

## PHARMACEUTICALS

### Sector Impact - Neutral

#### Background

- The Indian Pharmaceutical Industry (IPI), valued at around US\$20 bn (Share: Domestic – 59%, Exports – 41%), is ranked 11<sup>th</sup> in value terms and fourth in volume terms in the world. It manufactures about 400 bulk drugs and almost the entire range of formulations. The industry, however, constitutes less than 2% of the total global industry turnover due to low prices.
- The industry is highly fragmented with around 20,000 players, of which around 250 in the organised sector control over 70% of the total domestic market in value terms.
- The industry has been growing at a healthy rate of 11-12% annually over the last few years driven by good growth in both domestic and export markets. While growing share of generics in the developed markets and opportunity from Contract Research and Manufacturing Services (CRAMS) have been the primary drivers for exports, changing demographics and shift in disease profile have been the major factors contributing to the domestic market growth.
- The IPI has remained largely immune to the global slowdown. Though the industry achieved good growth in total turnover during FY2008-09, its profitability was negatively affected due to exchange fluctuation losses, high interest burden and volatility in raw material prices. Globally, the impact of economic slowdown has had varied impact across different markets with overall moderation in growth rate vis-à-vis previous year.

#### Budget Proposals

1. Increase in the weighted deduction on expenditure incurred on in-house Research & Development activities from 150% to 200% also increase in the weighted deduction on payments made to National Laboratories, research associations, colleges, universities and other institutions, for scientific research from 125% to 175%.
2. Increase in peak rate of excise duty from 8% to 10%.
3. Increase in rate of Minimum Alternate Tax (MAT) from 15% to 18%.

## Duty Structure

(%)	Existing	Proposed
<b>CUSTOMS DUTY*</b>		
• Bulk Drugs	7.5	7.5
• Formulations	10.0	10.0
• Life Saving Drugs#	5.0	5.0
<b>EXCISE DUTY</b>		
• Bulk Drugs	8.0	10.0
• Formulations	4.0	4.0
• Life Saving Drugs#	Nil	Nil
Weighted deduction on in-house Research and Development	150	200

\*Excluding 2% education cess and 1% secondary & higher education cess

# On influenza vaccine and nine specified life saving drugs used for the treatment of breast cancer, hepatitis-B, rheumatic arthritis etc and bulk drugs used for the manufacture of such drugs

## Budget Impact: Industry

1. Increased weighted deduction on in-house R & D expenditure will further encourage spending by pharmaceutical and biotech companies on research for New Chemical Entities (NCEs), New Drug Delivery Systems (NDDS) etc carried out in-house or outsourced to third parties like National Laboratories and research institutions. Expenditure of capital nature and cost incurred on clinical trials conducted domestically will also be eligible for enhanced rate of weighted deduction.
2. Impact of increase in peak rate of excise duty would increase the cost of bulk drugs & drug intermediates for the formulation companies. However, the impact on bulk drug manufacturers would depend upon their ability to pass-on the increase to domestic clients while their export business would remain unaffected.
3. Increase in MAT rate is expected to result in higher tax outgo for pharmaceutical companies covered under MAT and operating from tax-exempt locations.

### Budget Impact: Companies

Company	% of Sales		Applicable Proposals	Overall Impact
	Bulk Drugs	Formulations		
Ranbaxy Lab.	25	74	1,2 and 3	◄►
Sun Pharma	11	89	1 and 2	◄►
Dr. Reddy's Lab.	37	56	1 and 2	▲
Cipla	12	84	1 and 2	◄►
GlaxoSmithKline	3	97	2	▼
Biocon	92	8	1, 2 and 3	◄►
Aurobindo Pharma	56	44	2	◄►
Lupin	18	82	1, 2 and 3	◄►

**Legends:**

▲▲	Highly Positive	▼	Marginally Negative	◄►	Neutral
▲	Marginally Positive	▼▼	Highly Negative	∅	No Proposals