

E/105

ENAM

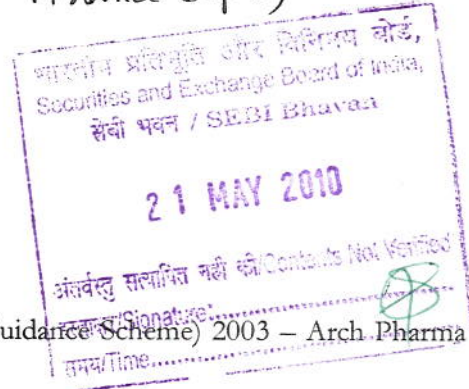
Enam Securities Pvt. Ltd.

K. A. : MR - E. BALA (Division of Corporate Restructuring)
(Corporate Finance Dept)

May 21, 2010

To,

Securities and Exchange Board of India,
Plot No.C4-A,'G' Block,
Bandra Kurla Complex, Bandra (East),
Mumbai 400051



Sub: Interpretive Letter under SEBI (Informal Guidance Scheme) 2003 – Arch Pharma Labs.

Dear Sirs,

We thank you for your time for a personal meeting at your offices on 19th May 2010. We refer your letter CFD/DCR/TO/EB/OW/3916/2010.

A point wise reply is as under:

- i. The details of the corporate restructuring is given in details in the note below which is self explanatory.
- ii. The corporate restructuring is as per BIFR Order. Please note BIFR had not directed the delisting

Please find a detailed note below which is self explanatory and covers both the queries.

1. Background of erstwhile Mervin Drug Products Limited (MDPL)

MDPL was incorporated as a private limited Company on 2nd April, 1993, which was subsequently converted into a public limited Company on 13th September, 1993.

MDPL came out with its initial public issue vide prospectus dated September 12th 1994 and the equity shares were listed with Bombay Stock Exchange Limited (BSE), Hyderabad Stock Exchange Limited (HSE) and Madras Stock Exchange Limited (MSE) in January, 1995. [Copies of listing permission attached – Annexure -1]

2. Background of Restructuring

MDPL association with Arch Commerz Pvt. Ltd. a Mumbai based closely held profit making company engaged in export of bulk drug intermediates was in 1999. MDPL entered into a contract manufacturing agreement with ACPL dated 1st October, 2001 for manufacture of certain pharmaceutical ingredients, i.e. Isoxazole Penicillin sidechain.

During a span of 2-3 years after the IPO various factors including change in product mix, cost overruns resulting in delay in production targets of certain products lead to a delay in overall project implementation, which in turn caused shortage in financial resources. Due to these factors MDPL could not gear up to meet the projected financials which led to the accumulation of losses.

Due to complete erosion of the net worth of the Company as at 31st March, 1999, MDPL, on 9th August, 1999 made a reference to Board for Industrial & Financial

Reconstruction (BIFR) as per the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985., which was registered as Case No. 262/99 dated 24th August, 1999. After subsequent applications to the BIFR a scheme of reverse merger of Merven Drug Products Limited and Arch Commerz Pvt. Ltd was sanctioned by BIFR vide its order dated 25th August 2003 (Reverse Merger Order) and directed the reconstruction of the share capital of the merged company, Merven Drug Products Limited (new MDPL) alongwith subsequent listing of the reconstructed capital. [Copy of the BIFR Order dated 25.08.2003 enclosed herewith – Annexure -2]

Brief details of the Reverse Merger Order:

1. Arch Commerz Pvt. Ltd was dissolved without winding up and pursuant to the provisions of the Companies Act, 1956.
2. On 11th September, 2003 erstwhile Arch Commerz Pvt. Ltd (erstwhile ACPL) ceased to exist and merged giving way to a single merged entity.
3. The name of the merged entity, Merven Drug Products Limited to be changed to Arch Commerz Limited (ACL/Company) [Copy of the ROC, Andhra Pradesh certificate registering the change in name of the Company is on 2nd January, 2004 enclosed herewith-Annexure-3]
4. Registered office of the Company to be shifted from Andhra Pradesh to Mumbai, Maharashtra. [Copy of the Company Law Board Order dated 16.12.2004 and ROC Certificate registering the change in registered office are enclosed herewith – Annexure-4]

The following were the constituents of the reconstruction as specified by BIFR to be carried out:

1. 95% reduction of the entire equity share capital of MDPL;
2. Issue of equity shares in the merged entity based on a 3:5 ratio to the shareholders of the erstwhile ACPL, i.e. 3 equity shares of Rs. 10/- each of the merged entity will be allotted at par for 5 equity shares held by the shareholders of erstwhile ACPL
3. Preferential allotment of 35,00,000 equity shares to the promoters of erstwhile ACPL on account of unsecured loan of Rs. 225 Lakhs and subscription to fresh equity of Rs. 125 Lakhs which was given to erstwhile MDPL.

