

Directors' Report

To,
The Members of
AARTI INDUSTRIES LIMITED

Your Directors are pleased to present this Thirty Fifth Annual Report and the Audited Statement of Accounts for the year ended March 31, 2018.

Financial Highlights

(Figures in ₹ Crores)

Particulars	STANDALONE		CONSOLIDATED	
	2017-18	2016-17	2017-18	2016-17
Total Income from Operations (Net)	3699	3050	3806	3163
EBIDTA (without other income)	657	608	699	654
Depreciation & Amortization	136	115	146	123
Profit/(Loss) from Operations before Other Income, Finance Costs and Exceptional Items	521	493	553	531
Other Income/Exceptional Items	2	3	8	2
Profit/(Loss) before Finance Costs	523	496	561	533
Finance Costs	131	117	132	117
Profit/(Loss) before Tax	392	379	429	416
Total Tax Expenses	76	72	83	88
Non-controlling Interest	-	-	(13)	(12)
Net Profit/(Loss) after consolidation	316	307	333	316
Earnings Per Share (₹)	38.92	37.35	40.95	38.45
Book Value Per Share (₹)	186.37	159.53	203.62	173.69

Financial Performance

Your Company reported Gross Total Income of ₹ 3,699 Crores for FY 2017-18 as compared to ₹ 3,050 Crores for FY 2016-17. Similarly the exports for the year were of ₹ 1,593 Crores for FY 2017-18 as compared to ₹ 1,415 Crores for FY 2016-17.

Your Company's Earnings Before Interest Depreciation and Taxes stood at ₹ 659 Crores for FY 2017-18 as compared to ₹ 611 Crores for FY 2016-17, registering a growth of 8%. Net Profit Before Tax rose by 4% to ₹ 392 Crores for FY 2017-18 as compared to ₹ 379 Crores for FY 2016-17.

Net Profit after Tax & Deferred Tax also grew by 3% to ₹ 316 Crores for FY 2017-18 as compared to ₹ 307 Crores for FY 2016-17.

The Consolidated Total Income for FY 2017-18 was of ₹ 3,806 Crores as compared to ₹ 3,163 Crores for FY 2016-17 and exports for FY 2017-18 were ₹ 1,691 Crores as compare to ₹ 1,523 Crores for FY 2016-17.

On a Consolidated basis, your Company's Earnings Before Interest Depreciation and Taxes stood at ₹ 707 Crores for FY 2017-18 as compared to ₹ 655 Crores for FY 2016-17, registering a growth of 8%. Net Profit after consolidation grew by 5% to ₹ 333 Crores for FY 2017-18 as compared to ₹ 316 Crores for FY 2016-17. Consolidated EPS surged by about 7% at ₹ 40.95 for FY 2017-18, as compared to ₹ 38.45 for FY 2016-17.

Dividend

Your directors are pleased to recommend a Dividend of ₹ 1 (@20%) per Share (of ₹ 5/-each) amounting to dividend pay out of ₹ 8.13 Crores for the financial year 2017-18 (Previous Year ₹ 8.21 Crores). Your Company will pay the Tax on dividend as per the provisions of the income Tax Act, 1961.

Transfer to Reserves

Your Company has transferred ₹ 32 Crores to General Reserve (Previous Year: ₹ 31 Crores) and ₹ 30 Crores to Debenture Redemption Reserve (Previous Year: ₹ 30 Crores).

Company has transferred to Capital Redemption Reserve ₹ 0.41 Crores equal to the nominal value of the shares bought back as on appropriation from the General Reserve.

Share Capital

The Company had on March 15, 2018 completed Buyback of 8,20,383 (Eight Lakh Twenty Thousand Three Hundred Eighty Three) fully paid up Equity Shares (representing up to about 1% of the total number of Equity shares of the Company) from the Equity Shareholders/ Beneficial owners of the Company who held Equity Shares as on the record date i.e. January 5, 2018 (**"Record Date"**) on a proportionate basis through the tender offer using stock exchange mechanism (**"Tender offer"**) at a price of ₹ 1200/- (Rupees One Thousand Two Hundred Only) per Equity Share (**"Buyback Price"**). The number of Equity Shares thus reduced from 8,21,20,383 to 8,13,00,000 post Buyback and accordingly Issued, Subscribed and Paid-up Capital reduced to ₹ 40,65,00,000/-

Apart from the above, there were no changes in the Share Capital during the Financial Year under review.

