

Sun Pharmaceutical Industries Limited

Sun House, Plot No. 201 B/1,
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CIN: L24230GJ1993PLC019050



Annexure-4

Report on Recommendations of the Audit Committee of Sun Pharmaceutical Industries Limited on

The Composite Scheme of Arrangement involving amalgamation of Sun Pharmaceutical Medicare Limited, Green Eco Development Centre Limited, Faststone Mercantile Company Private Limited, Realstone Multitrade Private Limited, Skisen Labs Private Limited with Sun Pharmaceutical Industries Limited (“SPIL” or “Company” or “Transferee Company”) and Reclassification of General Reserve of SPIL, pursuant to the provisions of Sections 230 to 232 of the Companies Act, 2013

Members present:

1. Mr. Gautam Doshi : Chairman of the Committee
2. Dr. Pawan Goenka : Member
3. Mr. Sailesh T. Desai : Member

A. Background

1. The Company has proposed Composite Scheme of Arrangement (herein after referred to as “Scheme of Arrangement” or “Scheme”), involving:
 - a) Amalgamation of Wholly-owned subsidiary companies viz. Sun Pharmaceutical Medicare Limited (“SPML”), Green Eco Development Centre Limited, Faststone Mercantile Company Private Limited, Realstone Multitrade Private Limited, Skisen Labs Private Limited (“Transferor Companies”) with the Company, and
 - b) Reclassification of General Reserve of the Company to Retained Earnings
2. Pursuant to Para A(2)(i) of Part I of the SEBI Master Circular No. SEBI/HO/CFD/POD- 2/P /CIR/2023/93 dated June 20, 2023 (“SEBI Master Circular”), a Committee of the Independent Directors is required to review the scheme to ensure that the same is not detrimental to the interest of the shareholders of the Company and if, satisfied, recommend the same to the Board of Directors of the Company.
3. In view of the above, the Audit Committee of the Company, after discussions and deliberations, recommended the Scheme of Arrangement vide resolution passed at its meeting held on 31st October 2023 and has made this report, after perusing the draft Composite Scheme of Arrangement.

B. Observations of Committee

1. Features of the Scheme

- a) As mentioned above, the Scheme comprises of two components – Amalgamation of Wholly-owned Subsidiaries and Reclassification of General Reserve of the Company to Retained Earnings.

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- b) As amalgamation of Wholly-owned Subsidiaries into the holding Company is proposed, there is no consideration to be paid nor any shares of the Transferee Company to be issued in lieu of or in exchange of the shares of the Transferor Companies.
- c) Valuation Report from an Independent Chartered Accountant is not required as no change in the shareholding pattern of the Company is envisaged pursuant to the Composite Scheme.
- d) Appointed date for the Scheme is 1 April 2023.
- e) With effect from the Appointed Date, whole of the undertaking of the Transferor Companies, as a going concern, including all its assets, all liabilities, employees, all statutory licences, permissions, approvals or consents to carry on the operations of the Transferor Companies shall stand vested in or transferred to the Transferee Company without any further act or deed and shall be appropriately mutated by the statutory authorities concerned in favour of the Transferee Company upon the vesting and transfer of the undertaking of the Transferor Companies pursuant to this Scheme.
- f) The benefit of all statutory and regulatory permissions, licenses, environmental approvals and consents or other licenses and consents shall vest in and become available to the Transferee Company pursuant to this Scheme.
- g) Upon the Scheme becoming effective, the Transferor Companies shall be dissolved without winding up, and the Board of Directors and any committees thereof of the Transferor Companies shall without any further act, instrument or deed shall stand dissolved.
- h) Upon this Scheme becoming effective and with effect from the Appointed Date the entire amount of Rs. 51,435.0 million standing to the credit of the 'General Reserve' of the Transferee Company, as on March 31, 2023 shall be reclassified and credited to the 'Retained Earnings' of the Transferee Company.

2. Need and Rationale for the Scheme

- a) All Transferor Companies are wholly-owned subsidiaries of the Transferee Company, and the amalgamation of Transferor Companies with Transferee Company would inter alia have the following benefits:
 - Greater efficiency in overall combined business including economies of scale, efficiency of operations, efficient cash flow management eliminating inter-corporate dependencies.
 - Optimum utilisation of resources by pooling in managerial, technical and administrative resources and efforts.
 - Reduction in legal and regulatory compliance enabling better compliance efficiency at the consolidated level.

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- Certain pharmaceutical products manufactured by one of the transferor company i.e. SPML are sold in the regulated markets are exported through Transferee Company and this amalgamation would further help in consolidation of exports.
- b) Over the years, the Transferee Company has built up significant reserves through transfer of profits to the general reserve in accordance with provisions of the Companies Act, 1956 and rules notified thereunder, namely, the Companies (Transfer of Profits to Reserves) Rules, 1975.
- c) While the excess reserves can be profitably utilized for the Company's overall growth strategy, the management is of the view that even after considering the foreseeable investments required for opportunities over the next few years, the fund represented by the General Reserve are in excess of the Transferee Company's current and anticipated operational needs.

3. Synergies of business of the entities involved in the Scheme

- a) The consolidation of the activities by way of an amalgamation will provide seamless access to the assets (including intangible assets, licenses and intellectual properties) of the Transferor Companies, which will lead to synergies of operations, reduction in overheads including administrative, managerial and other expenditure, operational rationalization, organizational efficiency, competitive advantage and optimal utilization of resources.
- b) Reorganising the legal entities in the group structure to ensure optimised corporate holding structure more aligned with the business requirements.
- c) Significant reduction in the multiplicity of legal and regulatory compliances required at present to be carried out by the Transferor Companies and the Transferee Company.

4. Impact of the Scheme on the Shareholders

The Audit Committee is of the opinion that the Scheme is in the best interests of the Company and its shareholders. Pursuant to the Scheme, there is no outflow/ pay-out of funds from the Transferee Company and hence, the interest of the shareholders/creditors is not adversely affected. The Scheme is not in any manner prejudicial or against public interest and would serve the interest of all shareholders, creditors or any other stakeholders.

5. Cost-Benefit Analysis of the Scheme

Merger of Wholly-owned subsidiaries would bring in synergies and would result in reduction in administrative and operating costs. The Scheme would entail some costs towards implementation. However, the benefits of the scheme over a longer period are expected to far outweigh such costs for the stakeholders of the scheme.

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C. Recommendations of the Audit Committee

The Audit Committee recommends the Scheme of Arrangement, with or without modifications, vide this report for favourable consideration and approval of the Board of Directors.

A handwritten signature in black ink, appearing to read "Gautam Doshi".

(Gautam Doshi)

Chairman of the Audit Committee

Date – 31st October 2023

Place - Mumbai