Govt okays ₹13K-cr package to boost bulk drugs production

Industry feels India first needs to tap existing capacity before setting up new drugs parks

SOHINI DAS & PTI
Mumbai, 21 March

The Union government on Saturday approved a package comprising four schemes with a total outlay of ₹13,760 crore to boost the domestic production of bulk drugs and medical devices and exports.

The Union Cabinet chaired by Prime Minister Narendra Modi approved outlay of ₹9,940 crore and ₹3,820 crore for bulk drugs and medical devices, respectively, Minister of State for Chemicals and Fertilizers Mansukh Mandaviya told reporters.

The Cabinet also approved a sum of ₹3,000 crore for the next five years for a scheme to promote bulk drug parks and for financing common infrastructure facilities at three such parks, he added.

A sum of ₹6,940 crore has been approved for the Production Linked Incentive (PLI) scheme for promotion of domestic manufacturing of critical key starting material (KSM), drug Intermediates and active pharmaceutical ingredients (APIs), Mandaviya said. The PLI scheme will lead to expected incremental sales of ₹46,400 crore and significant additional employment generation over eight years, he added.

The plan is to develop three mega bulk drug parks in partnership with states. The Centre will provide grants-in-aid to states with a maximum limit of ₹1,000 crore per park. Financial incentive will be given to eligible manufacturers of 53 identified critical bulk drugs on incremental sales over the base year (2019-20) for a period of six years. Of these drugs, 26 are fermentation-based bulk drugs and 27 are chemical synthesis-based bulk drugs. The rate of incentive will be 20 per cent (of incremental sales value) for fermentation-based bulk drugs and 10 per cent for chemical synthesis-based ones.

Meanwhile, the scheme for promotion of medical device parks will provide a maximum grant-in-aid of ₹100 crore per park to states. It will have financial implications of ₹400 crore, Mandaviya said.

"The PLI scheme for promoting domestic manufacturing of medical devices with financial implications of ₹3,420 crore," he added. The expenditure is to be incurred for the schemes on promotion of medical devices will be for the next five years.

Union Ministers Prakash Javadekar and Ravi Shankar Prasad during a press conference after a cabinet meeting, in New Delhi, on Saturday PTI

Under the sub-scheme for promotion of medical device parks, common infrastructure facilities would be created at four parks, which is expected to reduce manufacturing costs.

"It will lead to expected incremental production of ₹68,437 crore over five years," he said. He added the schemes have potential to generate an additional employment of 33,750 jobs over five years and reduce import of target segments of medical devices.

The Cabinet also approved a sum of ₹3K crore for the next five years for a scheme to promote bulk drug parks and for financing common infrastructure facilities at three such parks

However, even as the government gears up to reduce import dependence for pharmaceutical raw material and medical devices, the sector said the immediate focus should be on utilising existing capacities.

Yogin Majmudar, a bulk drug unit owner and head of the bulk drug committee of the Indian Drug Manufacturers' Association (IDMA), said in the scheme, the support to be extended to brownfield units was not clear. "There can only be an immediate increase in production from these units. Parks are a longer-term solution with a horizon of a minimum of three years," he said.

Around 40 per cent of installed capacity is estimated to be lying idle, he said.

Majmudar added that environment regulations needed to be tweaked to get faster approvals. The focus should have been on effluent quality and quantity and not on the product portfolio of an API unit. In the announcement there was no mention of that, a major hindrance to quick production, he said.

Rajiv Nath, forum coordinator of Association of Indian Manufacturers of Medical Devices, said, "We are more than hopeful that these schemes announced would help boost local manufacturing and will accelerate medical devices manufacturing as a 'Make in India' enabler, make quality healthcare accessible and affordable for common masses, enable placing India among the top five medical devices manufacturing hubs worldwide and help end the 80-90 per cent import dependence forced upon us and an ever increasing import bill of over ₹38,837 crore".

IPA: Working with govt to ensure continued supply of medicines

PRESS TRUST OF INDIA
New Delhi, 21 March

The Indian Pharmaceutical Alliance (IPA) on Saturday said it along with its member companies is working with the government, various pharma industry associations in India and other key stakeholders in the pharmaceutical supply chain to ensure that patients in India and the world continue to have access to medicines.

The member companies are closely monitoring orders and inventories of medicines, it said. "With an adequate stock of Active Pharmaceutical Ingredients (APIs), finished product formulations and channel availability, we would be able to sustain the supply of medicines for the coming months, the IPA said in a statement.

