Budget Speak 2008-09

This year's budget seems to have satisfied expectations of most industry experts.

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Manjusha Morgaonkar presents a cross section of post budget reactions …

Most pharmaceutical industry captains heaved a collective sigh of relief immediately after Finance Minister Palaniappan Chidambaram announced the Union Budget for 2008-09. Spreading goodies in the fifth and last full-fledged budget of the UPA government, the FM brought down excise duties but the much-awaited change in Fringe Benefit Tax did not show up. The 125 percent weighted deduction granted on expenditure for outsourced R&D was a welcome incentive. The move is likely to boost contract research organisations (CROs) in the country. However, it disappointed many leading companies who have hived off their R&D units as this weighted deduction would not be applicable to these demerged outfits. Exemption of excise duty and five percent reduction in customs duty on certain specified life-saving drugs and bulk drugs used in manufacture of Anti-AIDS drugs also portend well for the industry. Industry experts have hailed these measures as a better way of bringing down drug prices rather than price control.

According to most industry experts, the budget seems to be positive and is aimed towards an overall inclusive growth. But a major disappointment was the lack of proposals for R&D. D G Shah, Secretary General, Indian Pharmaceutical Alliance (IPA) went against the tide saying, "This year's budget was a disappointment for the pharma industry, as most of its demands relating to incentives for higher investment in R&D have been ignored. The budget does not address even the impact of appreciating rupee on exports. Thus two major issues of the pharma industry, that is, incentivising R&D and giving a push to exports, have not been addressed. Customs and excise duty reductions are for the consumer. They are not concessions to the industry."

Reduction of transaction cost

Excise duty on all drugs formulation has been reduced to eight percent, from an earlier 16 percent. Companies will now have some relief on this expense. According to Emkay Shares and Brokers, this year's budget was overall positive for all the pharma companies. Reduction in excise duty from 16 percent to eight percent on all goods produced in the pharma sector and zero excise duty on anti-AIDS drug and bulk drugs will make drugs more affordable and is proved to be positive for almost all pharma companies.

This reduction in excise duty will provide gains to the sector. Central sales tax and custom duty on specified life saving drugs has been reduced to two percent from three percent and five percent from ten percent respectively. These will bring down prices of medicines and make them more affordable to the common man. Ashwin Thacker, Chairman and Managing Director, Flamingo Pharmaceuticals says that due to excise duty cuts, interstate purchase of goods will be cheaper due to reduced cost. Some pharma companies pointed that few other steps are also required in lowering the cost of medicines as well as growth of this sector all over the country. "The government should also look at the same benefits like above to several devices critical in surgeries like incise drapes, which are as critical as life-saving drugs also, it is important for the government to look at making hospitals safer by giving incentives to hospitals which adhere to stricter infection control practices," says Gautam Khanna, Vice President and Head of the 3M Healthcare. Ajit Kamath, Chairman and Managing director, Arch Pharmalabs, claims that similar concession could have been extended to import of intermediates by bulk drug producers who manufacture life saving drugs which could have put the Indian bulk drug industry on an even platform with other countries like China. This would boost new projects and upgradation efforts. Whereas specific reduction for pharma goods will lead to a balanced industrial development in the pharma sector where there was lopsided development in tax havens like Himachal Pradesh, Sikkim and Uttaranchal, Kamath added. Ranjit Shahani, Vice Chairman and MD, Novartis hopes that customs duty on these drugs should soon come down to zero levels. The above mentioned reduction can bring the drug prices down but marginally, says Malvinder Singh, CEO and MD, Ranbaxy Laboratories.

Daara Patel, Secretary General, Indian Drug Manufacturers Association (IDMA) points out that IDMA had been advocating this (reduction in excise duty) vehemently for the last two-three years as many SSI units were on the verge of collapsing, if not already shut down.

According to Satish Reddy, Managing Director and Chief Operating Officer, Dr Reddy's Laboratories, one major concern for industry, particularly export intensive pharma companies, is the appreciating rupee. Reddy points out that export growth in the first nine months of the current fiscal is 19.9 percent, down from 24.8 percent in the corresponding period of the previous year, the lowest since 2002. Chemicals (which include pharmaceuticals) have suffered a steep drop, from 28.4 percent to 10.2 percent and have contributed to this decline. While some attempt has been made to provide relief to exports that are employment intensive, in general industry has been exhorted to improved efficiencies to remain competitive. Reddy points out that this is easier said than done, when some of the key sources of competitive disadvantage are direct consequences of government policy or infrastructure. He further quoted from the Economic Survey, which states that one of the options for government to deepen the reform process is to continue with deregulation, including that of the pharmaceutical industry. 'This is a good augury and will help the pharmaceutical industry to grow their domestic base and offset the exchange rate disadvantage," opines Reddy.

