

Sector Report LIFE SCIENCES & HEALTHCARE



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Report highlights:

- *Union budget (2014-15) and its implications for healthcare sector*
- *Market updates*
- *Investment updates*

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**SECTOR OVERVIEW:
March 2014**

Welcome to this quarterly UKIBC Sector Report on the Life Sciences & Healthcare sector. In this report, we cover the key highlights of the union budget 2014-15 for the healthcare sector, foreseeable challenges in this area and general outlook for the industry. Since India's general elections are expected in May, the current budget is an interim one, until the new government presents its final budget in the autumn session. We have also touched upon our expectations from the final budget in the report, with focus on the universal healthcare plan, which was highlighted by the finance minister as a focus area for the government.

In the markets update section, we have covered the launch of five research and development incubation clusters across India; these clusters were set up by the Department of Biotechnology to promote the biotech industry in the country. We have also briefly covered the official visit of the USFDA commissioner to sensitise Indian drug manufacturers to quality standards in the US.

The highlight of the investments update section is HCL Corp's announcement to set up a GBP 97 million equity pool for expansion into the healthcare segment. Moreover, growth in the pharmaceutical business in the country is enabling several Indian manufacturers to make large acquisitions in India and abroad.

Economic Indicators

Indicator	Q2	Q3
Real GDP Growth Rate (%)	4.8	4.7
FDI (GBP bn Monthly Average)	1.5	1.0
FII (GBP bn Monthly Average)	-1.3	0.5
CII Business Confidence Index	45.7	54.9
FDI in Drugs and Pharmaceuticals (GBP mn)	44	116
FDI in Hospital and Diagnostic Centres (GBP mn)	86	81
Relevant Indices	3 Months	6 Months
S&P BSE Healthcare Index – Returns (%)	10.3	19.7

References: Ministry of Statistics and Programme Implementation, Reserve Bank of India, Department of Industrial Policy and Promotion

Note: Data retrieved on 28th Feb

Interim Union Budget of India 2014–15

Considering the upcoming general elections in May 2014, the Finance Minister (FM) P. Chidambaram presented a safe and balanced interim budget for 2014-15. The budget mostly contained a summary of the achievements of the UPA alliance over the past 10 years, with token changes in budget allocations and reforms. The pharmaceutical industry derived few, although notable, takeaways from the budget, with the healthcare sector receiving relatively more attention in the FM's speech. The industry was not expecting any extraordinary changes in the budget, as this budget will only be applicable until the new government presents its new budget in autumn.

Budget in Numbers

The FM announced allocation of GBP 3,271 million to the Ministry of Health and Family Welfare (MoHFW) for the fiscal year 2014-15, compared with GBP 3,621 million in the previous fiscal year. Prima facie, it appeared that the FM has reduced the budget allocation for the current fiscal. However, detailed analysis revealed that the FM quoted only the plan expenditure in his speech this year, vis.-a-vis. the total expenditure allocation (including plan and non-plan) last year.

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For the plan budget, the allocation can be broadly divided among four departments: GBP 2,924 million for the Department of Health and Family Welfare; GBP 104 million for the Department of Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homoeopathy; GBP 70 million for the Department of Health Research and GBP 173 million for the Department of Aids Control. After the new government swears-in, post the general elections, only slight adjustments are expected to the departmental allocation figures.

Pradhan Mantri Swasthya Suraksha Yojana, the government's flagship scheme aimed at strengthening the tertiary sector, received GBP 141 million out of the Department of Health and Family Welfare's total budget allocation, to establish six AIIMS-type hospital-cum-teaching centres and to upgrade nineteen state government hospitals.

Notably, in the previous fiscal, the Health Ministry had spent considerably less than the allocated budget, indicating the inability of such programmes to spend the allocated amount. This is a cause of concern and highlights that the execution of various government programmes needs significant improvement.

