

TAX FLASH NEWS

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Production linked incentive scheme (PLIS) to promote domestic manufacturing of critical Key Starting Materials (KSMs)/Drug Intermediates (DIs) and Active Pharmaceutical Ingredients (APIs)

Background

With the objective to boost domestic manufacturing of identified KSMs, DIs and APIs by attracting large investments in the sector, the Ministry of Chemicals and Fertilizers, Department of Pharmaceuticals, Government of India (GOI) has notified¹ the PLIS.

In addition, the Ministry has also notified incentive scheme for setting up bulk drug parks with the aim to provide easy access to world class common infrastructure facilities to units located in the parks.

Objectives of the PLIS

The PLIS proposes to provide financial incentive to boost domestic manufacturing and attract large investments in the sector.

Target segment, eligibility and quantum of Incentives

There are four target segments covering 41 products which have been notified. The financial incentive shall be provided on sales of the said notified products for six (06) years at the rates given in below table.

| Target Segment | Threshold investment | Quantum of Incentives |
|-------------------------------------------------------------|--------------------------------|--------------------------------------------------------|
| Fermentation based KSMs/Drug Intermediates | INR 400 crore (USD 53 million) | For FY 2023-24 to FY 2026-27:- 20% FY 2027-28:- 15% |
| Fermentation based niche KSMs/Drug Intermediates/APIs | INR 50 crore (USD 7 million) | FY 2028-29:- 5% |
| Key Chemical Synthesis based KSMs/Drug Intermediates | INR 50 crore (USD 7 million) | For FY 2022-23 to FY 2027-28:- 10% |
| Other Chemical Synthesis based KSMs/Drug Intermediates/APIs | INR 20 crore (USD 3 million) | |

Notes –

- The base year for calculation of incentives shall be FY 2019-20
- The total financial outlay of the scheme is INR 6940 crore² (i.e. approx. USD³ 925 million).

¹ Ministry of Chemicals and Fertilizers (Department of Pharmaceuticals) Notification dated 21 July 2020

² INR 1 crore is equal to INR 10 million

³ 1 USD = INR 75

Other key points

- The eligibility under the scheme is subject to threshold investments in green field projects only
- The tenure of the scheme is from FY 2020-21 to FY 2029-30
- Support under the scheme available only to manufacturers registered in India
- The application window for receiving the application is 120 days
- PLIS to be implemented through Nodal Agency to act as a Project Management Agency

Scheme for promotion of Bulk Drug parks

The scheme aims to provide financial assistance for creating a common infrastructure facility⁴ in three Bulk Drug Parks proposed by the State Governments and selected under the scheme.

The financial assistance shall be 70 per cent of the project cost of common infrastructure facilities. In case of Northern Eastern States and hilly states financial assistance would be 90 per cent of the project cost. Maximum assistance under the scheme for one Bulk Drug Park would be limited to INR 1000 crore (approx. USD 133 million).

Our comments

The Hon'ble Prime Minister had announced his vision statement 'Atmanirbhar Bharat Abhiyan' or 'Self-Reliant Indian Mission' during his announcement of the economic relief package pursuant to the COVID-19 pandemic on 12 May 2020. The Government of India has identified Pharma Industry as one of the critical sectors in achieving this vision.

With the aim to reduce India's dependence on import of basic raw materials used in the formulation of the finished dosage and to promote domestic manufacturing the PLIS is a welcome move by the Government.

While the detailed guidelines are awaited, given that the intention to provide benefit to the domestic manufacturers, it may be important for companies to review their business strategies and plan for the same.

For a deeper understanding of the policy and any assistance in this regard, please feel free to connect with any of the following:

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⁴ Common Infrastructure Facilities shall include central effluent treatment plant, solvent recovery and distillation plant, steam generation and distribution system, common cooling system and distribution network, common logistics facilities, advance laboratory testing centre, emergency response centre, centre of excellence, etc.

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