ISSN: 2321-7782 (Online)
Volume 3, Issue 7, July 2015
International Journal of Advance Research in Computer Science and Management Studies
Research Article / Survey Paper / Case Study
Available online at: www.ijarcsms.com

A Study of Foreign Direct Investment in Indian Pharmaceutical Industry

Dr. Nishikant C. Dhande[1]
Assistant Professor
Department of Management Studies
S.R.T.M.University, Nanded
Maharashtra, India

Prof. Anshuman Vijay Magar[2]
AssistantProfessor
V.B.D.B.A. College, Ambadave
Mandangad, Ratnagiri
Maharashtra, India

Abstract: Human being has some basic needs which include Food, Clothing & Shelter, in addition to above Healthcare, Education, Sanitation are also core part of basic necessities in modern society. In above mention basic necessities Healthcare facility was near to unavailable till independence for majority of citizens in country but this picture change dramatically with help of FDI allowed by Govt. of India. Foreign Direct Investment as a strategic element of funding is required in every develop & developing country. FDI inflows are long term in nature which causes source of non-debt finance, as well as bring modern & innovative technology in country by creating international network. In this paper, author attempted to discover how FDI is crucially impact on Indian Pharmaceutical Sectors progress by stimulating domestic investment & new employment opportunities, improving healthcare facilities to citizens in India. With the help of available relevant secondary data, a qualitative approach was followed for the study. It was found in study that the major factors responsible for attracting FDI in pharmaceutical sector are rise in outsourcing activities, demand in the generics market, demand from emerging segments, increase in domestic demand, large numbers of forthcoming patent expires. On the other hand Indian pharmaceutical industry is facing some challenges such as, low government expenditure on healthcare, poor healthcare infrastructure in rural areas, lack of proper Govt. policy to attract larger FDI in healthcare sector.

Keywords: Foreign Direct Investment, Foreign Investment Promotion Board (FIPB), Export Promotion Capital Goods (EPCG) Scheme.

I. INTRODUCTION

Foreign Direct Investment (FDI) is a type of investment in to an enterprise in a country by another enterprise located in another country by buying a company in the target country or by expanding operations of an existing business in that country. In the era of globalization FDI takes vital part in the development of both developing and developed countries. India is the most favourable & growing economy among leading nations in world to attract FDI. Various international institutions have projected India as the most favorable destination for Foreign Direct Investment in the whole World. Our country has identified that FDI is a tool for economic growth through its strengthening of domestic capital, productivity & employment. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. Country has a large reservoir of managerial and technologically advanced talents. Between 30 to 35 percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centres. Above all are the key factors responsible to attract the worldwide MNC's to invest in India in manufacturing sector. The inflow of FDI in India has experienced considerable growth but as compared to other developing nations, India has lagged behind; attracts only about 2% of FDI inflows.

Analysis of Routes of FDI Inflow

Three Major routes of FDI inflow in Pharmaceutical industry are as below:-

Routes of FDI in Indian Pharmaceutical Industry According to guidelines issued by Reserve Bank of India, FDI in pharmaceutical industry in India is permitted by the following two routes:

I. **Automatic route:** This does not require any prior approval either by the government or the RBI. Under the existing policy, FDI is permitted up to 100% for Greenfield investments.

II. **Prior Government Approval route:** In this route, the FDI proposals are considered in a time-bound and transparent manner by the Foreign Investment Promotion Board (FIPB) under the Department of Economic Affairs, Ministry of Finance. Here also 100% FDI is permitted for investment in existing companies, i.e., brown field projects.

The Indian pharmaceutical industry has attracted INR Rs.66,652 Cr. worth of foreign direct investment (FDI) in the period between April 2000 and June 2015. Which accounts 5% of total FDI inflow in Country. This FDI is exclusive of investments in shares of Indian firms. Acquisitions of local players by large MNCs illustrate the increasing level of interest that they have shown in the Indian market.