Table 1: Key Programmes – Allocation vs. Utilisation, 2013-14

Utilised Budget Allocations of Key Programmes in 2013-14		
Programme (GBP million)	Allocation	Utilisation
Public health	230	111
Creating human resources in health	99	8
Drug regulation regime	25	13

References: Livemint, 18th Feb

A crucial area for the industry – the drug regulation regime in India – has been allocated only GBP 12 million this fiscal.

Outlay for 12th Five-Year Plan

Considering the broad numbers projected in the 12th plan and the changes in budget allocations in the three fiscals (2012-15), the total support numbers seem too ambitious.

In three of the five fiscals under the 12th plan, the government has so far allocated only one-third of the total

support amount of GBP 29,102 million while the actual spending is believed to be even lower. Unless the new government taking over in the autumn session introduces revolutionary bills, such as the universal healthcare, we expect a large gap between the allocated and the utilized amounts.

Key Proposals and Implications

As per the expectations of the industry, FM's speech delivered very few relevant takeaways in the interim budget, as listed below:

- **Research Funding Organisation (RFO)** – FM announced setting up of a RFO to fund projects selected through a competitive process. This organization will support projects from innovation and technology-driven industries. The minister also indicated that contributions to this organization will be eligible for tax benefits. Further details will be announced at the time of regular budget.

This move, which has the potential to encourage new drug development projects, is expected to benefit the research-driven pharmaceutical industry in lowering the drug development costs. Companies can also benefit from the tax breaks by contributing to the organisation.

- **Foreign Direct Investment (FDI)** – The FM did not announce any changes to FDI policies for the pharmaceutical industry and appeared to be pro liberalisation in his speech. Previously, in response to the concerns raised by DIPP regarding the non-availability of affordable drugs, the government decided to continue the existing FDI limits, with the condition that non-compete clause will not be allowed, except in special circumstances.

The pharmaceutical sector in India provides several attractive opportunities, owing to the cost advantages and increasing domestic demand. By retaining the 100% FDI policy, the FM has given confidence to the investors regarding stable pro-liberalisation policies of the government.

- **Universal Healthcare** – In his vision for the future, the FM ranked universal healthcare as a priority area for the government.

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The industry welcomed the FM's vision of providing healthcare to the masses as a national priority. Though, the government will need to create an effective mechanism to fund the costs associated with the universal healthcare. In the first week of March, the Planning Commission of India invited the states to submit a proposal for implementing universal healthcare in one district as a pilot. The pilot will help in better assessment of the resources involved.

- **Cord Blood Banks** – On request of the MoHFW, the FM has agreed to exempt cord blood banks from service tax. Currently, customers of cord blood banks pay service tax to the tune of 12%.

This move indicates the government's recognition of cord blood banking as an essential healthcare service. The tax exemption is expected to reduce the overall costs for the service and enable greater acceptance among expectant parents.

Foreseeable Challenges and Road Ahead

In his speech, the FM took an opportunity to highlight the achievements of the government during the previous fiscal. The government's past performance and the key initiatives highlighted during the budget speech have elicited a positive sentiment among the industry leaders regarding the government's focus on the healthcare industry.

The key initiatives to receive budget allocations during the previous fiscal include National Programme for Healthcare of Elderly, setting up of six AIIMS-type super specialty hospitals and National Health Mission, which combines the rural mission and the proposed urban mission, medical education training and research.

The healthcare sector in India is witnessing a healthy industry growth and is expected to maintain the growth momentum in the foreseeable future. This is partly because the country is witnessing an increase in spending in both public and private sectors. Additionally, the industry is witnessing an increased uptake of technology solutions, thus improving operating efficiency. However, we do anticipate some challenges, which the industry needs to be cautious about, including

- **Public Funding** – Government funding is a key challenge for radical projects such as universal healthcare. In addition, the government is lagging behind on the allocation envisioned for the industry in the 12th five-year plan.
- **Intellectual Property Environment** – India's relatively weak intellectual property environment, coupled with reduced allocation for drug regulation in the current budget, may result in a challenging environment in the pharmaceutical market.

