Strides

REPORT OF THE AUDIT COMMITTEE OF STRIDES PHARMA SCIENCE LIMITED ("COMPANY") AT ITS MEETING HELD ON SEPTEMBER 25, 2023, RECOMMENDING THE SCHEME OF ARRANGEMENT AMONGST STRIDES PHARMA SCIENCE LIMITED ("STRIDES" OR "TRANSFEROR COMPANY 1" OR "DEMERGED COMPANY 1" OR "COMPANY") AND STERISCIENCE SPECIALTIES PRIVATE LIMITED ("STERISCIENCE" OR "TRANSFEROR COMPANY 2" OR "DEMERGED COMPANY 2") AND STELIS BIOPHARMA LIMITED ("STELIS" OR "TRANSFEREE COMPANY" OR "RESULTING COMPANY") AND THEIR RESPECTIVE SHAREHOLDERS ("DRAFT SCHEME")

Present:

#	Name of Committee Members	Designation
1.	S. Sridhar	Chairperson (Independent Director)
2.	Bharat Shah	Member (Independent Director)
3.	Dr. Kausalya Santhanam	Member (Independent Director)
4.	Homi Khusrokhan	Member (Independent Director)

1. Background

1.1. A meeting of the Audit Committee of Strides Pharma Science Limited ("**Company**") was held on September 25, 2023, to, *inter alia*, consider and if thought fit, recommend to the Board of Directors of the Company ("**Board**"), the draft Scheme of Arrangement amongst Strides Pharma Science Limited ("Strides" or "Transferor Company 1 or Demerged Company 1") and Steriscience Specialties Private Limited ("Steriscience" or "Transferor Company 2" or "Demerged Company 2") and Stelis Biopharma Limited ("Stelis" or "Transferee Company" or "Resulting Company") and their respective shareholders ("**Draft Scheme**"), pursuant to the provisions of Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 ("**Act**") and the rules made thereunder.

1.2. Strides is a global pharmaceutical company headquartered in Bengaluru, India and specialises in developing and manufacturing niche finished dosage formulations. The Company mainly operates in the regulated markets and has an "in Africa for Africa" strategy and an institutional business to service donor-funded markets. The Company's product portfolio encompasses a range of technically complex pharmaceutical products, including liquids, creams, ointments, soft gels, sachets, tablets, and modified-release dosage formats. Its expertise lies in the production of 'difficult to manufacture' products. In addition, Strides boasts a dedicated research and development facility in India with global filing capabilities, enabling continuous innovation and growth. Operating in over 100 countries, Strides has a robust global manufacturing footprint spanning eight facilities across four continents, including five US FDA-approved sites.

1.3. Steriscience is engaged in the business of development, manufacturing, marketing and distribution of niche pharmaceuticals products such as injectables for various markets. Steriscience focuses on creating value-added sterile injectables that bridge the gap at hospitals by streamlining workflows, reducing wastage of key resources, and increasing efficiency that solves for challenges of healthcare professionals across the globe, and also offers contract development and manufacturing services in relation to the same.

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1.4. Stelis is engaged in research, development, manufacture and commercialisation of biological drug products in various injectable formats. It is a leading global biopharmaceutical contract development and manufacturing organization with extensive biologics, biosimilars, and vaccine research capabilities and offers end-to-end contract development and manufacturing services across all phases of pre-clinical and clinical development and commercial supply of biologics.

1.5. This report of the Audit Committee is made in compliance with the requirement of the Master Circular no. SEBI/ HO/ POD-2/ P/ CIR/ 2023/ 93 dated June 20, 2023, ("SEBI Circular"), issued by the Securities and Exchange Board of India ("SEBI"). In terms of the SEBI Circular, a report from the Audit Committee is required, recommending the draft Scheme, after taking into consideration, inter alia, the Valuation Report (as defined below).

2. Observations of Audit Committee on the Scheme

2.1 **Need for the Scheme**

i. Each of the varied businesses being carried on by Strides either by itself or through its subsidiaries or through associate companies or together with its group companies including Contract Development & Manufacturing Business (hereinafter CDMO Business) have significant potential for growth and profitability. The nature of risk, competition, challenges, opportunities and business methods for the CDMO Business is separate and distinct from other businesses being carried out by Strides.

ii. The niche businesses established by Strides and other group entities, when combined, could build into a formidable specialty pharmaceutical CDMO with unmatched capabilities. Thus, housing the identified CDMO Business and Soft Gelatin Business of Strides and identified CDMO business of Steriscience in a separate listed entity (i.e., Stelis) would enable crafting of the next horizon of growth and sustained value creation for shareholders through sharper focus on the business anchored on a differentiated strategy aligned with industry specific market dynamics.

iii. Further, the consolidation of CDMO business of the Strides and Steriscience under Stelis would enable to build Stelis into a multispecialty CDMO with capabilities in biologics, oral soft gelatin, complex injectables, sterile injectables, including other complex drug delivery systems. While this will be strategically valuable, it will also be the first platform of its kind in India, spanning capabilities and services that only few global companies have to offer.