"Budget was a disappointment for the pharma industry as most of its demands relating to incentives for higher investment in R&D have been ignored. The budget does not address even the impact of appreciating rupee on the exports. Thus two major issues of the Pharma industry that is incentivising R&D and giving a push to exports, have not been addressed. Customs and Excise Duty reductions are for the consumer. They are not concessions to the industry."
- D G Shah,
Secretary General,
Indian Pharmaceutical Alliance (IPA)

"From a pharmaceutical industry perspective, Chidambaram's remarkable budget can be considered as interesting. But I expect that the industry should largely pass the reduction in excise duty to the consumer which will therefore give an immediate and direct benefit to the patients."

- Satish Reddy,
Managing Director and Chief Operating Officer,
Dr Reddy's Laboratories

"I believe that on the whole, the budget was positive. This year's budget was balanced, growth oriented and provides a road map for inclusion of the less fortunate sections of society into the ambit of progress."

- K Raghavendra Rao,
Managing Director,
Orchid Chemicals and Pharmaceuticals

"The budget is broadly favourable to the pharma and healthcare sectors. The FM has supported R&D for companies engaged in research which should benefit the clinical trial houses. This should continue to support India's case to make it the pharma R&D hub of the world. Overall a positive budget."

- Sujay Shetty,
Associate Director, PricewaterhouseCoopers

"The budget is positive for the pharmaceuticals industry. But the measures such as reduction of custom duties and excise duties can bring down the prices of drugs, but marginally. Granting weighted deduction of 125 percent is a progressive step to promote outsourcing in research that will encourage more companies to come forward and contribute towards R&D activities. "

- Malvinder Mohan Singh,
CEO and MD,
Ranbaxy

"We welcome the reduction in excise duty and customs duty on life-saving drugs. We hope that customs duty on these drugs will soon come down to zero levels. We had hoped for ten year tax holiday of 200 percent weighted tax deduction. This would have provided a boost to R&D and help companies active in this space move up the value chain."

- Ranjit Shahani,
Vice Chairman and Managing Director,
Novartis India

"The Indian pharmaceutical industry finally has got something to cheer about. IDMA has been advocating for this (reduction in excise duty) vehemently for the last two-three years as many SSI units were on the verge of collapsing, if not already shut down."

- Daara Patel,
Secretary General,
Indian Drug Manufacturers Association (IDMA)

"The budget has been in-line with expectations. There are quite a few good initiatives introduced, which will act as critical catalysts to help the growth of the healthcare sector in India in the future."

- Gautam Khanna,
Vice President and Head of the 3M Healthcare

"Finance Minister has rightly focused in improving the healthcare infrastructure building, improving healthcare access, incentivising R&D initiatives and reduction in transaction cost to medicines. However no additional fiscal incentives have been proposed for R&D activities. Since discovery research is lengthy and expensive, OPPI had recommended that present R&D incentives should continue till 2017."

- Tapan Ray,
Director General,
Organisation of Pharmaceutical Producers of India (OPPI)

Incentivising R&D initiatives

On the R&D front, the extension of income tax sops that would have given standalone R&D companies a ten year tax holiday did not come; neither was the much awaited expansion in the scope of the weighted deduction granted. "As far as R&D is concerned weighted deduction of 125 percent on any payment made to companies engaged in R&D is allowed to promote outsourcing of research. However, no additional fiscal incentives have been proposed by the Finance Minister for R&D activities. Since discov ery research is lengthy and expensive, OPPI had recommended that present R&D incentives should continue till 2017. Overall the budget proposals were satisfactory", opines Tapan Ray, Director General, Organisation of Pharmaceutical Producers of India (OPPI). Industry opinion on this proposal was divided depending on the nature of the business of the companies.

