Aarti Industries Limited

Q3 & 9M FY17 Results Presentation

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Content

At a glance

Profile

Aarti is one of the most competitive benzene-based speciality chemical companies in the world

Globally ranks at 1st – 4th position for 75% of its portfolio. “Partner of Choice ” by various Major Global & Domestic Customers.

Promoters are First Generation Technocrats

- 5 of 6 Promoter Directors are engineers. 3 of 4 Founder Promoters are chemical engineers from ICT (formerly known as UDCT)
- Shri Chandrakant Gogri, Founder Chairman, retired in August 2012 and advises in the capacity as Chairman Emertius

Highly integrated operations

- Cost-efficient processes
- Extensively integrated across more than 70 products

Present in niche chemistry spaces. Multi-year multi-product relationships with several leading global customers

16	2	3,250+	125+	150+	500+
Manufacturing Plants	USFDA Units	Employees	Products	Global Customers	Domestic customers

Speciality Chemicals

- Polymer & additives
- Agrochemicals & intermediates
- Dyes, Pigments, Paints & Printing Inks
- Pharma Intermediates
- Fuel Additives, Rubber chemicals, Resins, etc.
- Fertilizer & Nutrients

Pharmaceuticals

- Active Pharmaceutical Ingredients (APIs)
- Intermediates for Innovators & Generic Companies

Home & Personal Care

- Non-ionic Surfactants
- Concentrates for shampoo, hand wash & dish wash

	Speciality Chemicals	Pharmaceuticals	Home & Personal Care
Revenue in Rs. crore	2,265	383	132
EBIT in Rs. crore	504	39	-

Transformation Journey

Hitting right milestones at right time

1984

Aarti Organics Pvt Ltd incorporated

1986

Commenced 1,200 TPA Unit for Nitro Chloro Benzenes (NCB) in Sarigram, Gujarat

1990

Set up additional unit at Vapi to manufacture NCB with capacity of 4,500 TPA

1992

Public issue of 8,70,000 equity shares at a premium of Rs.36 per share

1994

- Merged Salvigor Labs, producers of DMS and Sulphuric Acid and their downstream products into Aarti.
- Change of name from Aarti Organics Ltd to Aarti Industries Ltd.

1995

Bonus issue of equity shares (1:1)

1998

Set up Alchemie (Europe) Ltd. a subsidiary in UK for marketing and distribution

2001

- Commenced production in Jhagadia.
- Pioneered hydrogenation process based on Swiss technology

2002

Merged Alchemie Organics Ltd into Aarti Industries Ltd

2004

Crossed Rs.500 cr in total income

2005

Bonus issue of equity shares (2:1)

Transformation Journey

2006

- Split of equity shares of Rs.10 each into two shares of Rs. 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 Rs. 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 Rs. 1,500 cr in total income
- PAT crossed Rs. 100 cr

2013

- Merged manufacturing division of Anushakti Chemicals and Drugs Ltd. into Aarti Industries Ltd.
- Total Income crossed Rs. 2,000 cr; exports crossed Rs. 1,000 cr

2015

- Crossed Rs. 2,900 cr in Total income
- Crossed Rs. 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 8,000-10,000 tpa multipurpose Ethylation unit at Dahej SEZ, Gujarat
- Commenced 2nd Phase at PDA facility in Jhagadia, from 450 tpm to 1,000 tpm
- Buyback of 12 lakh equity shares at price of Rs. 800 per share

What differentiates us

Product mix comprises more than 125 research-led products	Most chemical companies focus on a handful of products
We have focused on the manufacture of integrated derivatives	Most chemical companies focus on a fragmented standalone product mix
We have global capacities & are better placed for scale-up	Most chemical companies serve local markets
We have selected to focus on customers across continents	Most chemical companies do not have a diversified geographic mix
We are seamlessly backward integrated for precursor materials	Most chemical companies are completely dependent on external resource supplies
We have selected to be present in niche chemistry spaces with relatively low competition	Most chemical companies select to be present in large spaces marked by extensive competition
We have been engaged in multiyear relationships with a large number of leading global downstream customers	Most chemical companies seek to work with small global companies as a market-entry strategy

