ANNEXURE - II

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| **S.R. Batliboi & Co. LLP**<br>The Ruby, 14th floor<br>29, Senapati Bapat Marg<br>Tulsi Pipe Road, Dadar (West)<br>Mumbai – 400 028. | **Price Waterhouse & Co. LLP**<br>Building 10C, 17th & 18th floor,<br>DLF Cyber City<br>Gurgaon – 122002, Haryana<br>India |

**Dated: 29 September 2014**

To

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| **Board of Directors**<br><br>Shasun Pharmaceuticals Limited<br>'Batra Centre', 3rd & 4th Floor<br>28, Sardar Patel Road<br>Guindy, Chennai - 600 032, | **Board of Directors**<br><br>Strides Arcolab Limited<br>Strides House, Bilekahalli<br>Bannerghatta Road, Banglore 560 076 |

**Sub: Recommendation of fair exchange ratio for the proposed merger of Shashun Pharmaceuticals Limited into Strides Arcolab Limited**

Dear Sir / Madam,

We refer to

- engagement letter whereby Strides Arcolab Limited (hereinafter referred to as 'SAL') has requested Price Waterhouse & Co. LLP. (hereinafter referred to as PW&Co); and
- the engagement letter whereby Shashun Pharmaceuticals Limited (hereinafter referred to as 'SPL') has requested S. R. Batliboi & Co. LLP (hereinafter referred to as "SRBC")

for recommendation of fair exchange ratio of equity shares for the proposed merger of SPL into SAL.

SAL and SPL are together hereinafter referred to as the 'Companies'.

SRBC and PW&Co has been hereafter referred to as "Valuers" or we" or "us" and individually referred to as "Valuer" in this joint Exchange Ratio Report ("Valuation Report" or "report").

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STRIDES ARCOLAB LIMITED

## SCOPE AND PURPOSE OF THIS REPORT

SAL, develops, manufactures, and sells pharmaceutical products in India and internationally. The company develops generic pharmaceutical product portfolio. SAL was founded in 1990 and is headquartered in Bengaluru, India. It is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

SPL manufactures and sells active pharmaceutical ingredients (APIs) and intermediates. It is also engaged in the contract research and manufacturing services business. SPL was incorporated in 1976 and is headquartered in Chennai, India. It is listed on BSE and NSE.

We understand that the Management of the Companies are contemplating merger of SPL into SAL ('Transaction') under a Scheme of Arrangement under the provisions of Section 391-394 of the Companies Act, 1956 ('Scheme of Amalgamation'). As a consideration for this Transaction, equity shareholders of SPL would be issued equity shares of SAL.

We understand that the appointed date for the merger will be 1 April 2015.

For the aforesaid purpose, the Board of Directors of SAL and SPL have appointed PW&Co and SRBC respectively to to submit a joint valuation report recommending an exchange ratio, for distribution of SAL's equity shares to the equity shareholders of SPL, to be placed before the Audit Committee of the Companies.

The scope of our services is to conduct a relative (and not absolute) valuation of the equity shares of the Companies and report on a fair exchange ratio for the Transaction in accordance with generally accepted professional standards.

The Valuers have been appointed severally and not jointly and have worked independently in their analysis and after arriving at a consensus on Exchange Ratio, are issuing this Valuation Report.

We have been provided with historical financial information for SPL and SAL upto 30 June 2014. We have considered the same in our analysis and made adjustments for further facts made known (past or future) to us till the date of our report. The current valuation does not factor impact of any event which is unusual or not in normal course of business, except for a payout by SAL out of the full and final settlement of USD 150 million against the contingent holdback from Mylan Inc., in relation to the sale of Agila business. The same has been described later in this report.

We have relied on the above while arriving at the fair exchange ratio for the Transaction.

This report is our deliverable for the above engagement.

This report is subject to the scope, assumptions, exclusions, limitations and disclaimers detailed hereinafter. As such, the report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to therein.

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STRIDES ARCOLAB LIMITED

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## SOURCES OF INFORMATION

In connection with this exercise, we have used the following information received from the Management and gathered from public domain:

- Latest and earlier period annual reports;
- Quarterly audited/unaudited standalone and consolidated profit and loss account for the 4 quarters ended 30 June 2014;
- Standalone and consolidated balance sheet as at 30 June 2014 along with schedules, including and excluding the biotech businesses;
- Details of material business/asset acquisition/disposal after 30 June 2014;
- Forecast financials for 9 months ending 31 March 2015 and 4 years ending 31 March 2019;
- SAL Management's expectations on amount and timing of receipt from Mylan Inc. for consideration held back pertaining to sale of Agila business;
- Details of ESOPs/warrants outstanding;
- Details of surplus assets such as real estate and valuation reports/estimates thereof;
- Discussions with the Management of the respective Companies in connection with the business operations of the respective Companies, past trends and non-recurring/abnormal items, future plans and prospects, etc;
- Corporate announcement by SAL pertaining to contingent hold back by Mylan Inc, in relation to sale of Agila business by SAL;
- Draft Merger Scheme document;
- Other information and documents for the purpose of this engagement.

