

Union Budget disappoints life sciences industry

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The year 2013 began with a number of expectations from the life sciences industry for the central government to introduce reforms and make changes so as to allow not just the domestic industry to grow but also research to prosper. A general consensus was found across all verticals that reduction of import duties on life saving drugs and raw materials for diagnostics and other biotech products would go a long way in bringing domestic manufacturers at par with foreign ones (For detailed recommendations see [here](#) and [here](#)). So, did the finance minister deliver on those counts. Here is what the industry had to say.

Dr. P.M.Murali, president, ABLE, and CEO Evolve Biotech, "Overall the impression is this budget is not path breaking and is not sending the right pointers for quick growth of this sector. Exemption from excise/custom duties on life saving medicines as well as on their raw materials and exemption on capital goods and consumables, CRO's, diagnostic kits have not been considered. Somebody has to realize these are important parts of health care. ABLE is trying to foster a climate where India can transform itself into a noticeable bio economy with year on year growth over 25%. However to achieve this the key drivers for growth in the Biotechnology sector which is highly capital intensive is to provide the necessary incentives for its growth. We had proposed a number of measures like the fact that venture capital is the lifeline of this industry and tax incentives for setting up venture capital funds is a key. The finance minister has recognized this. But the measures announced are far from being adequate. We have to study the implications of the tax rebates and funds allocated for advanced skills development. From the outside one is not able to put any numbers on to this."

The finance minister, P Chidambaram in his budget 2013-14 speech announced an allocation of Rs 37,330 crore to the ministry of health. The new national health mission will get Rs 21,239 crore whereas Rs 47,027 crore has been allocated for medical education training and research. Additionally, the finance minister has also allocated Rs 1069 crore to AYUSH.

Hitesh Sharma, partner and national leader, Life Sciences, Ernst & Young echoes the popular sentiment that there wasn't much emphasis given to the pharma sector as a whole. He says, "(There is)not much for the pharma or the healthcare sector

in the budget. Directionally the government has shown the commitment towards the healthcare sector by increasing the spend for National Health Mission by 24% over RE of last year. Also the continued focus on medical education and training (including through AIIMSs) is positive. Otherwise no other direct support provided in the budget to the sector. The increase in surcharge from 5 to 10% and increase in royalty rates of tax from 10 to 25% (subject to double tax treaty relief) will impact the pharma sector negatively. Finally the excise duty on MRP basis (with abatement of 35%) for ayurvedic, unani, bio chemic, Siddha and Homeopath medicines, aligns these areas with the present regime for the pharma sector. Most demands of the sector like tax holiday period increase for healthcare, GST roll out, service tax exemption for clinical trials activity, etc have not been addressed in the budget".

Gautam Khanna, Chair, FICCI Medical Devices Forum lamented about the lack of any changes in custom duties for essential equipment, "The industry had been looking forward to respites in duties for life saving medical equipment which would have resulted in increased access to healthcare, but this was not considered. It would have been better if reforms in health insurance and respites in duty for life saving medical equipments had been considered. However, the Finance Minister has reiterated that health for all is a priority. Given that healthcare is an important sector that adds 5.2% to the GDP, I am happy that the government has planned to increase its spending by 21.6% from Rs. 30702 crore to Rs. 37330 crore which is in line with the PM's commitment. Though the expectation was higher, this is a step in the right direction. The Rs. 4727 crores has been allocated towards medical research and education that will further promote innovation in healthcare and ensure there is a continuous stream of medical professionals coming in to strengthen the healthcare fraternity. Combining NRHN and NUHM facilities will also ensure uniform implementation of Govt policies across the country."

Tapan Ray, Director general, OPPI, expresses similar thoughts when he says, , "Unfortunately, there is nothing significant in this budget for the healthcare sector, as such. However, we appreciate the increased budgetary allocation for National Rural and Urban Health Mission which may improve access. Other proposals such as , increased budgetary allocation for medical studies, expansion of medical care facilities for women and differently abled, increased allocation for geriatric care and setting up of Indian Institute of Biotechnology, are also laudable and could benefit the industry in the longer term. However, a planned allocation on 'Universal Health Coverage' initiative was highly expected. The scope of Rashtriya Swasthya Bima Yojna (RSBY) has been expanded to widen its coverage, which is also expected to have an impact in improving access to healthcare for the marginalized section of the society. Thus, in our view, the healthcare concerns of the country have not been given adequate importance in the Union budget proposals for 2013-14 to help improving the healthcare needs of the nation."

