

**SSPA & CO.**

*Chartered Accountants*

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**STRICTLY PRIVATE & CONFIDENTIAL**

December 16, 2021

**To**  
**The Audit Committee,**  
**Orchid Pharma Limited**  
313, Orchid Towers,  
Valluvar Kottam High Road,  
Nungambakkum,  
Chennai – 600 034, Tamil Nadu.

**To**  
**The Audit Committee,**  
**Dhanuka Laboratories Limited**  
82, Abhinash Mansion, 1<sup>st</sup> Floor,  
Joshi Road,  
Karol Bagh,  
New Delhi – 110 005

Dear Sir(s) / Madam(s),

**Sub: Recommendation of fair equity share exchange ratio for the proposed amalgamation of Dhanuka Laboratories Limited with Orchid Pharma Limited**

We refer to the engagement letter dated October 19, 2021 whereby we, SSPA & Co., Chartered Accountants (hereinafter referred to as 'SSPA' or 'Valuer' or 'We'), have been appointed by Orchid Pharma Limited (hereinafter referred to as 'OPL' or the 'Transferee Company') and Dhanuka Laboratories Limited (hereinafter referred to as 'DLL' or the 'Transferor Company'), to issue a report containing recommendation of fair equity share exchange ratio for the proposed amalgamation of DLL with OPL ('hereinafter referred to as 'Proposed Amalgamation').

OPL and DLL are hereinafter collectively referred to as the 'Companies'.

**1. SCOPE AND PURPOSE OF THIS REPORT**

1.1 We have been informed by the management of OPL and DLL (hereinafter collectively referred to as the 'Management') that they are considering a proposal of amalgamation of DLL with OPL, pursuant to a scheme of amalgamation and arrangement under sections 230 to 232 and other applicable provisions of the Companies Act, 2013, including rules and regulations made thereunder.

Subject to necessary approvals, DLL would be amalgamated with OPL, with effect from the appointed date as mentioned in the draft scheme ('Appointed Date').



- 1.2 In consideration for the proposed amalgamation of DLL with OPL, equity shares of OPL would be issued to the equity shareholders of DLL.
- As mentioned in the draft scheme, the equity shares and zero coupon unsecured and non-marketable Optionally Convertible Debentures ('OCD') of OPL held by DLL shall stand cancelled.
- 1.3 In this regard, we have been appointed by the Companies to carry out the relative valuation of equity shares of DLL and of OPL to recommend the fair equity share exchange ratio for the Proposed Amalgamation.
- 1.4 For the purpose of this valuation, the bases of value is 'Relative Value' and the valuation is based on 'Going Concern' premise. For the purpose of this valuation, December 15, 2021 has been considered as the 'Valuation Date'.
- 1.5 The report sets out our recommendation of the fair equity share exchange ratio and discusses the approach and methodologies considered for arriving at relative value of the equity shares of the Companies for the purpose of recommendation of fair equity share exchange ratio.

## **2. BRIEF BACKGROUND**

### **2.1. ORCHID PHARMA LIMITED**

OPL, is one of the leading pharmaceutical companies in India head quartered in Chennai and involved in the development, manufacture and marketing of diverse bulk actives, formulations and nutraceuticals with exports spanning over 40 countries. OPL's world class manufacturing infrastructure include USFDA compliant API and Finished Dosage Form facilities at Chennai in India. OPL has dedicated state-of-art and GLP compliant R&D infrastructure for Process research, Drug Discovery and Pharmaceutical research at Chennai, India. Orchid has ISO 14001 and OHSAS 18001 certifications.

The Hon'ble National Company Law Tribunal (NCLT) has, by its order dated June 27, 2019 approved the resolution plan ('RP') submitted by the successful resolution applicant DLL and the order of the NCLT was upheld by Hon'ble Supreme Court vide its order dated February 28, 2020.

Accordingly, the RP submitted by DLL, the successful Resolution Applicant, was implemented during March 2020 and the Board was reconstituted by the Monitoring Committee of OPL with the nominations from the Resolution Applicant on the effective date i.e. on March 31, 2020 as described in the RP.



DLL infused the funds as per the terms of the RP through a special purpose vehicle ('SPV'), Dhanuka Pharmaceuticals Private Limited. The SPV was later on merged with OPL as per the terms of the approved RP. Thus, OPL became a subsidiary of DLL with effect from March 31, 2020.

