

CHAIRMAN'S MESSAGE



Dear Shareholders,

It is always a privilege to share with you the performance of your Company as well as update you on our future growth strategy. FY 2017-18 has been an eventful year with the US economy continuing to improve on key macro-parameters like employment and consumer spending. In Europe too, most economies showed a positive upturn, except the UK, which continues to face the Brexit challenge. The Chinese economy demonstrated strong resilience.

In India, the highlight of the year was without doubt, the implementation of the Goods and Services Tax (GST). GST is one of the largest indirect tax reforms aimed at creating an unprecedented level playing field with one-nation, one-tax approach, ease of business. A second consecutive normal monsoon added to positivity, as GDP grew by 6.7% for the year.

Our Performance

Your Company has continued to excel across its business segments in the Financial Year (FY) 2017-18. The performance of your Company has been satisfactory on all fronts – customer satisfaction, profitability, expansion, Research and Development (R&D) and HSE standards.

The global agrochemicals, polymer, pigments and pharmaceutical companies have been transforming their procurement models. They are gradually moving away from cost arbitrage-based vendor establishments to knowledge arbitrage-based strategic partnerships. Assured long-term supply and superior

quality have become prerequisites of any supply contract nowadays. That said, the cost competitiveness continues to be important.

Amidst this operating context, your Company has benefited and will continue to benefit tremendously from the trend of rationalisation of vendor base.

In the Financial Year gone by, we secured two multi-year contracts from marquee customers, giving us the revenue visibility of ₹ 14,000 Crs over the contract tenure. This speaks volumes about our long-standing relationships with our clients and the trust they have in us.

Securing multi-year contracts underlines our fundamental vision – to emerge as a Global Partner of Choice for major customers through lasting relationships based on mutual trust and a strong value proposition.

In FY 2017-18, the global crude oil prices rose by 33%. The pass-through

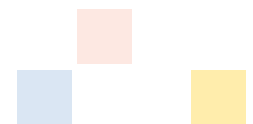
mechanism in our business model shields us from the raw material price fluctuations. Our thrust on integrated product chain and consistent quality of products gives us an additional edge over our competitors.

Globally, the chemicals industry has been undergoing some tectonic shifts. Indian companies focussed on speciality chemicals with better compliance standards are expected to be the major beneficiaries of the growing trend of easternisation and reduction of capacities in China on environmental concerns.

This will give us exciting growth opportunities, and I am glad to tell you, your Company is gearing up for the next phase of growth.

As you might be aware, your Company holds the leadership position in the various product ranges and chemistries. We are the preferred partners of over 300 international corporations and that of about 700 Indian companies.

At Aarti, we define our purpose as 'Right Chemistry for a Brighter Tomorrow' where 'Brighter Tomorrow' means products which are needed for society, i.e. products which help the society make their future bright and 'Right Chemistry' means the way in which we manufacture these products.



New Opportunities

We are also exploring new growth opportunities beyond Benzene derivatives Chemistry. In September 2017, the Nitrotoluene facility at Jhagadia (Gujarat) became operational, and by the end of FY 2017-18, it reached 40% utilisation. We expect this facility to achieve its peak utilisation over the next 3-4 years with an estimated revenue visibility of ₹ 350-400 Crs per annum.

The pharma segment is also gaining significant momentum. While the revenues have been growing at over 20%, the EBIT has doubled in the last 3 years. Our optimism in this segment remains strong.

With various projects in hand, we are looking at investing further in various greenfield as well as brownfield projects.

A way to responsible growth...

Growth is never a zero-sum game and if it affects the environment, then it defeats all the primary objectives it's meant to achieve.

While we see the trend of easternisation in the chemical industry, which is further extending to India, as an exciting opportunity; sustainability and responsible growth remains a top priority.

At Aarti, we define our purpose as '**Right Chemistry for a Brighter Tomorrow**' where '**Brighter Tomorrow**' means products which are needed for society, i.e. products which help the society make their future bright and '**Right Chemistry**' means the way in which we manufacture these products. These include products such as foods, agrochemicals, lifestyle drugs, high performer polymers, etc.

Uncontrolled growth of industry without relative and adequate measures on environment protection and conservation always possess a threat to the environment. Although environmental compliances in India are more stringent as compared to those in China, the harsh reality is that India too faces the ecological challenges of equal magnitude.

At Aarti, we take a holistic approach to growth. Throughout our journey

over the last 34 years, we have been continuously focussing on achieving higher standards of human and environmental safety and never looked upon safety merely as a compliance practice. In your Company's transformation from a vendor to a preferred global partner, human and environmental safety has always been the priority area for us.

While we take immense pride in being the global partner of choice today, we understand the responsibilities that come along with this status. We continue with our commitment to human and environmental safety.

I thank all our stakeholders for their continued support and trust in the management. Also, on a personal note, I request you to take a small step every day to make this world less polluted and a better place to live.

Warm regards,

Rajendra Gogri
Chairman and Managing Director