



pharmaceuticals Ltd.

**Registered & Corporate Office :**

Plot No. 19-111, Road No. 71,  
Opp. Bharatiya Vidya Bhavan Public School,  
Jubilee Hills Hyderabad - 500 096.Telangana. INDIA,  
Tel : +91-40-6628 8888, Fax : +91-40-2355 1402  
CIN : L24239AP1987PLC008066  
Email : info@smspharma.com, www.smspharma.com

**Report of the Audit Committee of SMS Pharmaceuticals Limited recommending the draft scheme of arrangement between the company and SMS Lifesciences India Limited and their respective shareholders and creditors held on Monday 8<sup>th</sup> August, 2016 at 10:00 a.m. at Plot No.19-III, opp. BVBP School, Jubilee Hills, Hyderabad-500 096.**

**Present:**

Mr. P. Sarath Kumar : Chairman  
Mr. P.S. Rao : Member  
Dr. (Mrs.) T. Neelaveni : Member

**In Attendance:**

Mr. N. Rajendra Prasad : Chief Financial Officer  
Mr. Saurav Roy : Company Secretary

**Invitees:**

CA Ravi Rambabu : Statutory Auditor (Rambabu & Company)  
CA Adusumilli Vankateswara Rao : Internal Auditor  
Dr. S.V. Rama Krishna : Advocate  
CS C. Sudhir Babu : Practicing Company Secretary (CSB Associates)  
CA Y. Bala Krishna Reddy : Practicing Chartered Accountant (Raju & Prasad)  
Mr. Y. Nagarjuna Rao : Deputy General Manager  
Mr. T. Lakshmi Narayana : Assistant General Manager

**1. Background**

- i. The meeting of the Audit Committee of the SMS Pharmaceuticals Limited (Demerged Company) was held on 8<sup>th</sup> August, 2016 to consider and recommend the proposed demerger of the Demerged Company and transfer / hive-off of the Units of Demerged Company as mentioned under the draft Scheme of Arrangement under "Demerged Undertaking" into the "Resulting Company" (i.e. SMS Lifesciences India Limited) with effect from the "Effective Date" as specified in the draft Scheme of Arrangement between the Demerged Company and Resulting Company and their respective shareholders and creditors, under provisions of Sections 391 to 394 of the Companies Act, 1956 and other applicable provisions of Companies Act, 2013.
- ii. This report of the Audit Committee is made in order to comply with the requirements of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI Circular No CIR/CFD/CMD/16/2015 dated 30<sup>th</sup> November, 2015.

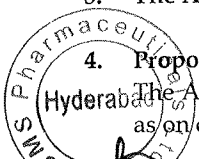
**2. The following documents were placed before the Audit Committee:**

- i. Certified copy of the draft Scheme of Demerger proposed to be filed before the High Court.
- ii. Valuation Report and Share Entitlement Report dated 8<sup>th</sup> August, 2016 prepared by Mr. Y. Balakrishna Reddy, Partner of Raju & Prasad, Chartered Accountants, (firm Registration No. 003475S).
- iii. Audited financials of the resulting and demerged companies for the last 3 financial years (financials not being more than 6 months old).
- iv. Unaudited Quarterly Financial Results for quarter ended on 30<sup>th</sup> June, 2016.
- v. Statutory Auditor's Certificate confirming the compliance of the accounting treatment etc. as per Central Government notified Accounting Standards.

**3. The Appointed date for the De-merger is proposed as opening business hours of 1<sup>st</sup> April, 2016.**

**4. Proposed Scheme of Demerger**

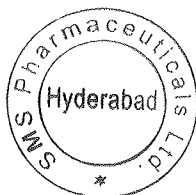
The Audit Committee noted that the Resulting Company is the wholly owned subsidiary of the demerged company as on date. The rationale and the benefits of the Scheme, which including, inter-alia, are as follows:



- i. This Scheme is presented under Sections 391 to 394 read with Sections 100 to 103 of the Companies Act, 1956 and the provisions of the Companies Act, 2013 as applicable for transfer of the Semi Regulated Units namely I, IV and V and other assets of the Company as a going concern to the Resulting Company, a wholly-owned subsidiary of the demerged Company and consequential restructure of its share capital in form of Utilisation of General Reserve Account of the Company.
- ii. The Company has total five units out of which three manufacturing divisions are Semi-Regulated Units namely Unit I (i.e. Khazipally Unit), which is located at Sy. No. 180/2, IDA Kazipally Village, Jinnaram Mandal, Medak Dist., Hyderabad, Telangana State; Unit IV (i.e. Jeedimetla Unit), which is located at Plot No. 66/B-2, Phase-1, IDA Jeedimetla, Hyderabad, Telangana State and Unit V (i.e. Bollaram Unit) which is located at Sy. No. 296/7/4, S.V. Co.op. Ind. Estate I.D.A., Bollaram, Medak Distric, Hyderabad, Telangana State. With a view to reduce the impact of semi-regulated units on regulated units, achieving operational efficiencies, site synergies and streamlining its current structure, the Demerged Company has decided to demerge its Unit Nos. I, IV and V alongwith other assets and investments as mentioned in the "Draft Scheme" and to transfer to the Resulting Company with primary intention to bifurcate its units which are semi regulated. The circumstances, reasons and/or grounds that have necessitated and/or justified the Scheme and the advantages thereof are, inter alia, as follows:
  - a. The nature of risk and return involved in the business of Semi-Regulated units is distinct from the Regulated Units of the Demerged Company. Hence, transfer of all the Semi-Regulated units under one umbrella would enable these Units to run independently and in a more cohesive manner so as to run more profitably and attract potential collaborators for future growth and development of business by the Resulting Company, without impacting the Demerged Company.
  - b. The transfer and vesting of the de-merged undertaking of the Demerged Company to the Resulting Company through this Scheme is with a view to unlock the economic value of both the Companies.
  - c. The said transfer of the de-merged undertaking to the Resulting Company would provide greater flexibility and visibility on the operational and financial performance of the semi-regulated units and would provide higher degree of independence as well as accountability.
  - d. The Audit Committee is of the opinion that the Scheme of Arrangement would benefit the shareholders, creditors, employees and other stakeholders of both the Companies.
5. The Audit Committee reviewed the Valuation report / Share Entitlement Report and noted the recommendations made therein.
6. After detailed discussions the Audit Committee suggested the following modifications in the Valuation Report.
  - a. The Investments of the Demerged Company shall be bifurcated between the Regulated and the Semi Regulated Units based on the objective/purpose for which the investments were made.
  - b. To balance the liabilities and cash flow position of the Resulting Company, the Working Capital Liabilities of the banks shall be allocated to the Demerged Company.
7. **Recommendation of the Audit Committee**

Taking into consideration the provisions of the draft scheme of arrangement, Valuation Report subject to the modification as suggested above and the benefits of the Scheme to the shareholders, creditors and other stake holders of the demerged Company, the Audit Committee recommends the draft scheme for the consideration and approval by the Board of Directors of the Company.

For and on Behalf of SMS Pharmaceuticals Limited



A handwritten signature in black ink, appearing to read "P. Sarath Kumar".

P. Sarath Kumar

DIN : 01456746

Chairman, Audit Committee

Place : Hyderabad

Date : 08.08.2016