Global Partner of Choice

Aarti Industries is a rare instance of a global speciality chemicals company that combines process chemistry competence (recipe focus) with scale-up engineering competence (asset utilization)

Transformed from

- Make-to-stock to robust Make-to-order
- Vendor servicing to Partner of Choice

Our business model complements that of our global customers

Product innovation aligned to customer's future growth

Capex scale synched to customer expansion objectives

Multiproduct, multi-year relationship

- >80% of FY16 revenues from 5+ yrs customers
- Growth across all customers

Committed to SH&E

- Invested >Rs. 200 cr in last 5 yrs
- 4 Zero Discharge units
- Reduce-Reuse-Recover

Key Investment Theme

Clear Path to Value Creation

Global leadership in key products – ranked #1 - #5

Increasing focus on high margin products and high value knowledge based industries

De-risked portfolio – multiple products, multiple customers, multiple geographies, multiple end-user industries

Economies of Scale and Operational Efficiency:

- Highly Backward Integrated and gainful usage of by-products, ensuring steady supply of Intermediates
- Constant Drive to Improve Process Efficiency has reduced Opex Costs

Global Partner of Choice engagements with target customers, cross selling across value chain

Balanced capacity model:

- Agile operations enable higher customization and value maximization – process driven production provides flexibility to change product based on market dynamics

Quality and environment polices mapped to global benchmarks ensuring customer confidence and business sustainability

Strong financial profile:

- Track record of revenue growth, value addition and margin expansion
- Strong execution has delivered ROCE improvement on growth investments

Best placed to capture Industry trends like Easternization and Supplier Country Diversification

- MNC's looking to increase their share of procurement from India
- India finding favor vis-à-vis China

Leadership excellence – established record of execution

Quarterly Performance

Chairman's Message

Commenting on the performance for Q3 & 9M FY17, Mr. Rajendra Gogri – Chairman & M.D. at Aarti Industries Ltd. said,

"I am happy to report a healthy performance in Q3, with a 10% YoY growth in volumes. This performance is particularly pleasing given a subdued global scenario for some speciality chemicals segments and a challenging environment domestically resulting from demonetization. Our profitability continues to expand with a 16% YoY growth in EBITDA and 22% in PAT, indicating the quantum of value addition from our product mix and the strength of our core competencies.

Our performance is in line with our stated targets and we are set to end the year on strong note. The capex program is progressing as per plan; the pathway to an enhanced future is set where our progress will unfold in line with our growth investments backed by constant innovation. Aarti Industries is at the cusp of robust sustainable growth in "Partner of Choice" relationships, revenues, profits, returns and value creation ".

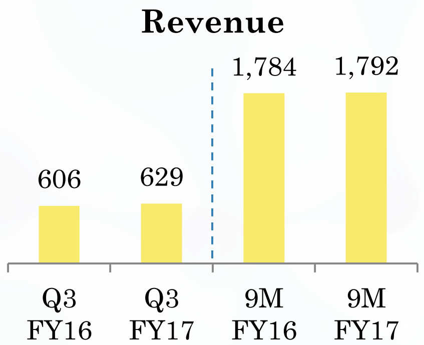
Q3 & 9M FY17 P&L (Standalone)

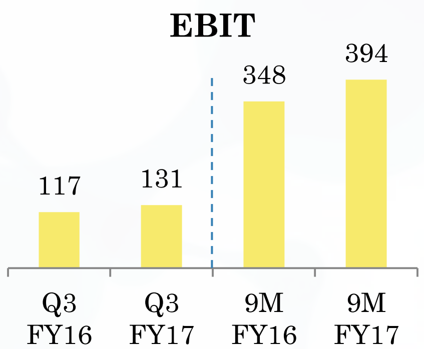
Particulars (Rs. Crore)	9M FY17	9M FY16	Y-o-Y Growth (%)	Q3 FY17	Q3 FY16	Y-o-Y Growth (%)
Gross Income from Operations	2,215.88	2,189.87	1.2%	770.23	744.90	3.4%
Net Income from Operations	2,067.70	2,018.29	2.4%	718.24	678.77	5.8%
Exports	1,029.48	986.85	4.3%	376.43	348.44	8.0%
% of Total Income*	*49.8%*	*48.9%*		*52.4%*	*51.3%*	
EBITDA	455.81	393.39	15.9%	150.23	129.98	15.6%
EBITDA Margin*	*22.0%*	*19.5%*		*20.9%*	*19.1%*	
EBIT	373.44	327.66	14.0%	121.76	107.91	12.8%
EBIT Margin*	*18.1%*	*16.2%*		*17.0%*	*15.9%*	
PAT	232.35	182.83	27.1%	73.84	60.72	21.6%
PAT Margin*	11.2%	9.1%		10.3%	8.9%	
EPS (Rs.)	28.29	21.94	28.9%	8.99	7.29	23.32%

