An Analysis of an order by Whole Time Member of SEBI

In the matter of

Proposed Indirect Acquisition of shares of

Dr. Reddy's Laboratories Ltd.

by the trustees of

APS Trust

Background

Dr. Reddy's Ltd. (The "Target Company") is a Pharmaceutical Company and its equity shares are listed on NSE & BSE.

On an application made by Mr. G. V. Prasad in the capacity of Trustee of the **APS Trust (Acquirer),** Securities Exchange Board of India (SEBI) has granted an exemption to the APS Trust from complying with the requirements of Regulation 3(1) of the SEBI Takeover Regulations on the proposed indirect acquisition of shares in Dr. Reddy's Laboratories Ltd (Target Company) by way of Gift.

Facts of the Case

Dr. Reddy's Holdings Limited (**DRHL**), one of the **promoters**, of the Target Company was holding **23.08 %** in the Company

Other Promoters (PACs) were collectively holding **2.53** % in the Target Company.

The total Promoter Group's holding in the Target Company, as on 30th June 2011 was **25.61** percent.

Reddy Family consisting of the **promoters** held **83.17 %** equity shares of **DRHL**.

It was proposed to transfer, said holding of Reddy Family in DRHL, to the APS Trust by way of gift / settlement

Promoter Structure of Dr. Reddy's Limited Prior to the Transfer

Dr. Reddy's Holding Limited
23.08 %

Name	Shareholding %	
Dr. K. Anji Reddy	40.00%	***83.17%*** *(Proposed to be transferred to APS Trust)*
K. Satish Reddy	16.61%	
G.V. Prasad	5.43%	
G. Anuradha	19.36%	
K. Deepti Reddy	0.01%	
K. Samrajyam	0.01%	
G.V. Sanjana Reddy	1.75%	
G.V. Prasad HUF	3.46%	16.83%
K. Satish Reddy (HUF)	13.37%	
Total	100%	100%

PAC's : 2.53 %

Dr. K. Anji Reddy
Ms. K. Samrajyam
Mr. Satish Reddy
Mr. G.V. Prasad
Ms. G.V. Anuradha

Total Promoter Holding
25.61 %

Structure of APS Trust

APS Trust is a private family Trust. The settlors, trustees and beneficiaries of the Trust are as under:

Sl No.	Name	Relationship	Settlors	Trustees	Beneficiaries
1	Dr. K. Anji Reddy	Head of Family	✔	✔	✔
2	Mr. Satish Reddy	Son	✔	✔	✔
3.	Mr. G.V. Prasad	Son in Law	✔	✔	✔
4.	Ms. K Samrajyam	Wife	✔	✗	✗
5.	Ms. Deepti Reddy	Daughter in Law	✔	✗	✔
6.	Ms. G. Anuradha	Daughter	✔	✗	✔
7	Grandchildren		✔	✗	✔

APS Trust would, **indirectly acquire 23.08%** in the Target Company and together with **the PACs the holding would be collectively holding 25.61 %** in the Target Company, which would **trigger Regulation 3(1) (Open Offer) of the Takeover Regulations.**

Contentions made by the Acquirer (*APS Trust)* for seeking exemption from making an open offer

The indirect acquisition was a **non-commercial transaction** and would take place pursuant to a private family arrangement intended to streamline succession and welfare of the Reddy family and which **would not prejudice the interests of the public shareholders** of the Target Company in any manner.

The proposed gift of 83.17 percent of the shares of DRHL to the APS Trust was only an **internal reorganization within the Reddy Family.**

The proposed gift of shares of DRHL to the APS Trust **would not result in any change in shareholding of the promoter group** of in Target Company nor would result in any change in control or management of the Target Company.

The change in the identity of persons who would indirectly exercise voting rights over the Target Company through DRHL would only be between persons who, in their personal capacities, are promoters of the Target Company and are also relatives of the Transferors.

Recommendation of Takeover Panel

The aforesaid application was forwarded to the Takeover Panel in terms of regulation 11(5) of the Takeover Regulations, 2011. After examination of the facts and circumstances stated in the application, the Takeover Panel recommended as under-

The indirect acquisition for which exemption is sought would not affect or prejudice the interests of the public shareholders of the Target Company in any manner.

There would be no change of control, or shareholding of the Target Company pursuant to the aforesaid indirect acquisition.

Therefore, the panel recommended exemption to the acquirer, as prayed for in their application for exemption.

Order by SEBI

In its order, SEBI noted that the **Trustees of the APS Trust are also the promoters of the Target Company**

The proposed transfer of shares of DRHL resulting in indirect acquisition of shares of the Target Company would take place between two entities namely Trustees of the APS Trust

Promoter-transferors of the Target Company who comprise of the same set of individuals, namely members of Dr. Reddy's Family

There would be no change in the promoter group shareholding, management or control of the Target Company pursuant to the proposed acquisition.

Therefore, agreeing with the recommendations of the Takeover Panel, it was considered to be a fit case for granting exemption from the requirements of Regulation 3(1) of the Takeover Regulations

Conclusion

This is an important order from SEBI wherein SEBI has granted exemption for direct or indirect acquisition of shares in listed company by the family Trust.

The basic ground for exemption was the fact that the Trustees of the acquirer Trust and the promoter-transferors were same set of individuals and the proposed transfer did not result in any change in promoter group shareholding or management and control of the target company.

Thank You

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