The equity shares of OPL are listed on BSE limited and the National Stock Exchange of India Limited.

Consolidated Revenue from operations of the Transferee Company for the six months period ended September 30, 2021 is INR 220.05 crores.

The shareholding pattern of OPL as on date is given below:

Name of the shareholder	Number of equity shares	% of holding
<b>Promoter</b>		
Dhanuka Laboratories Limited	3,67,19,957	89.96%
Public	40,81,640	10.00%
Shares underlying DRs	14,803	0.04%
<b>Total</b>	<b>4,08,16,400</b>	<b>100.00%</b>

## 2.2. DHANUKA LABORATORIES LIMITED

DLL is one of the prominent manufacturer and exporter of oral Cephalosporin APIs based in India. DLL has a large capacity to manufacture various products like Cefixime, Cefdinir, Cefaclor, Cefuroxime Axetil, Cefpodoxime Proxetil, Cefditoren Pivoxil, Cefprozil in high quality cGMP conditions. Currently, DLL owns ~89.96% of the equity share capital of OPL. On December 15, 2021, DLL has entered into business transfer agreement for acquisition via slump sale of the Business Undertaking of Synmedic Laboratories ('Synmedic') for a lumpsum consideration of INR 61.59 crores.

Revenue from operations of the Transferor Company for the six months period ended September 30, 2021 is INR 192 crores and equity share capital is INR 13.85 crores comprising of 13,84,660 shares of face value of INR 100 each.

## 3. REGISTERED VALUER – SSPA & CO., CHARTERED ACCOUNTANTS

SSPA, is a partnership firm, located at 1<sup>st</sup> Floor, 'Arjun', Plot No. 6A, V. P. Road, Andheri (West), Mumbai - 400 058, India. SSPA is engaged in providing various corporate consultancy services.

We are a firm of practising Chartered Accountants registered with The Institute of Chartered Accountants of India ('ICAI'). We are also registered with the Insolvency and



Bankruptcy Board of India ('IBBI'), as a Registered Valuer for asset class – 'Securities or Financial Assets' with Registration No. IBBI/RV-E/06/2020/126.

#### **4. SOURCES OF INFORMATION**

For the purpose of the valuation exercise, we have relied upon the following information, as provided to us by the Management and on information available in public domain:

- (a) Audited financial statements of the Companies for the financial year ('FY') ended March 31, 2021.
- (b) Limited Review unaudited financial results of OPL for 6 months period ended September 30, 2021 ('6ME Sep21').
- (c) Audited financial statements of DLL for 6 months period ended September 30, 2021 ('6ME Sep21').
- (d) Financial projections of the Companies comprising of balance sheet and profitability statement for six months period ended March 31, 2022 ('6ME Mar22') and from FY 2022-23 to FY 2029-30.
- (e) Discussion with the Management on various issues relevant to valuation including prospects and outlook of the business, expected growth and other relevant information relating to expansion plans, etc.
- (f) Such other information and explanations as we required and which have been provided by the Management, including Management Representations.

#### **5. SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS**

5.1. This report is subject to the scope and limitations detailed hereinafter. As such the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein and in the context of the purpose for which it is made. Further, our report on recommendation of fair equity share exchange ratio for the proposed amalgamation of DLL with OPL is in accordance with ICAI VS 2018 issued by The Institute of Chartered Accountants of India.

5.2. Valuation is not a precise science and the conclusions arrived at will be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value. While we have provided an assessment of value by applying certain formulae which are based on the information available, others may place a different value.



