

PRICE MARK-UPS

# Centre may cap trade margins on generic drugs in two months

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The Prime Minister's office (PMO) has asked the department of pharmaceuticals to probe the "astronomical" price mark-ups on generic medicines that drug makers sell through distributors—a move that may be a prelude to a cap being imposed on the margins.

"We are going to come up with a notification capping the trade margins within two months. A panel set up by the government is set to submit a report in this regard," said a senior official in the department of pharmaceuticals on condition of anonymity.

The panel is headed by Sudhansh Pant, joint secretary in the department of pharmaceuticals, and includes representatives of the National Pharmaceutical Pricing Authority, Competition Commission of India and industry bodies.

To avoid marketing and promotional expenses, many small drug makers sell their unbranded, generic products through distributors rather than market them directly. It has come to the PMO's attention that these drugs are sold to consumers at "astronomical" prices, according to the ministry of pharmaceuticals. "In some drugs and medical devices, the margin may even go up to 4000%. For example, if a particular medicine is supplied to the distributor for ₹1 by the manufacturer, its price can even go up to ₹20 once it reaches the customer," the official cited above added. According to the Indian Drug Manufacturers' Association



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(IDMA), the total business in these drugs, known as trade generics, is pegged at ₹5,000-6,000 crore, or 5-6% of India's total pharma market, estimated at ₹1 trillion.

"The move (margin cap) will affect the availability of medicines in rural areas," said S.V. Veeramani, president of the IDMA. "The distributors, who are also marketing the products in rural areas, will go slow if the margins are capped and hence there will be a drop in volume of sales also."

In a letter to the department of pharmaceuticals, IDMA said any move to cap the margin will have an adverse impact on the micro, small and medium enterprises that are engaged in manufacturing such medicines, and their workforce.

In trade generics, distributors appoint medical representatives to market products to doctors in rural areas in addition to supplying retailers. The representatives recover their costs through the higher margins at which they sell these drugs to the doctors.

Out of the total 800,000 retail chemist shops in India, a majority are located in rural and semi-rural areas. Any effort to regulate the price of trade generics would affect the business of chemists in the countryside and, according to the IDMA, may prompt some to close shop.

"Our opinion is that the government should not take this decision (to cap margins) in a hurry," Veeramani said.

According to the Drug Prices Control Order of 2013, the National Pharmaceutical Pricing Authority can regulate the prices of 348 essential drugs in which the retail margin can be up to 16% of the price of the medicine.

In July, the Supreme Court observed that the way the government controlled prices of medicines was "unreasonable". The observation came during a hearing on a petition by a non-governmental organization called All India Drug Action Network, which sought inclusion of more life-saving medicines in the list of drugs whose prices are regulated.

Regulatory