Close on the heels of the pharma industry, players in the CRO space were disappointed as well. Nidhi Saxena, founder, chairman & CEO, Karmic Lifesciences, and president & founding chair for "Women in Bio", India Chapter, said, "With this budget India may have missed an opportunity to assert itself in the life sciences domain. India needs a strong research culture so as to create at least one blockbuster drug for which R&D and clinical research activities needed encouragement by way of a long term tax holiday on products developed in-house, extension of weighted deduction on R&D on all research related services, grants and scholarships for translational medicine. Despite the announced outlay, private infrastructure development in the sector, setting up of new hospitals and labs , is likely to lag with little incentive for the sector to play a big role. The move to continue non-tax benefits to MSMEs even after they cross the threshold limits is welcome. The clinical research organisations urge their inclusion in the MSME definition. I would have liked to see special dispensation for encouraging ventures by women entrepreneurs especially in life sciences. However, looks like women have to contend themselves with women friendly sops like an allocation of Rs. 1000 Crore to ensure safety and security of women as well as the proposal to set-up India's first women's bank as a PSU bank."

On the upside....

In totality, as K.V. Balasubramaniam put it, "the budget focuses on poverty alleviation, rural development and employment generation. It also focuses on increasing investments in the economy, which can alone drive development and growth. It aims to control fiscal and revenue deficits without resorting to higher taxation, which is really welcome."

Amit Mookim, partner, national industry head, Healthcare, KPMG in India, spoke about the notable features that were included in the budget, " The mainstreaming of AYUSH practitioners, if implemented effectively will partly address the need gap for doctors and healthcare professionals in the country. Additionally, the investment in both teaching hospitals and medical colleges will enable bridging the capacity gap in the sector."

Mid way through his speech, P. Chidambaram spoke about the potential that advances in science and technology can have

on the common man and said that Rs. 6275 crore has been allocated for the Department of Science and Technology. Dr.Krishna Ella, CMD, president, Vaccine Manufacturers Association found these allocations as positive indicators. He said, "An increase of 25% for science and technology side with about Rs. 1000 crore earmarked for skill development and Rs. 200 crore to bring the benefits of innovations in science and technology to common people, is a good move which will foster growth and accelerate development."

On the negative side however,he added, "An increase in the Rate of tax on payments by way of royalty from 10% to 25% will hurt the industry in case of technology transfer."

The Union budget however did spell out some good news for the agriculture sector, with a 22% increase in the money allocated to the Ministry of Agriculture to Rs 27049 crore. Not only, has the government planned to introduce "Nutrifarms" to increase new crop varieties and allocated Rs 200 crore to start pilot for this nutri rich crops like iron rich bajra, but also announced the establishment of an Indian institute of Biotechnology for agriculture to be set up in Ranchi, which will serve as a Center of Excellence for agricultural biotechnology. Sushil Karwa, Managing Director, Krishidhan Group of Companies, one of the leading producers of Bt cotton, further elaborated, "In the union budget 2013 - 2014, the Finance Minister has announced allocation of Rs. 500 crore to start a program in crop diversification and promote technological innovation along with Rs. 3,415 crore for agri-research. These provisions are very encouraging for the core players of agriculture and biotech sector as it would help us to focus more on research and development. Since private sector is playing a leading role in biotech and agri sector, we hope that government would channelise some funds in private sectors in the form of grants and / or soft loans so as to encourage the sector. It would also motivate us to stress on developing innovative disease resistant and drought resistant seeds to deliver value added quality products that ensure higher yields at lower cost to farmers."

Speaking about the provisions in the budget, apart from those for the life sciences space, Kiran Mazumdar Shaw, CMD, Biocon said, " The FM's directional intent is good and the investment signals are positive. However, implementation and fiscal prudence still remain a concern. Bolder measures could have been taken to kick start growth as projected in the National Economic Survey. The surcharge on high income earners was anticipated and is in fact, necessary. The focus on skill development through a special fund for the youth along with the provision to recognize corporate investments in Technology incubators as CSR, will favor self-employment and entrepreneurship. The plethora of incentives for women and the proposed allocation for a women's bank and the Nirbhaya fund are welcome but will have a limited impact on the overall economy. "

She however added that," The manufacturing sector has not received the impetus it deserves , the 15% investment allowance is inadequate. The food and fertilizer subsidies are under provided. The pharma sector has received scant attention. Overall a positive budget which may not deliver the intended more-than 6% growth."

On a closer look, the budget has not spell a complete doom for the industry. K V Balasubramaniam, Managing Director Indian Immunological, pointed out that it might get to benefit indirectly. , "There are no specific measures to benefit the biotechnology industry or the vaccine industry in terms of tax exemptions or benefits. However, increased outlay for health and agriculture in general and specifically for the Rashtriya Krishi Vikas program and the new National Livestock Mission will have spin off benefits for our industry.As far as the industry is concerned, the major benefit is the 15% investment allowance on plant and machinery for investments above Rs 100 Cr. Increasing outlays for skill improvement for National Skill Development Corporation and more funding for SIDBI for MSME funding are practical measures. "