CHAPTER NO 7

THE CONCEPT AND ROLE OF FOREIGN DIRECT INVESTMENT IN INDIA’S HEALTHSTORE RETAIL

New equity capital flows take one of two forms: M&A and Greenfield investment. In a merger or acquisition, one firm acquires an equity stake in an existing foreign firm. Greenfield FDI takes place as the establishment of a new overseas affiliate by a parent Company. India does not provide FDI statistics that break out M&A vs. Greenfield FDI. For most developing countries, however, the Greenfield route is more prominent, as there are fewer existing companies available to acquire, as compared with developed countries. Also there are the country specific requirements and regulations for FDI which would determine the scope for the investing country.

Table no (29) captures this at a glance for a selected few countries in Asia.

Foreign direct investment (FDI) capital flows into India have increased dramatically since 1991, when India opened it economy to FDI, and inflows have accelerated since 2000. FDI inflows to India reached $11.1 billion in calendar year 2006 (figure no 51), almost double the 2005 figure, and is expected to continue increasing in 2007. The Indian government has announced a target of $25 billion in new FDI inflows for the 2007–08 fiscal year. Globally FDI has experienced a corresponding resurgence since 2004, recording year-on-year increase of 29 percent in 2005 and 27 percent in 2004, after declining for several years in the early 2000s. Consistent with the global pattern, FDI inflows into India declined between 2001 and 2003, before experiencing a
<table>
<thead>
<tr>
<th>Bangladesh</th>
<th>India</th>
<th>Nepal</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
<th>Bhutan</th>
<th>Maldives</th>
</tr>
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<tbody>
<tr>
<td><strong>Pre-entry Treatment</strong></td>
<td></td>
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<tr>
<td><strong>Sectoral ban on FDI</strong></td>
<td>Private ownership restricted in 4 sectors</td>
<td>9 broad sectors</td>
<td>Alcohol</td>
<td>Positive list of sectors</td>
<td></td>
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<tr>
<td><strong>Caps of foreign ownership</strong></td>
<td>None</td>
<td>Ownership cap on 16 sectors</td>
<td>FDI prohibited in 23 sectors</td>
<td>100% in all sectors</td>
<td>A negative list of sectors</td>
<td>Max. 70% equity allowed.</td>
</tr>
<tr>
<td><strong>Screening</strong></td>
<td>No screening except in telecom, power and mineral</td>
<td>Screening for FDI in specified sectors</td>
<td>Approval from department of industries</td>
<td>No screening except in 5 mfgr sectors</td>
<td>Strict screening by BOI</td>
<td>FDI committee which meets once in 3 months</td>
</tr>
<tr>
<td><strong>Minimum Capital requirement</strong></td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>Ag: $0.3mn, Infra: $0.3mn, IT and Telecom: $0.15 mn.</td>
<td>None</td>
<td>Mfg: $1mn Services: $0.5 Mn</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
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</table>

14 Arms and ammunition - High Explosives, Radioactive substances - Security Printing, Currency and Mint

**Table no (29) Broad overview of FDI policies in certain South Asian countries:**
Source ICRIER Study paper 218: Regional Economic Integration and FDI in South Asia: Prospects
resurgence that surpassed average global growth, with year-on-year increases of 45 and 72 percent, respectively, in fiscal years 2004–05 and 2005–06.

Preliminary data for inward FDI for the 2006–07 fiscal year show FDI inflows of $15.7 billion, representing an increase of 184 %, in rupee terms, over the preceding fiscal year. While there is a large percentage increase compared to the global average, the value of inward FDI flows to India relative to developing countries remains small (figure 51). However, FDI inflows to India surpassed inflows to South Korea in 2006, making India the fourth largest destination for FDI in Asia, behind China, Hong Kong, and Singapore.