Investor Education and Protection Fund (IEPF)

Pursuant to the applicable provisions of the Companies Act, 2013 read with IEPF Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 ('the Rules') all unpaid or unclaimed dividends are required to be transferred by the Company to the IEPF established by the Government of India, after the completion of seven years. Further, according to the rules, the shares on which Dividend has not been paid or claimed by the Shareholders for seven consecutive years or more shall be transferred to the Demat account of the IEPF Authority. Accordingly the Company has transferred the unclaimed and unpaid dividends of ₹ 14,99,573/- to IEPF and 2,56,266 such shares were transferred as per the requirement of the IEPF Rules.

Management's Discussion and Analysis Report

Management's Discussion and Analysis Report for the year under review, as stipulated under Regulation 34 read with Schedule V to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), is presented in a separate section forming part of the Annual Report.

Corporate Governance

Corporate Governance essentially involves balancing the interests of a Company's stakeholders. Corporate Governance practices of our Company are a reflection of our values, policies and relationship with our stakeholders. Your Company has complied with the mandatory Corporate Governance requirements stipulated under Regulation 34(3) of the Listing Regulations. Report on Corporate Governance is annexed hereto forming part of this report.

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 in **Annexure–E**.

Directors / Key Managerial Personnel (KMPs)

Vice Chairman, Shri Shantilal T. Shah (DIN: 00004850) and Whole time Director, Shri Parimal H. Desai (DIN: 00009272), of the Company shall retire by rotation at the ensuing Annual General Meeting (AGM) and being eligible, offers themselves for re appointment.

Shri Radheshyam S. Rohra (DIN: 00163318), who was appointed as an additional Director in the category of Independent Director by the Board of Directors effective from December 21, 2017, has been proposed by the Board based on recommendation of Nomination and Remuneration Committee (NRC), to be appointed as an Independent Director as such at ensuing AGM.

Present Term of Prof. Ganapati D. Yadav (DIN: 02235661) and Smt. Priti P. Savla (DIN: 00662996) Independent Directors of the Company would be expiring on September 23, 2018. Your Directors based on recommendation of Nomination and Remuneration Committee (NRC) propose their re-appointment as an Independent Directors for a second term by passing a special resolution.

Shri Raj Sarraf has been appointed as the Company Secretary and Compliance Officer of the Company with effect from November 16, 2017 in place of Smt. Mona Patel who resigned with effect from November 14, 2017.

Familiarisation Programme

The Independent Directors of the Company were familiarised and the details of familiarisation programmes imparted to them are placed on the website of the Company and the web link thereto is <http://aarti-industries.com/investors/corporategovernance/>

Remuneration and Nomination Policy

The Board of Directors has framed a policy which lays down a framework in relation to remuneration of Directors, Key Managerial Personnel and Senior Management of the Company. The policy also lays down criteria for selection and appointment of Board Members.

The details of this policy are given in the Corporate Governance Report.

Board Evaluation

Pursuant to the provisions of Companies Act, 2013 and the SEBI (Listing Obligation and Disclosure Requirements) Regulations 2015, a structured questionnaire was prepared after taking into consideration, various aspects of the Board's

functioning, composition of the Board and its Committees, culture, execution and performance of specific duties, obligations and governance.

The performance evaluation of the Independent Directors was completed. The performance evaluation of the Chairman and Non-Independent Directors was carried out by the Independent Directors. The Board of Directors expressed their satisfaction with the evaluation process.

Independent Directors' Declaration

All Independent Directors have given declarations in the prescribed format that they meet the criteria of independence as laid down under Section 149(6) of the Companies Act, 2013 and Regulation 16 of the SEBI (Listing Obligation and Disclosure Requirements) Regulations 2015.

Directors' Meetings

The details of the number of meetings of the Board held during the Financial Year 2017-18 forms part of the Corporate Governance Report. Maximum gap between two meetings did not exceed 120 days, as prescribed in the Companies Act, 2013.

Human Resources Development and Industrial Relations

The Company enjoyed excellent relationship with workers and staff during the year under review. The Company care for its Stakeholders, Customers, Suppliers and Community at large which reflects in company's policy, programs and development efforts. Your Company is committed to build and strengthen our human capital by defining policies that support their growth, goals, and help them achieve excellence. As on March 31, 2018 the Company had 4,642 permanent employees at its manufacturing plants and administrative offices.