Types of FDI investment in Country.

i. ***Brown field investment*** **-** FDI that involves the purchase of an existing plant or firm, rather than construction of a new plant.

ii. ***Green field investment***–FDI when a company establishes a subsidiary in a new country and starts its own production.

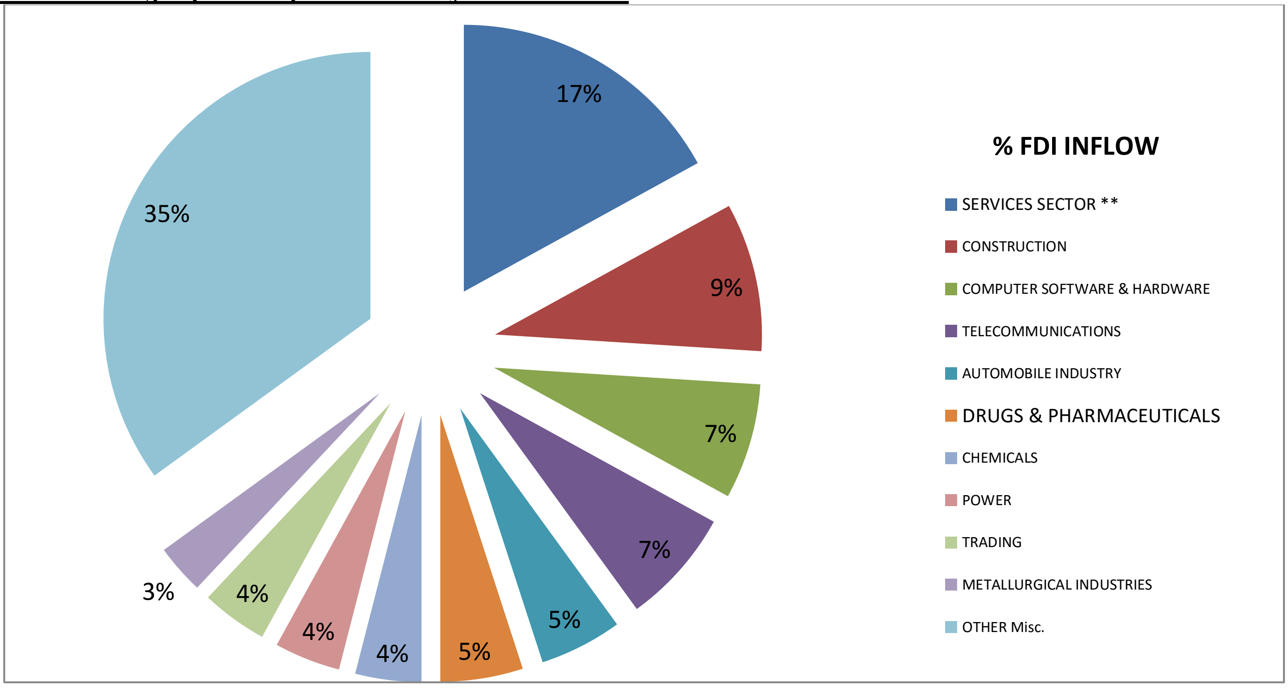
iii. ***Joint venture*****-** Is an equity and management partnership between the foreign firm and a local entity in the host market

SECTOR'S ATTRACTING HIGHEST FDI EQUITY INFLOWS

Amount in Rs. crores (US$ in million)