<table>
<thead>
<tr>
<th></th>
<th>Rank</th>
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<th>GCI Index</th>
<th>basic requirement</th>
<th>efficiency enhances</th>
<th>innovativeness</th>
</tr>
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<tr>
<td></td>
<td>GCI</td>
<td>basic requirement</td>
<td>efficiency</td>
<td>innovativeness</td>
<td>score index</td>
<td>index</td>
<td>enhances</td>
</tr>
<tr>
<td>India</td>
<td>48</td>
<td>74</td>
<td>31</td>
<td>26</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>70</td>
<td>85</td>
<td>73</td>
<td>47</td>
<td>92.1</td>
<td>97.2</td>
<td>84.1</td>
</tr>
<tr>
<td>Pakistan</td>
<td>92</td>
<td>98</td>
<td>81</td>
<td>78</td>
<td>87.1</td>
<td>91.0</td>
<td>81.9</td>
</tr>
<tr>
<td>B. desh</td>
<td>107</td>
<td>111</td>
<td>91</td>
<td>111</td>
<td>82</td>
<td>85.3</td>
<td>78.5</td>
</tr>
<tr>
<td>Nepal</td>
<td>114</td>
<td>115</td>
<td>115</td>
<td>120</td>
<td>78.1</td>
<td>83.9</td>
<td>70.4</td>
</tr>
</tbody>
</table>

Source: GCR, 2007-08

Table no (30): Study of competitive index for FDI of certain Asian countries
Figure (51) FDI inflows into India


Figure (52) Fact sheet on FDI-location source

India’s investment policy does not permit FDI in the following sectors: housing & real estates except development of integrated townships and settlements, retail trading,
lottery business, gambling and betting, agriculture (including plantations other than tea plantation). What must be noted here is that FDI up to 100% is permitted in some sectors under automatic route and this includes medical equipments and drugs and pharmaceuticals and pesticides except those requiring industrial licensing. More recently FDI is permitted up to 51% in single brand retail. This sector is presently in focus and a subject of national debate with three key players involved in the process. The organized retail association, the traditional retail association and the government.

An overview of India’s economic and fiscal position:

(a to n): Snapshot Slides .Source- www.dipp.gov.in

a)
Economic Performance
Sustained economic growth
Average last 10 years  6.5%
2004-05  6.9%
Forecast up to 2006-07  >7.0%
Forecast till 2050 – Goldman Sachs 5 % p.a.

Services share in GDP over 50% (52.4% share in GDP in 2004-05)
Manufacturing sector grew at 8.8% in 2004-05 (17.4% share in GDP in 2004-05)

Foreign Trade
Merchandise exports grew by 25% in 2004-05, now US$80 billion
Imports grew by 36%, now US$106 billion
Investment

Foreign Investment – over US$14 billion in 2004-05 (FDI US$5.5 billion, FII US$8.9 billion)

Mature Capital Markets

NSE third largest, BSE fifth largest in terms of number of trades

A well developed banking system

b)

Rationalization of tax structure – both direct and indirect

Progressive reduction in peak rates

Peak Customs duty reduced to 15%

Corporate Tax reduced to 30%

Customs duties to be aligned with ASEAN levels

Value Added Tax introduced from 1st April 2005-

only 6 states left

Fiscal Responsibility & Budget Management Act, 2003

Revenue deficit to be brought to zero by 2008

c)

Industrial Licensing

Progressive movement towards delicensing and deregulation

Licensing limited to only 5 sectors (security, public health & safety considerations)

Foreign Investment

Progressive opening of economy to FDI

Portfolio investment regime liberalised

266
Liberal policy on technology collaboration

Trade Policy

Most items on Open General License, Quantitative Restrictions lifted

Foreign Trade Policy seeks to double India’s share in global merchandise trade in 5 years

d)

Exchange Control

All investments are on repatriation basis

Original investment, profits and dividend can be freely repatriated

Foreign investor can acquire immovable property incidental to or required for their activity

Rupee made fully convertible on current account

Taxation

Companies incorporated in India treated as Indian companies for taxation

Convention on Avoidance of Double Taxation with 65 countries
e) Evolution of FDI Policy

- 2000-05: More sectors opened; Equity caps raised in many other sectors; Procedures simplified
- 2000: Up to 100% under Automatic Route in all sectors except a small negative list
- 1997: Up to 74/51/50% in 112 sectors under the Automatic Route 100% in some sectors
- 1991: FDI up to 51% allowed under the Automatic route in 35 Priority sectors
- Pre 1991: Allowed selectively up to 40%

f) Investing in India – Entry Routes

- Investing in India
  - Automatic Route
    - **General Rule**
      - No prior permission required
      - Inform Reserve Bank within 30 days of inflow/issue of shares
  - Prior Permission (FIPB)
    - **By Exception**
      - Prior Government Approval needed
      - Decision generally within 4-6 weeks
G)

