Lakshminarayana Reddy

From:	Lakshminarayana Reddy
Sent:	11 July 2019 10:51 AM
To:	Saurabh Singh (LISCO)
Cc:	Hitesh Malhotra (LISCO); Rajendra Bhosale (LISCO); Sonam Agrawal (LISCO); Krishnan SM
Subject:	RE: SEBI query in relation to Scheme of Arrangement - Apollo Hospitals Enterprise Limited

Dear Mr. Saurabh Singh,

Further to your below email, please find our response to the queries raised by SEBI as under:

Question:- Currently, AHEL holds 100% in Apollo Medicals Private Limited (AMPL), the holding company of transferee company, Apollo Pharmacies Ltd. (APL). Upon scheme becoming effective, AHEL would infuse funds into AMPL to the tune of ~ Rs. 36.465 crores (25.5% of Rs. 143 crores), which would, in turn, invest it into APL by way of equity shares. APL would then use the same funds to discharge a part of the consideration amount of Rs. 527.80 crores, and raise debt to discharge the balance consideration. Effectively, AHEL would be paid ~ Rs. 491.335 crores (527.80 crores - 36.465 crores) and not Rs. 527.80 crores as envisaged in the valuation report and in the scheme, while it is diluting its stake from 100% to 25.5% in AMPL.

Reply:- The steps for implementing the transaction would be as under:

Step 1: Valuation of business followed by transfer of business (pursuant to the Scheme of Arrangement)

The valuation report has been obtained by AHEL in order to determine the value of the front end standalone pharmacy business ('SAP') to be transferred to APL.

The amount of Rs. 527.80 crores as envisaged in the valuation report reflects the total value of the SAP business. Once the SAP business is transferred (pursuant to the Scheme of Arrangement) by AHEL to APL, APL would be liable to pay the entire consideration of Rs. 527.80 crores to AHEL.

Step 2: Funding at AMPL and APL

As on date, AHEL holds 100% of the share capital of AMPL, which is a nominal amount of Rs. 5,00,000, and AMPL holds the entire share capital of APL.

Once the Scheme of Arrangement is approved by all the requisite regulatory authorities and upon the scheme being effective, AHEL along with identified investors would subscribe to the share capital of AMPL to the extent to Rs. 143 crores. AMPL will thereafter subscribe to additional share capital of APL to the extent of Rs. 143 crores.

Additionally, APL will borrow funds from external lenders to partially discharge the consideration outstanding to AHEL (as stated in step 1) and to meet its working capital requirements.

Step 3: APL to discharge the consideration towards acquisition of SAP business

APL to discharge consideration amounting to Rs. 527.80 crores (as stated in step 1 above) to AHEL.

We would like to summarise that AHEL will receive entire consideration of Rs. 527.80 crores from APL (as stated in the valuation report and Scheme of Arrangement). Further, we would like to highlight to your goodself that when AHEL will infuse requisite funds in AMPL, AHEL shall receive additional shares to the extent of 25.5% in AMPL.

Question:- Also provide comments on the rationale for the scheme/ how the aforesaid scheme is beneficial to AHEL/investors?

Reply:- The Board of AHEL recognized that the company's standalone pharmacy business has been growing at a rapid pace and that the business has matured and is today at an inflection point requiring greater focus and attention, independent of the hospital business, given the growth opportunity that India's domestic pharma market has over the medium term. Apollo Pharmacy today has grown from ~ 170 outlets in FY05 to 3167 outlets *as of September 30, 2018, in ~ 400 cities/towns spread over 20 states and 4 Union territories and is currently serving about 300,000 customers daily through a dedicated employee strength of about 21,000 plus.*

With a well-established track record of growth, a proven ability to expand its pharmacy network and a strong brand salience, the Board recognized that it is now – appropriate for this business to be a separate business entity with a clear strategy and vision for itself.

Further 1) the re-organised structure should follow existing regulatory framework , while allowing AHEL to focus on hospitals and healthcare services which is its core business; 2) the sale proceeds would be utilised for repayment of debt, and deleveraging the balance sheet and consequently improving the return on investment and 3) set the platform for "value discovery" of the pharmacy business at a later stage with the ultimate objective of maximising shareholder returns.

Question:- Further, the details pertaining to the investment of Rs. 143 crores into AMPL, and the fact that APL would assume debt to pay off consideration amount is not disclosed in the scheme. Company is advised to comment on the same.

Reply:- The Scheme of Arrangement pertains to transfer of the SAP from AHEL (listed company) to APL for a consideration of INR 527.8 crores. The consideration for transfer of SAP business shall be for cash consideration and the same is also specified in the Scheme of Arrangement. Thus, all the requisite information relevant for the transfer of SAP business is already forming part of the Scheme of Arrangement."

Should you require any further clarifications, do let us know.

Best regards,

For APOLLO HOSPITALS ENTERPRISE LIMITED

L. Lakshmi Narayana Reddy
Sr. General Manager – Secretarial
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(M) – 99413 35356.

From: Saurabh Singh (LISCO) [mailto:saurabhs@nse.co.in]
Sent: 09 July 2019 19:05
To: Lakshminarayana Reddy
Cc: Hitesh Malhotra (LISCO); Rajendra Bhosale (LISCO); Sonam Agrawal (LISCO)
Subject: SEBI query in relation to Scheme of Arrangement - Apollo Hospitals Enterprise Limited

Dear Sir,

In reference to subject kindly provide clarification on the comments given by SEBI on proposed Scheme of Arrangement of Apollo Hospitals Enterprise Limited and attach requisite documents (if required).

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Also provide comments on the rationale for the scheme/ how the aforesaid scheme is beneficial to AHEL/investors?

Further, the details pertaining to the investment of Rs. 143 crores into AMPL, and the fact that APL would assume debt to pay off consideration amount is not disclosed in the scheme. Company is advised to comment on the same.

Warm regards

Saurabh Singh

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