

**Group of Ministers
National Pharmaceutical Pricing Policy**

**Road Map
for
*Carefully Calibrated Policy to Avoid Adverse Trade Offs***

**by
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Road Map for NPPP

Presentation Outline

- ❑ Key Issues
- ❑ Unfounded Apprehensions
- ❑ Myths About Pharmaceutical Industry
- ❑ Pricing Policy in Perspective
- ❑ Impact Analysis

Key Issues

National Pharmaceutical Pricing Policy

- Span of Control
- Method of Price Fixation

Key Issues

Span of Control

No	Reference Document	No of Drugs	No of Formlms	Span of Control %
1	NLEM 2011:	348	654	30.0
2	Additions to NLEM 2011:			
	a. Non-specified Strengths/Dosage Forms		1,389	9.7
	b. Combinations of NLEM+NLEM		395	8.1
	c. Combinations of NLEM+Non-NLEM	1,154	4,657	26.7
	Total Additions (a+b+c)	1,154	6,441	44.5
3	NPPP 2011 (1 + 2)	1,502	7,095	74.5
4	Current Span of Control	74	1,550	18.0

Source: NPPP 2011 and IMS Health MAT Mar 2011

*NLEM that "Satisfy the priority healthcare needs"
and will be "made available at all times in adequate quantities"*

Key Issues

Normative Cost-Based System

- Intrusive
- Lacks Transparency
- Disregards Actual Cost
- Discretionary
- Retards Growth & Investment
- Discourages Innovation & Efficiency

*Domestic Industry is No Longer Homogenous,
Unfair to Subject it to "Normative" Costing*

Key Issues

Illustration of *Normative Costing*

A. Conversion Cost

Tablets Plain (per 1000 Nos.)

No	Description	Rs
1	Small upto 100mg	4.70
2	Medium 101mg to 350mg	7.05
3	Large 351mg to 600mg	10.45

B. Packing Charges

Tablets Packed in Random
(Plain, Coated and Sustained Release)

No	Description	Rs
1	Upto 10 per pack	0.21
2	11 to 30 per pack	0.63
3	31 to 100 per pack	0.84

C. Process Loss – Raw Materials

No	Description	Rs
1	Plain Tablets	4%

D. Process Loss–Packaging Material

No	Description	Rs
1	Plain Tablets	4%

Source: NPPA SO No 578 (E) dated 13 July 1999

Key Issues

Current Cost-Price Fixation System

Formulation : Salbutamol and Beclomethasone Capsules

Strength : Salbutamol 400mcg

Pack Size : Bottle of 30 Capsules

No	Break up of Cost	Cost per Unit - Rs		
		Actual 2010-11	Form 3 15/04/2011	Price Notfn 01/07/2011
1	Raw Material*	4.64	4.23	4.81
2	Packing Material*	4.77	4.42	
3	Total RM + PM	9.41	8.65	4.81
4	Conversion Cost	1.08	1.47	1.47
5	Packaging Charges	0.97	1.33	1.33
6	Total CC + PC	2.05	2.80	2.80
7	Total Cost (3+6)	11.46	11.45	7.61

*Supported by Purchase Bills Certified by Cost Auditor

Source: Company Documents & Price Notification

Disallowance 44%

Does Not Recognize Actual Material Costs

Key Issues

Current Cost-Price Fixation System

Formulation : Dexamethasone Injection

Strength : Dexamethasone 4mg per ml

Pack Size : 2ml Vial

No	Break up of Cost	Cost per Unit - Rs		
		Actual* 2010-11	Form 3 15/04/2011	Price Notfn 01/07/2011
1	Raw Material	0.86	0.84	2.20
2	Packing Material	1.46	1.43	
3	Total RM + PM	2.32	2.27	2.20
4	Conversion Cost	2.50	1.11	1.11
5	Packaging Charges	2.19	0.55	0.55
6	Total CC + PC	4.69	1.66	1.66
7	Total Cost (3+6)	7.01	3.93	3.86