During the discussions with the Management of both Companies, we have also obtained explanations and information considered reasonably necessary for our exercise. The Companies have been provided with the opportunity to review the draft report (excluding the recommended exchange ratio) as part of our standard practice to make sure that factual inaccuracies / omissions are avoided in our final report.

## SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The services do not represent accounting, assurance, accounting / tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

This report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the date of this report and (iii) are based on the balance sheets as at 30 June 2014 of the Companies. The Management has represented that the business activities of SPL and SAL have been carried out in the normal and ordinary course between 30 June 2014 and the report date and that no material adverse change has occured in their respective operations and financial position between 30 June 2014 and the report date.

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A valuation of this nature is necessarily based on the prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this report.

In the ultimate analysis, valuation will have to be tempered by the exercise of judicious discretion by the Valuers and judgment taking into accounts all the relevant factors. There will always be several factors, e.g. quality and integrity of the management, present and prospective competition, yield on comparable securities and market sentiment, 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 recognised in judicial decisions.

The recommendation(s) rendered in this report only represent our recommendation(s) based upon information till 28 September 2014, furnished by the Companies (or its representatives) and other sources and the said recommendation(s) shall be considered to be in the nature of non-binding advice, (our recommendation will however not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors). We have no obligation to update this report.

The determination of exchange ratio is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgement. There is, therefore, no indisputable single exchange ratio. While we have provided our recommendation of the Exchange Ratio based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the Exchange Ratio of the equity shares of SPL and SAL.. The final responsibility for the determination of the Exchange Ratio at which the proposed merger shall take place will be with the Board of Directors who should take into account other factors such as their own assessment of the proposed Transaction and input of other advisors.

In the course of the valuation, we were provided with both written and verbal information, including market, technical, financial and operating data.

In accordance with the terms of our respective engagements, we have assumed and relied upon, without independent verification, (i) the accuracy of the information that was publicly available and formed a substantial basis for this report and (ii) the accuracy of information made available to us by the CompaniesIn accordance with our Engagement Letter and in accordance with the customary approach adopted in valuation exercises, we have not audited, reviewed or otherwise investigated the historical financial information provided to us. We have not independently investigated or otherwise verified the data provided by the Companies. Accordingly, we do not express an opinion or offer any form of assurance regarding the truth and fairness of the financial position as indicated in the financial statements. Also, with respect to explanations and information sought from the Companies, we have been given to understand by the Companies that they have not omitted any relevant and material factors and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Our conclusions are based on the assumptions and information given by/on behalf of the Companies. The Management of the Companies has indicated to us that they have understood that

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any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results. Accordingly, we assume no responsibility for any errors in the information furnished by the Companies and their impact on the report. Nothing has come to our attention to indicate that the information provided was materially mis-stated/ incorrect or would not afford reasonable grounds upon which to base the report. Also, we assume no responsibility for technical information (if any) furnished by the Companies.

The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations unless otherwise stated, and that the Companies will be managed in a competent and responsible manner. Further, except as specifically stated to the contrary, this valuation report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not recorded in the audited/unaudited balance sheet of the Companies. Our conclusion of value assumes that the assets and liabilities of the Specified Companies, reflected in their respective latest balance sheets remain intact as of the Valuation Report date.

We are not advisors with respect to legal, tax and regulatory matters for the Transaction.

This report does not look into the business/ commercial reasons behind the Transaction nor the likely benefits arising out of the same. Similarly, it does not address the relative merits of the Transaction as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

No investigation of the Companies' claim to title of assets has been made for the purpose of this report and the Companies' claim to such rights has been assumed to be valid. No consideration has been given to liens or encumbrances against the assets, beyond the loans disclosed in the accounts. Therefore, no responsibility is assumed for matters of a legal nature.

We must emphasize that realisations of free cash flow forecast used in the analysis will be dependent on the continuing validity of assumptions on which they are based. Our analysis, therefore, will not, and cannot be directed to providing any assurance about the achievability of the final projections. Since the financial forecasts relate to future, actual results are likely to be different from the projected results because events and circumstances do not occur as expected, and the differences may be material.

