

Dear Members,

The Board of Directors (Board) presents the Annual Report of Atul Ltd together with the audited Financial Statements for the year ended March 31, 2018.

## 01. Financial results

(₹ cr)

	2017-18	2016-17
Sales	3,050	2,639
Revenue from operations	3,148	2,848
Other income	38	43
Total revenue	3,186	2,891
Profit before tax	397	400
Provision for tax	127	115
Profit for the year	270	285
Balance brought forward	1,397	1,145
Transfer from Comprehensive Income	3	3
Disposable surplus	1,670	1,433
Less:		
Dividend paid	30	30
Dividend distribution tax (net)	3	6
Balance carried forward	1,637	1,397

## 02. Performance

Sales increased by 16% from ₹ 2,639 cr to ₹ 3,050 cr mainly due to higher volumes (12%) and prices (4%). Sales in India increased by 24% from ₹ 1,239 cr to ₹ 1,536 cr. Sales outside India increased by 8% from ₹ 1,400 cr to ₹ 1,514 cr. The Earnings per share decreased from ₹ 96.18 to ₹ 91.16. Cash flow from operating activities before working capital changes marginally decreased by 1% from ₹ 485 cr to ₹ 480 cr and the net cash flow from operating activities decreased by 12% from ₹ 370 cr to ₹ 325 cr.

Sales of Life Science Chemicals (LSC) Segment increased by 27% from ₹ 807 cr to ₹ 1,026 cr, mainly because of higher sales in Sub-segments Crop Protection and Pharmaceuticals; its EBIT decreased by 8% from ₹ 130 cr to ₹ 120 cr. Sales of Performance and Other Chemicals (POC) Segment increased by 10% from ₹ 1,832 cr to ₹ 2,024 cr mainly because of higher sales in Sub-segments Aromatics - II and Polymers; its EBIT decreased by 3% from ₹ 290 cr to ₹ 281 cr. More details are given in the Management Discussion and Analysis (MDA) Report.

The Company fully repaid entire borrowings of ₹ 155 cr despite payment towards capital expenditure of ₹ 114 cr during the year.

Credit Analysis and Research Ltd (CARE) maintained its credit rating at 'AA+' (double A plus) for long-term borrowings of the Company. Its rating for short-term borrowings and commercial paper remained at 'A1+' (A1 plus), the highest possible awarded by CARE.

## 03. Dividend

The Board recommends payment of dividend of ₹ 12 per share on 2,96,61,733 equity shares of

₹ 10 each fully paid up. The dividend will entail an outflow of ₹ 42.91 cr {including dividend distribution tax (net)} on the paid-up Equity share capital of ₹ 29.66 cr.

## 04. Conservation of energy, technology absorption, foreign exchange earnings and outgo

Information required under Section 134 (3) (m) of the Companies Act, 2013, read with Rule 8 (3) of the Companies (Accounts) Rules, 2014, as amended from time to time, forms a part of this Report which is given at page number 24.

## 05. Insurance

The Company has taken adequate insurance to cover the risks to its employees, property (land and buildings), plant, equipment, other assets and third parties.

## 06. Risk Management

Risk Management is an integral part of business practices of the Company. The framework of Risk Management concentrates on formalising a system to deal with the most relevant risks, building on existing management practices, knowledge and structures. With the help of a reputed international consultancy firm, the Company has developed and implemented a comprehensive Risk Management System to ensure that risks to the continued existence of the Company as a going concern and to its growth are identified and remedied on a timely basis. While defining and developing the formalised Risk Management System, leading standards and practices have been considered. The Risk Management System is relevant to business reality, pragmatic and simple and involves the following:

- i) Risk identification and definition – Focused on identifying relevant risks, creating | updating clear definitions to ensure undisputed understanding along with details of the underlying root causes | contributing factors.
- ii) Risk classification – Focused on understanding the various impacts of risks and the level of influence on its root causes. This involves identifying various processes generating the root causes and a clear understanding of risk interrelationships.
- iii) Risk assessment and prioritisation – Focused on determining risk priority and risk ownership for critical risks. This involves assessment of the various impacts taking into consideration risk appetite and the existing mitigation controls.
- iv) Risk mitigation – Focused on addressing critical risks to restrict their impact(s) to an acceptable level (within the defined risk appetite). This involves a clear definition of actions, responsibilities and milestones.
- v) Risk reporting and monitoring – Focused on providing to the Board and the Audit Committee periodic information on risk profile evolution and mitigation plans.

