

August 12, 2016
SCSL/16-17/026

The Board of Directors
SMS Pharmaceuticals Limited
Plot No. 19-III, Road No.71
Opp. Bhartiya Vidya Bhawan School
Jubilee Hills, Hyderabad 500 096.

Sub: Fairness Opinion on "Share Entitlement Ratio" based on the Valuation Report dated August 11, 2016 for "Regulated and Semi-Regulated Business" of SMS Pharmaceuticals Limited ("the Company") as prepared by M/s Raju and Prasad, Chartered Accountants (FRN: 0034755) - ("the Valuer").

Ref: Appointment of Systematix Corporate Services Limited as the Merchant Banker to provide "Fairness Opinion" on demerger or Scheme of Arrangement vide your letter dated April 1, 2016.

Dear Members of the Board,

I. Engagement Background

Systematix Corporate Services Limited ("Systematix"), a public limited company listed on BSE Limited, Mumbai and also a SEBI registered Category I Merchant Banker having permanent Registration Number INM000004224, has been appointed by SMS Pharmaceuticals Limited (CIN: L24239AP1987PLC008066) to provide a "Fairness Opinion" pursuant to Regulation 11, 37 and 94 of the Listing Regulations vide SEBI Circular CIR/CFD/CMD/16/2015 dated November 30, 2015 ("SEBI Circular") on the proposed Scheme for Demerger of "Semi Regulated Business" of your the Company under Section 391-394 read with Sections 100-103 of the Companies Act, 1956 ("the Scheme").

The Scheme envisages a demerger of Semi Regulatory Units namely I, IV and V and other assets ("the Demerged Undertaking") of SMS Pharmaceuticals Limited ("the Demerged Company") as a going concern into SMS Lifesciences India Limited (CIN: U74930TG2006PLC050223) ("the Resulting Company"), a wholly-owned subsidiary of the Demerged Company and consequential restructure of its share capital in the form of Utilisation of General Reserve Account of the Demerged Company alongwith other terms and conditions fully set forth in the Scheme to be placed before the Board for their approval.

The Demerged Company will continue its interests in the Remaining Undertaking including Regulated Units II, VII and R&D Unit as is presently being carried out but with greater focus on growth opportunities. The Resulting Company shall, issue and allot equity shares to all the shareholders of the Demerged Company as consideration for the transfer of the Demerged Undertaking in proportion of their shareholding in the Demerged Company as per the Share Entitlement Ratio. Simultaneously with issuance of equity shares, in the books of the Resulting Company, all the equity shares held by the Demerged Company shall stand cancelled, extinguished and annulled on and from the Effective Date. The Equity Shares issued by the Resulting Company to the shareholders of the Demerged Company shall be listed on BSE and NSE. The Unit III of the Demerged Company was closed in FY2012 and the Unit VI was sold in the FY 2013.

The Demerger of the Demerged Undertaking in accordance with this Scheme shall take effect from the Appointed Date (April 1, 2016) in accordance of the provisions of Sections 391-394 of the Act read with Sections 100-103 of the Companies Act, 1956 and the provisions of Companies Act, 2013 as applicable and shall be in accordance with Section 2 (19AA) of the Income Tax Act, 1961, such that:



- (a) all the assets relatable to the Demerged Undertaking being transferred by the Demerged Company, as on the Appointed Date shall become the assets of the Resulting Company by virtue of this Scheme;
- (b) all the liabilities relatable to the Demerged Undertaking, as on the Appointed Date shall become the liabilities of the Resulting Company by virtue of this Scheme;
- (c) all the assets and the liabilities relatable to the Demerged Undertaking being transferred by the Demerged Company shall be transferred to the Resulting Company, on a going concern basis, at the value appearing in the books of account of the Demerged Company immediately before the Demerger;
- (d) the Resulting Company shall issue, in consideration of the Demerger, its Equity Shares to the shareholders of the Demerged Company as on the Record Date on a proportionate basis;
- (e) all the shareholders of the Demerged Company as on the Record Date shall become the shareholders of the Resulting Company by virtue of the Demerger; and

In consideration of the transfer of the Demerged Undertaking to the Resulting Company pursuant to the Scheme,

- for every 28 (Twenty-Eight) equity share of the face value of Re. 1.00 each held by the shareholders of the Demerged Company, the Resulting Company shall issue and allot 1 (One) equity share of the face value of Rs. 10.00 each fully paid-up ("**the Entitlement Ratio**").

In connection with the aforesaid, you requested our "**Fairness Opinion**" as of the date hereof as to the fairness of the Entitlement Ratio to the Equity Shareholders of the Demerged Company as on the "Record Date" as defined in the Scheme.

