

# Union Budget 2018-19

## Our Point of View

### Life Sciences



### Budget analysis

The Life Sciences (LS) sector today is at crossroads; on one hand there is increasing lifestyle diseases and fast-improving awareness about health, and on the other hand we have a sector facing intense competition, pricing and regulatory pressure both in the domestic and international market.

Life Sciences including pharmaceuticals is crucial not just from a healthcare standpoint but from an economic and social development perspective as well. Further, the dependence on bulk ingredients imports is increasingly viewed as a national security risk; the draft Pharmaceutical Policy 2017, unveiled by the Government in August 2017, stated that, 'one of the major areas of concern is a very high dependence on import from one or two countries for the raw material and intermediates needed for manufacturing drugs. It has a direct bearing on the drug security of the nation as a whole.'

The sector was also bullish given the Government's vision of making India one of the top-three pharmaceutical markets by 2020 and had high expectations from the Union Budget 2018-19 not only from a fiscal incentives standpoint, but also from a regulatory angle.

Revolutionising the healthcare sector, the Government proposed the National Health Protection Scheme (NHPS), the world's largest government-funded, universal healthcare programme which will drive greater investment in hospital infrastructure in tier-2 and tier-3 cities and also lead to evolution of existing business models to address health needs of people covered under this scheme. Higher healthcare consumption will be a positive for the Life Sciences industry and is likely to boost demand; this may also require companies to invest in increasing the depth of their distribution networks. The private sector has been asked to partner with the Government by adopting centres under Ayushman Bharat and also offer free essential drugs and services.

While the move to provide nutritional support to tuberculosis patients, opening of 24 new medical colleges is positive, the Budget does not specifically address the imminent challenges directly affecting the Life Sciences sector.

In order to stay competitive in the overseas market and given the uncertain global climate, it was expected that specific impetus or incentives would be given to research and development to promote innovation, a capital linked subsidy scheme to upgrade MSME units, incentives for bulk drugs, patents, clinical trials etc.

These demands remained largely unaddressed, giving no specific reason to cheer for the sector in Financial Year (FY) 2018-19.

### Budget impact

- Launch of NHPS is expected to increase the usage of generic products in the country
- One medical college for every three parliamentary constituencies and at least one Government medical college in each state of the country is a big step that can help life science companies spread their reach
- Allocation of INR1200 crore to set up 1.5 lakh health and wellness centres, addressing even non-communicable diseases and focusing on maternal and child health services is expected improve access of healthcare services and consumption of life science products

# Key announcements

## Tax

No major direct tax reforms were announced for the Life Sciences sector

## Indirect tax

### Budget analysis

As expected, the Finance Minister did not address the Goods and Services Tax (GST) in Union Budget 2018-19 as the GST Council is responsible for amendments that facilitate ease of doing business. The major announcement in the Union Budget 2018-19 was restricted to customs duty wherein the Government increased the basic customs duty rate for a few products in line with the 'Make in India' initiative. With the introduction of social welfare cess at 10 per cent, the cost of drugs is likely to increase considering our heavy dependence on imports for the manufacture of bulk drugs and active pharmaceutical ingredients. In fact, even imported finished drugs will become costlier and the difference will have to borne by patients.

### Budget impact

- Introduction of social welfare cess at the rate of 10 per cent in place of education cess of 3 per cent
- Increase in the effective rate of customs duty from 23.54 per cent to 24.32 per cent on pharmaceutical drugs
- Increase in the effective rate of customs duty from 30.15 per cent to 30.98 per cent on other products
- Increase in basic customs duty on cosmetics products from 10 per cent to 20 per cent
- Exemption of basic customs duty on import of raw materials, parts or accessories for the manufacture of cochlear implants.



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