- 5.3. The report assumes that the Companies comply fully with relevant laws and regulations applicable in its area of operations and usage unless otherwise stated, and that the Companies will be managed in a competent and responsible manner. Further, as specifically stated to the contrary, this report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigations and other contingent liabilities that are not recorded/reflected in the balance sheet provided to us.
- 5.4. The draft of the present report was circulated to the Management (excluding the recommended fair equity share exchange ratio) for confirming the facts stated in the report and to confirm that the information or facts stated are not erroneous.
- 5.5. Valuation analysis and results are specific to the purpose of valuation and the Valuation Date mentioned in the report and is as per agreed terms of our engagement.
- 5.6. For the purpose of this exercise, we were provided with both written and verbal information including information detailed hereinabove in para 'Sources of Information'. Further, the responsibility for the accuracy and completeness of the information provided to us by the Management and / or auditors / consultants, is that of the Management. Also, with respect to explanations and information sought from the Management, we have been given to understand by the Management that they have not omitted any relevant and material information about the Companies. The Management have indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/conclusions.
- 5.7. Our work does not constitute an audit, due diligence or certification of these information referred to in this report including information sourced from public domain. Accordingly, we are unable to and do not express an opinion on the fairness or accuracy of any financial information referred to in this report and consequential impact on the present exercise. However, we have evaluated the information provided to us by the Management through broad inquiry, analysis and review. However, nothing has come to our attention to indicate that the information provided / obtained was materially misstated / incorrect or would not afford reasonable grounds upon which to base the report.
- 5.8. Our valuation is based on the estimates of future financial performance as projected by the Management, which represents their view of reasonable expectation at the point of time when they were prepared, after giving due considerations to commercial and financial



aspects of the Companies and the industry in which the Companies operate and taking into account the current economic scenario and business disruptions caused on account of spread of COVID-19 pandemic. But such information and estimates are not offered as assurances that the particular level of income or profit will be achieved, or events will occur as predicted. Actual results achieved during the period covered by the prospective financial statements may vary from those contained in the statement and the variation may be material. The fact that we have considered the projections in this exercise of valuation should not be construed or taken as our being associated with or a party to such projections.

- 5.9. We have relied on data from external sources also to conclude the valuation. These sources are believed to be reliable and therefore, we assume no liability for the truth or accuracy of any data, opinions or estimates furnished by others that have been used in this analysis. Where we have relied on data, opinions or estimates from external sources, reasonable care has been taken to ensure that such data has been correctly extracted from those sources and /or reproduced in its proper form and context.
- 5.10. A valuation of this nature involves consideration of various factors including those impacted by prevailing market trends in general and industry trends in particular. This report is issued on the understanding that the Management has drawn our attention to all the matters, which they are aware of concerning the financial position of the Companies and any other matter, which may have an impact on our opinion, on the value of the shares of the Companies including any significant changes that have taken place or are likely to take place in the financial position of the Companies. Events and transactions occurring after the date of this report may affect the report and assumptions used in preparing it and we do not assume any obligation to update, revise or reaffirm this report.
- 5.11. We are independent of the Companies and have no current or expected interest in the Companies or its assets. The fee paid for our services in no way influenced the results of our analysis.
- 5.12. Our report is not, nor should it be construed as our opining or certifying the compliance with the provisions of any law including companies, competition, taxation and capital market related laws or as regards any legal implications or issues arising in India or abroad from the Proposed Amalgamation.



- 5.13. Any person/party intending to provide finance/divest/invest in the shares/convertible instruments/business of the Companies shall do so after seeking their own professional advice and after carrying out their own due diligence procedures to ensure that they are making an informed decision.
- 5.14. The decision to carry out the Proposed Amalgamation (including consideration thereof) lies entirely with the parties concerned and our work and our finding shall not constitute a recommendation as to whether or not the parties should carry out the Proposed Amalgamation.
- 5.15. Our Report is meant for the purpose mentioned in Para 1 only and should not be used for any purpose other than the purpose mentioned therein. It is exclusively for the use of the Companies and may be submitted to regulatory/statutory authority for obtaining requisite approvals. The Report should not be copied or reproduced without obtaining our prior written approval for any purpose other than the purpose for which it is prepared. In no event, regardless of whether consent has been provided, shall SSPA assume any responsibility to any third party to whom the report is disclosed or otherwise made available.
- 5.16. SSPA nor its partners, managers, employees make any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information, based on which the valuation is carried out. We owe responsibility only to the Companies that has appointed us under the terms of the Engagement Letter. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions or advice given by any other person. In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or wilful default on part of the client or companies, their directors, employees or agents.

## **6. VALUATION APPROACH AND METHODOLOGIES**

- 6.1. For the purpose of valuation, generally following approaches can be considered, viz,
- (a) the 'Cost' approach;
  - (b) the 'Market' approach; and
  - (c) the 'Income' approach

Each of the aforesaid approaches proceeds on different fundamental assumptions which have greater or lesser relevance and at times even no relevance, to a given situation. Thus, the approach to be adopted for a particular valuation exercise must be judiciously chosen.