Rank	*Sector*	*2013-14 (April - March)*	*2014-15 (April-March)*	*2015-16 (April,15 – June, 15)*	*Cumulative Inflows (April '00 - June '15)*	*% age to total Inflows (In terms of US$)*
1.	**SERVICES SECTOR ****	13,294 **(2,225)**	19,963 **(3,253)**	**4,036 (636)**	**209,578 (43,350)**	**17 %**
2.	**CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE**	7,508 **(1,226)**	4,582 **(758)**	**216 (34)**	**113,355 (24,098)**	**9 %**
3.	**COMPUTER SOFTWARE & HARDWARE**	6,896 **(1,126)**	13,564 **(2,200)**	**16,245 (2,556)**	**89,481 (17,575)**	**7 %**
4.	**TELECOMMUNICATIONS** (radio paging, cellular mobile, basic telephone services)	7,987 **(1,307)**	17,372 **(2,895)**	**2,517 (395)**	**86,609 (17,453)**	**7 %**
5.	**AUTOMOBILE INDUSTRY**	9,027 **(1,517)**	15,794 **(2,570)**	**6,914 (1,094)**	**70,906 (13,477)**	**5 %**
6.	**DRUGS & PHARMACEUTICALS**	7,191 **(1,279)**	9,211 **(1,523)**	**1,370 (215)**	**66,652 (13,336)**	**5 %**
7.	**CHEMICALS (OTHER THAN FERTILIZERS)**	4,738 **(878)**	4,077 **(669)**	**1,598 (251)**	**50,909 (10,588)**	**4 %**
8.	**POWER**	6,519 **(1,066)**	3,985 **(657)**	**1,717 (271)**	**48,357 (9,828)**	**4 %**
9.	**TRADING**	8,191 **(1,343)**	16,962 **(2,761)**	**5,679 (897)**	**49,479 (8,958)**	**4 %**
10	**METALLURGICAL INDUSTRIES**	3,436 **(568)**	2,897 **(472)**	**845 (133)**	**41,992 (8,680)**	**3 %**

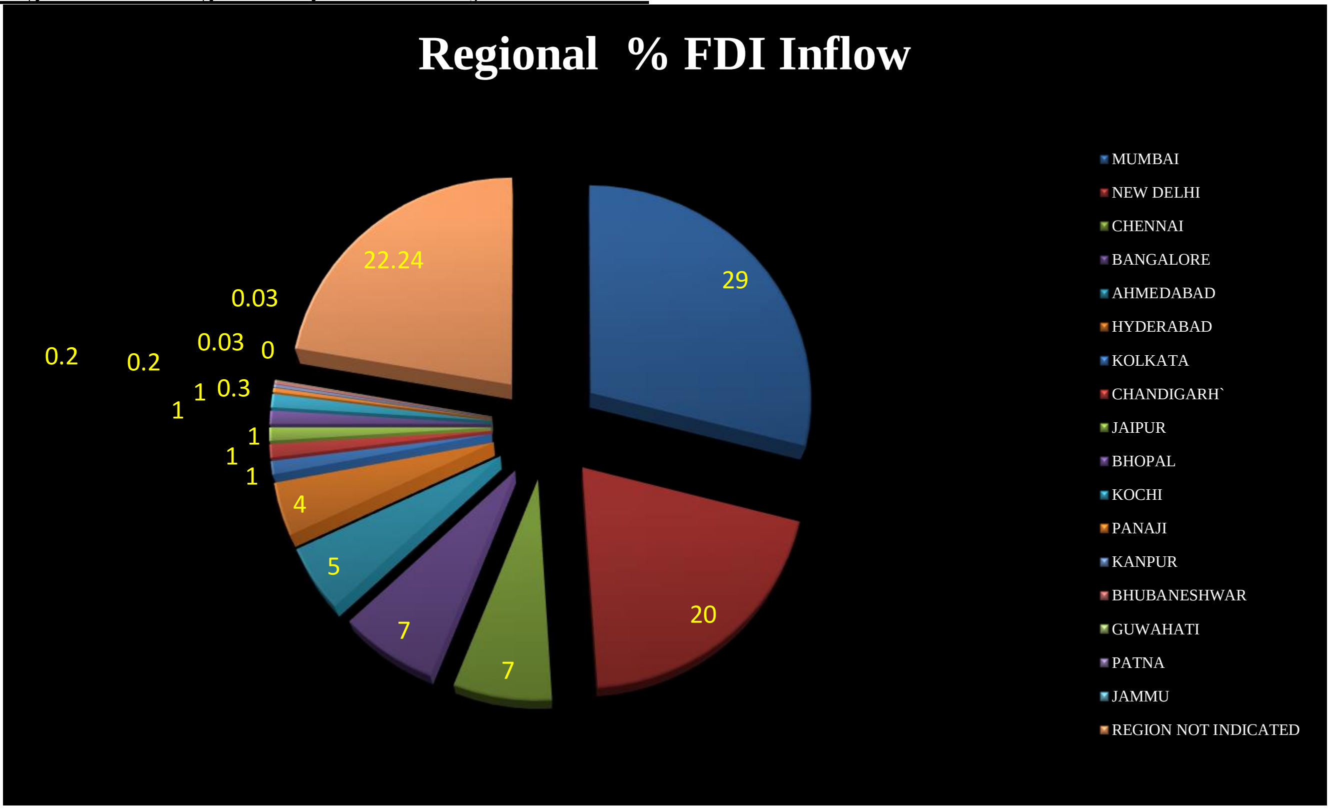
Sectoral Percentage of FDI inflow in Country till June 2015.