II. Basis of Opinion

In the Rationale of the Scheme, the following has been provided that in order to create an independent platform for the Demerged Undertaking:

- (a) The nature of risk and return involved in the non-regulated units is distinct from the regulated units of the Demerged Company. Hence, transfer of non-regulated units would enable these units run independently and to evaluate potential independent collaborators and expansion without impacting the Demerged Company entirely.
- (b) The transfer and vesting of the demerged 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) Transfer 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 Board of Directors of the Demerged Company is of the opinion that the Scheme would benefit the shareholders, creditors, employees and other stakeholders of both the Companies.
- (e) Effective Date for the purpose of valuation is March 31, 2016 closing hours.

A brief history of each of the aforesaid companies is as under:

SMS Pharmaceuticals Limited ("the Company" or "the Demerged Company"), a public limited company listed on BSE and NSE. The Company is a public limited company incorporated under the provisions of the Companies Act, 1956 on 14th day of December, 1987 originally in the name of "S.M.S. Pharmaceuticals Private Limited" and subsequently converted into a "Public Limited Company" in the name of "S.M.S. Pharmaceuticals Limited" on 2nd November, 1994 having its registered office at Plot No.19-III, Road No.71,



Opp. Bharatiya Vidya Bhavan School, Jubilee Hills, Hyderabad 500 096. The name of the Company has been changed from "S.M.S. Pharmaceuticals Limited" to "SMS Pharmaceuticals Limited" with effect from 12th April, 2004. The Company is engaged in the business of manufacturing and sale of active pharmaceutical ingredients and drugs intermediates.

SMS Lifesciences India Limited ("the Resulting Company") is a public limited company incorporated under the provisions of the Companies Act, 1956 on 31st day of May, 2006, as "Private Limited Company" named "Potluri Real Estate Private Limited" and subsequently changed its name to "Potluri Packaging Industries Private Limited" on 12th October, 2013 thereafter the company had renamed it as "SMS Lifesciences India Private Limited" on 1st July, 2014 which is now converted as Public Limited Company with effect from 22nd June, 2016 having its registered office at Plot No. 265Q, Road No. 10, Jubilee Hills, Hyderabad 500 033. The Resulting Company is a wholly owned Subsidiary of the Demerged Company and is presently engaged in the business of manufacturing, buying, selling, offering consultancy, importing & exporting, acting as commission agents and generally dealing with of all types of Organic & Inorganic Chemicals, Pharmaceuticals, Drugs and Intermediates.

The key features and rationale of the Scheme as disclosed above alongwith the valuation report for entitlement ratio as submitted by M/s Raju and Prasad, Chartered Accountants are relied upon by us for framing fairness opinion on the Entitlement Ratio. We have taken the foregoing facts (together with other facts and assumptions set forth in

III. Sources of Information

For recommendations of "Fairness Opinion on value of Demerged Undertaking"; we have relied upon the following data and documents:

- Copy of the "Valuation Report" and "Share Entitlement Report" prepared by M/s Raju and Prasad, Chartered Accountants vide their reports dated August 11, 2016.
- Copy of "the Scheme" as provided by the Company.
- MOA & AOA of the Demerged Company and the Resulting Company.
- BSE and NSE Websites (www.bseindia.com; www.nseindia.com) and
- Other information and explanations as provided by the Company.

IV. Limitation of Scope and Review

Our "Fairness Opinion" and analysis is limited to the extent of review of the documents as provided to us by the Company including the Valuation Report and Share Entitlement Report prepared by the Valuer and the draft Scheme. We have relied upon the accuracy and completeness of all the information and documents provided to us without carrying out any due diligence or independent verification or validation of such information to establish its accuracy or sufficiency. We are not provided with any forward looking financial projections w.r.t. the Demerged Company or the Resulting Company.

We have not conducted any independent valuation or appraisal of any of the assets or liabilities of the Demerged Company or the Resulting Company. We also do not express any opinion as to the price at which equity shares of the Resulting Company may list or trade at any point of time.

In rendering our opinion, we have assumed that the Scheme will be implemented on the terms described therein without any waiver or modification of any material terms or conditions and that in course of obtaining the necessary Regulatory or third party approvals for the Scheme. Further, we do not express any opinion in any other matter except what is stated in this report w.r.t. the Demerged Company and the Resulting Company.



It is understood that this Fairness Opinion may not be relied upon by, nor be disclosed, in whole or in part to any third party for any purpose whatsoever. Notwithstanding the foregoing, this Fairness Opinion may be reproduced in the explanatory statement sent to the shareholders along with the Notice of General Meeting / Postal Ballot form, conducted to get approval for the proposed Demerger, so long as form of reproduction of the Fairness Opinion in such report or any description of or reference in such report to Systematix, is in a form acceptance to us.

Our fees for services will be payable on delivery of this report and is not contingent on the successful completion of the Scheme.

Our Fairness Opinion is not intended to and does not constitute a recommendation to any shareholder as to how such holder should vote or act in connection with the Scheme or any matter related thereto.

V. Conclusion

Based on and subject to the foregoing, we are of the opinion that as of the date hereof, the Entitlement Ratio is FAIR to the Equity Shareholders of the Demerged Company.

Yours truly,

For Systematix Corporate Services Limited


Authorised Signatory