The computation of the reconstructed share capital is given hereunder:

Particulars	No. of shares
Reduced share capital of erstwhile MDPL [81,00,000 equity shares reduced by 95%]	4,05,000
Issue of shares based on a 3:5 ratio to erstwhile ACPL shareholders [3 equity shares of Rs. 10/- each of the merged entity will be allotted at par for 5 equity shares for 80,47,825 equity shares held in erstwhile ACPL]	48,28,695

Preferential allotment of 35,00,000 equity shares to the promoters of Arch Commerz Pvt. Ltd.	35,00,000
Total equity shares in the merged entity	87,33,695
Total equity share capital in the merged entity (reconstructed share capital)	8,73,36,950

The above reconstructed share capital of MDPL was required to be listed with the stock exchanges, as recommended by the sanctioned BIFR Reverse Merger scheme.

The name of the Company, i.e. "Arch Commerz Limited" did not reflect the business activities of the Company adequately. Hence, to indicate the nature of business activity of the Company, the management decided to change the name to Arch Pharmalabs Limited [APL/the Company] with effect from 11th March, 2004. *[Copy of the ROC certificate registering the change in name of the Company is enclosed herewith – Annexure-5]*

BIFR vide their order dated 5th October, 2004 declared the Company to be out of the purview of the BIFR and the Nominee Director of the BIFR was withdrawn immediately on the basis of positive networth of the Company post the reverse merger and based on the audited financials of the Company for the year ended 31st March 2004. *[Copy of the BIFR Order dated 05.10.2004 enclosed herewith – Annexure – 6]*

5. Background to Delisting

BIFR vide its order dated 25th August 2003 (Reverse Merger Order) directed the subsequent listing of the reconstructed capital. *[Copy of the BIFR Order dated 25.08.2003 enclosed herewith – Annexure -2]*

An application for the listing of the reconstructed share capital was made by the Company with BSE in 2003. Finally at the Listing Committee Meeting of BSE held on 1st April, 2004, and vide its letter dated 23rd April, 2004, BSE gave the Company the following option:

1. to either make an offer for sale such that non-promoter holding is raised to 25% of the reconstructed share capital and/or
2. fresh issue such that non-promoter holding is raised to 25% of post issue capital.
3. BSE also suggested the Company may make a voluntary delisting offer under the (SEBI) Delisting Guidelines, 2003)

[Copy of letter received from BSE dated 23.04.2004 enclosed herewith as Annexure - 7]

The Board of Directors of the Company at their meeting held on 28th October, 2005 and after discussion considering the small percentage of the promoter shareholding in the Company, the dilution of promoter shareholding by way of offer for sale was not considered viable by the management of the Company. Further the Company which had just come out of BIFR purview and due to certain projects underway, the timing was not considered feasible for a fresh issue of shares by way of public issue by the management of the Company, agreed to exercise the option of getting the equity shares delisted from the stock exchanges by way of a voluntary delisting offer under SEBI Delisting Guidelines, 2003 (Guidelines) Approval by the shareholders of the Company was sought at the Annual General Meeting was held on 9th December, 2005.

BSE vide its letter dated 14th February, 2006 took cognizance of the fact that for the purpose of delisting, the public shareholding of the Company would be construed as the public shareholding of the reduced share capital of the erstwhile MDPL only i.e. Rs. 40,50,000.

Based on the above public shareholding identified was 3,06,242 shares of Rs. 10 each/- comprising 3.5% of the total reconstructed share capital of APL and permission was given to demat these shares for the reverse book building mechanism under the Guidelines. *[Copy of BSE letter dated 14.2.06 enclosed herewith as Annexure - 8]*

By 2006, the Company had issued certain convertible warrants and equity shares to Private Equity Investors on a preferential basis, thereby increasing the share capital from Rs. 8,73,36,950/- to Rs. 13,68,64,740/- however for the purpose of the Delisting offer the public shareholding was taken as 3,06,242 equity shares and the balance as promoter holding.

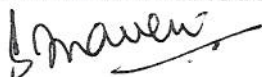
The Company initiated the Delisting procedure immediately afterwards and after completion of the entire procedure, finally got its shares de-listed from all three stock exchanges in August, 2006.

[Promoter & non promoter shareholding post merger, at the time of delisting and current shareholding is enclosed as Annexure - 9]

Thanking you,

Yours sincerely,

For **Enam Securities Private Limited**



Authorised Signatory