**6.2. COST APPROACH**

The Cost Approach reflects the amount that would be required currently to replace the service capacity of an asset; often referred to as current replacement cost. In the present case, the business of OPL and of DLL are intended to be continued on a 'going concern basis' and there is no intention to dispose-off the assets, therefore the Cost Approach is not adopted for the present valuation exercise.

**6.3. MARKET APPROACH**

6.3.1. In the present case, the equity shares of OPL are listed and are not frequently traded on any of the recognized stock exchanges (*as per Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, as amended from time to time*). Further, the equity shares of DLL are not listed on any stock exchanges. Therefore, Market Price Method has not been adopted.

Considering the above, we have thought fit to use Comparable Companies' Multiple ('CCM') Method for valuation of equity shares of OPL and DLL under Market Approach.

**6.3.2. COMPARABLE COMPANIES' MULTIPLE METHOD**

Under CCM Method, the value of equity shares of OPL and DLL is determined by using multiples derived from valuations of listed comparable companies. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for material differences, if any.

In the present case, Enterprise Value (EV) to EBITDA multiple of comparable listed companies are considered to arrive at EV of OPL and of DLL.

To the value so arrived, appropriate adjustments have been made for loan funds, value of investments, cash and cash equivalents, outflow on account of acquisition of land and building, surplus assets, inflow on account of sale of land and building and value of other assets and liabilities, after considering the tax impact, wherever applicable to arrive at the equity value.

The equity value as arrived above is divided by the outstanding number of equity shares to arrive at the value per equity share of OPL and of DLL.

**6.4. INCOME APPROACH**

Under Income Approach, equity shares of OPL and of DLL are valued using Discounted Cash Flow ('DCF') Method.



- 6.4.1. Under DCF method, the projected free cash flows from business operations, after considering fund requirements for projected capital expenditure and incremental working capital, are discounted at the Weighted Average Cost of Capital (WACC). The sum of the discounted value of such free cash flows and discounted value of perpetuity is the value of the business.
- 6.4.2. The free cash flows represent the cash available for distribution to both the owners and the creditors of the business. The free cash flows are determined by adding back to earnings before interest and tax (i) depreciation and amortizations (non-cash charge), and (ii) any non-operating item. The cash flow is adjusted for outflows on account of (i) capital expenditure, (ii) incremental working capital requirements and (iii) tax.
- 6.4.3. WACC is considered as the most appropriate discount rate in the DCF Method, since it reflects both the business and the financial risk of the company. In other words, WACC is the weighted average of cost of equity and cost of debt of the respective Companies.
- 6.4.4. To the value so arrived, appropriate adjustments have been made for loan funds, value of investments, cash and cash equivalents, outflow on account of acquisition of land and building, surplus assets, inflow on account of sale of land and building and value of other assets and liabilities, after considering the tax impact, wherever applicable to arrive at the equity value.
- 6.4.5. The equity value as arrived above is divided by the outstanding number of equity shares to arrive at the value per equity share of OPL and of DLL.

## **7. RECOMMENDATION OF FAIR EQUITY SHARE EXCHANGE RATIO**

- 7.1. The fair basis of amalgamation of DLL with OPL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different values have been arrived at under different approaches, for the purposes of recommending a ratio of exchange it is necessary to arrive at a single value for the equity shares of OPL and of DLL. It is however important to note that in doing so, we are not attempting to arrive at the absolute values of the shares of each company. Our exercise is to work out relative value of equity shares of OPL and of DLL to facilitate the determination of a ratio of exchange. For this purpose, it is necessary to give appropriate weightage to the values arrived at under each approach.