Regional Percentage FDI inflow in Country till June 2015.

S.No.	*RBI's - Regional Office*	*State's Covered*	*% Total Inflow*
1	MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	29
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	20
3	CHENNAI	TAMIL NADU, PONDICHERRY	7
4	BANGALORE	KARNATAKA	7
5	AHMEDABAD	GUJARAT	5
6	HYDERABAD	ANDHRA PRADESH	4
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	1
8	CHANDIGARH`	CHANDIGARH,PUNJAB, HARYANA, HIMACHAL PRADESH	1
9	JAIPUR	RAJASTHAN	1
10	BHOPAL	MADHYA PRADESH, CHATTISGARH	1
11	KOCHI	KERALA, LAKSHADWEEP	1
12	PANAJI	GOA	0.3
13	KANPUR	UTTAR PRADESH, UTTRANCHAL	0.2
14	BHUBANESHWAR	ORISSA	0.2
15	GUWAHATI	ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA	0.03
16	PATNA	BIHAR, JHARKHAND	0.03
17	JAMMU	JAMMU & KASHMIR	0
18		REGION NOT INDICATED	22.24
19		**TOTAL**	**100**

Regional Percentage FDI inflow in Country till June 2015.



II. INDIAN PHARMACEUTICAL INDUSTRY – AT A GLANCE

Human being has some basic needs which include Food, Clothing & Shelter, in addition to above Healthcare, Education, Sanitation are also core part of basic necessities in modern society. In above mention basic necessities Healthcare facility was near to unavailable till independence for majority of citizens in country, which causes high mortality rate & huge human capital loss but this picture change dramatically in last four decades with help of FDI allowed by Govt. of India. Foreign Direct Investment as a strategic element of funding is required in every develop& developing country for achieving the overall growth & reforms and continue the pace of development and progress of the economy.

P.V. Narsimha Rao lead government adapted LPG system which helped to bring modern technology in Indian Manufacturing Sector, which helped Indian Pharmaceutical sector to adapt the global changes in International competitive environment. This sector had gone through major transformation in production process, Pricing & Marketing of drugs.

Today Indian Pharmaceutical sector ranked 3rd largest in the world in terms of volume & 10 th largest in terms of value. As well annual turnover of industry was estimated to be about Rs. 1,77,734/-Crores in Financial year 2014-15 which shows the growth of 12% from INR 158671/ - in the year 2013-14. India exports 20% of global generics, making it largest provider of generic medicines globally. It's one of the sectors which always result in positive trade balance. This sector earned the foreign exchange, in rapidly increasing manner lead to create good deal of foreign exchange pool for country.Even in patent challenges India ranks 2nd only next to USA with a share of 21% of patent challenges.

However, the Industry is quite fragmented and comprises of nearly 10,500 units with majority of them in unorganized sector. Of these, about 300-400 units are categorized as belonging to medium to large organized sector with the top 10 manufacturers accounting for 36.5% of the market share. India is among the top 20 pharmaceutical exporting countries. Indian drugs are exported to around 200 countries in the world with highly regulated markets of USA, UK etc. The major therapeutic categories of export are anti-infective, anti-asthmatic and anti-hypertensive.