*Actual Cost is as per Cost Audit Report

Source: Company Documents & Price Notification

Disallowance 65%

Does Not Recognize Actual Manufacturing Cost

Unfounded Apprehensions

“Ceiling Prices will Lead to Increase in Prices” Not True

- All Price Increases Would be Limited to WPI
- Market Dynamics Do Not Permit Increases
- Nothing Prevented One from Doing So Even Today
- Lowering the Ceiling Will Force Across the Board Price Reductions

Low-Price Segment Will Face Pressure to Reduce Prices

Myths About Pharmaceutical Industry

Misconceptions Driving the Policy

Information Asymmetry:

“Patients End up Paying for High-Priced Medicines”

“Doctors Prescribe the Most Expensive Medicines”

There is No Evidence to Support These Perceptions

Myths About Pharmaceutical Industry

Misconceptions Driving the Policy

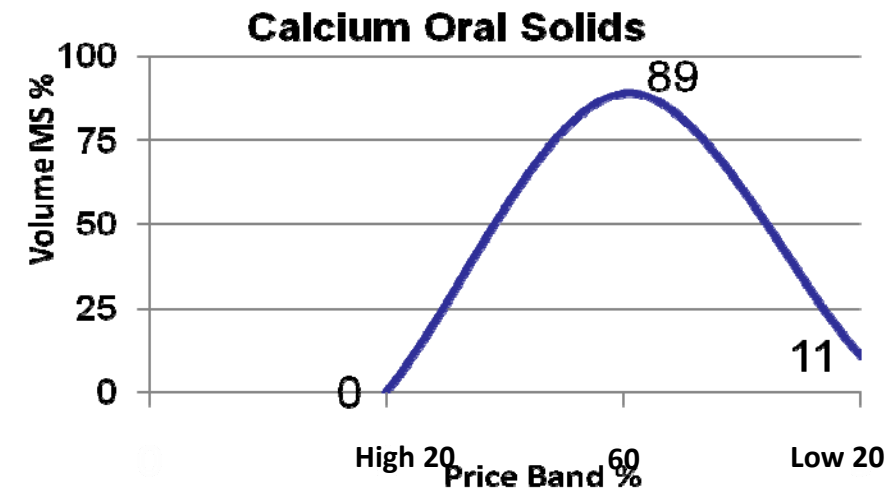
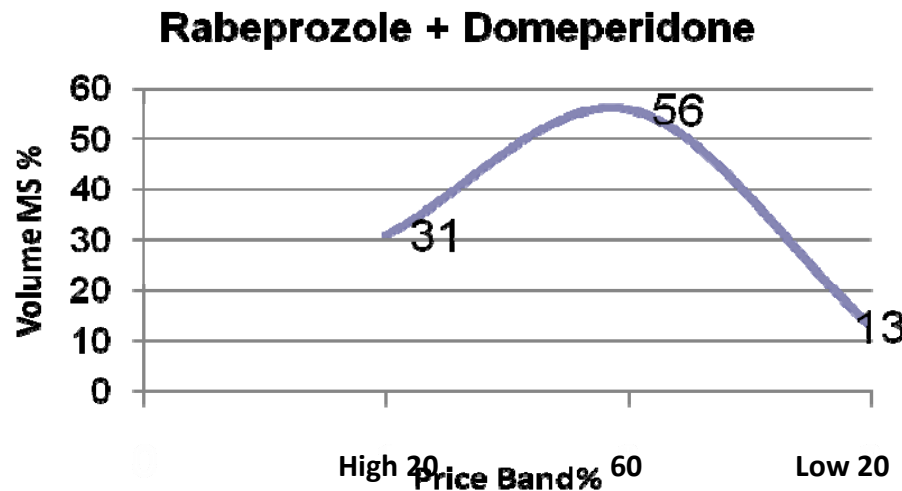
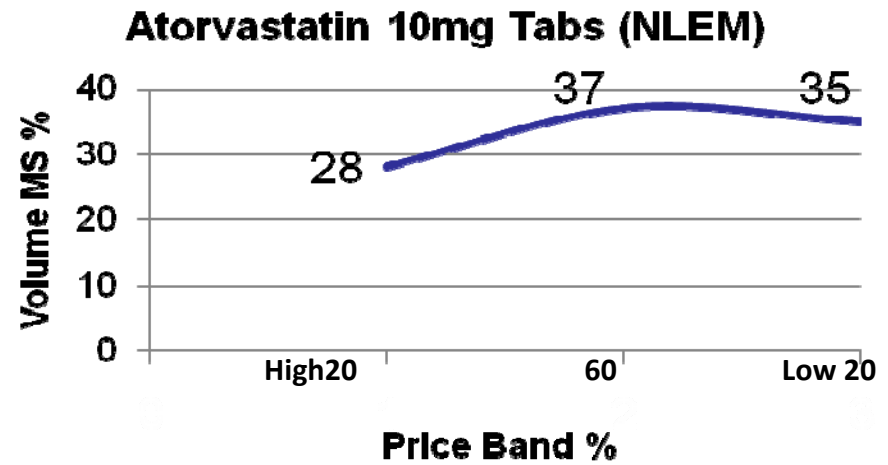
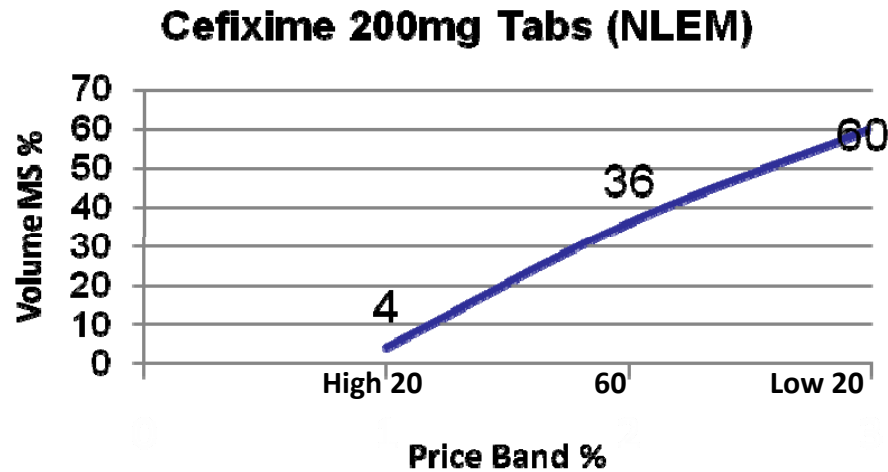
“Brand Leader is Also the Price Leader”

