



**Communication Address:**  
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**REPORT OF THE AUDIT COMMITTEE OF SOLARA ACTIVE PHARMA SCIENCES LIMITED ('THE COMPANY') APPROVING THE REVISED COMPOSITE SCHEME OF AMALGAMATION AND ARRANGEMENT OF AURORE LIFE SCIENCE PRIVATE LIMITED, EMPYREAN LIFESCIENCES PRIVATE LIMITED AND HYDRA ACTIVE PHARMA SCIENCES PRIVATE LIMITED, WITH THE COMPANY AND THEIR RESPECTIVE SHAREHOLDERS.**

PRESENT:

Mr. R. Ramakrishnan	- Chairman
Ms. Vineeta Rai	- Member
Mr. Nirmal Bhogilal	- Member
Dr. Kausalya Santhanam	- Member
Mr. Ankur Thadani	- Member

Invitees:

Mr. Bharath R Sessa, Managing Director & CEO  
Mr. Subhash Anand, Executive Director & CFO  
Mr. S. Murali Krishna, Company Secretary

**I. BACKGROUND**

The Audit Committee, at its meetings held on 9<sup>th</sup> April 2021, 22<sup>nd</sup> July 2021 and 25<sup>th</sup> August 2021, had considered and made the recommendation to the Board for approval of the draft Composite Scheme of Amalgamation (Merger by Absorption) of Aurore Life Sciences Private Limited ("Aurore Life Sciences") and Empyrean Lifesciences Private Limited ("Empyrean") and Hydra Active Pharma Sciences Private Limited ("Hydra") with Solara Active Pharma Sciences Limited ("Solara") and their respective shareholders whereby Hydra, Empyrean and Aurore Life Sciences, along with its investment in Aurore Pharmaceuticals Private Limited ("APPL") were getting merged with Solara.

Due to an outstanding issue with the minority shareholder of APPL, a revised proposal has been made to withdraw the aforementioned scheme and to instead consolidate businesses of Hydra, Empyrean and Aurore Life Sciences with Solara excluding investments held in APPL by Aurore Life Sciences as a part of Phase I. The Company may explore the option of consolidating the business of APPL with Solara as part of Phase II at an appropriate time.

Accordingly the revised Proposal had been placed before the Audit Committee at their meeting held on 11<sup>th</sup> November 2021 which was considered and the recommendation had been made to the Board for approval of the draft Composite Scheme of Amalgamation (Merger by Absorption) cum Demerger and Arrangement amongst Hydra Active Pharma Sciences Private Limited ("Hydra" or the "Amalgamating Company 1" or "Transferor Company 1") and Aurore Life Sciences Private Limited ("Aurore Life Sciences" or the "Amalgamated Company 1" or "Transferee Company 1" or "Demerged Company") and Empyrean Lifesciences Private Limited ("Empyrean" or the "Amalgamating Company 2" or "Transferor Company 2") and Solara Active Pharma Sciences Limited ("Solara" or the "Company" or "Amalgamated Company 2" or "Transferee Company 2" or "Resulting Company") (Hydra, Empyrean, Solara and Aurore Life Sciences are collectively referred to as "Companies") and their respective shareholders (hereinafter referred to as "the Scheme").

**Solara Active Pharma Sciences Limited - CIN : L24230MH2017PLC291636**

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The Company is a public company incorporated and domiciled in India engaged in the business of manufacturing, research and development and marketing of Active Pharmaceutical Ingredients (APIs). The Company has a wide network of manufacturing, trading and other incidental operations in India and International markets.

The Transferor Company 1, Transferor Company 2 and the Demerged Company are also engaged in the pure play API Business. They have their own network of manufacturing, trading, research and other incidental operations in India and International markets.

This Report of Audit Committee is made in order to comply with the provisions of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with SEBI Master Circular SEBI/HO/CFD/DIL1/CIR/P/2020/249 dated December 22, 2020.

The reports of valuation reports, board report, and fairness opinion presented at the meeting. The Committee was informed that audit of financial statements of ALS, ELS and HAPS as on 30<sup>th</sup> September, 2021 are in final stage and the reports are based on management certified financial statements of ALS, ELS and HAPS. Further, the Committee was informed that as the audit of aforesaid financial statements of ALS, ELS and HAPS were in final stage, no change in valuation would be expected.

