CHAPTER III

SUPPLY CHAIN MANAGEMENT (SCM) – PROCUREMENT PROCESSES AND PRACTICES IN PHARMACEUTICAL INDUSTRY

Procurement Process-Imported Items
The objective of this process is to lay down a procedure for Purchasing of Imported Materials so as to ensure that the imported purchased materials meet the specified requirements.

Purchase requisition
It is necessary to ensure by the indenter and approving authority that all the details formatted in the requisition are duly filled before releasing the indent. For projects related to alternate vendor development, CIP and NPD requirements orders can be raised as per need and are approved in SAP.

It is the responsibility of the user that any purchase against the purchase requisition is within the budgeted amount indicated in the requisition. In case of any deviation, the same is informed to the user for necessary correction and approval by the concerned approving authorities before taking procurement action. Purchase ensures that there is proper response to the user on the requisition execution and expected delivery date as per service levels agreed. Information on delayed deliveries is shared with the indenter to take alternative action to have smooth business.
**Enquiry and Quotation**
On receipt of approved purchase requisition Purchase executive floats the enquiries preferably on approved vendors. It is the responsibility of the purchase executive to get minimum number of quotations as per the guidelines for every material / requisition to get the best price for the material.

**Negotiation**
All negotiations with the Vendors are preferably in person. In case where telephonic quotations are obtained it would be necessary that the buyer records. This should generally carry all details. Consider all the terms and conditions during negotiations which are applicable for that particular material.

It is essential to capture Total Delivered Cost for the material in the negotiated document to take suitable decision during approval by all approving authorities. Currency conversion rates are to be taken care of while arriving at the totals cost.

**Purchase Order finalization**
It is necessary to prepare quotation comparison with final prices, terms and conditions of all the negotiated quotations and give justification for the procurement decision.

It is important that the buyer identifies whether the goods to be imported are a dangerous / Hazardous / toxic substance. In such cases he has to inform the following four authorities through registered post with acknowledgment due card at the time of releasing the PO.

1. Port Authority at the port where the material is being shipped.
2. DGFT Delhi.
3. Local PCB where the port is present.
4. Local PCB where the material is going to ultimately reach like in our case it could be any of the factories where the material will finally land.
5. Related narcotics declaration where ever applicable. The registered post acknowledgment due card has to be given to the customs along with other documents at the time of clearing the material.

**Purchasing terms and conditions**

**Materials specification and acceptance by vendor**

Sourcing executive ensures that the vendor is in good understanding of our material specifications and it is acknowledged along with the purchase order as acceptance. Prior approval from the vendor is also fine.

**Materials unit price**

Material unit price is most important in the purchase transaction and it should not be added with any other taxes for the sake of convenience while negotiating or preparing the purchase order. In case of any exception (Ex: Steel, Cement etc.), Any Change in the unit price after placement of order shall be treated as new transaction. Purchase should take utmost care while preparing the order about the unit of measurement in the master and unit of measurement negotiated to have correct unit price and order value.

**Delivery schedule**

Co-ordinate with vendor for shipment schedule and delivery of materials.
**Delivery responsibility/Transit risks/Insurance coverage.**
The policy of the company is to cover all the materials imported under the open policy taken by the company. The initial claim is registered with the insurance company and the final claim bill can be filed after the receipt of the survey report. The concerned person ensures that the insurance company conducts the survey within 4 to 7 days from the date of information to insurance. In case of items imported on basis other than CIF basis, the time taken can be 4 to 6 weeks. Consignment loss value (CIF losses plus duty loss) for each accounting month is recovered from the insurance company by the concerned executive on monthly basis.

**Payment terms, advance payments, cash discounts**
All materials are covered with CIF value to the extent possible.

**Procedure for Clearing & Forwarding Imported consignments:**
Imports operation starts with the receipt of order by party. LCs are to be opened in the prescribed format provided by the banks wherever applicable.

Once the LC is established with delivery schedules, imports team obtains from the supplier one set of copy of documents such as duplicate invoice copy, packing list, certificate of origin, analysis certificate, bill of lading/air way bill by Courier / fax / email before arrival of the vessel / air craft.