Disclosure Under the Sexual Harassment of Women at Work Place (Prevention, Prohibition and Redressal) Act, 2013

Your Company has Zero tolerance towards any action on the part of any one which may fall under the ambit of 'Sexual Harassment' at workplace, and is fully committed to uphold and maintain the dignity of every women working with the Company. The Policy framed by the Company in this regard provides for protection against sexual harassment of women at workplace and for prevention and redressal of such complaints.

Particulars	No. of Complaints
Number of Complaints pending as on beginning of the Financial Year	NIL
Number of Complaints filed during the Financial Year	NIL
Number of Complaints pending as on the end of the Financial Year	NIL

Personnel

The statement containing particulars of employees as required under Section 197(12) of the Companies Act, 2013 read with rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is given in an Annexure and forms part of this report.

In terms of Section 136(1) of the Companies Act, 2013, the Report and the Accounts are being sent to the Members excluding the aforesaid Annexure. Any Member interested in obtaining a copy of the Annexure may write to the Company Secretary at the Registered Office of the Company for a copy of it.

Corporate Social Responsibility

Our company through, Aarti Foundation & Dhanvallah Charitable Trust and various other NGOs has been doing work in following Segments:

- ▶ Cluster & Rural Development
- ▶ Education & Skill Development
- ▶ Childcare & Healthcare Facilities
- ▶ Women Empowerment & Livelihood Opportunities
- ▶ Disaster Relief & Rehabilitation
- ▶ Eradication of Hunger & Poverty
- ▶ Water Conservation & Environment
- ▶ Research & Development work for upliftment of Society

Rural Education, Water Conservation, Tribal Welfare, Agriculture, Animal Husbandry, Health and Hygiene, Disaster Relief and Rehabilitation, are the main areas of focus in the social welfare plans of our CSR Activities. Many of our Pilot projects had been appreciated by various NGO's and Other Corporate Houses who have also started adopting those models thereby multiplying the magnitude of the reach of these social activities for the benefit of the Society at large.

The detailed policy on Corporate Social Responsibility is available on the website of the Company on the weblink <http://aarti-industries.com/investors/corporategovernance/>

A brief note on various CSR initiatives undertaken during the year is presented earlier in this Annual report.

CSR annual report is annexed as **Annexure-A** and forms an integral part of the Report.

Material Changes and Commitments

The Board of Directors in their meeting held on June 28, 2018 has approved the Scheme of Arrangement pertaining to demerger of Home & Personal Care Segment of the Company into Arti Surfactants Limited and demerger of manufacturing under taking of Nascent Chemical Industries Limited into Company.

Company has incorporated a wholly owned subsidiary, Arti Surfactants Limited on June 18, 2018 for proposed demerger and absorption of Home & Personal Care under taking.

Auditors

Statutory Auditors

In the 35th Annual General Meeting (AGM) of the Company Re-appointment of M/s. Kirtane & Pandit LLP (Firm Registration No: 105215W/ W100057), Chartered Accountants would be considered by the members of the Company to hold office from the conclusion of 35th AGM until the conclusion of 39th AGM of the Company.

Cost Auditors

The Cost Auditor Ms. Ketki D. Visariya (Fellowship No.16028), Cost Accountant was re-appointed by the Company under provisions of Section 148(5) read with Section 141 of the Companies Act, 2013 and she attended the Audit Committee Meeting, where cost audit reports are discussed.

The due date for filing the Cost Audit Reports in XBRL mode for the Financial Year ended March 31, 2017 was September 30, 2017 and the Cost Audit Reports were filed on September 27, 2017. The due date for filing the Cost Audit Reports for the Financial Year ended March 31, 2018 is September 30, 2018.

The Company is seeking the ratification from the Shareholders for the Remuneration of Ms. Ketki D. Visariya, Cost Auditor of the Company for the Financial Year ending March 31, 2019 vide resolution no. 13 of the Notice of AGM.

Secretarial Auditor & Their Report

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and rules made thereunder, the Company has appointed CS Sunil M. Dedhia (COP No. 2031), Proprietor of Sunil M. Dedhia & Co., Company Secretaries to undertake the Secretarial Audit of the Company. The Secretarial Audit Report is included as **Annexure D** and forms an integral part of this Report.