**Calculated as a percentage of net income from operations*

- Depreciation has increased as new production facilities have been operationalized
- Despite expansion of operations, financing costs are under control and debt coverage is improving
- Replaced portion of dollar denominated loans with INR debt

Q3 & 9M FY17 – Speciality Chemicals



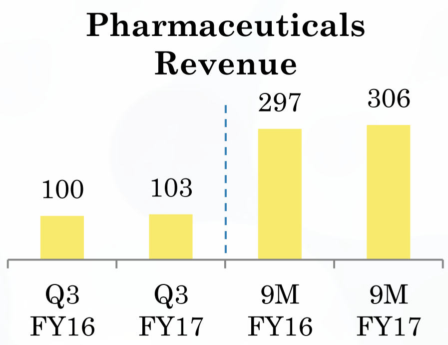


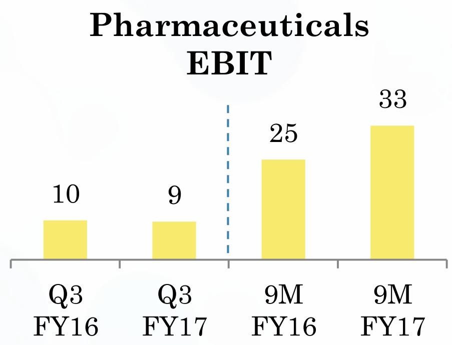
- Speciality Chemicals volume growth increased by 10% YoY
- Revenues are linked to pass through of key raw-material prices
- EBIT expanded by 12.0% as value addition component of revenues continues to increase by leveraging wide range of products

(Rs. Crore)

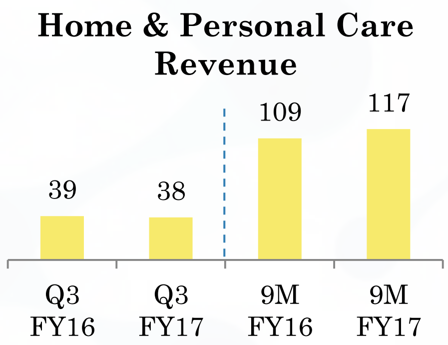
Q3 & 9M FY17 – Other Businesses

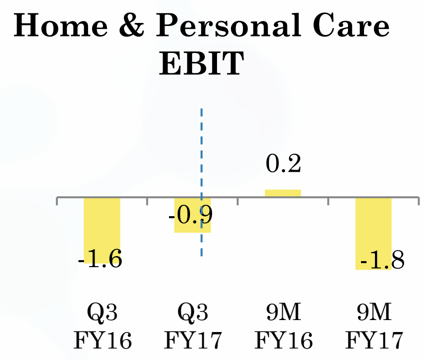
- Debottlenecking and expansion activities have facilitated growth in pharma volumes
- Since major fixed costs already built-in, incremental volumes will result in significant increase in segmental profits
- Focusing on off-patented generics to be supplied in regulated markets
- cGMP compliant plants meeting ICH Q7 standards enabling buyers to use API in all regulated markets
- 48 commercial APIs with 33 EDMF, 28 USDMF and 16 CEP. 12 new APIs under development
- 60% exports coming from US and EU with 4 commercial products in US and several other awaiting partners approval
- Distinct advantage having dedicated USA, Japan and EU approval for steroids and anti-cancer products
- Own Backward integrated facilities for most APIs





- Non-ionic surfactants, shampoo, hand wash, dish wash
- Recently debottlenecked some operations to expand capacities
- Focus on export-oriented products