 ISSN: 2321-7782 (Online)

Indian Pharmaceutical sector classified in three major parts

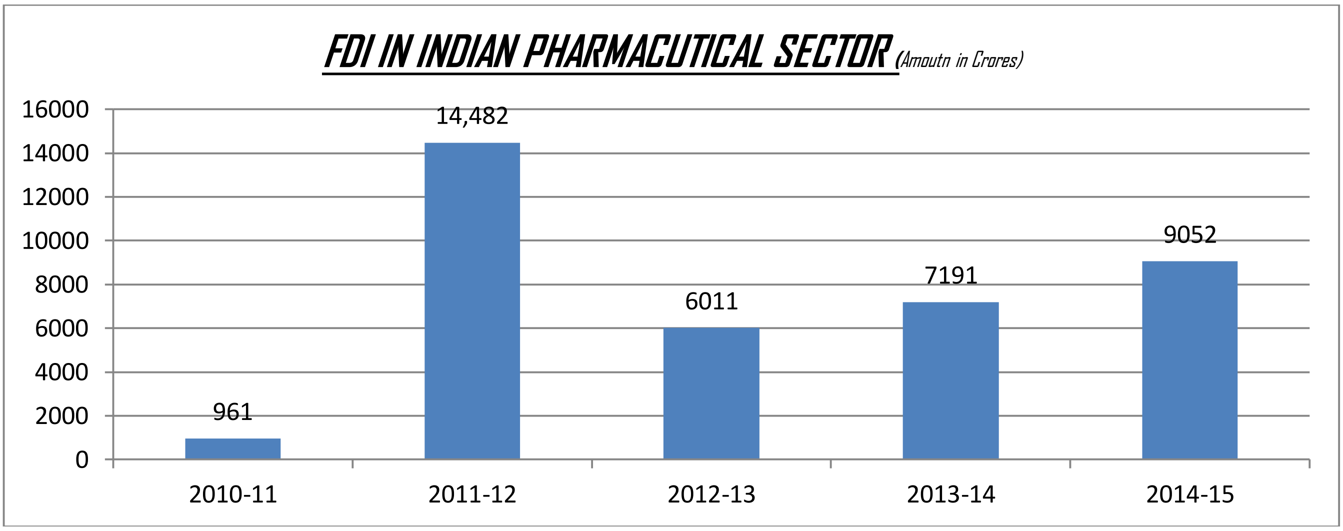
1. Large MNC – Originator of new patented drugs.
2. Large Generic Manufacturer - Domestic & foreign Companies.
3. Medium & Small scale companies-Domestic Companies.

Current status of FDI in Pharmaceutical Sector in India

From the below stated table & bar diagram it can be seen that the Pharmaceutical sector shows approximately fifteen times (15) growth in FDI inflow in year 2011-12 as compared to year 2010-11. This figure decrease by 57.50% to Rs.6011 Cr in year 2012-13. Again in further years 2013-14 & 2014-15 FDI inflow shows constant increasing trend, which shows that FDI is increasing in Pharmaceutical Sector in moderate speed.

YEAR	FDI In Crores INR
2010-11	961
2011-12	14,482
2012-13	6011
2013-14	7191
2014-15	9052

(Source :-FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI),DIPP.nic.in.)



