Impact on pharma

Is it a '*no budge*' Budget?

With elections round the corner, good reforms were expected from the government in the Union Budget this year. Almost all sectors, from healthcare to realty, and the *aam aadmi* are giving a mixed bag of reactions post Budget. A few industry experts provide their views on the impact of the Budget on pharma.

'Bitter pill for the sick and ailing'

Dr Ajit Dangi
President & CEO, Danssen Consulting

6.5/10

The Budget 2011-12 can be summed up in one sentence 'absence of any negative is the biggest positive'. While many people feel that the Budget lacks big ticket reforms, it must be realised that the Budget is basically a statement of account and one single annual event cannot decide the economic future of the nation. Hopefully, in the next few months major policy decisions will unfold. Many of these decisions will require political consensus, which cannot be decided by FM or PM alone and will also depend on international developments such as crude oil prices, economies of the developed world etc. As far as healthcare is concerned, a healthy 20 per cent boost in the healthcare Budget to ₹ 26,700 crore is welcome. However, government's spend on healthcare continues to be fraction of our Gross Domestic Product (GDP). The impact of reduction in surcharge on Corporate Tax is marginal. The delay in rolling out Goods and Services Tax (GST) to June 2012 due to lack of consensus among various states will keep pharmaceutical supply chain and logistics disruptive due to multiplicity of taxes with high transaction costs, and thus its administration cumbersome. However, maintaining cold chain is likely to be little easier due to sops on Excise Duty (ED) on coolers and refrigeration equipment. Bringing hospitals and diagnostic/pathological labs under Service Tax will increase burden on patients. Some large corporate hospitals have already announced that they will pass on this burden to the patients. Government should seriously consider rolling back this provision. As far as indirect taxes are concerned, exemption from SAD for P&P medicines imported for retail sale and reduction of customs duty on four specified life-saving drugs and their bulk drugs from 10 per cent to 5 per cent with nil CVD (by way of ED exemption) is a welcome move. The increase in concessional rate of 4 per cent ED to 5 per cent on drugs was uncalled for, particularly for a sector which is price controlled. Medicine prices are likely to go up by 2 to 3 per cent.

Pharma units in Special Economic Zone (SEZ) will now be subjected to Minimum Alternate Tax (MAT), which can impact their profitability marginally and affect exports. But more than profits, this is a breach of promise given that SEZs will be tax free. The impact of rationalisation of provisions related to transfer pricing needs to be carefully studied after examining the fine print. Collection of Service Tax from 'cash' to 'accrual' basis will affect the cash flow. Pharma industry is innovation and R&D based, and one would have expected increase in tax exemption for investment in R&D and expenses related to patent filing, etc. An enhanced weighted deduction of 200 per cent, an increase from 175 per cent would now be available for contributions made to approved scientific research programmes. Widening the scope of Rashtriya Swastha Bima Yojana (RSBY) will marginally benefit the poor and also the generic drug manufacturers.

'A play-it-safe Budget with no bold reforms'

Kiran Mazumdar Shaw
Managing Director, Biocon

5.5/10

Striving to augment growth in the face of rising inflation and falling investor confidence, India needed Finance Minister Pranab Mukherjee to deliver a 2G Union Budget – a bold statement from the UPA government that addressed Growth and Governance. Unfortunately, all he has delivered is a 'play-it-safe' Budget by balancing his books, containing the deficit, averting subsidies and creaking open the door to foreign investment in Indian mutual funds. The Indian growth story has been sustained by Foreign Direct Investment (FDI), as investors across the world clamoured to partake in the dividend offered by the country's growth. The plot seems to be lost – even as other emerging markets are managing to garner higher foreign investment, we are failing to compete and seem to have lost our policy momentum. The result? In the past 2 months alone, $2 billion dollars have been taken out of the stock market. In 2010, FDI reduced 30 per cent to $24 billion. These are very dangerous signs, reflecting a reality where investors are losing confidence and we cannot afford to be complacent.