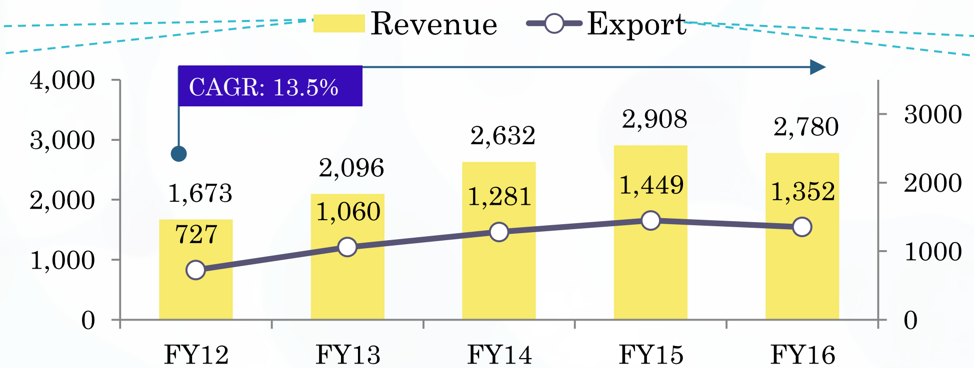




5 year financial performance

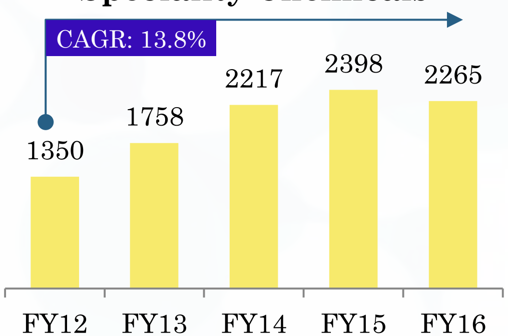
Revenue Performance (Consolidated)

Operating revenues have grown on the back of strong volume growth in key business segments and better product mix. Top line is a function of variations in raw material prices especially crude

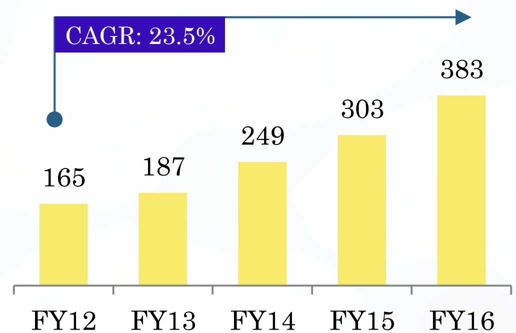


Deep engagement with global customers in Speciality chemicals and pharma. In addition, part of domestic revenues are indirect exports.

