



PHARMACEUTICALS EXPORT PROMOTION COUNCIL

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Costlier fuel puts pressure on drug prices

**P.T. Jyothi Datta
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Companies may review cost structure in 3-6 months.

The Villain

Hike in diesel cost to hit pharma cos.

The fuel is used in transportation and also to power units during outages.

Consumers may be spared a rise in medicine prices just yet, following an increase in petro product prices effected last week.

Drug companies, though, will have to do a balancing act – between the Government's cap on price-increase and the intense competition within the industry.

Though energy and freight costs increase across the board, the law does not allow companies to pass price increase on to the consumers, say pharma industry representatives. Drug companies are going to take a hit, and they will be forced to review prices in three to six months, they point out.

While competition keeps prices in check, the Centre does not allow companies to increase prices over 10 per cent in a year.

But the real villain in the recent price hike is diesel, says an official with Shasun, an active pharmaceutical ingredients maker.

Companies use diesel to transport materials, to convey products to customers and often at manufacturing facilities due to power cuts, he points out.

Cost structure

With diesel prices set to be reviewed periodically, drug companies will be forced to review their products' prices if volatilities are seen in the fuel's prices, he adds.

Companies may re-look at the cost structure six months down the line, and if there is a revision it would be across the industry, says Mr A.K. Jain, Ipca's Executive Director (Finance), underlining that competition makes it difficult to pass on the increase to customers.

A 2 per cent increase is estimated across the board, says a Cipla official, as material cost accounts for 45 per cent of the total cost.

Typically, the price rise is not passed on to the consumer immediately, he says, adding that prices could be reviewed in six months. Companies can look at balancing their act in the local market through export margins, he points out.

Yuan-effect

Price concerns also hover over drug companies importing pharmaceutical ingredients from China, over the appreciation of the Chinese yuan.

No immediate impact is seen on the price of imports from China, says the Shasun official. Whether expensive Chinese exports will give Indian products an advantage will be known over time, he adds.