For K Raghavendra Rao, Managing Director, Orchid Chemicals and Pharmaceuticals the inclusion of expenditure on outsourced R&D for tax concessions was an extremely healthy move that should encourage companies which have a strong R&D focus to increase their R&D outlays. Additional weighted deduction for R&D and some incentives for export growth would have been welcome. Neuland Laboratories also hailed it as a very positive step. Dr D R Rao, Chairman and Managing Director, Neuland

Laboratories said, "It will encourage investment in the contract research business, which is our future growth driver." For Ranbaxy too this was a progressive step. "Such a move should continue to support India's case to make it the pharma R&D hub of the world", said Sujay Shetty, associate director, PricewaterhouseCoopers. According to Emkay, it was positive for the sector as it gave an emphasis on R&D and has increased that would provide incentive to invest more in R&D activities.

Industry wishes that more was done for R&D. Shahani hoped for a ten year holiday, with 200 percent weighted tax deduction for both in-house and outsourced R&D. This would have provided a boost to local R&D and helped companies active in this space move up the value chain. "The India story is bound to suffer in the pharma world which will not encourage fresh investments or initiatives", said Kamath.

Healthcare infrastructure building

Saying that the FM has rightly focused on improving healthcare infrastructure, Ray cited the proposals to increase healthcare allocation by 15 percent to Rs 16,354 crores, and extend the five year tax holiday for setting up hospitals in tier II and III regions for providing healthcare in rural areas from April 1, 2008. The proposal for a new Indian Institute of Science Education and Research at Bhopal and Thiruvanthapuram will provide additional scientific talent required by the industry. 3M Healthcare, ORG IMS and Orchid echoed similar sentiments. For Arch Pharmalabs, the tax waiver was positive. This will expand the reach and widen the net of a larger population in provision of healthcare, says Kamath. Shahani points out, "This will ensure healthcare reaches those who have no access for even minor ailments."

Shetty dwelt on the subject further, saying, "Extension of health cover to persons below poverty line, increased outlay for health sector and additional funds for polio eradication are welcome steps. In addition, extension of deductions of medical insurance paid on behalf of parents and specified dependent will boost the medical insurance sector."

For Metropolis Health Services, the overall budget seems to be quite neutral. Dr G S K Velu, Managing Director, Metropolis said, "Apart from the announcement of tax exemption for establishing hospitals in tier II and III cities, nothing substantial has been announced for healthcare industry. We would have cheered if same benefit would have been extended to diagnostics centers as establishing high end diagnostics centers to make accessible to poor is equally an important priority for the government."

Citing further positive moves, Ray complimented the FM for schemes like the Rashtriya Swasthya Bima Yojana to be implemented in Delhi, Haryana and Rajasthan, the Health Insurance Scheme which will cover 75 lakh people and increased allocation for National Rural Health Mission (NRHM)

"Besides the above key areas, allocation of Rs 992 crores for National AIDS programme will help address this dreaded disease, whereas since genuine business expenditure has been exempted from FBT, we hope that expenses on physician's samples, conference expenses for doctors etc will be exempted", says Ray. He also feels that their suggestion for a tax holiday for export of biotechnology, healthcare, R&D and clinical trials and services could have gone a long way in attracting Foreign Direct Investment (FDI) and fuelling the industry's growth. Shahani hopes that in the near future the FM pays heed to the long standing request of industry to do away with FBT on physician samples and also tones down penalties on transfer pricing adjustments.

Kamath stresses that the increase of outlay for HIV treatment was a very positive move since most of the Indian pharma companies were looking more at export markets and local markets were hitherto ignored. This move would help recognise the ground level situation and help treat patients, at reasonable prices. Kamath points out that this will also help Indian pharma companies look inward and be a part of this exercise.

Biotech

The overall budget seems to have shown a sense of populists measures for Intas Biopharmaceuticals. This has reduced the amount of sops, which could have been extended to the industry, in general. It has focused on harnessing inflation, acknowledging the possibility of lower growth, but does not take any explicit expansionary measures.

Mani Iyer, Director, Intas Biopharmaceuticals comments on the budget saying, "Besides reducing custom duties and excise tax and setting a corpus of Rs 315 crores for R&D, there have been no new policies or changes to encourage biotech companies to take up new novel research. Driven by new enterprise and innovation in recent years, the biotechnology sector in India is witnessing accelerated growth. By means of fiscal incentives, special grants and other tax friendly measures, the FM could have done more to promote R&D initiatives taken by corporate sector." Giving the stock market perspective Hemang Jani, Senior Vice President, Sharekhan says that it was an average budget. "Unlike last year's budget this year FM has tried to fill in lots of "populist goodies" in the proposals, Jani added."

The consensus seems to be that while the budget goes some way, it stops short of offering the big ticket economic impetus the pharma sector was hoping for.

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