KPMG

# TAX FLASH NEWS

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## Production linked incentive scheme for Pharmaceutical products

Earlier, the Government of India had given its approval to introduce Production Linked Incentive Schemes (PLIS) for 10 key sectors including PLIS for Pharmaceutical products. Now, the Union Cabinet has approved the PLIS to promote domestic manufacturing of high value products and increase the value addition in exports.

The scheme aims to enhance India's manufacturing capabilities by increasing investment and production in the pharma sector.

### Objective

The PLIS aims to provide financial impetus for innovation, development of complex and high-tech products including products of emerging therapies and in-vitro diagnostic devices. The scheme also expects to improve accessibility and affordability of medical products including orphan drugs to the Indian population.

The scheme is expected to bring in investment of INR 15,000 crore in the pharmaceutical sector, generate an incremental sales of INR 2,94,000 crores and incremental exports of INR 1,96,000 crore over six years period starting from FY 2022-23 to 2027-28.

In addition, the scheme also expects to generate employment for both skilled and un-skilled personnel at 20,000 direct and 80,000 indirect jobs as a result of growth in the sector.

### Target Group

To ensure wider applicability, manufacturer registered in India shall be grouped on the basis of Global Manufacturing Revenue ('GMR'). The GMR shall be determined considering the base year as 2019-20. The qualifying criteria for the three groups of applicants are as under –

| Group | GMR of Pharmaceutical goods |
|---|---|
| Group A | More than or equal to INR 5000 crore |
| Group B | Between INR 500 cr. (inclusive) to INR 5000 crore |
| Group C* | Less than INR 500 crore |

* A sub-group for MSME will be made within this group.

## Quantum of Incentives

Total capital outlay inclusive of administrative expenditure is INR 15,000 crore

| Group | Outlay | Remark |
|---|---|---|
| Group A | INR 11,000 crore | Unutilised outlay shall not be moved to other groups |
| Group B | INR 2,250 crore | Unutilised outlay may be moved to Group A |
| Group C | INR 1,750 crore | Unutilised outlay shall not be moved to other groups |

## Product Category

The PLIS cover three categories of pharmaceutical goods

a) **Category 1 –**
Biopharmaceuticals; Complex generic drugs; Patented drugs or drugs nearing patent expiry; Cell based or gene therapy drugs; Orphan drugs; Special empty capsules like HPMC, Pullulan, enteric etc.; Complex excipients; Phyto-pharmaceuticals: Other drugs as approved.

b) **Category 2 –**
Active Pharmaceutical Ingredients / Key Starting Materials / Drug Intermediates.

c) **Category 3 –**
Repurposed drugs; Auto immune drugs, anti-cancer drugs, anti-diabetic drugs, anti-infective drugs, cardiovascular drugs, psychotropic drugs and anti-retroviral drugs; In vitro diagnostic devices; Other drugs as approved; Other drugs not manufactured in India.

**Rate of Incentive –** Incentive shall be calculated on the incremental sales value

| Category | Year of production | Incentive Percentage |
|---|---|---|
| Category 1 and Category 2 | First 4 years | 10 per cent |
| | 5th year | 8 per cent |
| | 6th year | 6 per cent |
| Category 3 | First 4 years | 5 per cent |
| | 5th year | 4 per cent |
| | 6th year | 3 per cent |

**Duration of the scheme –** FY 2020-21 to 2028-29. This shall include the period of processing of application i.e. FY 2020-21 and an optional gestation period of one year i.e. FY 2021-22.

**Incentive period** – 6 years i.e. from FY 2021-22 to 2026-27. In case, the manufacturer opts for gestation period benefit, the incentive period shall be from FY 2022-23 to 2027-28.

## Our comments

Amongst the various sectors identified by the Government of India as its key sector to achieve its vision of making India self-reliant, Pharma sector is one of the most critical sectors and thus, the government has announced the second lot of PLIS for the sector.

The Government had earlier notified PLIS on 21 July 2020 to promote domestic manufacturing of specified fermentation-based products (14 products) and chemically synthesized products (27 products) with a total incentive outlay of INR 6940 crore (USD 925 million).

The new scheme aims to enhance India's manufacturing capabilities by increasing investment and production in the sector and contributing to product diversification to high value goods in the pharmaceutical sector. The scheme also aims to create global champions out of India who have the potential to grow in size and scale using cutting edge technology and thereby penetrate the global value chain.

While the detailed policy specifying the eligibility conditions, mechanism of availing the benefit, etc. is still awaited, it may be important for companies to review their business strategies in view of the above proposed scheme.

## Deeper insights

For a deeper understanding of the above proposals and its business impact, please feel free to connect with any of the following:


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