“Competition Does Not Lead to Lowering of Prices”

*No Study or Evidence to Support These Perceptions;
But There is Enough Evidence to Disprove These Claims*

Myths About Pharmaceutical Industry

Volume Distribution by Price Bands



Even Volume Distribution Does Not Support These Myths

Pricing Policy in Perspective

Profitability: Inter-Industry Comparison 2009-10

Industry	PAT Net of P&E / Total Income Net of P&E	PAT Net of P&E/ Average Capital Employed	No of Companies
Polymers	2.5	2.9	39
Sugar	4.2	4.1	86
Inorganic Chem	3.7	5.9	58
Metals & Met Products	7.7	7.7	703
Steel	7.9	7.8	248
Manufacturing	5.1	8.8	5392
Chemicals	4.6	10.1	1215
Pharmaceuticals	10.2	11.1	332
Pesticides	7.0	12.2	57
IT	19.2	20.8	559
Dairy Products	6.8	35.0	33
Cosmetics	10.4	35.8	62

P&E = Prior Period Income & Extraordinary Income
 Source: CMIE: Industry Financial Aggregates & Rates, Feb 2011

Pricing Policy in Perspective

Selling & Distribution Expenses: Inter Industry Comparison 2009-10

Industry	Sales Rs Cr	Selling & Distrbn Expenses Rs Cr	Selling & Distrbn Expenses / Sales %	No of Companies
Polymers	8,308	211	2.5	39
Sugar	27,641	364	1.3	86
Inorganic Chem	3,471	139	3.9	58
Metals & Met Products	3,70,124	9,843	2.7	703
Steel	2,14,674	5,835	2.7	248
Manufacturing	27,03,018	1,10,901	4.1	5392
Chemicals	12,23,107	47,135	3.8	1215
Pharmaceuticals	92,956	6,699	7.0	332
Pesticides	17,983	1,275	7.0	57
IT	1,36,395	1,527	1.1	559
Dairy Products	13,967	1,123	7.9	33
Cosmetics	45,763	6,552	14.1	62

Source: CMIE: Industry Financial Aggregates & Rates, Feb 2011

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Pricing Policy in Perspective

Profitability of Drugs & Pharmaceutical Industry

Particulars	Total Rs Cr	Domestic Rs Cr
Sales	92,956	* 48,200
Less: Wholesaler's Margin @ 8%	-	<u>3,856</u>
Net Sales	92,956	44,344
Net Profit @ 10.2%	9,482	4,523

Total – Source: CMIE Industry Financial Aggregates & Rate, Feb 2011

Domestic - Source: NPPP 2011, Para 3.3 (iv), Pg 13

*At Price to Retailer (PTR)

Industry Earns Approx. Rs 4,500 cr from Domestic Sales

Pricing Policy in Perspective

NPPP 2011: DoP Sample – Price Comparison

Sr No	Product & Strength	Current Highest Price/Unit Rs	WAP of All Excl. Less Than 1% MS by Volume Rs	Price/Unit as per NPPA on Cost Basis (With 100% MAPE) Rs
(1)		(2)	(3)	(4)
1	Diclofenac - 50mg Tabs	7.38	2.12	0.19
2	Paracetamol - 500mg Tabs	11.52	0.78	0.38
3	Cetirizine HCl - 10mg Tabs	3.08	2.22	0.16
4	Propranolol HCl - 40mg Tabs	2.81	2.10	0.24
5	Metoprolol - 25mg Tabs	7.97	2.70	0.27
6	Clopidogrel Bisulfate - 75mg Tabs	88.00	4.20	0.77
7	Amlodipine - 2.5mg Tabs	3.25	1.35	0.14
8	Atenolol - 50mg Tabs	8.29	2.10	0.23
9	Enalapril Maleate - 2.5mg Tabs	2.33	1.54	0.14
10	Atorvastatin - 5mg Tabs	8.53	3.32	0.38

Source: Col. 2 & 3 IPA Analysis – AWACS MAT MAR 2012; Col. 4 DoP

Pricing Policy in Perspective

Impact of Cost-Based Pricing Price Per Unit as per NPPA Working

No	Product	Price/Unit - Rs			No of Formulators		Sales				
		Max	Min	NPPA Price with 100% MAPE	Total	Impacted	Total Rs Cr	Impacted		Loss	
								Value Rs Cr	% of Total	Value Rs Cr	% of Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Diclofenac - 50mg Tabs	7.38	0.24	0.19	61	60	53	53	99	48	90
2	Paracetamol - 500mg Tabs	11.52	0.13	0.38	124	83	120	110	91	64	53
3	Cetirizine HCl - 10mg Tabs	3.08	0.05	0.16	103	97	110	110	100	102	92
4	Propranolol HCl - 40mg Tabs	2.81	0.95	0.24	20	20	27	27	100	24	89
5	Metoprolol - 25mg Tabs	7.97	0.50	0.27	62	62	90	90	100	81	90
6	Clopidogrel Bisulfate - 75mg Tabs	88.00	1.91	0.77	50	50	168	168	100	141	84
7	Amlodipine - 2.5mg Tabs	3.25	0.27	0.14	55	55	49	49	99	44	89
8	Atenolol - 50mg Tabs	8.29	0.11	0.23	59	57	94	94	100	83	89
9	Enalapril Maleate - 2.5mg Tabs	2.33	0.39	0.14	20	20	17	17	100	15	91
10	Atorvastatin - 5mg Tabs	8.53	0.69	0.38	40	40	28	28	100	24	89
11	Total				594	544	756	744	98	626	83