Explanation or Comments on disqualifications, reservations, adverse remarks or disclaimers in the auditor's reports:

There have been no disqualifications, reservations, adverse remarks or disclaimers in the auditor's reports, requiring explanation or comments by the Board.

Risk Management

Risk Management Committee through its dynamic risk management framework continuously identifies, evaluates and takes appropriate measures to mitigate various elements of risks.

Internal Control Systems and Their Adequacy

Your Company has clearly laid down policies, guidelines and procedures that form part of internal control systems, which provide for automatic checks and balances. Your Company has maintained a proper and adequate system of internal controls. This ensures that all Assets are safeguarded and protected against loss from unauthorized use or disposition and that the transactions are authorised, recorded and reported diligently. Your Company's internal control systems commensurate with the nature and size of its business operations. Internal Financial Controls are evaluated and Internal Auditors' Reports are regularly reviewed by the Audit Committee of the Board.

Statutory Auditors Report on Internal Financial Controls as required under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act") is annexed with the Independent Auditors' Report.

Business Responsibility Reporting

Business Responsibility Reporting for the year under review, as stipulated under Regulation 34 read with SEBI Circular No CIR/CFD/CMD/10/2015 dated November 4, 2015 is in a separate section forming part of Annual Report.

Safety, Health and Environment

Your Company is committed to ensure a sound Safety, Health and Environment (SHE) performance related to its activities, products and services. Your Company had been continuously taking various steps to develop and adopt Safer Process technologies and unit operations. Your Company has been investing heavily in areas such as Process Automation for increased safety and reduction of human error element, Enhanced level of training on Process and Behaviour based safety, adoption of safe & environmental friendly production process, Installation of Bioreactors, Chemical ROs, Multiple effect evaporator and Incinerator, etc to reduce the discharge of effluents, commissioning of Waste Heat recovery systems, and so on to ensure the Reduction, Recovery and Reuse of effluents & other utilities. Monitoring and periodic review of the designed SHE Management System are done on a continuous basis.

Some of the ongoing initiatives in this regard are briefed below:

Introducing Aarti Management System: An in-house developed framework of 32 elements detailing procedures and processes catering to all Plant Related Activities - 3 elements namely MOC (to manage change), BBS (major root causes of incidents

are due to behaviour) and Permit Systems catering to reduce SHE related risks had been launched and being implemented at various levels of operations. Other elements are being developed and reviewed and would be adopted in due course

Review Existing Process Safety Parameters: Structured & regular HAZOP meetings are being carried out as per scheduled HAZOP calendar to further strengthen process safety of existing processes. Also HIRA (Hazard Identification and Risk Assessment) for procedures and practices are being initiated for some of the units and would be gradually implemented across various units.

Maintenance element with a purpose to achieve rated performance of assets throughout rated life is being launched. Standardisation of maintenance practices are under progress. Also the Plant Maintenance module (an IT enabled solution) are also being implemented with an objective to map and monitor all maintenance activities through the IT enabled system. This would help to have online reporting and tracking of various scheduled and unscheduled maintenance breakdown activities.

Systematic and well documented scale up procedure including risk assessment and process safety study at each stage of development from R&D to Pilot to Commercial Scale, to ensure inherently safe processes, has been developed.

With these and various other initiatives, your Company firmly places the SHE at the top of its goals and aims to provide a workplace which is safer and healthier for the society at large.

Related Party Transactions

All related party transactions that were entered into during the Financial Year were on arm's length basis and carried out in the ordinary course of the business. There are no materially significant related party transactions made by the Company with Promoters, Key Managerial Personnel or other designated persons which may have potential conflict with interest of the Company at large.

All related party Transactions are presented to the Audit Committee for approval. Omnibus approval is obtained for the transactions which are foreseen and repetitive in nature. A statement of all related party transactions is presented before the Audit Committee on quarterly basis, specifying the nature, value and terms and conditions of transactions.

The related party transactions policy is uploaded on the Company's website at the web-link given below :

<http://aarti-industries.com/investors/corporategovernance/>

The details of Related party transactions are provided in the accompanying financial statements.