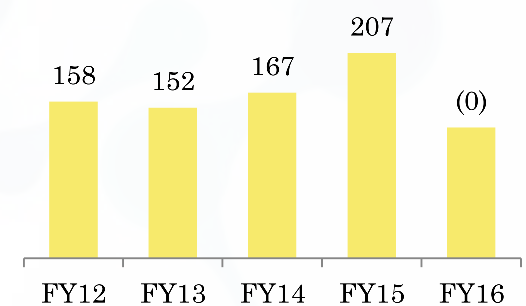
Speciality Chemicals



Pharmaceuticals



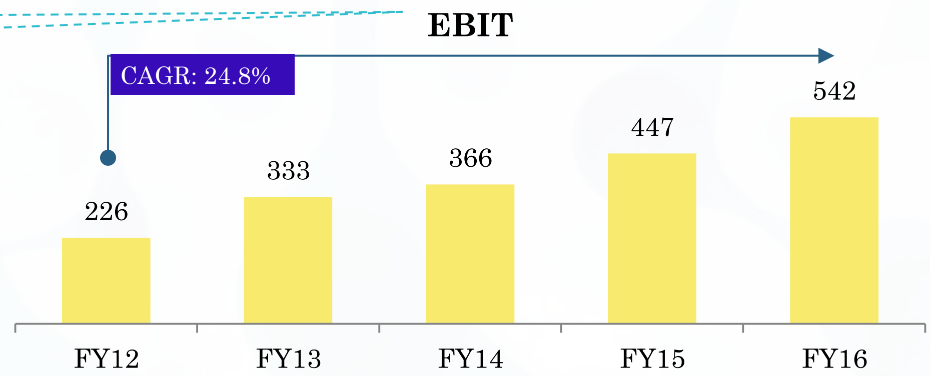
Home & Personal Care

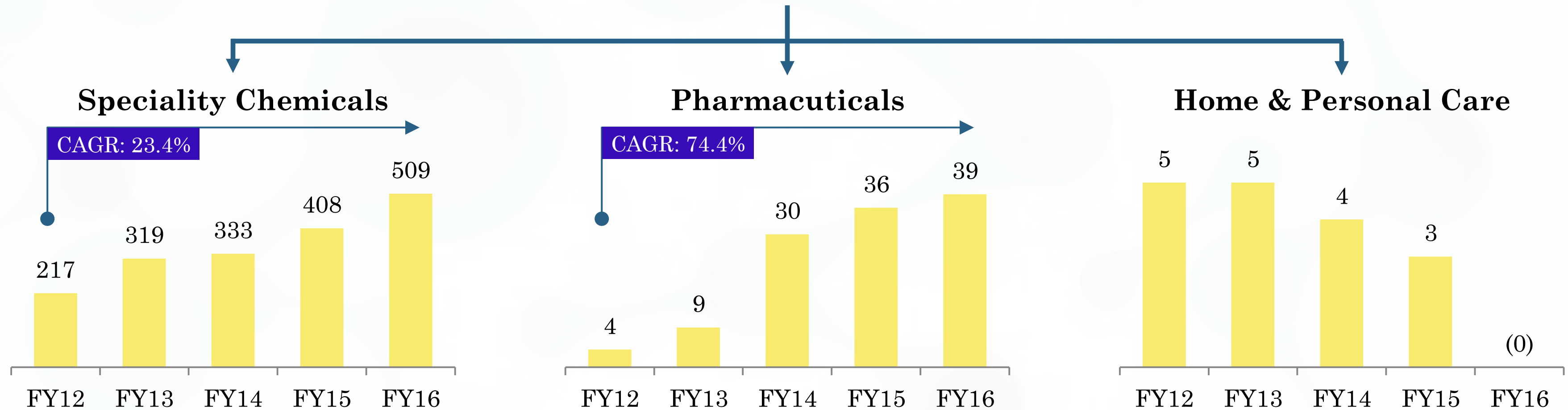


(Rs. Crore)

EBIT Performance (Consolidated)

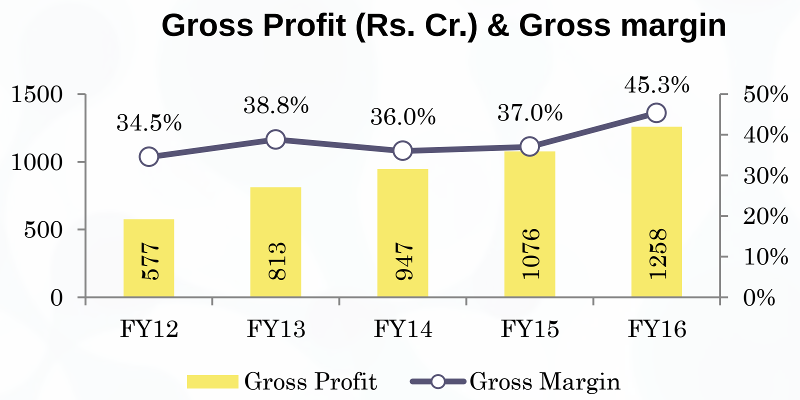
Higher growth relative to revenue highlights value addition delivered by AIL