What is deeply distressing is that he has taken several retrograde decisions in this Budget. Not only has he increased MAT for the corporate sector, but he has also brought SEZs under the MAT ambit. SEZs augur well for exports, enabling development by generating employment and attracting investment. However, today SEZs are lost in the maze of ad-hoc policies and questionable practices.

This Budget has let down the healthcare sector, which has not seen anything concrete beyond the increase in allocation and the extension of health insurance to National Rural Employment Guarantee Act (NREGA) workers. Instead of taking measures such as extending health insurance to all Indians and setting up an integrated healthcare system to ensure affordable and accessible healthcare for all, Pranab Mukherjee has taken pot shots at easy targets such as bringing health check-ups and diagnostics under the service tax net.

He has totally excluded the promising biotechnology sector, failing to make provisions for the funding the industry requires.

'Pricing to end consumer is set to rise with increase in excise from 4 per cent to 5 per cent'

Partha Mukherjee
Vice President, Sales, Anglo-French Drugs & Industries Ltd

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From a long term perspective, the prospects for the sector appear bright led by increasing focus of governments across the world to reduce healthcare costs and many drugs going off patent. In fact, the next 2-3 years are expected to be strong ones for domestic companies focusing on generics with several branded drugs having huge sales losing their patents. Further, as the developed world recovers, tie-ups in the R&D space would also go a long way in enhancing the fortunes of the Indian pharmaceutical industry.

Pricing to end consumer is set to rise with increase in excise from 4 per cent to 5 per cent. Some tinkering in tax proposals are as follows: Rate of MAT proposed to be increased from 18 per cent to 18.5 per cent of book profits. Surcharge on domestic companies reduced to 5 per cent from the current 7.5 per cent. Weighted deduction on payments made to National Laboratories, Universities and Institutes of Technology to be enhanced to 200 per cent from 175 per cent.

Although MAT has been increased by 0.5 per cent to 18.5 per cent, the reduction in surcharge for domestic companies comes as a relief. Inclusion of units operating in SEZs under MAT would negatively impact companies, which presently have or are planning to set up manufacturing units in SEZs.

Implementation of GST is the only positive. Besides, we will have to keep an eye on new RBI norms for banking and its impact.

'This could certainly have been a legacy budget for the UPA, but the opportunity has been lost'

Ranjit Shahani
President, Organisation of Pharmaceutical Producers of India

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Enhancement of scope of weighted deduction on payments made for scientific research to National Laboratories, Universities and Institutes of Technology to 200 per cent is a welcome step.

Besides, following tax and other proposals of the Finance Minister could benefit the industry:

- National Innovation Council to prepare road map for innovation in India.
- Liberalisation of the FDI Policy
- Infrastructure status to cold chains: Capital investment in creation of modern cold chain capacity will be eligible for viability gap funding of the Finance Ministry.
- Corporate surcharge has been reduced from 7.5 to 5 per cent, although corporate MAT has gone up to 18.5 per cent.
- Introduction of 'Self Assessment' in customs, wherein importers and exporters will themselves assess payment of duties.

Service tax will now cover some categories of hospitals and diagnostic tests, which may increase healthcare cost of individuals availing such facilities.

Thus, in our view, the healthcare concerns of the country have not been given adequate importance in the Union Budget proposals for 2011-12 to help improve the healthcare needs of the nation. This could certainly have been a legacy budget for the UPA - particularly given the enormity of the healthcare challenge with two-thirds of our population having no or very limited access to modern healthcare, but the opportunity has been lost.

'MAT on SEZ is a hurting point for pharma and IT companies '

Sanjay Pai
Chief Financial Officer, Plethico Pharmaceuticals Ltd

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Primarily the provisions of the Budgets on MAT on SEZ units would be definitely an unfortunate factor for pharma & IT companies and basically, is not in line with the commerce ministry nor in line with SEZ Act, which clearly emancipates that the Special Economic Zone would not be burdened with any tax liability. Based on this, many companies would have invested their monies into building infrastructure in awkward / backward places and this could lead to loss of confidence in the investor community on the road map of the taxing authorities in India.

Clarity on GST & DTC as to content would have gone a long way.