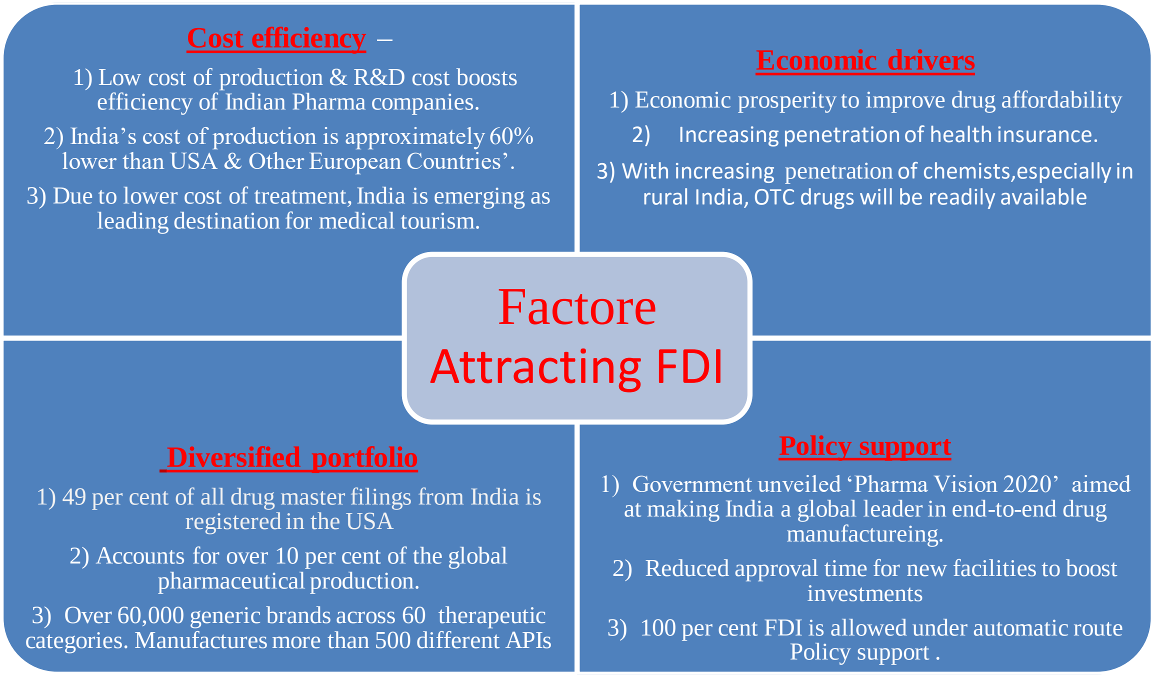
(Source :-FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI),DIPP.nic.in.)

MNC acquisitions & Joint Venture in the Indian Pharmaceutical space

S.No.	*Name of Acquiring Co.*	*Name of Target Company*	*Amount of Deal*	*Year*
1	Mylan, USA	Matrix Lab, Mumbai	US$736 million	2006
2	Daiichi Sankyo, Japan	Ranbaxy Lab's India	US$4.6 billion	2008
3	Fresenius Kabi,Germany	DaburPharma	INR 880 Cr	2008
4	Sanofi – Aventis, France	Shanta Bio tech	US$783 million	2009
5	Hospira,USA	Orchid Chemicals	US$400 million	2009
6	Sanofi – Aventis, France	GlenmarkPharma	US$ 615 million JV	2010
7	Abbott Inc. USA	Piramal Healthcare	US$3.72 billion	2010
8	Reckitt Bankiser	Paras Pharma	US$726 million	2010
9	Pfizer	Biocon	Insulin Mkt. Deal	2010
10	LithaPharma	NatcoPharma	Joint Venture	2011
11	Bayer Pharma	ZydusPharma	Joint Venture	2011
12	Merck & Co.	Sun Pharma	Joint Venture	2011
13	Recipharm, Sweden	NitinLifesciences	US$ 109.8 million	2015

From the above table it can be seen that Indian Pharma Majors have been took over by global Pharma giants which is termed as brown field investment. The reason for the mass inflow of FDI in Indian Pharma sector is availability of following benefits in India.

Factors attracting FDI inflow in Country.



Source: PwC, McKinsey, Pharmaceuticals Exports Promotion Council of India, TechSci Research

Some other Factors attracting FDI in IndianPharmaceutical Market

- ✓ Rapid over The Counter and generic market growth in country.
- ✓ Increased Pharmaceutical FDI help penetration in the non - metro markets.
- ✓ Large demand for quality diagnostic services in metros lead to new FDI inflow.
- ✓ Significant investment from MNCs in large generic segment.
- ✓ India, a potentially preferred global outsourcing hub for pharmaceutical products due to low cost of skilled labour.
- ✓ Opening of the health insurance sector and increase in per capita income the growth drivers for the pharmaceutical industry.
- ✓ Public-Private Partnerships for strengthening Infrastructure.
- ✓ National Health Policy 2015, which focuses on increasing public expenditure on healthcare segment in India.
- ✓ Speedy approvals for new facilities in Pharma.
- ✓ Governments plan to setup new Pharmaceuticals& research institutions.