The pharma industry body also said that it is not aware of any medicines shortage, to date.

"We are working closely with the International Generic and Biosimilar Medicines Association (IGPA), World Health Organisation (WHO) headquarters in Switzerland and its India office, Association of Affordable Medicines (AAM) USA, Medicines for Europe and several other country associations to assess international developments and any potential impact on supply of medicines globally," the IPA said.

The IPA and its companies are aligned to government initiatives of containment measures and social distancing while meeting supply commitments in the essential services for availability of medicines, it added.

The IPA is committed to providing quality medicines to patients in India and across globe as patient centricity and welfare is fundamental to us, the statement said.

Soap makers keep off price hikes for now

Earlier this week, HUL had faced backlash online following reports of price hikes

VIVEAT SUSAN PINTO
Mumbai, 21 March

"We were planning for a price increase to partially cover for the spike in input costs. However, given the spread of COVID-19, we have decided to hold off this increase. It is our endeavour to ensure that stocks are replenished across all channels, so that our consumers can adopt better hygiene practices and stay safe"

SUNIL KATARIA,
CEO (India & SAARC), GCPL

Most key soap manufacturers in India are not considering price hikes for now as the novel coronavirus (COVID-19) outbreak continues to spread in the country.

Besides Godrej Consumer (GCPL), companies such as RB Health (makers of Dettol), Wipro Consumer Care (Santoor), ITC (Savlon), and Jyothy Labs (Margo) are not looking at pricing action, officials at these firms said.

While most insisted that the decision to keep price hikes at bay had nothing to do with the COVID-19 outbreak, GCPL said otherwise.

"We were planning for a price increase to partially cover for the spike in input costs. However, given the spread of COVID-19, we have decided to hold off this increase. It is our endeavour to ensure that stocks are replenished across all channels, so that our consumers can adopt better hygiene practices and stay safe," Sunil Kataria, chief executive officer (India & SAARC), GCPL said.

Jyothy Labs' Managing Director MR Jyothy said better hygiene habits were the need of the hour. "We launched our hand wash under the Margo brand a month ago. Consumers now have the option of a hand wash besides soap within the Margo portfolio. We've been pushing the hand wash aggressively in trade with introductory offers," she said.

Earlier this week, the country's largest soap maker, Hindustan Unilever (HUL), had faced online backlash following media reports of price hikes within its soaps portfolio in the wake of the virus outbreak.

The company, however, clarified in a statement that no such thing had happened and that price hikes within soaps had been undertaken in January before the outbreak of the virus in India.

The key reason for the decision by the producers was the fall in input prices such as that of palm oil. Since the start of calendar year 2020, palm oil prices has fallen 24 per cent, while crude oil has fallen by 59 per cent

"We increased prices in our skin cleansing portfolio by 5-6 per cent across our brands Lux, Lifebuoy, Dove, Hamam, Liril, and Pears. This was well before the COVID-19 outbreak in India. The production of new stock started in January. We had also clarified during our third quarter results at the end of January that the price increase was much lower than inflation. These reports of HUL profiteering are completely baseless and malicious," an HUL spokesperson said.

Analysts said a key reason for the decision by manufacturers to hold off price hikes, at least for the next few months, was linked in part to the fall in input prices such as palm oil, an important ingredient going into soaps. From the start of calendar year 2020 to now, palm oil has fallen 24 per cent, while crude oil has fallen by 59 per cent.

High-density polyethylene, a crude-linked derivative, is used as a packaging material in all consumer staples, including soaps. It constitutes 15-20 per cent of input cost for companies.

CII writes to prime minister, calls for ₹2-trn fiscal stimulus package

Suggests setting aside 1% of GDP for cash transfer scheme for poor and elderly

SUBHAYAN CHAKRABORTY
New Delhi, 21 March

To battle the current coronavirus disease (COVID-19) crisis, a fiscal stimulus of 1 per cent of India's gross domestic product needs to be provided by the government through direct benefit transfer to the poor and elderly immediately, the Confederation of Indian Industry (CII) has told Prime Minister Narendra Modi.

This would be in line with steps taken by other major economies like the United States, France, Japan and the United Kingdom, which have announced billions of dollars worth of stimulus to their economies.