New sectors opened to FDI

Defense production, Insurance, print media - up to 26%

Development of integrated townships up to 100%

e-commerce, ISP with out gateway, voice mail, electronic mail, tea plantation -100%

subject to 26% divestment in 5 years

FDI equity limits raised

Private sector banks raised from 49% to 74%

Drugs and pharmaceuticals from 74% to 100%

Advertising from 74% to 100%

Private sector refineries, Petroleum product marketing, exploration, petroleum product pipelines – 74% to 100%

Procedural simplification

Issue of shares against royalty payable allowed

h)

FDI in domestic airlines increased from 40% to 49%. Automatic route allowed

FDI up to 100% allowed under the automatic route in development of townships, housing, built up infrastructure and construction development projects

Foreign investment limit in Telecom services increased to 74

FDI and portfolio investment up to 20% allowed in FM Broadcasting. Hitherto only Portfolio investment was allowed.

Transfer of shares allowed on automatic route in most cases

Fresh guidelines for investment with previous joint ventures
A WTO (TRIPs) IPR regime compliant in position since 2005 – Patents Act amended to provide for product patent in pharmaceutical and agro-chemicals also.

I)

FDI up to 100% allowed under the ‘Automatic Route’ in all activities except for
Sectors attracting compulsory licensing
Transfer of shares to non-residents (foreign investors)
In Financial Services, or
Where the SEBI Takeovers Regulation is attracted
Investor having existing venture in same field
Sector specific equity/route limit prescribed under sectoral policy
Investments made by foreign investors are given treatment similar to domestic investors

J)

FDI equity limit-Automatic route
Insurance – 26%
Domestic airlines – 49%
Telecom services- Foreign equity 74%
Private sector banks- 74%
Mining of diamonds and precious stones- 74%
Exploration and mining of coal and lignite for captive consumption- 74%
K) FDI requiring prior approval

Defense production – 26%

FM Broadcasting - foreign equity 20%

News and current affairs- 26%

Broadcasting- cable, DTH, up-linking – foreign equity 49%

Trading- wholesale cash and carry, export trading, etc., 100%

Tea plantation – 100%

Development of airports- 100%

Courier services- 100%

L)

Foreign technology agreements also allowed under Automatic route:

Lump-sum fees not exceeding US$2 Million

Royalty @ 5% on domestic sales and 8% on exports, net of taxes

Royalty up to 2% on exports and 1% also permitted for use of Trade Marks and Brand name, without any technology transfer

Wholly owned subsidiaries can also pay royalty to their parent company

Payment of royalty without any restriction on the duration allowed.

M)

2nd most attractive investment destination among the Transnational Corporations (TNCs) - UNCTAD’s World Investment Report, 2005

3rd most attractive investment destination – AT Kearney Business Confidence Index, 2004
Up from 6\textsuperscript{th} most attractive destination in 2003 and 15\textsuperscript{th} in 2002

2\textsuperscript{nd} Most attractive destination for manufacturing

Among the top 3 investment ‘hot spots’ for the next 4 years

UNCTAD & Corporate Location – April 2004

Most preferred destination for services - AT Kearney’s 2005 Global Services

Location Index (previously Offshore Location Attractiveness Index)

**THE INDIAN PHARMACEUTICAL INDUSTRY**

The Indian pharmaceutical industry has been a successful player in global markets over the last couple of decades. Along with sectors like software and auto auxiliaries (table no 31), it has spearheaded India’s progress in “knowledge intensive and technologically sophisticated markets” (Ramachandran et. al, 2006). It contributes to 8\% of world production by volume and 1.5\% by value (Agawam, 2004). It is a highly fragmented industry with more than 20,000 registered units (Indian Pharmaceutical Industry: An Overview, n.d.). It is becoming a major force in outsourced clinical research and has almost 74 U.S. FDA approved manufacturing facilities, the most for any country outside the US (Pharmaceuticals in India, n.d.).
### SECTORS ATTRACTION HIGHEST FDI EQUITY INFLOWS:

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<tbody>
<tr>
<td>1.</td>
<td>SERVICES SECTOR (financial &amp; non-financial)</td>
<td>1,986 (444)</td>
<td>2,399 (543)</td>
<td>21,047 (4,664)</td>
<td>22,054 (6,492)</td>
<td>51,162 (11,934)</td>
<td>22.42 %</td>
</tr>
<tr>
<td>2.</td>
<td>COMPUTER SOFTWARE &amp; HARDWARE</td>
<td>2,441 (539)</td>
<td>6,172 (1,375)</td>
<td>11,786 (2,614)</td>
<td>5,476 (1,373)</td>
<td>32,029 (7,241)</td>
<td>14.03 %</td>
</tr>
<tr>
<td>3.</td>
<td>TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)</td>
<td>570 (125)</td>
<td>2,776 (624)</td>
<td>2,155 (478)</td>
<td>4,846 (1,198)</td>
<td>16,491 (3,778)</td>
<td>7.23 %</td>
</tr>
<tr>
<td>4.</td>
<td>CONSTRUCTION ACTIVITIES (including roads &amp; highways)</td>
<td>696 (152)</td>
<td>667 (161)</td>
<td>4,424 (886)</td>
<td>6,119 (1,627)</td>
<td>12,515 (2,847)</td>
<td>6.49 %</td>
</tr>
<tr>
<td>5.</td>
<td>HOUSING &amp; REAL ESTATE</td>
<td>0 (0)</td>
<td>171 (38)</td>
<td>2,121 (467)</td>
<td>7,186 (1,792)</td>
<td>9,598 (2,324)</td>
<td>4.21 %</td>
</tr>
<tr>
<td>8.</td>
<td>AUTOMOBILE INDUSTRY</td>
<td>556 (122)</td>
<td>650 (143)</td>
<td>1,254 (276)</td>
<td>2,204 (553)</td>
<td>9,363 (2,118)</td>
<td>4.10 %</td>
</tr>
<tr>
<td>7.</td>
<td>POWER</td>
<td>241 (53)</td>
<td>386 (87)</td>
<td>712 (157)</td>
<td>2,903 (533)</td>
<td>7,755 (1,741)</td>
<td>3.40 %</td>
</tr>
<tr>
<td>8.</td>
<td>METALLURGICAL INDUSTRIES</td>
<td>836 (182)</td>
<td>6,540 (147)</td>
<td>7,966 (173)</td>
<td>3,956 (971)</td>
<td>6,519 (1,657)</td>
<td>2.86 %</td>
</tr>
<tr>
<td>9.</td>
<td>CHEMICALS (other than fertilizers)</td>
<td>909 (196)</td>
<td>1,731 (390)</td>
<td>930 (205)</td>
<td>668 (216)</td>
<td>6,031 (1,373)</td>
<td>2.67 %</td>
</tr>
<tr>
<td>10.</td>
<td>DRUGS &amp; PHARMACEUTICALS</td>
<td>1,343 (292)</td>
<td>769 (172)</td>
<td>970 (215)</td>
<td>1,320 (334)</td>
<td>5,907 (1,276)</td>
<td>2.46 %</td>
</tr>
</tbody>
</table>

Table no (31) FDI in different sectors. Source [www.dipp.gov.in](http://www.dipp.gov.in)

Until 1970, the industry was dominated by Multinational Corporations (MNCs) which rode the wave of open FDI policies, instituted by the government for the purpose of increasing inflow of foreign equity and technological know-how (Bergman, 2006, p.13). The Indian Patent Act, 1970, however, recognized only process patents, which allowed domestic firms to freely manufacture patented molecules. The government differentiated between domestic and foreign firms, providing production incentives to domestic firms while foreign firms came under tighter control. Import substitution became an overriding objective in the years to come. The realization that the
competitiveness of the industry had suffered due to such high protectionism dawnd upon policy makers in the 1980s.

With the advent of liberalization in 1991, monopolistic markets under public units were opened up to competition and disinvestment. Relaxation in price controls and Foreign Direct Investment (FDI) approval processes, along with IPR enforcement set the industry on the path of rapid globalization. Foreign players who had earlier minimized their exposure to India due to the protectionist measures now found India an attractive proposition and FDI inflows burgeoned. The industry was the 8th largest receiver of FDI among Indian industries between 1991 and 2005. Annual FDI inflows into India’s drug and pharmaceutical sector have grown steadily from $12 million in 1994 to $342 million in 2004, declining to $116 million in 2005, and rebounding to $216 million in 2006 (figure 53). In 2004, FDI inflows increased 463 percent over 2003 levels, in large part in anticipation of the “advent of the product patent era.” Ongoing uncertainty, perhaps attributable to perceived inadequacies in India’s law in the areas of data protection, the standards for patentability, and compulsory licensing appears to have tamped down FDI in 2005 and 2006. The largest source of FDI in India’s pharmaceutical industry is Mauritius. The United States is the second largest source, followed by the United Kingdom and Singapore (figure 54). FDI in India takes various forms including Greenfield projects (both the establishment of new facilities and the expansion of existing ones), strategic alliances between foreign and domestic firms, and mergers and acquisitions (M&A)
Figure (53) FDI inflows between 1994 & 2006