## **II. NEED FOR THE SCHEME**

The Company is engaged in manufacturing, developing, and marketing of APIs with 6 Manufacturing Facilities, 2 R&D Centers, 3,000+ Employees. The Company desires to achieve **long term sustainability** through **scale and longevity**.

The unprecedented Covid-19 pandemic has resulted in severe supply chain disruptions and created a perceptible tilt towards reliability and away from cost when choosing partners. Further, as the API industry grows, there exists need for API players to have capabilities of science as well as scale and have in place robust compliance not only with the API player itself but also its supply chains.

Further, **supply chain reliability** comes from flexible and diverse sites backed by robust processes and strong track record of acing audits from regulators and customers by both API players and its supply chains. Whereas, **Capability strength** comes from infrastructure, commitment to and investment in R&D and the organizations leadership and teams. The Company is desirous of attending both supply chain reliability as well as capability strength **organically as well as inorganically**.

A pure play API Company who is Agile, Sustainable with diverse and strong capabilities has the greatest chance of success in the current market scenario. However, there are very few API players with scale and supply chain reliability.

The Transferor Company 1, Transferor Company 2 and Demerged Company are pureplay API players with a critical size and scale. They are engaged in manufacturing, developing, and marketing of APIs with 1 Manufacturing Facility, 1 R&D Centers, 500+ Employees, strong client base and robust pipeline of products.

## **III. RATIONALE**

The Audit Committee noted the rationale of the draft Scheme, which is as follows:

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The Transferor Company 1, Transferor Company 2, Demerged Company and Transferee Company 2 are engaged in similar lines of business and complement each other. With an intent to expand the business and achieve larger product portfolio, economies of scale, efficiency, optimisation of logistic and distribution network and other related economies by consolidating the business operations being managed by different management teams, the Board of Directors of the all the Companies propose to consolidate the business of Transferor Company 1, Transferor Company 2 and Demerged Undertaking of the Demerged Company with the Transferee Company 2. The proposed Scheme would *inter alia* have the following benefits:

1. Enable the consolidation of the API business of the Demerged Company and Transferor Company 2 with the Transferee Company 2 and would create one of the largest API players in the industry and will facilitate in focused growth, operational efficiency, integration synergies and better supervision of the business.
2. Enhance business potential and increased capability to offer a wider portfolio of products with a diversified resource base and deeper client relationships.
3. Significantly de-risk operations with the combined entity having seven manufacturing facilities, three Research & Development Centres and footprint in 75 + countries enabling a wider market reach and customer offerings.
4. Improve organizational capability and leadership, arising from the pooling of human capital who have the diverse skills, talent and vast experience to compete successfully in an increasingly competitive industry.
5. Enable greater access to different market segments in conduct of its business and addition of new products in the portfolio would improve the competitive position of the combined entity.
6. Add new Research and Development capabilities, new products pipeline and capabilities and would also bring in large Contract Research and Manufacturing business innovator relationship.
7. Result in financial resources being efficiently merged and pooled leading to more effective and centralized management of funds, greater economies of scale, stronger base for future growth and reduction of administrative overheads.
8. Further, the synergies arising out of the consolidation of business will lead to enhancement of net worth of the combined business and enhancement in earnings and cash flow would optimize the value of the Transferee Company 2 and enhance the shareholder's value.
9. Moreover, the Scheme is expected to increase the long-term value for all the shareholders of the Transferor Company 1, Transferor Company 2, Demerged Company and Transferee Company 2. Further, the public shareholders of the Transferee Company 2 will have an opportunity to participate in the profit and growth of the businesses of Transferor Company 1, Transferor Company 2 and the Demerged Undertaking of the Demerged Company which are currently unlisted.

The Audit Committee is of the informed opinion that the proposed rationale of the Scheme is beneficial to the Company and its shareholders.