Current Government Policies to attract FDI inflow

- ✓ Government expenditure on healthcare has estimated to increase from USD $ 14 Billion in year 2008 to USD $ 30.4 Billon till year 2015.
- ✓ The above expenditure is expected to rise at a CAGR of 18 % over 2008-16 to USD $ 53 Billion.
- ✓ Government allowed zero duty for technology upgrades in the pharmaceutical sector through the Export Promotion Capital Goods (EPCG) Scheme.
- ✓ Government has reduce the approval time for new facilities as well NOC for export licenses issued in two weeks as compare to prior 12 weeks earlier.
- ✓ 100% Foreign Direct Investment through Automatic Route & Government Approval Route is allowed.

- ✓ Export Promotion Capital Goods Scheme allowed zero duty for technology upgrades in the pharmaceutical sector.
- ✓ Government's Department of Pharmaceutical aims to make India a international major hub for end to end drug discovery till 2020 as planned in Pharma Vision 2020.
- ✓ Full exemption from Excise & Customs duties being provided for HIV/ AIDS drugs & diagnosis kit supplied under National AIDS Control Programme funded by the Global Fund to fight AIDS, TB & Malaria.(GFATM)

(Source – Indian Brand Equity Foundation Report, 2015, Techsci Research)

Advantages of FDI in Indian Pharmaceutical Sector.

- ✓ According to the Department of Pharmaceuticals, the Indian pharmaceutical industry employs about 3,50,000 people and an estimated 400,000 doctors and 300,000 chemists. This employment avenue will expand in large space.
- ✓ FDI will help to meet the needs of Patients through the innovative medicines.
- ✓ Domestic firm's gets access to international markets for exports.
- ✓ Helps to transfer capital resources in developing countries to improve standard of living.
- ✓ FDI will boosts the competitive environment in the pharmaceutical sector and spillover effects are generated through the elimination of insufficient firms and faster adoption of technology.
- ✓ MNCs are highly aware of quality standards for products and production processes which seem to have positive impact to the domestic industry to improve their products quality, continually in the future due to new patent law and enhanced investment climate.
- ✓ Competition in terms of R&D can stimulate growth in the industry.

Disadvantages of FDI in Indian Pharmaceutical Sector.

- ✓ Domestic firms are affected due to sever competition from global MNC's.
- ✓ Only Brown field investment through merger & acquisition will lead to transfer of ownership only no new job creation in country.
- ✓ Green field investment is only way to generate new capital inflow & new employment.
- ✓ Majority Indian Generic drugs makers sold their medicines for cheaper price but due to foreign companies influence, prices of drugs will rise & poor patients will be affected.
- ✓ Due to entry of Foreign MNC in Indian Pharma sector the huge competition leads to closure of Medium & Small scale organization which provide approximately 42% employment in sector.
- ✓ 100% FDI in Pharma may cause 100% dependence on foreign Pharma companies.

III. Findings and Suggestions

From the above study author found following factors which are crucially important.

1. FDI in Pharmaceutical sector is rising in country due to favorable Government policies.
2. Stronger intellectual property protection laws (IPR) are attracting the most advanced technologies and R&D to Indian Pharmaceutical Sector.
3. Indian Pharmaceutical Sectors flooded with Generic Drugs.
4. Hence FDI policy should be formulated in a manner that would encourage drug discovery research and transfer of technology to improving R&D capabilities of our companies.
5. The drug pricing policy should also be in harmony with the FDI policy so that the drugs can reach the maximum people and at the same time the pharmaceutical companies do not incur losses after spending huge time & money on research.
6. The Government spending on healthcare needs to increase from the current 3% of GDP with a prime importance on improving healthcare infrastructure in the country.
7. Overall five (5) % FDI is attracted in Indian Pharma sector which is less as compare to other sectors.
8. Mumbai region is ahead of all regions in attracting FDI i.e. 29%.
9. Government should incentivize the Greenfield FDI more for growth in inflow of foreign Capital & new employment generation.
10. Changing life style leads to increase in chronic disease, like Diabetes, Cancer etc. leads toward creation of huge opportunities for global MNC to capture urban, semi urban & rural markets in India.