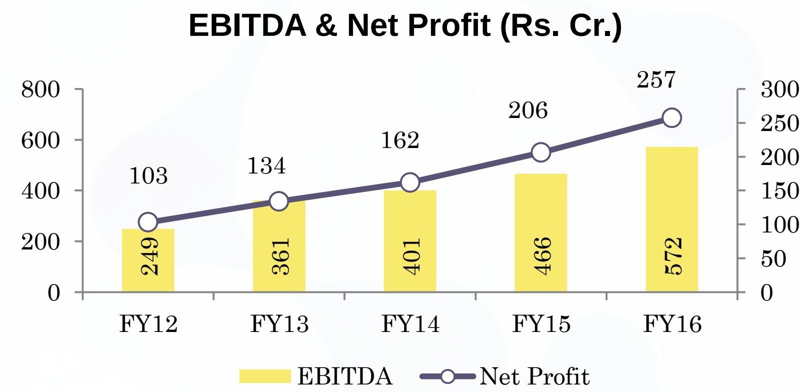


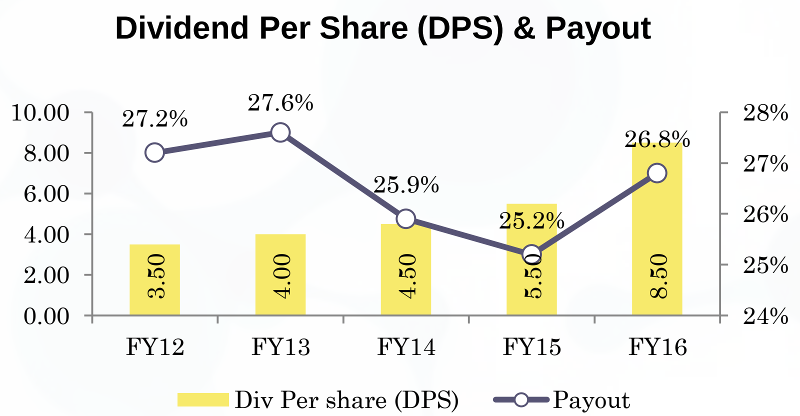


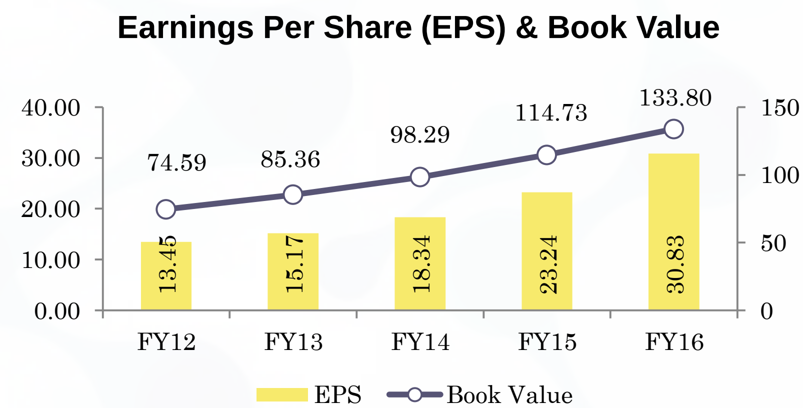
(Rs. Crore)

Financial Highlights – (Consolidated)