#### **IV. SYNERGIES OF BUSINESS OF THE ENTITIES INVOLVED IN THE SCHEME**

The Companies are engaged in similar lines of business and complement each other. Solara's structured CIP programs and Transferor Company 1, Transferor Company 2 and Demerged Company's entrepreneurial approach to efficiency will be mutually reinforcing. The proposed Scheme broadens the product portfolio significantly and opens up tangible synergies for the Go To Market efforts. The Transferor Company 1,

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Transferor Company 2 and Demerged Company bring in a ready Contract Research and Manufacturing revenue stream which will give scale for Solara to grow faster and differentiate further.

The proposed Scheme would result in financial resources being efficiently merged and pooled leading to more effective and centralized management of funds, greater economies of scale, stronger base for future growth and reduction of administrative overheads. Further, the synergies arising out of the Scheme will lead to enhancement of net worth of the combined business and enhancement in earnings and cash flow would optimize the value of the Transferee Company 2 and enhance the shareholders' value.

Further, the R&D Capabilities are complimentary and will leverage for faster and more regulatory filing by the Company. The intermediate capabilities of the Transferor Company 1, Transferor Company 2 and Demerged Company support the strategic direction of Solara to selectively backward integrate.

The proposed Scheme would unlock the value for the Company with greater focus and specialization for sustained growth. It would also enable the Company to de-risk the existing business model with wider portfolio of product as well as supports CRAMS business segment growth. The proposed Scheme would enable the Company to widen market and customer offering and to become one of the largest standalone API Company.

The regulated market penetration can briefly be accessed by the Company and would enable the Company to widen market and customer offering.

The Company presently owns 2 R&D Centres and the Demerged Company owns 1 R&D Center. The R&D capabilities of the Demerged Company as well as the Company are complimentary and will leverage for faster and more regulatory filings. The speed and efficiency of regulatory filings of the Demerged Company can be leveraged to widen product portfolio and customer base of the Company.

The newly invested infrastructure in Solara will be filled with an increasing and readily available product portfolio.

Further, the Scheme would enable the Company to generate efficiencies in the procurement processes across the organisation and lead to significant cost savings for the Organisation.

The entrepreneurial culture of the Transferor Company 1, Transferor Company 2 and Demerged Company coupled with ambition of Solara for significant acceleration in growth would lead to significant and sustainable growth of the Company post the Scheme.

**V. SALIENT FEATURES OF THE SCHEME**

The Audit Committee considered and observed the following salient features in relation to the draft Scheme:

i. The Scheme provides for:

- A) Redemption of the Redeemable Preference Shares of Transferor Company 1 (Part II of the Scheme)
- B) Amalgamation of the Transferor Company 1 with the Transferee Company 1 (Part III of the Scheme)

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- C) Demerger of the Demerged Undertaking (*API Business Undertaking*) from Demerged Company into the Resulting Company (Part IV of the Scheme)
- D) Amalgamation of the Transferor Company 2 with the Transferee Company 2 (Part V of the Scheme)
- ii. The Scheme shall be effective from the opening of business hours of 1<sup>st</sup> October 2021 i.e., "Appointed Date".
- iii. The Scheme will come into effect subject to approval of Stock Exchanges, Securities and Exchange Board of India, Hon'ble National Company Law Tribunal, having jurisdiction over respective Companies, shareholders, and such other statutory authorities as may be required.
- iv. Pursuant to the demerger of Demerged Undertaking of Demerged Company into the Company, the Company shall issue shares to the shareholders of the Demerged Company as follows:

To the shareholders of Demerged Company

*"1,122 (One Thousand One Hundred and Twenty-Two) fully paid up equity shares of INR 10 (Rupees Ten only) each of Resulting Company, credited as fully paid up, for every 10,000 (Ten Thousand) fully paid up equity shares of INR 10 (Rupees Ten only) each of the Demerged Company held by such shareholders."*

- v. Further, upon amalgamation of Transferor Company 2 with Solara, no shares would be issued since the entire share capital of Transferor Company 2 shall be held by the Solara pursuant to demerger of Demerged Undertaking from Demerged Company into Solara.
- vi. The Company shall account for the demerger of Demerged Undertaking from Demerged Company into Solara and Amalgamation of Transferor Company 2 with Solara in accordance with the applicable method of accounting prescribed under the Indian Accounting Standard (Ind AS) 103 – "Business Combination" notified under Section 133 of the Act read with the applicable rules issued thereunder and as amended from time to time.