## Roles and responsibilities

### Governance

The Board has approved the Risk Management Policy of the Company. The Company has laid down procedures to inform the Board on i) to iv) above. The Audit Committee periodically reviews the Risk Management System and gives its recommendations, if any, to the Board. The Board reviews and guides the Risk Management Policy.

### Implementation

Implementation of the Risk Management Policy is the responsibility of the Management. It ensures functioning of the Risk Management System as per the guidance of the Audit Committee. The Company has Risk Management Oversight Structure in which each Sub-segment has a Chief Risk and Compliance Officer.

The Management at various levels takes accountability for risk identification, appropriateness of risk analysis, and timeliness as well as adequacy of risk mitigation decisions at both individual and aggregate levels. It is also responsible for the implementation, tracking and reporting of defined mitigation plans, including periodic reporting to the Audit Committee and the Board.

## 07. Internal Financial Controls

The Internal Financial Controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Financial Statements.

These include those policies and procedures that:

- i) pertain to the maintenance of records which in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company,
- ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Financial Statements in accordance with Generally Accepted Accounting Principles and that receipts and expenditures are being

made only in accordance with authorisations of the Management and the Directors of the Company,

- iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the assets that can have a material effect on the Financial Statements. A reputed international consultancy firm has reviewed the adequacy of the Internal Financial Controls with respect to the Financial Statements.

The Management assessed the effectiveness of the Internal Financial Controls over financial reporting as of March 31, 2018, and the Board believes that the controls are adequate.

## 08. Fixed deposits

During 2017-18, the Company did not accept any fixed deposits.

## 09. Loans, guarantees, investments and security

Particulars of loans, guarantees, investments and security provided are given at page numbers 114 and 116.

## 10. Subsidiary, associate and joint venture companies

During 2017-18, Aaranyak Urmi Ltd was incorporated as a wholly-owned subsidiary company, Amal Ltd became a subsidiary company and Anaven LLP, a 50:50 partnership with AkzoNobel BV, was incorporated. There were no other changes in the subsidiary, associate and joint venture companies which were reported earlier.

## 11. Related Party Transactions

All the transactions entered into with the Related Parties were in ordinary course of business and on arm's length basis. Details of such transactions are given at page number 125. No transactions were entered into by the Company which required disclosure in Form AOC-2.

## 12. Corporate Social Responsibility

Composition of the Corporate Social Responsibility (CSR) Committee, the CSR Policy and the CSR Report are given at page number 27.

## 13. Extract of the Annual Return

This is given at page number 31.

## 14. Auditors

### Statutory Auditors

Deloitte Haskins & Sells LLP, Chartered Accountants were appointed as the Statutory Auditors of the Company at the 40<sup>th</sup> Annual General Meeting (AGM) held on July 28, 2017 until the conclusion of the 45<sup>th</sup> AGM subject to ratification by the Members at every AGM. The recent amendments in law have dispensed with the requirement of ratification of the Statutory Auditors in AGM subsequent to their appointment. Considering the change in law, it is proposed to ratify the appointment of Deloitte Haskins & Sells LLP for the year ending on March 31, 2019 and pass appropriate resolution in the ensuing AGM for dispensing with the requirement for such ratification from the next year onwards.

The relevant Notes forming part of the accounts are self-explanatory and give full information and explanation in respect of the observations made by the Auditors in their report.

## Cost Auditors

The Shareholders ratified the appointment of R Nanabhoy & Co as the Cost Auditors for 2017-18 on July 28, 2017.

## Secretarial Auditors

Mr A C Doshi, Practicing Company Secretary was appointed as the Secretarial Auditor on April 29, 2015. Mr A C Doshi along with 3 other partners formed a partnership firm SPANJ & Associates, Company Secretaries. The Board appointed SPANJ & Associates, Company Secretaries, as the Secretarial Auditors for 2017-18 on March 23, 2018, and their report is given at page number 42.

