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Author: G. Natarajan, S. Jaikumar

Though Excise duty has been reduced across the board from 16% to 14%, the major gains are to the pharma sector, which has hit the jackpot! Wayback in January 2005, when the pharma products were brought under the MRP based levy, that too with a paltry 35% abatement, most of the pharma units who were operating as job workers / loan licencees / third party manufactures, went literally bleeding. Their prayers were partly heeded when the abatement was enhanced from 35% to 42.5% last year. Now this present reduction of duty to 8% with a handsome 35.5% abatement is nothing but a life – saving medication to none other than the pharma industry itself. Along with the pharma industry, we join to thank and pray our FM to have a long life, without the aid of any medicines!!!

But as per the Newton's law of dynamics, every action has an opposite reaction. As stated above, the advent of MRP based levy brought a lull and recession to the pharma industry and most of the manufacturers went to excise exempted zones like Himachal and Uttranchal, to save them from the disaster. They also made huge investments on the manufacturing infrastructure and started their operations. As known, the exemptions at Himachal and Uttranchal are that, no Excise duty is payable on the goods manufactured and no Cenvat credit is available on the inputs / input services consumed and capital goods used. Despite all the raw materials used in the manufacture, which are predominantly under Chapter heading 29 of the Central Excise Tariff Act 2005, are bought only on payment of duty on which the Cenvat credit would be available, most of the Himachal / Uttranchal aspirants chose those excise free zones because of the fact that the excise duty of 16% on the MRP minus abatement was killing them in the market.

But after this present reduction, the mathematics has gone totally topsy-turvy and it is no more wise to have your manufacturing at these excise exempted zones, anymore, which could be evident by the following illustration.

Let us consider a product of Rs 100/- as the MRP. Today, after the reduction of excise duty, the manufacturer is required to pay excise duty of 8.24% (ED plus Education CESS) on Rs.64.50 (Rs 100/- minus 35.5% abatement) which would be Rs.5.31. To discharge this liability the manufacturer would be entitled for the CENVAT credit of the entire duty paid on the inputs used in the manufacture. Say, if the above product has inputs worth Rs 40/- in it, the manufacturer would get a CENVAT credit of Rs. 5.77 (14.42% of Rs.40), which would completely offset his duty burden. Even a lesser percentage of input content than the 40% would have a wafer thin effect, which, when considered to the other inconveniences and costs like logistics and transportation, is negligible. In view of the above, henceforth, manufacturing in the excise exempted zones is no more prudent and cost beneficial, on the contrary, maybe suicidal.

Before Parting…

Statistics shows that most of the pharma units are situated in Himachal , which is poor man's Switzerland! Along with Shimla, the terrain also hosts fantastic tourist spots. As a blessing in disguise, the crestfallen pharma manufactures, who had made a beeline to Himachal, can now think of converting their manufacturing facility into great tourist resorts!!!