**VI. IMPACT OF THE SCHEME ON THE SHAREHOLDERS**

The Scheme would enable the Company to become one of the largest standalone API Company in the industry. Further, the acquisition is an all stock deal and there is no impact on the working capital or indebtedness of the Company.

The Scheme would enable to enhance business potential and increased capability to offer a wider portfolio of products with a diversified resource base and deeper client relationships and will significantly de-risk operations with the combined entity.

The Scheme would be EBITDA positive from the outset and the improved financial and performance metrics coupled with robust product pipeline would enhance the shareholders' value.

The Promoters of Solara also own stake in the Transferor Company 1 and the Demerged Company. Pursuant to the amalgamation of Transferor Company 1 into Transferee Company 1/ Demerged Company, the shareholders of Transferor Company 1 will become shareholders of Transferee Company 1/Demerged Company. On subsequent demerger of the Demerged Undertaking from Demerged Company into Solara, the number of shares and the percentage of the shares owned by Promoter Group of the Company will increase.

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The issuance of shares to the shareholders of Demerged Company is based on valuation carried out by Niranjana Kumar, Registered Valuer – Securities or Financial Assets and the Fairness Opinion on the said valuation has been issued by ICICI Securities. Thus, the issuance of shares would not be adversarial to the Shareholders of Solara.

In fact, the Synergies arising out of the Scheme will lead to enhancement of net worth of the combined business and enhancement in earnings and cash flow should enhance the shareholders' value post the Scheme. The Scheme will not adversely affect the rights or interest of any shareholder or creditors, in any manner whatsoever.

#### **VII. OBSERVATIONS OF THE AUDIT COMMITTEE – COST-BENEFIT ANALYSIS**

The business of all the Companies are similar and complement each other and with a view to expand the business and achieve economies of scale and efficiency, the Scheme is being undertaken.

Implementation of the Scheme shall result in consolidation of activities of Transferor Company 1, Transferor Company 2, Demerged Company and Transferee Company 2 with pooling and more efficient utilization of their resources, greater economies of scale, sourcing benefits, vendor rationalization, reduction in overheads and other expenses. Improved organizational capability and leadership, arising from the pooling of human capital who have the diverse skills, talent and vast experience would enable Solara to compete successfully in an increasingly competitive industry.

Solara would issue equity shares to shareholders of the Demerged Company as consideration for the acquisition of the Demerged Undertaking and no cash will be incurred by the Company for the said acquisition through the Scheme. The Company would incur only the cost for advisers and stamp duty as implementation costs for the Scheme. Costs incurred towards the implementation of the Scheme foreshadows the long-run benefit that can be derived by achieving strategic and operational synergies.

#### **VIII. RECOMMENDATIONS OF THE AUDIT COMMITTEE**

The Audit Committee after due deliberations and due consideration of all the terms of the draft Scheme, Valuation report, Fairness Opinion Report, and confirmation of Undertaking from Statutory Auditors and the specific points mentioned above, recommends the draft Scheme for favourable consideration and approval by the Board of Directors of the Company, the shareholders of the Company, the BSE, the NSE, the Securities and Exchange Board of India and other statutory / regulatory authorities including jurisdictional National Company Law Tribunal.

**For and on behalf of Audit Committee of  
Solara Active Pharma Sciences Limited**

R. Ramakrishnan  
Chairman of the Audit Committee  
Date: 11<sup>th</sup> November, 2021  
Place: Bengaluru

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**REPORT OF THE AUDIT COMMITTEE OF SOLARA ACTIVE PHARMA SCIENCES LIMITED (THE 'COMPANY') IN CONNECTION WITH THE DRAFT COMPOSITE SCHEME OF AMALGAMATION (MERGER BY ABSORPTION) CUM DEMERGER AND ARRANGEMENT AMONGST HYDRA ACTIVE PHARMA SCIENCES PRIVATE LIMITED AND AURORE LIFE SCIENCES PRIVATE LIMITED AND EMPYREAN LIFESCIENCES PRIVATE LIMITED AND THE COMPANY AND THEIR RESPECTIVE SHAREHOLDERS.**