2.2 **Rationale for the Scheme**

Committee perused the provisions in the scheme which, inter alia, contains the rationale for the proposed Scheme of Arrangement. In respect of the same, the Audit Committee noted -

"The Board of Directors of the Companies involved in the Scheme are intending to build a one-of-a-kind specialty pharmaceutical Contact Development and Manufacturing ('CDMO') powerhouse with capabilities in biologics, complex injectables, sterile injectables, including other complex drug delivery systems. In this regard, it is proposed to combine the Identified CDMO Business of Strides and the Identified CDMO Business of Steriscience under Stelis. The new

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platform will be able to offer development and manufacturing services covering platform technologies, specialty injectables, complex generics, biosimilars, and biologics.

The proposed Scheme would inter alia have the following benefits:

1. *The consolidation of the Identified CDMO Business of Strides and Identified CDMO Business of Steriscience, with Stelis, will result in integration synergies and enable better supervision of the business.*

2. *The consolidation will allow the management to devise, implement and pursue independent business strategies for the contract development and manufacturing business which will enable a wider scope for independent collaboration, investment opportunities and expansion.*

3. *The consolidation will enhance business potential and result in an increased capability to offer a wider portfolio of products with a diversified resource base and deeper client relationships.*

4. *The consolidation would result in efficient utilitisation of the infrastructure facilities and optimum utilisation of the available resources.*

5. *Further, the synergies arising out of the consolidation will lead to enhancement of net worth of the combined business and enhancement in earnings and cash flow would optimize the value of the Stelis and consequently enhance the shareholder's value.*

6. *The consolidation will create and enhance stakeholder's value by unlocking the intrinsic value of the Identified CDMO Business of Strides and Identified CDMO Business of Steriscience, on listing of shares of Stelis.*

7. *Moreover, the Scheme is expected to increase the long-term value for the shareholders of all the Companies and other stakeholders."*

In view of the aforesaid, the Committee has considered and proposed this Scheme and matters incidental thereto pursuant to the provisions of Sections 230 to 232 and other relevant provisions of the Act.

2.3 **Synergies of business of the entities involved in the Scheme**

The proposed scheme would result in following synergies:

i. The Scheme shall build Stelis into a one-of-a-kind specialty pharmaceutical Contact Development and Manufacturing ('CDMO') powerhouse with capabilities in biologics, complex injectables, sterile injectables, including other complex drug delivery systems.

ii. The segregation and consolidation of CDMO business of Strides and Steriscience in a separate entity (Stelis) would allow insulating and de-risking the CDMO business from other businesses of the transferor entities.

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iii. The consolidation of CDMO business will lead to operational efficiencies by aligning management focus and resources towards CDMO specific approach and strategy. Further, it would lead to sharing and better utilisation of Research and Development Facility for CDMO Business.

iv. The restructuring would allow management efficiency, improve agility to enable quicker decision making, eliminate administrative duplications etc. This will consequently reduce administrative costs.

2.4 **Salient Features of the Scheme**

The Audit Committee considered and noted the following salient features in relation to the Draft Scheme –

i. The draft Scheme is divided into parts, with key parts being –

a) Demerger of the Demerged Undertaking 1 (as more explicitly defined in the Scheme) from Strides into Stelis;

b) Demerger of the Demerged Undertaking 2 (as more explicitly defined in the Scheme) from Steriscience into Stelis;

Appointed Date for the Scheme shall be April 1, 2024 or such other date as may be approved by the jurisdictional National Company Law Tribunal(s), ("NCLT"/ "Tribunal"), with effect from which the Scheme will be deemed to be effective in the manner described in the Scheme ("Appointed Date").

ii. The effectiveness of this Scheme is conditional upon and subject to the following:

a) receipt of 'Observation Letter' or 'No-Objection Letter' from the BSE Limited and National Stock Exchange of India Limited ("**Stock Exchanges**") on the Draft Scheme, as required under applicable laws;

b) approval from requisite majority of such classes of shareholders, secured creditors and unsecured creditors of each of the Companies which are part of the Scheme and such other persons/ authorities, as may be required under applicable laws or as may be directed by the NCLT;

c) the Scheme being approved by the Shareholders of Strides, provided that the votes cast by public shareholders of the Company in favour of the Scheme are more than the number of votes cast by public shareholders against it, under the SEBI Circular;

d) sanction of the Scheme by the jurisdictional NCLT under the relevant provisions of the Act;

e) compliance with such conditions as may be imposed by the NCLT;

f) receipt of such other approvals including, approvals of any governmental authority as may be necessary under applicable laws or under any material contract to make the

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Scheme or the relevant Part of the Scheme effective or on the expiry of any statutory time period pursuant to which such approval is deemed to have been granted; and

g) certified copy of the order of the NCLT sanctioning the Scheme being filed with the jurisdictional Registrar of Companies by each of the Companies.

iii. Upon the Scheme becoming operative on the Effective Date, with effect from the Appointed Date, issue of shares pursuant to the transfer of the Demerged Undertaking 1 and Demerged Undertaking 2 shall be accounted for in the books of the Companies in accordance with the accounting treatment prescribed under the Draft Scheme.