## 15. Directors' responsibility statement

Pursuant to Section 134 (5) of the Companies Act, 2013, the Directors confirm that, to the best of their knowledge and belief:

- 15.1 The applicable Accounting Standards were followed along with proper explanations relating to material departures in the preparation of the annual accounts.
- 15.2 The Accounting Policies were selected and applied consistently and judgements and estimates were made that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that period.
- 15.3 Proper and sufficient care was taken for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- 15.4 The attached annual accounts for the year ended March 31, 2018 were prepared on a going concern basis.
- 15.5 Adequate Internal Financial Controls to be followed by the Company were laid down; and they were adequate and operating effectively.
- 15.6 Proper systems were devised to ensure compliance with the provisions of all applicable laws and the same were adequate and operating effectively.

## 16. Directors

- 16.1 Appointments | Reappointments | Cessations
  - 16.1.1 According to Article 86 of the Articles of Association of the Company, Mr B N Mohanan retires by rotation and being eligible, offers himself for reappointment at the forthcoming AGM scheduled on July 27, 2018.
  - 16.1.2 Subject to the approval of the Members in the AGM:
    - i) Mr S S Lalbhai was reappointed as the Chairman and Managing Director effective July 01, 2019 for a period of 5 years.
    - ii) Mr B S Mehta was appointed as an Independent Director effective June 01, 2018 for a period of 5 consecutive years.
    - iii) Mr S M Datta was reappointed as an Independent Director effective April 01, 2019 for a second term of 5 consecutive years.
    - iv) Mr V S Rangan was reappointed as an Independent Director effective April 01, 2019 for a second term of 5 consecutive years.
  - 16.1.3 Approval of the Members in the AGM is being sought for continuance of Mr R A Shah as a Non-executive Director and Mr B R Arora as an Independent Director.
- 16.2 Policies on appointment and remuneration

## 16.2.1 Appointment

While recommending appointment of the Directors, the Nomination and Remuneration Committee considers the following factors:

- i) Qualification: well-educated and experienced in senior leadership positions in industry | profession
- ii) Traits: positive attributes and qualities
- iii) Independence: criteria prescribed in Section 149 (6) of the Companies Act, 2013 for the Independent Directors, including no pecuniary interest and conflict of interest

## 16.2.2 Remuneration of the Non-executive Directors

- i) Sitting fees: up to ₹ 35,000 for attending a Board, Committee and any other meeting
- ii) Commission: up to 1% of net profit as may be decided by the Board based on the following factors:
  - a. Membership of Committee(s)
  - b. Profit
  - c. Attendance
  - d. Category (Independent or Non-independent)

## 16.2.3 Remuneration of the Executive Directors

This is given under para number 17.2.

## 16.3 Criteria and method of annual evaluation

- 16.3.1 The criteria for evaluation of performance of a) the Non-independent Directors (Executive) b) the Non-independent Directors (Non-executive) c) the Independent Directors d) the Chairman e) the Committees of the Board and f) the Board as a whole are summarised in the table at the end of the Directors' Report at page number 22.
- 16.3.2 The Independent Directors have carried out annual:
  - i) review of performance of the Non-independent Directors – Executive,
  - ii) review of performance of the Non-independent Directors – Non-executive,
  - iii) review of performance of the Chairman,
  - iv) assessment of quality, quantity and timeliness of the flow of information to the Board,
  - v) review of performance of the Board as a whole.
- 16.3.3 The Board has carried out annual evaluation of performance of:
  - i) its Committees namely Audit, Nomination and Remuneration, Stakeholders Relationship, Corporate Social Responsibility and Investment,
  - ii) the Independent Directors.

The templates for the above purpose were circulated in advance for feedback of the Directors.

- 16.4 Familiarisation Program for the Independent Directors
 

The Company has Familiarisation Programs for its Independent Directors. It comprises, amongst others, presentations by and discussions with the senior Management on the nature of the industries in which it operates, its vision and strategy and its organisation structure. A visit is organised to one or more of its manufacturing sites. Details of the program are also available at <https://www.atul.co.in/about/directors/>

## 17. Key Managerial Personnel and other employees

- 17.1 Appointments and cessations of the Key Managerial Personnel
 

There were no appointments | cessations of the Key Managerial Personnel during 2017-18.