Source: IPA Analysis – AWACS MAT MAR 2012; Col. 5 DoP

Will Result in 83% Loss of Sales/Profits

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Pricing Policy in Perspective

Impact of Market-Based Pricing (WAP of All Brands Excluding <1% MS by Volume)

No	Product	Price/Unit - Rs			No of Formulators		Sales				
		Max	Min	WAP	Total	Impacted	Total Rs Cr	Impacted		Loss	
								Value Rs Cr	% of Total	Value Rs Cr	% of Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Diclofenac - 50mg Tabs	7.38	0.24	2.12	61	11	53	43	82	7	13
2	Paracetamol - 500mg Tabs	11.52	0.13	0.78	124	59	120	104	86	17	14
3	Cetirizine HCl - 10mg Tabs	3.08	0.05	2.22	103	20	110	92	83	19	17
4	Propranolol HCl - 40mg Tabs	2.81	0.95	2.10	20	8	27	9	34	1	2
5	Metoprolol - 25mg Tabs	7.97	0.50	2.70	62	33	90	59	65	13	14
6	Clopidogrel Bisulfate - 75mg Tabs	88.00	1.91	4.20	50	18	168	98	58	38	23
7	Amlodipine - 2.5mg Tabs	3.25	0.27	1.35	55	21	49	28	58	8	16
8	Atenolol - 50mg Tabs	8.29	0.11	2.10	59	18	94	84	90	13	14
9	Enalapril Maleate - 2.5mg Tabs	2.33	0.39	1.54	20	5	17	6	34	0	2
10	Atorvastatin - 5mg Tabs	8.53	0.69	3.32	40	15	28	20	71	3	11
11	Total				594	208	756	543	72	119	16

Source: IPA Analysis – AWACS MAT MAR 2012

Will Result in 16% Loss of Sales/Profits

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Impact Analysis

Impact of Cost-Based Pricing With Span of Control @ 30%

No	Particulars	CBP with 100% MAPE
a	Net Sales of NLEM 2011 Medicines @ 30% of Domestic Sales Rs 44,344 cr	13,303
b	Net Profit@ 10.2% (CMIE) Rs cr	4,523
c	Sales Loss Due to Price Reduction %	83
d	Profit Loss (a x c) Rs cr	11,041
e	Profit Loss as % of Net Profit (d as % of b) %	244
f	Net Profit After Price Reduction (b – d) Rs cr	(6,518)
g	Net Profit to Net Sales (f as % of Rs 44,344cr)	Loss

*Do Not Ignore Impact on Export Realization Also
Will Wipe Out Total Profit of the Industry, Not Just on Domestic Sales*

