

Pharma SEZs in India

Is MAT taxing more problems?

While Special Economic Zones (SEZs) are gaining prominence in every vertical, pharma space is not far behind. With the announcement of the Minimum Alternate Tax (MAT) of 18.5 per cent the scenario might change. It is not going to be smooth sailing for the SEZ players, be it the pharma companies or the SEZ developers.



Chandreyee Bhaumik

It was in 2006 that the Indian Government decided to set up SEZs for Indian pharma and biotechnology industries so that several pharma companies could leverage on the benefits. However, in the Union Budget 2011, the government proposed to levy a MAT of 18.5 per cent, effective April 2012, on the book profits of the SEZ developers and units, and the players now do not find this congenial enough. Pharma companies now fear that this imposition of MAT on SEZ would adversely impact their profits as most export units of drug firms are located in various SEZs.

Discussing the nitty gritty of a SEZ, Bodh Raj Sikri, Co-Chairman,

Federation of Pharma Entrepreneurs (FOPE), elaborates, "SEZ is totally dedicated for Export-Oriented Units (EOUs), whereas Tax Free Zone is meant for domestic industry. For example, in case of Himachal Pradesh, Uttarakhand, Jammu and Kashmir, Sikkim etc, Government of India has introduced a tax free zone where there is no income tax, no sales tax and no excise duty. In addition, there are also other benefits such as capital subsidy." In this context, he adds that the basic purpose of government to introduce a tax free zone is to create employment for youth of that particular area where industries do not exist. He explains, whereas in the case of SEZ one has to have a unit meant for export of the end products.

Weighing the benefits

In this scenario, the fundamental question that torments is whether SEZs will now be actually reaping the benefits that they had once expected? An SEZ offers many advantages for the unit holder compared to the unit that was set up on own. Government provides incentives and facilitates Foreign Direct Investment (FDI), duty-free import/domestic procurement of goods, exemption of 100 per cent income tax, central excise, service tax, single window clearance of goods etc.

Elaborating in this strain, Kayvanna Shah, Chief Executive Officer, JB SEZ Pvt Ltd, avers, "First of all, land for a unit holder is readily available with core infra facilities in place like water, electricity, telecom. Moreover, other basic facilities like logistics, security, hospitality and so on are offered by the developer in a SEZ." Further, discussing the advantages of a SEZ, Shah continues, "Above all this, the government has ensured a slew of incentives to the unit holders. Some of them include 100 per cent FDI in the manufacturing sector permitted through the automatic route and income tax exemption on export income till 15 years." Again, there will be an exemption from custom duties and central excise duties on import of capital goods, raw materials and exemption from duties on import and procurement of goods for the development, operation and maintenance of the SEZ. Shah adds, "Other benefits include single window clearance for central and state-level approvals, in-house customs clearance for import and export cargo, relaxation

in External Commercial Borrowings (ECB) till \$500 million and exemption from Central Sales Tax and Service Tax.”

However, the basic concern that emerges is whether the advantages are fading out after the declaration of the taxes?

Concern areas

The declaration of the imposition of MAT tax came as a shock to many. Explaining this Shah reiterates, “To be candid, we were indeed taken aback by the Finance Ministry’s announcement of imposing MAT on the SEZ developers and unit holders.” Seconding the above thought, Sikri opines, “Definitely, there was an advantage earlier in the case of SEZ but now industry is not getting attracted because 18.5 per cent MAT is being levied, and basic attraction to set up a unit is gradually disappearing. It has been observed that new SEZs are not at all attracting the investors. Therefore, if government wants to attract the investors and exporters to invest in SEZ, there should be a firm policy and there should not be any withdrawal of any incentive once the plot is allotted to an allottee. Further, this along with



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the introduction of the Dividend Distribution Tax (DDT) has turned out to be dampener for the future of SEZs.” Continuing in this tone, Shah adds that one should not forget the fact that the SEZs in India have contributed immensely in generating the net foreign exchange of the country along with creating employment (both direct and

indirect) opportunities. He opines, “We expect the ministry to have a second look on the announcement and indeed hope that a reversal in this decision is on the cards.”

The declaration of MAT has evoked an aura of apprehension among pharma companies and SEZ developers. Dr Lal Krishna, Chief Executive Officer,

Tale of a few zones

North zone

M/S Next Wave (India) is situated in Paonta Sahib, Himachal Pradesh. The company is primarily into contract manufacturing for leading companies of India. This facility started its journey 5 years ago and over this period there has been substantial amount of investment in order to upgrade the plant as the developers propose to go for WHO certification so that they can plan to enter into the export market in the near future. After completion of 5 years, the income tax benefit is going to be over and it is required to have viability of the unit in days to come. This is a state-of-the-art unit for non betalactam range of products covering various segments of tablets, capsules, ointment and syrup. They faced infrastructural problem initially. However, it has been more or less improved by the state governments. But increase in the manpower cost in hilly area, shortage of skilled manpower, frequent increase in the tariff of electricity, stringent environment rules, which they are facing at present are a few challenges. However, they propose to resolve it by meeting with the Chief Minister and ministers of respective states.

