

## Sun Pharmaceutical Industries Limited

Sun House, Plot No. 201 B/1,  
Western Express Highway, Goregaon (E),  
Mumbai – 400 063, Maharashtra, INDIA.  
Tel. : (91-22) 4324 4324  
Fax : (91-22) 4324 4343  
Website: [www.sunpharma.com](http://www.sunpharma.com)  
Email: [secretarial@sunpharma.com](mailto:secretarial@sunpharma.com)  
CIN: L24230GJ1993PLC019050



December 7, 2023

**National Stock Exchange of India Ltd.,**  
Exchange Plaza, 5th Floor,  
Plot No. C/1, G Block, Bandra Kurla Complex,  
Bandra (East), Mumbai – 400 051

Dear Sir / Madam,

**Sub: Application under Regulation 37 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023, for the proposed Composite Scheme of Arrangement**

This is with reference to your letter Ref. No. NSE/LIST/38546 dated December 6, 2023 seeking additional clarification in connection with the Scheme.

In this regard, we wish to inform you as under:

The 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, Green Eco Development Centre Limited, Faststone Mercantile Company Private Limited, Realstone Multitrade Private Limited, Skisen Labs Private Limited (“Transferor Companies”) with Sun Pharmaceutical Industries Limited (“Transferee Company” or “the Company”), and
- b) Reclassification of General Reserve of the Company to Retained Earnings.

### **Rationale for the Scheme**

#### 1. Rationale for Amalgamation of Transferor Companies with Transferee Company

All Transferor Companies are wholly-owned subsidiaries of the Transferee Company. The amalgamation of Transferor Companies with Transferee Company would *inter alia* have the following benefits:

- (a) Greater efficiency in overall combined business including economies of scale, efficiency of operations, efficient cash flow management eliminating inter-corporate dependencies.
- (b) Optimum utilisation of resources by pooling in the managerial, technical and administrative resources and efforts.
- (c) Reduction in legal and regulatory compliance enabling better compliance efficiency at the consolidated level.

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- (d) 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.

The amalgamation of the Transferor Companies with the Transferee Company will combine the business, activities and operations of the Transferor Companies and the Transferee Company into a single company with effect from the Appointed Date and shall be in accordance with the provisions of the Income Tax Act, 1961, and rules framed thereunder including Section 2(1B) thereof or any amendments thereto.

### 2. Rationale for reclassification and transfer of the General Reserve of the Transferee Company to Retained Earnings

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 erstwhile Companies Act, 1956 and erstwhile rules notified thereunder, namely, the Companies (Transfer of Profits to Reserves) Rules, 1975. While the excess reserves can be profitably utilized for the Company's overall growth strategy, the Board of Directors of the Transferee Company is of the view that even after considering the foreseeable investments required for such 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.

### **Scheme is not detrimental to the interest of the Shareholders of the Company**

1. The Scheme involves amalgamation of Wholly-owned Subsidiaries into the Holding Company and reclassification of General Reserve of Transferee Company to Retained Earnings as such it does not involved any issuance of shares or any outflow of funds as there is not consideration involved.
2. Even if net worth is reducing marginally, it remains to be strongly positive not having any adverse impact on any of the stakeholders. This together with the benefits enumerated under the rationale above results into scheme is being beneficial to the stakeholders.
3. The second part of the proposed Scheme is an arrangement between the Company and its shareholders. Pursuant to this Scheme, 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, transferred to and shall form part of the 'Retained Earnings'.
4. As you are aware, Section 205(2A) of the Companies Act, 1956 read with the Companies (Transfer of Profits to Reserves) Rules 1975, mandated every company to transfer, in any financial year, a specific portion out of the profits of the company for that year arrived at after

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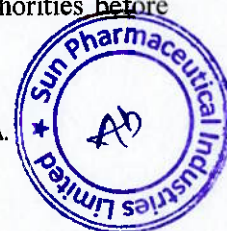


providing for depreciation, to the general reserves account of the company, before declaring any dividend to the shareholders.