The fee for the engagement is not contingent upon the results reported.

We owe responsibility to only the Boards of Directors of the respective company that has appointed us under the terms of our respective engagement letters and nobody else. We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of or advice given by any other to the Companies. In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of the Companies, their directors, employees or agents. In no circumstances shall the liability of a Valuer, its partners, its directors or employees, relating to the services provided in connection with the engagement set out in this report shall exceed the amount paid to such Valuer in respect of the fees charged by it for these services.

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We do not accept any liability to any third party in relation to the issue of this Report. It is understood that this analysis does not represent a fairness opinion. This report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose.

This valuation report is subject to the laws of India.

Neither the valuation report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed Scheme of Amalgamation, without our prior written consent. In addition, this report does not in any manner address the prices at which SAL's equity shares will trade following consummation of the Transaction and we express no opinion or recommendation as to how the shareholders of either Company should vote at any shareholders' meeting(s) to be held in connection with the Transaction.

## BACKGROUND OF COMPANIES

### Strides Arcolab Limited

The issued and subscribed equity share capital of SAL as at 30 June 2014 is INR 595.7 million consisting of 5,95,65,621 equity shares of face value of INR 10 each. The shareholding pattern is as follows:

| Shareholding Pattern as on 30-06-2014 | No of Shares | % Share Holding |
|---|---|---|
| **Promoter & Group** | **1,64,84,202** | **27.7%** |
| Non Promoter (Institutions) | 3,02,19,999 | 50.7% |
| Non Promoter (Others) | 1,28,61,420 | 21.6% |
| **Total Non-Promoter** | **4,30,81,419** | **72.3%** |
| Grand Total | 5,95,65,621 | 100.0% |

*Source: BSE filing (As at 30 June 2014)*

In addition, SAL has outstanding employee stock options (4,00,000 at Rs. 322 per share)

### Shasun Pharmaceuticals Limited

The current issued and subscribed equity share capital of SPL as at 30 June 2014 is INR 120.3 million consisting of 6,01,23,852 equity shares of face value of `2 each. The shareholding pattern is as follows:

| Shareholding Pattern as on 30-06-2014 | No of Shares | % Share Holding |
|---|---|---|
| **Promoter & Group** | **2,35,84,862** | **39.2%** |
| Non Promoter (Institutions) | 1,27,56,617 | 21.2% |
| Non Promoter (Others) | 2,37,82,373 | 39.6% |
| **Total Non-Promoter** | **3,65,38,990** | **60.8%** |
| Grand Total | 6,01,23,852 | 100.0% |

*Source: BSE filing (As at 30 June 2014)*

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In addition, SPL has outstanding warrants (71,00,000 at Rs. 110 per share) and employee stock options (2,23,000 at Rs. 87.60 per share, granted in Aug 2014).

The Management has informed us that here would not be any capital variation in the Companies till the Transaction becomes effective without approval of the shareholders other than on account of existing ESOP Scheme and outstanding warrants.

**APPROACH - BASIS OF MERGER**

The proposed Scheme of Arrangement contemplates the merger of the Companies pursuant to the Scheme of Amalgamation. Arriving at the fair exchange ratio for the proposed merger of SPL into SAL would require determining the fair value of the equity shares of SPL in terms of the fair value of the equity shares of SAL. These values are to be determined independently but on a relative basis, and without considering the current Transaction.

There are several commonly used and accepted methods for determining the fair exchange ratio for the proposed merger of SPL into SAL, which have been considered in the present case, to the extent relevant and applicable, including:

1. Market Price method
2. Comparable Companies Quoted Multiples method
3. Discounted Cash Flows method
4. Net Asset Value method

It should be understood that the valuation of any company or its assets is inherently imprecise and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the Companies. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of companies and their assets.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for transactions of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

**Market Price (MP) Method**

The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market. Further, in the case

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of a merger, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

In the present case, the shares of the Companies are listed on BSE and NSE and there are regular transactions in their equity shares with adequate volumes. In these circumstances, the share price observed on NSE for the respective Companies over a reasonable period have been considered for determining the value of the Companies under the market price methodology.

**Comparable Companies' Quoted Multiple (CCM) method**

Under this method, value of the equity shares of a company is arrived at by using multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed 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 differences between the circumstances.

We have considered the Enterprise Value (EV)/Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) of comparable listed companies for the purpose of our valuation analysis.