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**PRESENT:**

Mr. R. Ramakrishnan	- Chairman
Ms. Vineeta Rai	- Member
Mr. Nirmal Bhogilal	- Member
Dr. Kausalya Santhanam	- Member
Mr. Ankur Thadani	- Member

**Invitees:**

Mr. Bharath R Sessa, Managing Director & CEO  
Mr. Subhash Anand, Executive Director & CFO  
Mr. S. Murali Krishna, Company Secretary

**I. BACKGROUND**

The Audit Committee (the 'Committee'), at its meeting held on 11<sup>th</sup> November 2021, had considered and made the recommendation to the Board for approval of the draft Composite Scheme of Amalgamation (Merger by Absorption) cum Demerger and Arrangement amongst Hydra Active Pharma Sciences Private Limited ("Hydra" or the "Amalgamating Company 1" or "Transferor Company 1") and Aurore Life Sciences Private Limited ("Aurore Life Sciences" or the "Amalgamated Company 1" or "Transferee Company 1" or "Demerged Company") and Empyrean Lifesciences Private Limited ("Empyrean" or the "Amalgamating Company 2" or "Transferor Company 2") and Solara Active Pharma Sciences Limited ("Solara" or the "Company" or "Amalgamated Company 2" or "Transferee Company 2" or "Resulting Company") (Hydra, Empyrean, Solara and Aurore Life Sciences are collectively referred to as "Companies" or the "Transacting Companies") and their respective shareholders (hereinafter referred to as "the Scheme").

In the aforesaid meeting, the valuation report (dated 11<sup>th</sup> November 2021 issued by Mr. Niranjana Kumar, Registered Valuer – Securities or Financial Assets) as well as the fairness opinion (dated 11<sup>th</sup> November 2021 issued by ICICI Securities Limited, an Independent SEBI Registered Merchant Banker) was presented to the Committee. The Committee was informed that audit of financial statement of ALS, ELS and HAPS as on 30th September 2021 are in final stage and the reports are based on management certified financial statements of ALS, ELS and HAPS. Further, the Committee was informed that as the audit of aforesaid financial statements of ALS, ELS and HAPS were in final stage, no change in valuation would be expected.

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In the above connection, on the request of the management of the respective transacting companies to ensure compliance with the requirement of Stock Exchange for considering audited financials of unlisted companies by the valuer for preparation of valuation report, a letter has been issued by Mr. Niranjana Kumar as well as ICICI Securities Limited (both dated 25<sup>th</sup> November 2021). The letters certify that, on perusal of the audited accounts of Hydra, Aurore Life Sciences and Empyrean for the six month period ending on 30<sup>th</sup> September 2021, there has been no change in the unaudited accounts vis-à-vis the audited accounts and therefore the share exchange ratio recommended in the respective Reports dated 11<sup>th</sup> November 2021 would remain same as at the valuation date (i.e., 11<sup>th</sup> November 2021) if audited accounts of Hydra, Aurore Life Sciences and Hydra had been considered. The aforesaid letters were presented to the Committee in the meeting held on 26<sup>th</sup> November 2021.

## **II. RECOMMENDATIONS OF THE AUDIT COMMITTEE**

The Audit Committee after due deliberations and due consideration, takes on record the aforesaid Letters dated 25<sup>th</sup> November 2021 issued by Mr. Niranjana Kumar as well as ICICI Securities Limited and recommends continuing with the Share Exchange Ratio for the Scheme as approved by the Board of Directors in its meeting held on 11<sup>th</sup> November 2021.

**By Order of the Audit Committee**

**For and on behalf of Audit Committee of  
Solara Active Pharma Sciences Limited**

A handwritten signature in blue ink, appearing to be 'R. Ramakrishnan', is written over a faint, light-colored signature line.

**R. Ramakrishnan**  
**Chairman of the Audit Committee**  
Date: 26<sup>th</sup> November, 2021  
Place: Bengaluru.