iv. The following share entitlement ratios have been determined:

a) for the allotment of equity shares of the Resulting Company, having face value of INR 1/- each to the shareholders of Demerged Company 1 as on the Record Date 1 (as defined in the Scheme), in consideration for the demerger:

"1 (one) equity share of Transferee Company (of INR 1/- each fully paid up) for every 2 (Two) equity shares of Transferor Company 1 (of INR 10/- each fully paid up)."

b) for the allotment of equity shares of the Resulting Company, having face value of INR 1/- each to the shareholders of Demerged Company 2 as on the Record Date 2 (as defined in the Scheme), in consideration for the demerger:

1,515 (One Thousand Five Hundred and Fifteen) equity shares of Transferee Company (of INR 1/- each fully paid up) for every 1 (one) equity shares of Transferor Company 2 (of INR 10/- each fully paid up)."

The Audit Committee reviewed and noted that –

The Draft Scheme does not fall within the purview of related party transactions in terms of General Circular No. 30/2014 dated July 17, 2014, issued by the Ministry of Corporate Affairs ("**MCA**") since the same is subject to the sanction of the NCLT, and the provisions of Section 188 of the Act are not applicable. However, in accordance with the provisions of Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**SEBI LODR**"), the Scheme falls within the purview of the definition of Related Party Transactions. It is given to understand that the approval of the shareholders would be obtained in terms of the SEBI Master Circular on Scheme of Arrangement by Listed Entities issued on June 20, 2023.

Further, there are common promoters in the Companies. As on date, Karuna Business Solutions LLP and Tenshi Pharmaceuticals Private Limited ("collectively referred to as the Promoters") own 29.93% and the Company and Arco Lab Private Limited, a wholly owned subsidiary of the Company, together own 30.74% on fully diluted basis in Stelis. Further, as on date, Tenshi Pharmaceuticals Private Limited owns majority stake in Steriscience.

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In terms of the Scheme, equity shares of the Resulting Company are proposed to be issued and allotted to the shareholders of the Company and Transferor Company 2 respectively. In view of the aforesaid paragraph and in terms of Paragraphs 10(b)(i) and 10(b)(ii) of the SEBI Circular, the Scheme shall be acted upon only if the votes cast by the public shareholders of the Company in favour of the Scheme are more than the number of votes cast by the public shareholders against it.

The consideration as set forth in the Draft Scheme will be discharged on an 'arms' length basis'. The share entitlement ratios for the shares to be allotted pursuant to the Scheme are based on the Valuation Report and the Fairness Opinion. The aforementioned Valuation Report and Fairness Opinion have duly been considered by the Audit Committee.

Further, B S R & Co. LLP, Chartered Accountants, Statutory Auditors of the Company, vide their draft certificate, have confirmed that the accounting treatment as specified in the Draft Scheme in Clause 12 is in accordance with the applicable Indian Accounting Standards issued by the Institute of Chartered Accountants of India and as notified by MCA, read together with Section 133 of the Act and the Companies (Indian Accounting Standards) Rules, 2015.

2.5 Cost-Benefit Analysis of the Scheme

The implementation of the scheme will involve incurring costs including, administrative/ statutory levy(ies), fees payable to financial/ legal advisors etc.

Considering the rationale and synergies detailed in the above clauses, the consolidation of CDMO business under Stelis will enable the Companies to concentrate their resources and managerial bandwidth entirely to their respective businesses which would lead to optimum utilization of resources and enable focused strategy, better coordination and cohesiveness in their working and assist in standardisation of their business process.

As a result, the long–run benefit derived by the shareholders would foreshadow the cost incurred towards implementation of the scheme.

2.6 Impact of the Scheme on the Shareholders

Audit Committee reviewed the Valuation Report and Fairness Opinion for determination of share entitlement ratios under the Draft Scheme.

Pursuant to the Scheme, shareholders of Strides and Steriscience will receive equity shares in Stelis in accordance with Clause 11.1 and Clause 20.1 of the Scheme respectively.

Audit Committee is of the informed opinion that the draft Scheme is in the best interests of the Company and its shareholders. The impact of the draft Scheme on the shareholders, including, the public shareholders would be the same in all respects and no shareholder is expected to have any disproportionate advantage or disadvantage in any manner. 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.

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3. **Recommendations of the Audit Committee**

Taking into consideration the draft Scheme and its rationale and benefits, the Valuation Report, the Fairness Opinion, and other documents, as placed before the Audit Committee, and the interest of shareholders of the Company, Audit Committee after due deliberation, unanimously recommends the draft Scheme to the Board of the Company, Stock Exchange(s), SEBI and other appropriate authorities for their favourable consideration and approval.

By Order of the Audit Committee of Directors of
Strides Pharma Science Limited,

S. Sridhar

STRIDES PHARMA SCIENCE LIMITED
NAVI
MUMBAI

S. Sridhar
Independent Director &
Chairperson of the Audit Committee Meeting
DIN: 00004272

Date: September 25, 2023