West zone

HBS Pharma SEZ envisaged setting up an SEZ few years

back and it was in the process of scouting for land in Gujarat. This state is proactive in its business approach and the state government has put many projects on fast track basis. Once the land was identified that was in close proximity to various chemical and pharma companies, it was a natural choice to set-up a pharma SEZ. The developers have committed about ₹160 crore from their side on the project and expect unit-holders to invest approximately ₹ 1000 crore over the course of next 2-3 years generating employment for about 20,000 people.

In this context, they have also been successful in tying up with various renowned partners and project consultants for this SEZ. With IL&FS as the financial partner to other project consultants like CPG, Singapore (master-layout), Voyants (infra consultant), HEC Infra Projects (electrical layout consultant) etc, the SEZ is positive for its journey.

South zone

In Ramky Pharma City India Ltd, out of the total area of 2400 acres, 611 acres is allotted for SEZ. Further, along with the tax benefits there is also the integrated environmental management facilities provided. Only the core manufacturing work is done by the pharma companies, the remaining activities are taken care of by the developers.

Market Trends



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Chief Executive Officer, Ramky Pharma City India Ltd



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Daara B Patel

Secretary-General, Indian Drug Manufacturers' Association (IDMA)

Ramky Pharma City India Ltd shares, "With the imposition of MAT, a pharma company stopped a deal that was worth \$ 400 million. People should voice their difficulties to the government. However, though we have represented our problems, there was no response from the government. Thus, growth and the start up will definitely be delayed for several pharma companies."

However, there are also few suggestions in this area. Daara B Patel, Secretary-General, Indian Drug Manufacturers' Association (IDMA), explains, "Now that the sunset clause is not extended to EOUs, we have suggested to the Commerce Ministry that MAT at the rate of 18.75 per cent may be imposed on the EOUs similar to SEZs. This will also provide a relief for EOUs to migrate to SEZs."

Winning during tough times

After this announcement of MAT, the pharma industry is disheartened and demotivated. Sikri explains, "Changing the policy by government due to political reasons puts us on the back seat. There has to be continuity in the incentive and any adverse change in the policy will certainly affect the promoter of industry." Thus, he says, "To encourage export, infrastructure has to

be improved, MAT should be withdrawn and other incentives such as insurance coverage of the plant and building of the investor, insurance of workers, and subsidy on R&D, subsidy on generator set, freight subsidy etc should be introduced if government is really serious to boost the export. Similarly, uninterrupted power supply is another major factor that the government has to keep in mind. Many pharma segments like fermentation-based products are not viable in India because it needs affordable power availability."

Discussing the ways to bring a solution, Shah says, "Concentrated efforts on the part of ministry as well as SEZ developers to educate and inform such prospective clients or unit holders, especially Small and Medium Enterprises (SMEs), on the benefits of setting up units in a SEZ should take place. Moreover, financial assistance granted to such enterprises would facilitate investments in this space." Further, he adds, "Our vision is to develop a SEZ offering world-class facilities thereby creating an industry benchmark of sorts. Our next agenda is to set up a well suited and full fledged residential township, which would complement the unit holders and their employees. Along with the residential

apartments, this township will have all the necessary facilities and social amenities like healthcare, schools, hotels, recreational parks etc, which shall be self-sufficient and will cater to the requirements of all residing there."

Hoping for better...

There are constant efforts to ensure a better and a brighter future for the SEZs. IDMA is supporting the Government's move to allow clearance of approvals for units in SEZs, special incentives and also offer loans to players uniformly all over India to set up units in SEZ at concessional rate of interest. This will definitely boost the pharma exports immensely.

Explaining the future of the pharma SEZ in India, Patel reiterates, "The future is bright and it is the way forward for promoting and boosting pharma exports in the highly competitive global pharma market. Therefore, government must encourage setting up of dedicated pharma SEZs such as the ones coming up in Maharashtra at Nanded and JB SEZ in Gujarat all over the country. The benefits and concessions provided by government to players in SEZs will also enable India to be more competitive vis-à-vis China." He adds that SEZs also provide job opportunities and signs off saying, "Companies can invest heavily in R&D, as well as effluent treatment plants, which are capital intensive, as equipment, raw materials etc can be imported duty free. Government can also encourage more players to establish units in pharma SEZs by providing more concessions and benefits to further boost India's pharma turnover to achieve the level of ₹ 250,000 crore (\$50 billion) by 2020 from the present ₹ 100,000 crore (\$26 billion)."

With the debut of SEZ culture in the pharma domain, this arena has surely witnessed various changes. But, it is now a well pronounced apprehension that the introduction of the MAT at 18.5 per cent will introduce a new chapter in the pharma dynamics. **MPH**

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