For Air consignments, the team keeps all shipping details before landing of the Cargo at the Airport to avoid demurrage charges. The following documents need to be sent to the clearing agent along with a covering letter giving our import
License No., classification as per Tariff, Customs Notification and rate of duty etc:
a) Copy of Indent
b) Original Purchase Order
c) Copy of LC
d) Invoice in Original
e) Packing List in detail showing Net wt., Gr. Wt., No. of Drums etc.
f) Test certificate
g) Certificate of origin
h) Certificate of Analysis
i) Bill of Lading / Air Way bill
j) Cargo Arrival Notice
k) Freight Bill / Certificate
l) Insurance Policy (when C&F)
m) Freight payment (when FOB)
n) Write-up
o) Technical literature / Catalogue etc.
p) Original Import License
q) Declaration with regard to duty exemption
r) Drug License.
s) Procurement certificate in case of imports for an EOU unit
t) Copy of the EOU certificate where it is an EOU unit
u) Registered Ack. due of the letters are sent to the authorities for importing dangerous goods

The Bill of Lading/Airway Bill is presented to Steamer Agent/Carrier by our Clearing Agent for taking delivery order. In the absence of original documents, there is a need to execute an Indemnity Bond and clear the goods to avoid demurrages. Confirmation to this is to be arranged from the
supplier from Load port to the concerned Steamer Agent in respective port in India. The bond is later cancelled after submitting the original Bill of Lading. In case of pilferage / damage to the cargo or shortage or wrong supply the team arranges survey through Insurance Company in the presence of Steamer agents, Port officials and Customs officials. If materials are received in good condition and there is no shortage the Clearing Agent clears the goods after paying Customs Duty and Port charges if any. SAP entries that are necessary for stock transport purchase orders for issuing the materials to concerned plant are to be made.

Re-export of Imported Goods
As per Hand Book of Procedures, Goods or parts thereof are being imported and found defective or otherwise unfit for use or which have been damaged after import may be exported and goods in replacement thereof may be supplied free of charges by the foreign supplier. The company obtains RBI permission for Export of Rejected Material.

Correspondence exchanged by the supplier regarding rejection and acceptance letter or replacement, to be produced to Customs at the time of Export. Original packing of the goods are not changed for establishing identity to customs at the time of Exportation. In case of DEEC /DEPB /EPCG / list 28 Schemes, we have to obtain permission for reaccrediting the quantity / value in the relevant Advance License / DEEC/DEPB book. For duty paid goods, draw back shipping bill for refund of 98% duty is filed. The companies pay duty to customs on freight and insurance on replaced material where necessary permissions have not been obtained. The shipment of replacement goods are made within 24 months from the date of
clearance of the previous imported goods through the Customs. The company has to arrange for drawing of sample by customs at the time of export for testing.

**Procurement Process - Maintenance, Repairs and Overhauling Items**

The main object of Procurement Process is to lay down a procedure for purchasing of MRO items so as to ensure that the purchased MRO items meet the requirements specified by the indenters. The process of procurement of MRO items starts with Purchase Requisition.

**Purchase Requisition**

Approved budget is the basis for raising the Purchase requisition which needs to be approved as per DOA to initiate the procurement action for MRO materials and services. Any deviation observed against the budgeted amount for any activity is communicated to the indenter who in-turn obtains the necessary budget approval.

**Enquiry Quotation and Negotiation**

Enquiries shall be floated to existing approved OEM vendors and also to reputed vendors who are supplying similar materials or executing similar jobs in the market.

Buyer should have clarity on rate of excise duty, sales tax, entry tax, works contract tax and eligible Tax forms before calling the vendor for negotiation. Review with users / concerned approving authority on the prepared strategies and call vendor for negotiations with proper time schedule. Involve user during negotiations if necessary. Separate technical sessions can be organized between the users and vendors in
case of critical items or items where specifications are evolving.

Ensure that the vendor is clear with all specifications, drawings, statutory requirements and legal aspects during the final negotiations. Focus the discussion on time schedule and all terms and conditions. Prepare final comparative statement with necessary recommendation and justification to release the order on the selected vendor.

**Purchase Order finalization**

Buyer should mention the rate of duty and tax applicable in the order to have clarity on the order value and also ensures the vendor details, payment terms, unit of measurement, acceptance criteria and place of delivery are selected properly as agreed with vendor.

