

DIPP now Wants FIPB Nod for FIIs in Pharma too

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The department of industrial policy & promotion (DIPP), which had spearheaded curbs on foreign direct investment in the pharmaceutical sector, now wants more restrictions, this time on portfolio investment in the sector.

It wants that increase in foreign institutional investment in listed pharmaceuticals companies beyond the default 24% threshold should require permission of the Foreign Investment Promotion Board (FIPB), two officials familiar with the deliberations told ET.

Under the current rules, up to 24% portfolio investment is allowed in all listed companies but the limit can be raised to the sectoral FDI limit through a board resolution and special resolution of shareholders.

Individual portfolio investors can hold up to 10% in a company. Companies do not have to come to the FIPB in case the sector is on the automatic route.

In the case of pharma, the DIPP wants the additional condition of approval from the FIPB. "The DIPP has proposed that FII investment on automatic route be restricted at 24%...For any further increase in FII limit, companies will have to come to FIPB," said a government official.

The DIPP's suggestion derives from the changes in the FDI policy for the sector that says foreign direct investment in existing Indian pharma companies

(brownfield investment) would require FIPB nod. The limit, however, remains at 100%.

The finance ministry, however, favours a more liberal approach as portfolio investors cannot take over the management, a concern that is there in the case of FDI.

The tightening of FDI rules for the sector followed concerns that the takeover of Indian drug



companies by foreign companies will deny cheap drugs to Indians.

Finance minister Arun Jaitley and minister of state for commerce and industry Nirmala Sitharaman, who is also minister of state for finance, may have to intervene to resolve the issue expeditiously.

Pharma companies such as Lupin have been trying for several months to get clarity on the issue to raise foreign investment limit. The company had even written to Cabinet secretary Ajit Seth on the issue.

The country had opened its pharmaceutical sector to 100% FDI via the automatic route in 2002, but the UPA government introduced a distinction between greenfield projects and brownfield ones following fears that Indians will be denied cheap medicines if multinational continued to buy big domestic companies.