Road Ahead – There is little doubt in the international community regarding the investment opportunities in the healthcare sector in India. However, we expect the next government to bring in some bold reforms in the autumn budget, specifically in the following key areas:

- **Universal healthcare** – The outlook for implementation of universal healthcare seems positive. We expect the next government to develop a strong mechanism to facilitate sustainable funding for this programme.
- **Utilisation of allocated budget** – We believe that, before budget increments can be demanded, the efficiency of existing systems and departments must be improved to enable utilisation of the allocated budget.
- **Manufacturing incentives** – The interim budget does have some incentives for the automobile and the consumer non-durables sectors. We hope that the autumn budget will provide some level of direct incentives for pharmaceutical manufacturing as well to maintain the cost-benefit of the domestic industry.

References: Ministry of Finance, Union Budget Website, Live mint, Business Today, Business Standard, Times of India, Economic Times, NDTV, IHS and Pharmabiz.

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Market Update

Indian pharmaceutical sales outlook

According to a recent report by the consultancy firm Deloitte, the pharmaceutical sales in India in 2013 were estimated at GBP 14.2 billion, compared with GBP 13.6 billion in 2012. However, the market is expected to reach GBP 16.2 billion in 2016, at a CAGR of 4.5%. Although pharmaceutical market in Indian faces several challenges, the country's increasing domestic consumption, low cost of manufacturing and R&D make it a lucrative market for international players.

[Business Today, 17th Feb](#)

BIRAC launches 5 R&D incubation clusters to spruce up growth in biotech industry

The Biotechnology Industry Research Assistance Council (BIRAC), set up by the Department of Biotechnology (DBT), has launched five research and development incubation clusters across India with a view to promote growth of the biotech industry. Additionally, the Biotechnology Ignition Grant, a grant funding scheme, will be available for scientist entrepreneurs from research institutes, academia and start-ups.

An applicant for this grant must be either an incubatee or a registered company with a functional R&D laboratory. Call for proposal for this grant will be announced on January 1 and July 1 every year and successful applicants will receive GBP 48,500 for projects with commercialisation potential (duration of up to 18 months).

The five biotechnology ignition grant partners are IKP Knowledge Park, Hyderabad; Centre for Cellular and Molecular Platforms (C-CAMP), Bengaluru; Foundation for Innovation and Technology Transfer, New Delhi; KIIT Technology Business Incubator, Bhubaneswar; and Venture Centre, Pune.

[Pharmabiz, 29th Jan](#), [BIRAC website](#)

USFDA Commissioner Margaret Hamburg's official visit to India

During February 2014, the USFDA Commissioner, Margaret Hamburg, was on a ten-day visit to India. She held meetings with regulatory and health ministry officials

as well as senior executives of leading pharmaceutical and food companies in India. The USFDA plans to increase its presence in India and has received approvals from the Indian government to add seven drug investigators.

The USFDA is planning to conduct three-to-four workshops annually in different parts of India to sensitize Indian companies regarding evolving procedures and standards in the American drug market. A delegation of leaders and scientists is expected to visit the US in the near future and interact with a larger group at the USFDA.

[Business Today, 11th Feb](#), [Pharmabiz, 17th Feb](#), [Business Today, 11th Feb](#)

Gilead to license hepatitis C drug to lower-cost manufacturers in India

Gilead Sciences, a California-based biopharmaceutical company, plans to license its breakthrough hepatitis C drug Sovaldi to a number of Indian generic pharmaceutical manufacturers, allowing for lower-priced sales of the medication in India. Final details of the program will be announced over the next few months. This program is expected to reduce cost of the treatment from GBP 50,400 for 12 weeks of therapy in the US to about GBP 1,500 for 24 weeks of therapy in India.