In a letter to the PM sent on Wednesday, the industry body stressed the need for easing the cost of capital. It has renewed its demand for the removal of long-term capital gains tax of 10 per cent and fixing the dividend distribution tax at 25 per cent.

However, as an immediate measure, CII has suggested that ₹5,000 be provided to every poor person, the majority of who work in the informal economy and face the brunt of business slows down. It also wants the most vulnerable section — the elderly — to get ₹10,000 each, and free distribution of one month's ration to those below the poverty line from the government's stocks.

The Periodic Labour Force Survey data currently counts 200 million casual labourers in the country, who CII said could benefit with the transfers, and could help drive consumer demand. The industry body has argued that the recent crash in global oil prices allows the government to fulfill this demand. "Every $10 dollar decline in oil price leads to a saving of $15 billion in the oil import bill," CII said.

It also pushed for Goods and Services Tax (GST) payments to be on the collection of bills, rather than the raising of invoices to avoid liquidity getting locked during delays in payments. Such pending payments, especially to the micro, small and medium enterprises sector currently stand at ₹6 trillion, according to government statistics.

Banking reforms needed

CII has also listed a host of immediate monetary and banking reforms including a reduction of 50 basis points both on Cash Reserve Ratio as well as the repo rate to ensure suitable liquidity for banks. Along with other industry bodies, it has also demanded that the Reserve Bank of India relax norms for recognising non-performing assets from 90 days to 180 days till September 30 to provide relief.

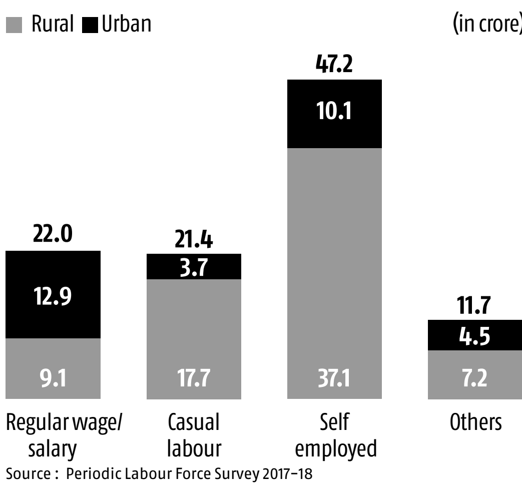
Over the past few days, India Inc has demanded that the central bank announce a blanket moratorium on debt repayments for 60 days to help firms tide over immediate cash flow issues. CII has suggested that credit limits for all regular banking accounts be enhanced by 25 per cent.

Sectoral challenges

To address the shortage of easily available, cheap drugs, the industry body has suggested shoring up indigenous Active Pharmaceutical Ingredients (API) production. While in 2018-19, pharmaceuticals exports were worth $19.13 Billion, a study by the commerce ministry found that 70 per cent of APIs continued to be imported from China. Now, this over dependence has led to pricing volatility and supply disruption that has led to concerns of a shortage.

For the beleaguered aviation sector, CII has sought an immediate 4 per cent cut to the Value Added Tax levied by states on Aviation Turbine Fuel (ATF). In the long run, CII says ATF needs to be brought under the ambit of the GST regime to enable full input tax credit.

NUMBER OF WORKERS (15+ YEARS) IN DIFFERENT CATEGORIES



Source : Periodic Labour Force Survey 2017-18

NOT IN GOOD HEALTH

Demands for MSME sector

- All term liabilities to be deferred by 6 months without penal interest
- NPA norms in genuine cases to be extended to 180 days from present 90 days
- Deferment of GST deposit by MSMEs by a minimum of one month

Medical devices in short supply

- Temperature guns, digital thermometres, N95 masks, nebulizers, blood pressure measuring kits

Source : CII

The man who saw the banking crisis early warns of new peril

BLOOMBERG
21 March

Ashish Gupta is surprised that not a single Indian billionaire sued him in the last decade.

His 2012 "House of Debt" report for Credit Suisse Group AG gave investors an early warning about the dangerous levels of delinquent borrowing by many of India's top business groups. That helped push policy makers to review banks' loan books and revise the nation's official bad-loan ratio from about 3 per cent to 9.3 per cent, one of the highest in the world.

"The scale of mounting debt was first quantified and highlighted by the outstanding work of Ashish Gupta at Credit Suisse," Arvind Subramanian, who advised Prime Minister Narendra Modi in the early years of the banking crisis, wrote in his 2018 book, Of Counsel: The Challenges of the Modi-Jaitley Economy. He hailed Gupta as "one of the few heroes in India's sordid banking saga."

