. The life of our illustrious Founder, Mr Kasturbhai Lalbhai, who perceived and perfected potential of the body to become an outward expression of the mind within, has left an enduring **legacy** of Values – integrity, humility, perseverance, excellence and larger purpose. The onus on the team Atul is to grow the business while nurturing this legacy.

The **world economy** at US\$ 79.8 tn grew by 3.8%, the fastest since 2011 – the USA, China and Japan remained at the top. Indian economy – ranked number six in the world – at US\$ 2.6 tn – grew by 6.7%, faster than it did in 2016. The world economy is likely to grow by 3.9% in 2018 as per estimate by IMF in April 2018. Favourable conditions are not likely to last beyond 2019, and now may be the moment for countries to get ready for leaner times as per IMF – investing in people, committing to clean environment and cooperating in trade so that the fruits of growth are widely shared. These, in a small way, are also efforts by our Company.

The world **Chemical industry** at US\$ 4.3 tn grew by 7%. The world Pharmaceutical industry at US\$ 1.75 tn grew by 6%. The two industries combined are ranked number 3 in the world economy. The Indian Chemical industry at US\$ 123 bn, grew by 11% and the Indian Pharmaceutical industry at US\$ 16 bn, grew by 8%. Chemical reactions occur when we breathe, exercise, eat, sleep and think. Almost all products we use in our daily life are enabled by chemistry! With depth in science and technology, our Company is well placed to expand its existing portfolio safely in an environment-friendly way and responsibly integrate in the journey of India.

Our Company achieved i) sales of ₹ 3,050 cr, higher by 16%, ii) volume growth of ₹ 350 cr or 16%, iii) EBITDA margin of 16%, lower by 2.5% points (mainly because of a stronger Rupee against the US\$) and iv) profit before tax of ₹ 396 cr, lower by 1%,

as compared with 2016-17. I obviously cannot justify stagnant **results** given the potential, but you may like to see them against the abysmal performance in the 1<sup>st</sup> quarter. Our Company repaid its entire debt – it became debt-free, for the first time since 1950. The Board has recommended dividend of 120%, the highest so far.

**Subsidiary and associate companies** are doing well – Atul Bioscience Ltd (100% Atul) and DPD (98% Atul) achieved PBT of ₹ 14 cr and ₹ 5 cr respectively, Amal Ltd (63% Atul) achieved PBT of ₹ 10 cr. Rudolf Atul Chemicals Ltd (50 – 50 joint venture company with Rudolf GmbH) achieved PBT of ₹ 14 cr. Atul Rajasthan Date Palms Ltd (74% Atul) is absorbing new technology and will take time to reach anticipated capacity utilisation. Anaven LLP (50 – 50 joint venture partnership with Akzo Nobel Chemicals International BV) is expected to commission its project in the last quarter of 2018-19.

The true measure of a company is determined by how it impacts others. **Atul Foundation Trust** continued in its own small way to work in the areas of national priorities – education (building and managing schools upto class 12), empowerment (building and managing institutions for skill development), health (organising medical camps), infrastructure (building toilets for the rural poor, installing street lights, repairing roads), conservation (greening through plantation) and relief (supporting cancer patients, other NGOs, etc) – our Company is continuing the legacy of its founding fathers of serving the society.

For **near-term**, the team Atul is working with rigour in three ways: firstly, it is improving existing processes (including their adherence) and institutionalising new ones to achieve higher levels of discipline, ownership and empowerment; secondly, (as I have stated earlier) it is possible to achieve sales of ₹ 4,000 cr without significant investments so the team Atul is working to make this happen soon and thirdly, it is debottlenecking and (or) expanding capacities of existing products of which it is unable to meet the current demand. Our Company is striving to achieve zero liquid discharge for all its key products.



Learning Centre, Atul

In addition to expanding capacities of several existing products, our Company is i) introducing new products in its seven non-retail verticals – every business has well-conceived plans for related | downstream products and ii) growing its two currently small retail businesses. Many of the limitations are generally internal – so higher performance will be a natural consequence when every concerned member of the team Atul, individually and collectively, looks within and becomes stronger – this is the endeavour. This gives me confidence that the **long-term future** will be beneficial to all the Stakeholders.

I am privileged to be a part of the team Atul which is endeavouring improvements and excellence in every area of operations and serving the customers. My colleagues and I value the critical analysis, encouragement and guidance of the distinguished Non-executive Directors (the Board of our Company was rated amongst the best 50 in India by Korn Ferry Hay Group). The team Atul fully accepts the dynamic expectations of its customers; this cycle of evolution ensures **continuous learning and improvement** – I thank every member of the team who is engaged in this process and is helping our Company renew consistently.

There are five types of efforts required – envisioning (purpose), learning (knowledge), persevering (skill), introspecting (thoughtfulness) and perfecting (excellence) – before we see results. It may be difficult to see good results in a sustainable way unless this cycle of five steps is completed. It is our endeavour to internalise this approach to work.

It is aptly said that the mind can explore the depths of oceans and the heights of mountains – this is its power, but to do this properly, it must first prepare, train and silence itself.

The Learning Center at Atul is developed with the idea that learning is a continuous and never-ending process which makes us better human beings in our personal, professional, social and spiritual lives.

The financial results have shown again that future is not obliged to span out as planned, but I wish to assure you of the resolve of the team Atul to summon the courage and bring out the best to realise the potential of our Company. As our Company enters its 71<sup>st</sup> year, we have pledged to ensure that we remain a learning organisation – learning never exhausts the mind; it enriches us to do better. We will focus on the three pillars of **sustainability** – economic, environmental and social – relentlessly no matter what the obstacles. Actions and results are part of the same process with different timings, and we will work keeping this eternal truth in focus.

Sincerely,

(Sunil Siddharth Lalbhai)  
**Chairman and Managing Director**