Material delivery responsibility with entire risks till it is delivered at the respective project location shall be preferably with the Vendor only. Any damage during transit is not accepted even at the request of the vendor with an intention to rectify the same at our location.

**Terms of Payment, advances and cash discounts:**

Buyer has to be clear before going to the negotiations with regard to the terms of payment and conditions to be finalized with the vendor (Refer PAYMENT, ERMS). Advance payments and BG should be restricted and should not become practice. Any advance payment is made if any, preferably against a bank guarantee from the vendor.

**Warranty, Guarantee, after sales services, Inspection at vendors place**
Buyers always work to achieve maximum warranty/guarantee after sales service from the vendor in all relevant activities.

**Purchasing – Local Materials**
The objective of purchasing local material is to lay down a procedure for Purchase of local materials so as to ensure that the purchased materials meet the specified requirements.

The annual materials budget is the basis for strategic sourcing department. The monthly materials requirement plan issued by supply planning is communicated to the strategic sourcing team through supply planner. MRP is generally raised through SAP

**Purchase requisition**
All RM/PM materials are requested through SAP Purchase Requisition. Purchase ensures that there is proper response to the user on the requisition execution and expected delivery date as per service levels agreed. Purchase executive and plant buyer have their own review on the pending purchase requisitions. Information on delayed deliveries are shared with the indenter to take alternative action to have smooth business. All materials are categorized into annual rate contract orders and MTM orders. Annual orders are raised at the beginning of the financial year and MTM are raised after the release of MRP. Category wise agreed delivery lead times are followed by the buyers for executing the purchase requisitions and ensuring delivery of materials.

**Enquiry and Quotation**
On receipt of purchase requisition SS buyer floats the enquiries on approved vendors. It is the responsibility of the
SS buyer to get minimum number of quotations for every material / requisition to get the best price for the material.

**Negotiation**

All negotiations with the Vendors are preferably in person. In case where telephonic quotations are obtained it would be necessary that the buyer records, all these being available whenever needed for audit/future reference. It is essential to capture landed cost for the material in the negotiated document to take suitable decision during approval by all approving authorities.

**Purchasing terms and conditions**

*Excise duty, Sales tax, Entry tax etc govt. regulatory requirements.*

Sourcing executive is expected to have clarity on rate of excise duty, sales tax, entry tax, and eligible Tax forms on the material. It is expected that buyer looks in to the authenticity of vendor’s information on his tax registrations with statutory authorities. Purchase executive always mentions the rate / amount of duty and tax applicable in the order to have clarity on the order value.

**Packing and Forwarding charges / Transportation charges.**

All the agreed charges are mentioned in the order separately and comparative statement to have clarity on the order value.

**Delivery Schedule**

Annual order / MTM do not specify exact delivery dates. Based on the requirements and keeping in mind the lead
times, plant buyer coordinates with the vendor and communicates the required delivery schedule.

**Delivery location**
Complete address of the location, excise code number, sales tax number and drug license of the location is mentioned in the order.

**Delivery responsibility / Transit risks / Insurance coverage.**
Material delivery responsibility with entire risks till it is delivered at the respective manufacturing location / required location is always with the supplier only. It is generally recommended and not a condition. Plant buyer / Warehouse ensures necessary action to claim for insurance recovery in case of goods damaged during transit.

**Quality acceptance / Rejections**
All materials received are subject to quality verification as per our approved specifications. Materials are accepted only after verification. Materials are tested by the Quality Control department / concerned dept as per approved specification and it is the responsibility of purchase to inform the vendor in case any deviation is observed.

All rejected materials are returned to the party within 30 days from the date of rejection.

**Payment Terms, Advance Payments, Cash Discounts**
Payment terms to be decided before the negotiations and the same shall be considered while making the comparative
statements. Advance payments, LC and BG are restricted and they do not become a practice.

In case supplier quotes an offer with cash discounts for the early payments, the same is discussed with the approving authority to explore the possibility of releasing such early payments and avail the cash discounts that are offered to achieve lowest possible material cost. It is the responsibility of the purchase dept to ensure that the advances are reconciled and cleared.