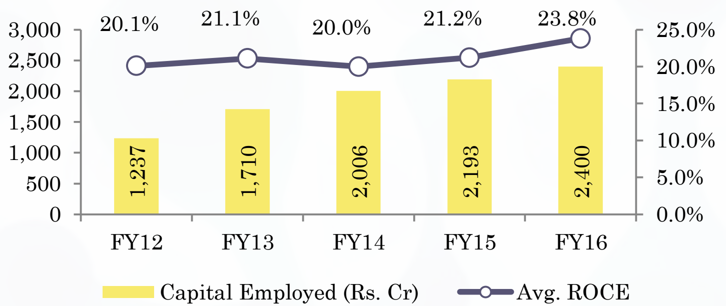


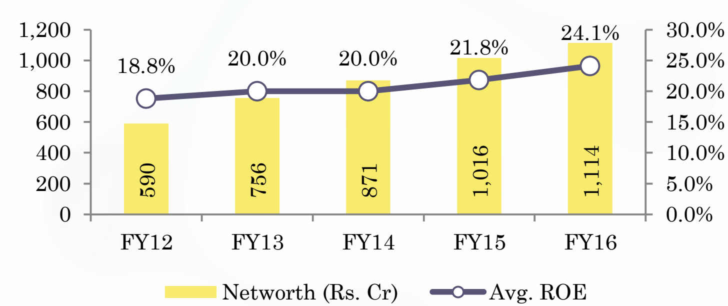




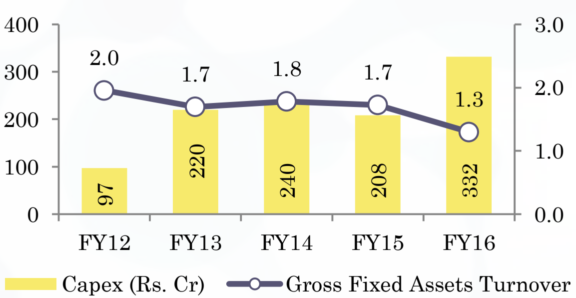


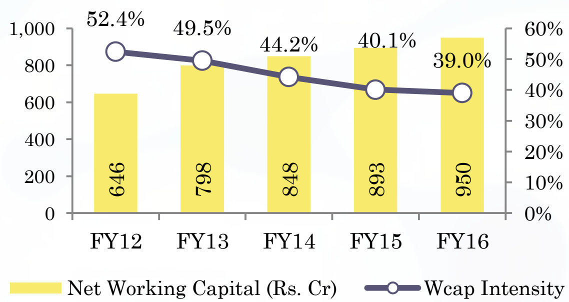
Financial Highlights – (Consolidated)

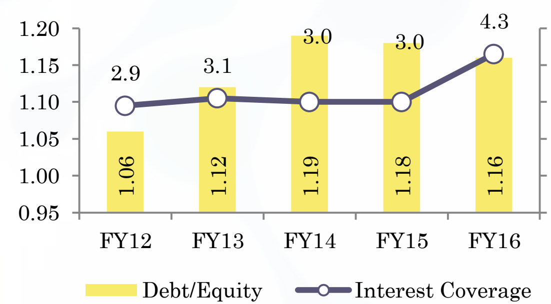




- Growth-oriented investments have been committed by the management, strong execution has resulted in positive impact on returns on capital
- Annual Capex plan of Rs. 400-450 crore over the next 3 years, investments focused on value-added products. Brownfield expansion will allow leverage of previously committed investments
- Fixed Capital leverage and value addition focus is evident in rapid revenue expansion
- Working Capital management initiatives have allowed better efficiency
- Leverage has remained stable while growing profitability has allowed debt to be serviced comfortably







About Us

Aarti Industries (AIL) is one of the most competitive benzene-based speciality chemical companies in the world. AIL is a rare instance of a global speciality chemicals company that combines process chemistry competence (recipe focus) with scale-up engineering competence (asset utilization). Over the last decade, AIL has transformed from an Indian company servicing global markets to what is fundamentally a global company selecting to manufacture out of India. The Company globally ranks at 1st – 4th position for 75% of its portfolio and is “Partner of Choice” for various Major Global & Domestic Customers.

AIL has de-risked portfolio that is multi-product, multi-geography, multi-customer and multiindustry. AIL has 125+ products, 500+ domestic customers, 150+ export customers spread across the globe in 60 countries with major presence in USA, Europe, Japan. AIL serves leading consumers across the globe of Speciality Chemicals and Intermediate for Pharmaceuticals, Agro Chemicals, Polymers, Pigments, Printing Inks, Dyes, Fuel additives, Aromatics, Surfactants and various other speciality chemicals.

AIL is committed to Safety Health & Equipment Quality with environment polices mapped to global benchmarks ensuring customer confidence and business sustainability. The Company has 4 Zero Discharge units and a strong focus on Reduce-Reuse-Recover across its 16 manufacturing sites.

AIL is a responsible corporate citizen engaged in community welfare through associated trusts (Aarti Foundation and Dhanvallabh Charitable Trust) as well as focused NGOs engaged in diverse social causes.

Over the years, AIL has received multiple awards and recognitions. CHEMEXCIL presented the Company ‘Trishul Award’ for outstanding export performance for FY14-15 and ‘Award of Excellency’ for the consistency in export performance for FY13-14. CHEMTECH Foundation accorded AIL with the ‘Outstanding Achievement for Innovation’ award for the company’s commendable efforts in conserving the environments as well as ensuring sustainable growth through path breaking innovation. Indian Institute of Chemical Engineers bestowed the prestigious Lala Shriram National Award for ‘Leadership in Chemical Industry’ to Chairman Emeritus and founder Shri Chandrakant V. Gogri.

Contact Us

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Thank You