Impact Analysis

Impact of Market-Based Pricing With Span of Control @30%

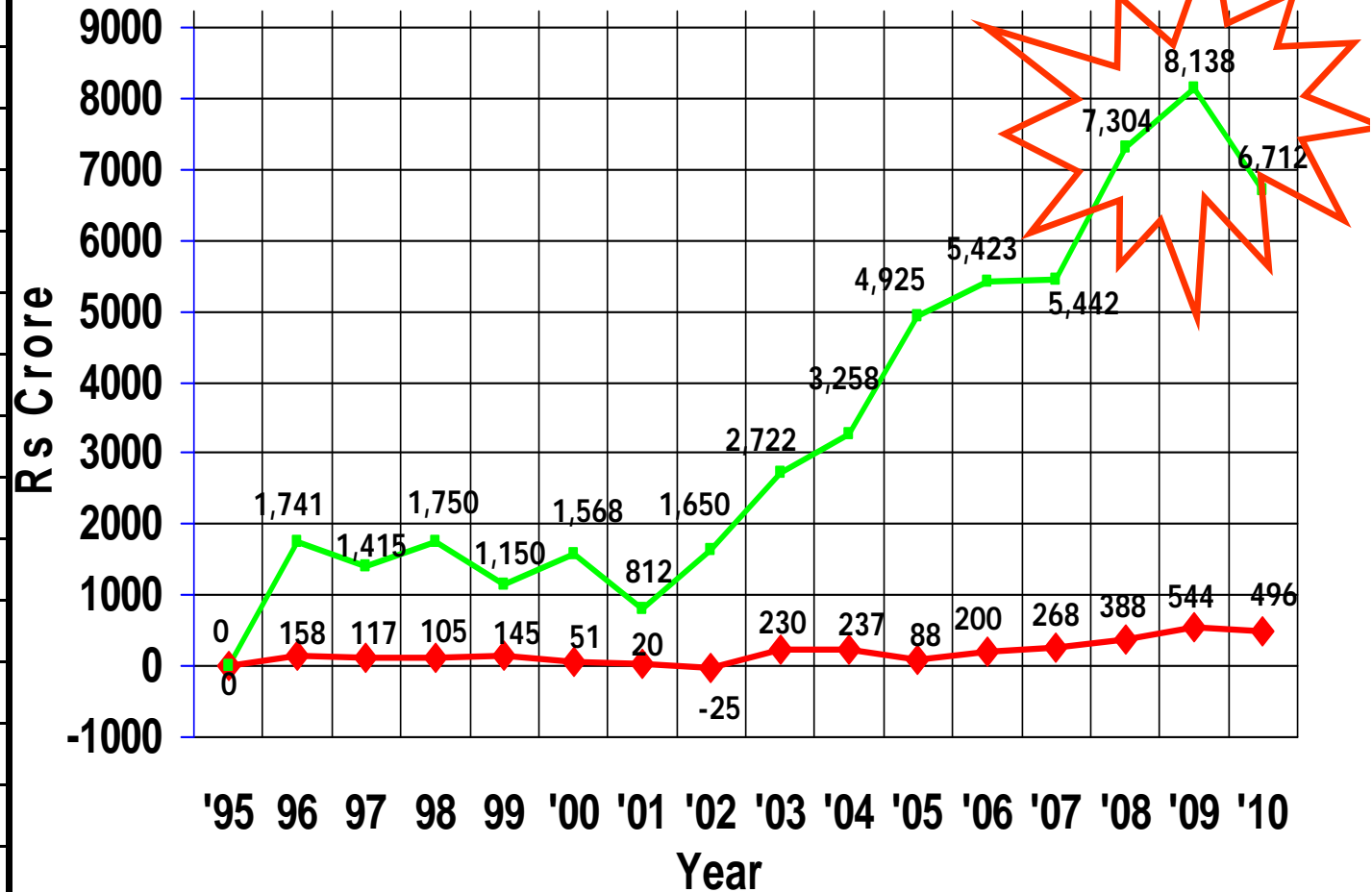
No	Particulars	MBP with 1% MS
a	Net Sales of NLEM 2011 Medicines @ 30% of Domestic Sales Rs 44,344 cr	13,303
b	Net Profit@ 10.2% (CMIE) Rs cr	4,523
c	Sales Loss Due to Price Reduction %	16
d	Profit Loss (a x c) Rs cr	2,128
e	Profit Loss as % of Net Profit (d as % of b) %	47
f	Net Profit After Price Reduction (b – d) Rs cr	2,395
g	Net Profit to Net Sales (f as % of Rs 44,344cr)	5.40

*Do Not Ignore Impact on Export Realization Also
Will Reduce Net Profit by Half*

Impact Analysis

Year (Apr-Mar)	Indian Co's	Foreign Co's
1995	0	0
1996	1,741	158
1997	1,415	117
1998	1,750	105
1999	1,150	145
2000	1,568	51
2001	812	20
2002	1,650	-25
2003	2,722	230
2004	3,258	237
2005	4,925	88
2006	5,423	200
2007	5,442	268
2008	7,304	388
2009	8,138	544
2010	6,712	496
Total	54,011	3,023

Investment in Pharmaceutical Industry Annual Increase in Gross Fixed Assets



Source : CMIE – Analysis of Indian Pharmaceutical Industry

Foreign Investments Have Lagged Behind



THANK YOU

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