[Reuters, 6th Feb](#)

Investment Update

Egypt seeks investment from Indian pharmaceutical players

During the CPhI India 2013 conference, held in December 2013, the Egyptian Pharmaceutical Vigilance and the Egyptian Ministry of Health's head, Amrasad, invited Indian pharmaceutical industry to invest in and manufacture the final product in Egypt. The objective of the mutual cooperation and investment will be to export to Middle East and African markets. To further its efforts to tap exports in the MENA region, Pharmaceuticals Export Promotion Council of India (Pharmexcil) set up the Indian Pavilion at Arab Health in Dubai, in January 2014.

[Economic Times, 4th Dec](#), [Pharmexcil Website](#)

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HCL enters healthcare services segment

HCL Corp, the parent company of HCL Technologies and HCL Infosystems, announced its diversification into the healthcare services market. The company has created an equity pool of GBP 97 million to invest in HCL Healthcare, which will start with setting up a network of outdoor patient clinics; with time, the services will be expanded to include hospitals, diagnostics and analytics.

[Business Today, 6th Feb](#)

Aurobindo Pharma to buy Actavis' operations in 7 European nations

Aurobindo Pharma, a Hyderabad, India-based generic drug maker, signed a binding offer agreement to acquire commercial operations of Dublin-based Actavis plc in seven Western European countries. Aurobindo is expected to acquire personnel, commercial infrastructure, products, marketing authorisations and dossier licence rights. Financial details of the deal are undisclosed.

[Business Today, 18th Jan](#)

Torrent to acquire formulation business of Elder for GBP 194 million

India-based Torrent Pharmaceuticals is acquiring Elder Pharmaceuticals' branded formulation business in India and Nepal; the business comprises a portfolio of 30 brands, including women healthcare, pain management, wound care and nutraceuticals brands. The deal is valued at GBP 194 million.

[Business Today, 13th Dec](#)

Past Events Update

CPhI India 2013

Pharmaceuticals Export Promotion Council of India (Pharmexcil) organized the three-day CPhI India 2013 conference from 3rd to 5th December 2013 in Mumbai. The conference witnessed participation by over 1,000 exhibitors from 95 countries and was expected to be attended by approximately 30,000 attendees from 109 countries. The next CPhI India event is scheduled between 2nd and 4th December 2014, in Mumbai.

[Economic Times, 4th Dec, CPhI India](#)

Healthcare skills roundtable

On March 4th, a delegation of Healthcare Sector Skills Council of India visited the UK to learn from the best practices followed in the UK's healthcare sector, including emergency services and standards and policies in healthcare. The delegation consists of representatives from leading healthcare institutes and hospitals in India.

UKTI medical technology delegation to India

UKTI has organised a trade mission to India from 10th to 16th March 2014. The six-day trade mission was divided between two locations – Chennai and Mumbai. In Chennai, delegates participated in a workshop on medical technologies and in several B2B meetings. In Mumbai, delegates attended a market briefing and then participated in an exhibition to conduct promotional activities. For further details, contact [Maju Jacob](#)

Upcoming Events

Seminar on Indian biotech industry

UKIBC, in association with One Nucleus, is organising a seminar on the Indian biotech industry in London on 3rd June 2014. Mrs. Kiran Mazumdar-Shaw, the Chairperson of Biocon, India's largest biotech company, will deliver the keynote address at the seminar. Attendees will get the opportunity to interact with other industry experts, as well as get insights from the experience of a UK company that entered the Indian market. For further details, contact events@ukibc.com

Healthcare roundtable

UKIBC is organising a healthcare roundtable "In conversation with Analjit Singh" in London on 4th June 2014. Analjit Singh is the Founder & Chairman of Max Healthcare and Max Bupa Health Insurance in India. Indian healthcare industry will be the key discussion point during the roundtable, along with hospital and insurance verticals. For further details, contact events@ukibc.com

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Please note:

- Conversion rate used across the report is for 28th Feb 2014. 1 GBP = 103.4580 and 1 GBP = 1.6664 USD
- Numbers rounded across the report