- 17.2 Remuneration  
The Remuneration Policy of the Key Managerial Personnel and other employees consists the following:
- 17.2.1 Components:
- i) Fixed pay
    - a. Basic salary
    - b. Allowances
    - c. Perquisites
    - d. Retirals
  - ii) Variable pay
- 17.2.2 Factors for determining and changing fixed pay:
- i) Existing compensation
  - ii) Education
  - iii) Experience
  - iv) Salary bands
  - v) Performance
  - vi) Market benchmark
- 17.2.3 Factors for determining and changing variable pay:
- i) Business performance
  - ii) Individual performance
  - iii) Grade

## 18. Analysis of remuneration

The information required pursuant to Sections 134 (3)(q) and 197 (12) of the Companies Act, 2013 read with Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 in respect of employees of the Company, forms part of this Report. However, as per the provisions of Sections 134 and 136 of the Act, the Report and the Accounts are being sent to the Members and others entitled thereto excluding the information on employees' particulars which are available for inspection by the Members at the registered office of the Company during business hours on working days of the Company up to the date of ensuing AGM.

Any Member interested in obtaining a copy of such statement may write to the Company Secretary at the registered office of the Company.

## 19. Management Discussion and Analysis

The Management Discussion and Analysis Report covering performance of the 2 reporting Segments, namely, LSC and POC, is given at page number 46.

## 20. Corporate Governance Report

20.1 Statement of declaration given by the Independent Directors.

The Independent Directors have given declarations under Section 149 (6) of the Companies Act, 2013.

## 20.2 Report

The Corporate Governance Report along with the certificate from the Practicing Company Secretary regarding compliance of the conditions of Corporate Governance pursuant to Regulation 34 (3) read with Schedule V of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 is given at page number 53. Details about the number of meetings of the Board held during 2017-18 are given at page number 56. The composition of the Audit Committee is given at page number 59.

All the recommendations given by the Audit Committee were accepted by the Board.

## 20.3 Whistle-blowing Policy

The Board, on the recommendation of the Audit Committee, had approved a vigil mechanism (Whistle-blowing Policy). The policy provides an independent mechanism for reporting and resolving complaints pertaining to unethical behaviour, actual or suspected fraud and violation of the Code of Conduct of the Company and is displayed on the website (of the Company) at <https://www.atul.co.in/investors/policies>

No personnel has been denied access to the Audit Committee.

## 20.4 Secretarial Standards

Secretarial Standards as applicable to the Company were followed and complied with during 2017-18.

## 21. Business Responsibility Report

As per Regulation 34 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Business Responsibility Report is given at page number 68.

## 22. Dividend Distribution Policy

As per Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Dividend Distribution Policy is given at page number 74.

## 23. Acknowledgements

The Board expresses its sincere thanks to all the employees, customers, suppliers, lenders, regulatory and Government authorities, Stock Exchanges and investors for their support.

For and on behalf of the Board of Directors

Mumbai  
June 01, 2018

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

## Table

Evaluation of	Evaluation by	Criteria
Non-independent Director (Executive)	Independent Directors	Qualification, Experience, Availability and attendance, Integrity, Commitment, Governance, Transparency, Communication, Business leadership, People leadership, Investor relations
Non-independent Director (Non-executive)	Independent Directors	Qualification, Experience, Availability and attendance, Integrity, Commitment, Governance, Independence, Communication, Preparedness, Participation and Value addition
Independent Director	All other Board Members	Qualification, Experience, Availability and attendance, Integrity, Commitment, Governance, Independence, Communication, Preparedness, Participation and Value addition
Chairman	Independent Directors	Qualification, Experience, Availability and attendance, Integrity, Commitment, Governance, Impartiality, Communication, Business leadership, People leadership and Meeting conduct
Committees	Board Members	Composition, Process and Dynamics
Board as a whole	Independent Directors	Composition, Process and Dynamics