It may be noted that, considering their early stage of operations the biotech businesses within SPL and SAL have been considered at their respective investment/book values, and the EBITDA of the pharma businesses (excluding biotech) w has been considered for arriving at their respective valuations.

To arrive at the total value available to the equity shareholders of each of the Companies, value arrived above under CCM method for the Companies is adjusted for the value of loans, cash and cash equivalents, non-operating assets (e.g. value of surplus real estate), recent acquisitions/disposals and cost/proceeds relating thereto, ESOPs/warrants, etc. as deemed appropriate. The total value for equity shareholders is then divided by the diluted number of equity shares in order to work out the value per equity share of the Companies.

**Discounted Cash Flows (DCF) Method**

Under the DCF method the projected free cash flows to the firm are discounted at the weighted average cost of capital. The sum of the discounted value of such free cash flows is the value of the firm.

Using the DCF analysis involves determining the following:

*Estimating future free cash flows*:

Free cash flows are the cash flows expected to be generated by the company that are available to all providers of the company's capital – both debt and equity.

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*Appropriate discount rate to be applied to cash flows i.e. the cost of capital:*

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to all the capital providers (namely shareholders and creditors), weighted by their relative contribution to the total capital of the company. The opportunity cost to the capital provider equals the rate of return the capital provider expects to earn on other investments of equivalent risk.

We have been provided by forecasts (excluding Biotech Business) by the Management of respective Companies.

To arrive at the total value available to the equity shareholders of each of the Companies, value arrived above under DCF method for the Companies is adjusted for the value of loans, cash and cash equivalents, non-operating assets (e.g. value of surplus real estate/facilities), recent acquisitions/disposals and cost/proceeds relating thereto, alue of biotech business, ESOPs/warrants, etc as deemed appropriate. The final equity value is then divided by the diluted number of equity shares in order to work out the value per equity share of the Companies.

**Net Asset Value (NAV) Methodology**

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominate earnings capability. A Scheme of Amalgamation would normally be proceeded with, on the assumption that the companies amalgamate as going concerns and an actual realization of the operating assets is not contemplated. The operating assets have therefore been considered at their book values. In such a going concern scenario, the relative earning power is of importance to the basis of merger, with the values arrived at on the net asset basis being of limited relevance.

Since the value of companies in this industry is largely driven by intangibles which are not captured in historical financials, NAV methodology has not been considered.

**BASIS OF AMALGAMATION**

The basis of merger of SPL into SAL would have to be determined after taking into consideration all the factors and methodologies mentioned hereinabove. Though different swap ratios have been arrived at under each of the above methodologies, it is finally necessary to arrive at a single swap. It is important to note that we are not attempting to arrive at the absolute equity values of SPL and SAL but at their relative values to facilitate the determination of a fair exchange ratio. For this purpose, it is necessary to give appropriate weights to the swaps arrived at under each methodology.

We have considered it appropriate to give equal weights to swaps using Market Price, CCM and DCF methods.

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We have been informed by the Management of SAL that they have agreed to receive from Mylan Inc., an amount of USD 150 million as the full and final settlement (against the contingent holdback of up to USD 250 million). Further, we are informed that SAL intends to invest USD 20 million in biotech business and after providing for taxes the balance will be available to the shareholders, subject to various corporate and regulatory actions. This has also been captured in the recent announcement. Apart from this special payout, no other future payout announcement outside normal course of business has been factored for either of the Companies. In case these is any change in the amount of special payout, the report will be null and void.

The fair exchange ratio of has been arrived at on the basis of a relative equity valuation of the Companies based on the various methodologies explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potentials of the businesses of the Companies, having regard to information base, key underlying assumptions and limitations.

Valuers carried out an independent analysis, discussed the analysis, arrived at a consensus and are issuing this report jointly.

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, we consider that the fair exchange ratio of equity shares for the merger of SPL into SAL should be a ratio of **5** equity shares of SAL (of INR 10/- each fully paid up) for every **16** equity shares of SPL (of INR 2/- each fully paid up).

Respectfully submitted,

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| S.R. Batliboi & Co. LLP<br>Chartered Accountants<br>ICAI Firm Registration Number: 301003E<br><br>Per Ravi Bansal<br>Partner<br>Membership No: 49365<br>Date: 29/9/14 | Price Waterhouse & Co. LLP<br>Chartered Accountants<br>ICAI Firm Registration Number: 090172<br><br>Per Rajan Wadhawan<br>Partner<br>Membership No: AAC-2731<br>Date: 29.Sept 2014 |

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