The coronavirus pandemic now roiling global markets adds urgency to his warnings. Gupta, Credit Suisse's chief of India equity research, says the crisis engulfing India's shadow bank sector could be even more destabilizing for the $2 trillion economy because the risks are held in entities that, unlike state banks, rely on market funding and provide scant disclosure. The government-backed rescue of Yes Bank Ltd., until recently India's fourth-largest private lender, may further reduce banks' willingness to provide credit to the economy.

In February and March interviews in Mumbai, Gupta described his approach to analysing Indian businesses, his outlook for the financial industry, and the risks he's focused on today.

Where did the inspiration for the first "House of Debt" report in 2012 come from?

From 2011 we had started writing about corporate NPAs [non-performing assets]. The reason was that while India's overall economic trajectory was good in 2011, certain segments weren't doing too well, and they were some of the most indebted parts of the economy. We started looking at how many companies have adequate cash flows. A lot of our reports use interest cover as a barometer of financial health, and that started revealing a lot. We found that 15 per cent of companies had interest cover less than 1 [meaning those companies' annual cash flows weren't sufficient to pay their annual interest expense]. We started focusing on these firms, and some concentration started manifesting.

Did it take some courage to come out with these reports?

Because it was so controversial, all our reports are just based on public data or published historical data. In none of our reports is there a forecast. The sad truth is that—even without forecasting anything, just by looking at historic data—the situation was so stark. In 2011 was when we first came out and said NPAs in the banking system are in double digits and not the 2 per cent that is reported. But 2012 is when we narrowed it down. I remember in 2013-14 we did another report where we showed NPA numbers had gone up. We looked at annual reports of the companies, which according to Indian regulations had to start reporting if they were in default of payments to creditors. So we aggregated some top 200 annual reports and some of the companies we were tracking. Just by adding that, we were able to come to some double-digit number on the percentage of corporates where in the annual report the company has mentioned it is in default of its debt obligations, and it was not reported by the banks. So in the banks' book it was not an NPA. And in fact many of the companies in their reports even mentioned the amount in default, the period of default—and in many cases that was more than 90 days [the threshold for bad-loan recognition in India]. But still in the bank books everything was good. So I don't know where the slip was.

What kind of reaction did you get?

The first pushback was that these are large conglomerates, so if something happens to them they have other businesses, and their promoters have deep pockets. I said: "That is why actually we are doing a group-level analysis. We are saying at the group level there is a problem." The second pushback was that these projects are all under construction, so you are kind of penalizing them because these are works in progress and when they are completed it will all be good. But again my response to that was simple: When you look at interest cover, you are looking at it on the P&L [profit and loss statement]. The P&L expense is only the cost of debt or operational costs. So you are comparing apples to apples: revenues generated from completed projects versus cost of debt of completed projects. There was of course pushback from the banks as well. Ironically this always happens that people will say, "Yes, the power sector has a problem, but the power projects I have financed have no problem." And nowadays the real estate sector is the same: "Real estate is a problem, but my projects are all fine." There was a lot of pushback also from investors. I can choose not to listen to what the bank managers are saying, but I can't choose not to listen to the investors because they are my clients. Thankfully, as I said, we were able to get into every project level and show the data. Because there was such concentration, you had to analyze only about 15 companies and 150 projects, and then you can show the argument.

Did investors appreciate what you had done?

Not so much after the first one (report). But after the second one the belief started. One thing I was surprised about is before the Indian regulators went about it, some of the international regulators sought out our work. A global bank had large exposure, so international regulators had their eye on the overseas operations of a bank. By the end of 2015, the RBI [Reserve Bank of India] started the AQR [asset quality review] process. It also sent out a message to the bank that the supervisors are not willing to look the other way or are looking more closely at it.

Is there anything your team missed?

IL&FS (Infrastructure Leasing & Financial Services), a non-bank financial company that was seized by the government in September 2018] was one thing that even we didn't find out about. All our analysis was centered on drawing data on listed companies. Because IL&FS was unlisted it was never in our line of sight. But in terms of the listed space we believe a lot of the large problems are known and recogniSed.

What are you focusing on now?

For the last two years we have been highlighting the NBFC [non-bank finance company] sector issues. They have partly panned out, but the general belief is once the big event has happened, then slowly liquidity improves.