5. With introduction of the Companies Act, 2013 (“Act, 2013”), the requirement of mandatory transfer to reserves is done away with considering the changing economic and regulatory scenario. This change suggests that the profits of the Company are fully distributable without having to create any reserves and the Board of Directors and the shareholders are allowed to exercise their own judgement on maintenance of general reserves, if any.
6. We would like to bring to your kind attention that even during the existence of the Companies Act, 1956 and Rules framed thereunder, in Nestle India Limited (C.P No. 141/ 2007, High Court of Delhi) it was permitted to transfer the amounts standing to the credit of general reserve account to retained earnings account pursuant to a scheme of arrangement with the shareholders. In the said scheme, the grounds for such transfer was to create shareholder value and that the amounts transferred are nothing but accumulated profits of the company which are required to be utilized for the shareholders to create value for them.
7. Pursuant to the proposed Scheme, the Company believes that reclassification of general reserve to retained earnings will provide greater flexibility to enable the Company, among other things, distribution of profits to the shareholders. The Board of Directors of the Company believes that such a transfer would not only be in the interest of shareholders and create higher shareholder value, but also not be prejudicial to the interest of any stakeholders.
8. Even, under the corresponding provisions of Sections 230 to 232 of the Act, 2013, the Securities and Exchange Board of India and the various Benches of the National Company Law Tribunal (“NCLT”) have permitted companies like Hindustan Unilever Limited (TCSP No. 151 of 2017, NCL T, Mumbai Bench), International Paper APPM Limited (CP No. 416 of 2016, NCLT, Hyderabad Bench), Prime Securities Limited (CP.CAA No. 1084 of 2020, NCLT, Mumbai Bench), The Tata Power Company Limited (CP. CAA No. 42 of 2021, NCLT, Mumbai Bench), Nestle India Limited (CA.CAA.30/230-232/ND/2022, NCLT, New Delhi Bench) etc. to undertake such a transfer through a scheme of arrangement whereby amounts standing to the credit of the general reserves account were transferred to the retained earnings account.
9. It is important to note that the reserves created upon declaration of dividend were created by way of a Board approval as it was a statutory requirement. As there is not provision mandating or prohibiting reclassification of general reserve, it can be said that the general reserve can be brought back to retained earnings only by passing a Board resolution. However, the Company has proposed to do it by way of a Scheme of Arrangement as it endeavours to follow best corporate governance practices where the Scheme will not only be approved by the shareholders at an NCLT directed meeting (convened pursuant to the requirements of Section 230 to 232 of the Act, 2013), but will also go through the scrutiny of various regulatory authorities before NCLT approves it.

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10. It may be noted that while transfer of amounts standing to credit of the general reserve account to retained earnings account is being proposed and once the Scheme is approved by NCLT, the utilisation of the amounts from the retained earnings account will be undertaken as may be permissible under the relevant provisions of the Act, 2013. The selection of method to reward the shareholders of the Company is dependent upon various external and internal factors like overall business environment of the Indian economy, financial position of the Company etc., which would be quite difficult for the Company to ascertain at this stage. However, kindly note that the Company will duly follow requisite provisions of the Act, 2013 while determining the exact method to reward its shareholders.
11. In terms of provisions of Sections 230 to 232 of Act, 2013, the Board of Directors of the Company, at their meeting held on November 01, 2023, had inter alia unanimously approved the Scheme of Arrangement taking on record that the Scheme is not detrimental to the interests of any of the stakeholders of the Company.

We hereby request you to take the above on records and issue Observation letter/No-objection Letter.

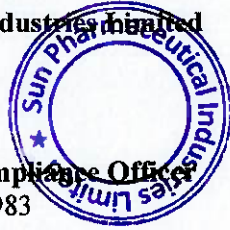
Thanking you,

Yours truly,

For Sun Pharmaceutical Industries Limited

  
(Anoop Deshpande)

Company Secretary & Compliance Officer  
ICSI Membership No.: A23983



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