Since all related party transactions entered into by the Company were in ordinary course of business and were on an arms length's basis, Form AOC-2 is not applicable to Company.

Whistle Blower Policy

The Company has a whistle blower policy to report genuine concerns or grievances. The Whistle Blower policy has been posted on the website of the Company and the web link thereto is <http://aarti-industries.com/investors/corporategovernance/>

Particulars of Loans, Guarantees or Investments

Details of Loans, Guarantees and Investments covered under the provisions of Section 186 of the Companies Act, 2013 are given in the Notes to the financial statements.

Deposits

The Company did not have any deposits at the beginning of the year under review. The Company has neither accepted nor renewed any deposits during the year under review.

The Company does not have any deposits which are not in compliance with the requirements of Chapter V of the Companies Act, 2013.

Annual Return

The details forming part of the extract of Annual Return in the Form MGT-9, as required under Section 92 of the Companies Act, 2013 is included in the Report as **Annexure-B** and forms an integral part of the Report.

Subsidiary Companies

The Company has 7 (Seven) direct subsidiaries, namely, Aarti Corporate Services Limited, Alchemie (Europe) Limited, Innovative Envirocare Jhagadia Limited, Ganesh Polychem Limited, Aarti USA Inc., Aarti Polychem Private Limited, Arti Surfactants Limited (incorporated on June 18, 2018) and 2 (two) indirect subsidiaries namely Shanti Intermediates Private Limited and Nascent Chemical Industries Limited both hold through Aarti Corporate Services Limited.

During the year, the Board of Directors reviewed the affairs of the subsidiaries. In accordance with Section 129(3) of the Companies Act, 2013, we have prepared consolidated financial statements of the Company and all its subsidiaries, which form part of the Annual Report.

Further a statement containing salient features of the financial statement of our Subsidiaries in the prescribed format AOC-1 is included in the Report as **Annexure-C** and forms an integral part of this Report. The statement also provides the details of performance, financial position of each of the Subsidiaries.

Material Subsidiary

The Company does not have any material subsidiary whose net worth exceeds 20% of the consolidated net worth of the Company in the immediately preceding Financial Year or has generated 20% of the consolidated income of the Company during the previous Financial Year. A policy on material subsidiaries had been formulated and is available on the website of the Company and the web link thereto is <http://aarti-industries.com/investors/corporategovernance/>

Dividend Distribution Policy

As per Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, the top 500 listed companies shall formulate a dividend distribution policy. Accordingly, the policy has been adopted to set out the parameter and circumstances that will be taken in to account by the Board in determining the distribution of dividend to its shareholders and/ or retaining profits earned by the company. A policy is available on the website of the Company and the web link thereto is <http://aarti-industries.com/investors/corporategovernance/>

Significant and Material Orders Passed by the Regulators or Courts

There are no significant material orders passed by the Regulators/Courts which would impact the going concern status of the Company and its future operations.

Directors' Responsibility Statement

To the best of their knowledge and belief and according to the information and explanations obtained by them, your Directors make the following statements in terms of Section 134(3)(c) of the Companies Act, 2013 :

- a. That in the preparation of the annual financial statements for the year ended March 31, 2018, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- b. That the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are 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;

- c. That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the Assets of the Company and for preventing and detecting fraud and other irregularities;
- d. That Directors' have prepared the annual accounts on a going concern basis;
- e. The directors, had laid down internal financial controls to be followed by the Company and that such internal financial controls are adequate and were operating effectively;
- f. The directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Acknowledgement

The Board of Directors places on record its sincere appreciation for the dedicated services rendered by the employees of the Company at all levels and the constructive co-operation extended by them. Your Directors would also like to express their grateful appreciation for the assistance and support by all Shareholders, Government Authorities, Auditors, Financial Institutions, Customers, employees, suppliers, other business associates and various other stakeholders.

For and on behalf of the Board

Place : Mumbai

Date: June 28, 2018

Rajendra V. Gogri

Chairman and Managing Director

Cautionary Statement

Statement in the Annual Report describing the Company's objectives, projections, expectations and estimates regarding future performance may be "Forward Looking Statements" and are based on currently available information. The Management believes these to be true to the best of its knowledge at the time of preparation of this Report. However, these statements are subject to certain future events and uncertainties, which could cause actual results to differ materially from those which may be indicated in such statements.