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**Budget boosters that the pharma industry longs for**

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Hitesh Gajaria, Executive Director, KPMG

The countdown to this year's Budget has begun, and the pharmaceutical industry once again waits to get the desired attention from the Finance Ministry, says **Hitesh Gajaria**, Executive Director, KPMG.

While the wish list of the industry remains similar to that of last year, what is to be seen is whether the Government will fulfil the key demands of the sector, he wryly adds, during a recent pre-Budget email interaction with *Business Line*.

“As the Indian Government makes a transition from ‘economic stimulus to combat slowdown’ to ‘gradual withdrawal of stimulus to nurture growth,’ the pharma industry expects the Government to play a role which will truly partner the industry so that ‘Healthcare for all’ becomes a reality,” wishes Gajaria.

*Excerpts from the interview*

**On the growth trajectory**

The domestic pharmaceutical industry, which had demonstrated its resilience in combating the economic slowdown in 2008 vis-à-vis other sectors, has once again exhibited its strength and has bounced back with full swing, witnessing close to 17 per cent growth in 2009 – the highest in two years after 2006. The exports segment is also gradually reverting to its high-growth trajectory backed by the recovering global economy. While the industry seems to be well-positioned to tap the opportunities that lie in store, it has expressed a strong desire for further Government support in the form of incentives and tax sops in order to leverage its true potential as a globally important pillar of the pharmaceuticals value chain.

Although the Government is increasingly focusing on providing affordable healthcare to all, the steps taken

till now have fallen short of the industry expectations. The last couple of Budgets have not been very encouraging as some of the industry's long-standing demands have remained unmet.

### **On R&D**

The most important issue is the need to further incentivise research and development (R&D) efforts. This highly capital-intensive area with a long gestation period for payback is fraught with the challenge of limited funding capacity of domestic players.

Indian pharma companies have largely relied on internally-generated revenues (primarily from their generics business) to fund their R&D programmes, due to the relatively low risk appetite of capital markets and the lack of experienced PE (private equity) players to invest in this business.

An increase in the deduction on R&D from 150 per cent to 200 per cent will likely ease this pressure by allowing for increase in allocation to this segment. The industry also calls for expanding the scope of R&D expenditure that is presently allowed for the said weighted deduction; for instance, it should be extended to include expenditure incurred on filing applications to register products for sale outside India with any regulatory authority outside India.

### **On indirect taxes**

While the reduction of customs duty on around 10 life-saving drugs from 10 per cent to 5 per cent was a welcome move, the industry expects the Government to bring more such drugs under its ambit, thereby making these drugs affordable.

The Government is working towards the implementation of Goods and Services Tax (GST) in the country shortly. The pharma industry expects the Government to ensure a smooth transition from the existing indirect taxes regime to GST, which is expected to eliminate cascading in taxes while reducing transaction costs thus having a positive impact on the pharma industry supply chains.

### **On MAT hopes**

The hike in Minimum Alternate Tax (MAT) from 10 per cent to 15 per cent was a dampener for the industry in the last Budget. The pharma industry hopes for the restoration of MAT rate back to 10 per cent.

### **On tax holiday**

A further extension of the sunset clause benefits to export-oriented units under Section 10B beyond FY11 will help in supporting the expansion of the export segment.

The denial of the benefit of the tax holiday to units in the special economic zones (SEZs), proposed in the Direct Taxes Code Bill should never be enacted as such a move will kill the fledgling efforts of export-oriented pharma companies that have made a strategic decision to put in long-term capital commitment in manufacturing units in SEZs.