- 7.2. As mentioned above, we have considered a combination of Market Approach and Income Approach for arriving at the relative value per equity share of OPL and of DLL. The values under each of the approaches is given in the table below:

Valuation Approach	OPL		DLL	
	Value per share (INR)	Weight	Value per share (INR)	Weight
Asset Approach	NA	NA	NA	NA
Income Approach	538.37	50%	17,012.04	50%
Market Approach	548.95	50%	17,242.23	50%
<b>Relative value per share</b>	<b>543.66</b>		<b>17,127.13</b>	
<b>Exchange Ratio (rounded off)</b>	<b>63 : 2</b>			

NA = Not Applied / Not Applicable

*\* Since, the business of OPL and DLL are both intended to be continued on a 'going concern basis' and there is no intention to dispose-off the assets, therefore the 'Asset' approach is not adopted for the present valuation exercise.*

- 7.3. The fair equity share exchange ratio has been arrived on the basis of a relative valuation of equity shares of OPL and of DLL based on the approaches explained herein earlier and considering various qualitative factors relevant to the Companies and the business dynamics and growth potential of the businesses, having regard to information base, management representation and perceptions, key underlying assumptions and limitations.
- 7.4. In the ultimate analysis, valuation will have to involve the exercise of judicious discretion and judgement taking into account all the relevant factors. There will always be several factors, e.g. present and prospective competition, yield on comparable securities and market sentiments, etc. which are not evident from the face of the balance sheets but which will strongly influence the worth of a share. This concept is also recognized in judicial decisions. For example, Viscount Simon Bd in Gold Coast Selection Trust Ltd. vs. Humphrey reported in 30 TC 209 (House of Lords) and quoted with approval by the Supreme Court of India in the case reported in 176 ITR 417 as under:

*'If the asset takes the form of fully paid shares, the valuation will take into account not only the terms of the agreement but a number of other factors, such as prospective yield, marketability, the general outlook for the type of business of the company which has allotted the shares, the result of a contemporary prospectus offering similar shares for subscription, the capital position of the company, so forth. There may also be an element of value in the fact that the holding of the shares gives control of the company. If the asset is difficult to value, but is nonetheless of a money value, the best valuation possible must be*



*made. Valuation is an art, not an exact science. Mathematical certainty is not demanded, nor indeed is it possible.'*

7.5. In light of the above and on consideration of all the relevant factors and circumstances as discussed and outlined hereinabove earlier in this report, in our opinion, the fair equity share exchange ratio for the proposed amalgamation of DLL with OPL is as under:

**63 (Sixty-Three) equity shares of OPL of INR 10 each fully paid up for every 2 (Two) equity shares of DLL of INR 100 each fully paid up.**

Thanking you,  
Yours faithfully,

**For SSPA & CO.**

**Chartered Accountants**

ICAI Firm registration number: 128851W

IBBI Registered Valuer No.: IBBI/RV-E/06/2020/126

*Parag S. Ved*



**Parag Ved, Partner**

ICAI Membership No. 102432

Registered Valuer No.: IBBI/RV/06/2018/10092

UDIN: 21102432AAAACQ2116

Place: Gurugram

( Formerly known as Orchid Chemicals & Pharmaceuticals Limited )  
 Corp. Off.: **Orchid Pharma Ltd.**, 'Orchid Towers' 313, Valluvarkottam High Road, Nungambakkam, Chennai - 600 034. India.  
 December 24, 2021 **CIN: L24222TN1992PLC022994**

<b>National Stock Exchange of India Limited</b> Listing Department Exchange Plaza, 5th Floor, Plot No: C/1, G - Block, Bandra- Kurla Complex, Bandra (East), Mumbai - 400 051  <b>NSE Symbol: ORCHPHARMA</b>	<b>BSE Limited</b> Corporate Relationship Department 1st floor, New Trading Ring, Rotunda Building, P J Towers, Dalal Street, Fort Mumbai - 400 001  <b>BSE Code: 524372</b>
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Dear Sir/Madam

**Sub: Declaration on material event impacting valuation**

Pursuant to Regulation 37 of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Master Circular SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020 and Circular SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 and with regard to the Draft Scheme of Merger approved by the Board of Directors of Orchid Pharma Limited ("Transferee Company/Listed Entity") and Dhanuka Laboratories Limited ("Transferor Company") on December 16, 2021, subject to the due approvals of the shareholders and regulators, I, Nikita K, the undersigned, the Company Secretary of Listed Entity), duly authorised by the Board of Directors, herewith confirm that:

***No material event impacting the valuation has occurred during the intervening period of filing the scheme documents with Stock Exchange and period under consideration for valuation***

Kindly take our above submissions on records.

Thanking you,

Yours faithfully,

For **Orchid Pharma Limited**


 Orchid Towers  
 313, Valluvarkottam  
 High Road  
 Nungambakkam  
 Chennai-600 034  
**Company Secretary**