IV. Conclusion

It can be conclude from above studies that, there has been ample opportunity for the concentration of FDI in the Pharma sector particularly export and profitability of the sector. As the large patent expires in next few years will bring huge opportunities for Generic Drug makers, which lead to global majors moving toward quality Generic drug manufacturing. India is hub of Generics, which will attract huge inflow of FDI in next few years. A substantial portion of the population in the developing and under developed countries is depends on this Generic Pharma Industry for the most basic need i.e. healthcare. So that Government should link the drug price control law with FDI policies which will help to attract, sustain & develop Pharma industry as well protection of low income population from unfair medical practices. Government introduces stronger intellectual property protection laws, attracting the most advanced technologies and R&D taking place in the sector. The foreign direct investment route is the fastest, safest and most effective mode of bringing in the most modern technology in India.

The "Pharma Vision 2020" conceived by the Department of Pharmaceuticals can be considered as a positive step in this direction. It is the need of the hour to attract more and more FDI in the pharmaceutical sector by creating a favorable investment environment. New FDI policies should be investor friendly to encourage new Greenfield investment as well promote domestic companies to invest in R&D & technology up gradation by providing suitable fiscal and financial incentives. So, we can conclude that FDI is always helps to create employment in the country and also support the small scale industries also and helps country to put an impression on the world wide level through liberalization and globalization. Hence Indian pharmaceutical industry will remain one of the fastest growing in the world for many more years to come.

References

1. India Brand Equity Foundation Report 2015.
2. Fact Sheet on Foreign Direct Investment, June2015 (FDI), DIPP.nic.in.
3. Department of Pharmaceuticals, Annual Report 2014-15.
4. India Pharma 2020: Propelling access and acceptance, realizing true potential, McKinsey and Company.
5. K. Kumar and M.K. Kulshreshtha, “SWOT Analysis of Indian Pharmaceutical Industry,” International Journal of Marketing, Financial Services & Management Research, Vol.2, No.5, May 2013.
6. NidhiTewathia, “Foreign Direct Investment in Indian Pharmaceutical Industry: An Assessment”, Vol.2, Issue 3, pp: (20-Month: July 2014. International Journal of Social Science and Humanities Research
7. Dr. Gulshan Akhtar, Problem and Prospect of FDI inflows in Indian Pharmaceutical Industry, IOSR Journal Of Humanities And Social Science (IOSR-JHSS) Volume 19, Issue 3, Ver. I (Mar. 2014), PP 69-73
8. KhodaleRavikiran, SardaRohit, & other, “The Indian Pharmaceutical industry, evolution of regulatory system & present scenario. International journal of pharmacy, Year may 2012.
9. BiswajitDhar,KMGopakumar“Effect of Product Patents on the Indian Pharmaceutical Industry”
10. RavindranKanningat, A Study Of Pharmaceutical Research&Development Post-2005 ‘Product Patent’Regime In India.
11. Jaya Prakash Pradhan, Liberalisation, Firm Size & R&D Performance: A Firm Level Study of Indian Pharmaceutical Industry. Journal of Indian School of political Economy Vol. No. 1, Dec – 2002.

AUTHOR(S) PROFILE

Prof. Anshuman Vijay Magar, received the M.B.A. (Finance) degree from K.K.Wagh Institute in 2011. Qualified UGC NET, SET Maharashtra in 2013 & appear for P.hd. from SRTM University, Nanded. Currently Working with University of Mumabi’s, Model College, Ambadave, Mandangad, Ratnagiri.