'It would have been good to see funds in the form of equity fund for non revenue-generating companies'

Sanjeev Saxena
Chairman & CEO, Actis Biologics

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It is an interesting and a good Budget for the economy. Problem appears when you look at things like the healthcare sector; if there are more than 25 air-conditioned beds in a hospital it comes under the Service Tax regime, which will either force hospitals to have less than 25 AC beds. It is interesting to note when a person is unwell a better and more relaxed environment is required including ACs and so people will not get that good quality of care in hospitals or hospitals will try to create work arounds, which will probably result in additional black markets or additional bureaucracy.

From the biotech stand point, we needed to see decrease in import duties and other excise duties and taxes for equipment which are not made in India, besides reducing TDS payment requirements for equity against tech transfer. More investment for new drug development both in reduction of taxes and also more funds being allocated for new drug development for biotech and nanotech to companies involved in innovation should have been emphasised. It would also have been good to see funds in the form of equity fund for non revenue-generating companies involved in innovation. This would help not just fuel but accelerate the growth of the economy.

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'The Budget, simply put, is long on intent but short on content'

S Ramesh
President, Finance and Planning, Lupin Ltd

The FM's Budget, simply put, is long on intent but short on content. While the strategic focus of the Budget on various matters such as fiscal consolidation is explicit, the process by which it will translate into a tangible outcome is still to be made unequivocal. The Budget has little for the pharma industry; whilst the weighted deduction on R&D is a necessary fiscal incentive given to the entire sector in several parts of the globe, there was also a need to incentivise exports through fiscal measures to maintain the sector's global competitive situation, which unfortunately is not the case with the MAT introduction on SEZs and the phasing out of EOUs.

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'Healthcare concerns of the country have not been given adequate importance in the budget'

Tapan Ray
Director General, OPPI

In its Pre-Budget Memorandum, OPPI proposed budgetary/fiscal measures and support in the following five key areas:

- Infrastructure building
- Improving access to medicines
- Reduction in transaction costs
- Incentivising R&D
- Reduction in tax burden and other measures

Overall, there is nothing significant in this Budget for the healthcare sector. However, we appreciate the following announcements of the FM in his budget speech with reference to the above areas:

A. Plan allocation for health has been increased by 20 per cent. A significant part of which, we hope, will be utilised to build appropriate healthcare infrastructure.

B. The scope of RSBY has been expanded to widen its coverage, which is expected to have an impact in improving access to medicines to the marginalised section of the population.

C. The Industry expected that the government will take measures to make all imported life-saving drugs more affordable to the patients by eliminating the import duty. Unfortunately, this has not come true. However, the basic Customs Duty has been reduced to 5 per cent with nil CVD on four life-saving drugs along with the bulk drugs used in the manufacture of these drugs. These four drugs are:

1. *Rasburicase* (Anti-cancer)
2. *Nilotinib* (Anti-cancer)
3. *Prevenar* (Anti-pneumococcal paediatric vaccine)
4. *Micafungin Sodium* (Anti-fungal)

Thus, the healthcare concerns of the country have not been given adequate importance in the Union Budget proposals for 2011-12 to help improve the healthcare needs of the nation.

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'Increase in per month remuneration to the *anganwadi* workers and helpers; is a good step in motivating rural healthcare provision'

Dr Vivek Desai
Managing Director, Hosmac India Healthcare Consultancy,
Chairman Healthcare Committee, CII

"The increase in the healthcare budget by 20 per cent to ₹ 27,600 crore is encouraging. Also, inclusion of unorganised workers like mining and construction workers will help people avail better healthcare facilities. This could also be linked to NREGA. Repatriation of money from abroad with a reduced 15 per cent tax will have a good impact on investments in healthcare. Increase in per month remuneration to the Anganwadi workers and helpers is a good step in motivating rural healthcare provision. The ₹ 500 crore outlay for National Skill Development Council is a welcome inclusion as this presents enormous scope to train manpower in healthcare like lab technicians, nurses, radiographers, etc. However, the 5 per cent Service Tax on centrally air-conditioned hospitals of more than 25 beds is a dampener as the bills for patients may go up."