Source: Government of India, Ministry of Commerce & Industry, Department of Industrial Policy & Promotion.

Figure (54) Drugs and Pharmaceutical FDI by country, 2002-06 (other than retail)

Source: Government of India, Ministry of Commerce & Industry, Department of Industrial Policy & Promotion.

Drugs and pharmaceutical FDI by country, 2002–06

- Mauritius: 40%
- USA: 19%
- UK: 8%
- Singapore: 8%
- South Africa: 6%
- Germany: 3%
- Switzerland: 2%
- Italy: 1%
- Belgium: 1%
- Cayman Island: 5%
- All other: 7%

$926.1 million
The Volume of Pharmacy Business in India

The pharmacy trade in India generates an estimated business of Rs. 32,000 crore, apart from about Rs. 18,000 added by hospital pharmacies and exports. Almost all the chemists besides selling allopathic medicines also offer OTC and alternate medicines, surgical, rehabilitation aids and body care products like soaps, tooth pastes, hair oils, shampoos, cleansing lotions and nutraceuticals, among others, for sale which according to rough estimates generate an additional turnover of about Rs. 15,000 crore. In pharmaceutical retailing, prescription (ethical) drugs accounts for around Rs. 140 billion while non-prescription (OTC) drugs accounted for about Rs. 20 billion.

RETAIL PHARMACIES: THE NEW BUZZ WORD

The power of the Pharmacist

In India, sales in the pharmaceutical market, is heavily influenced by the medical shop owners (also called chemist shops or pharmacies). In fact, the alleged bane of the Indian pharmaceutical market is that pharmacists behave more as traders, than healthcare professionals. Brand substitution and OTC (over-the-counter) push sales at medical shops or chemists for Schedule H and Schedule X drugs. This is common. The Times of India, Bangalore edition, dated, 8.8.2007, in fact, highlighted this point. While one way of looking at it, is seeing the situation as regulatory challenge for implementation of The Drugs and Cosmetics Act, 1940, the other understanding is that this mirrors the reality that Indian Pharmaceutical market is OTX (a combination of prescription and over-the-counter). For pharmaceutical marketers and the society at large, this scenario highlights the role played by the pharmacist and pharmacy as healthcare providers.
Retail trade

The pharmacy retail trade, which is highly fragmented and until now dominated by small chemists, is bracing up for a quick revamp with the changing business trends including globalization.

Impact on traditional stand alone chemists

The organized retail is at infancy stage in India and it is here to stay. Every type of player will have something different to offer to the customers. The independent stores are also going to evolve with passage of time.

The registered traditional stand alone chemists, numbering over 7 lakh, are facing formidable competition. They have realized the need of the hour and are trying to find ways and means to preserve their share of business. They are now trying to organize themselves. The pharmacists are changing their approach and are counter attacking under the banner of their trade association- All India Chemists and Druggists Organization (AICDO), which for decades has been fighting to protect their business interests, by registering itself as a company.

At the All India Organization of Chemists and Druggists, the biggest association among India’s more than half-a-million drug stores dispensing more than Rs 30,000 crore of medicines every year, small retailers have formed a corporate entity to buy directly from drug companies and supply to chemists through a common system at economical rates.

The Retail and Dispensing Chemists Association (RDCA) is a grouping of chemists seeking to reinvent themselves. It has banded nearly 5,500 drug stores together to adopt contemporary management practices and customer-loyalty schemes, and employ crafty near-militant tactics. It is named as the chemist sena. Air-conditioning
and computerization are on top of the agenda for chemists who are part of this association; some are also working with wholesalers to ensure that the stores of all members are well stocked. They also look for regulatory loopholes that they can use to jeopardize retailers operations. Example: they have complained against Subhiksha at state food and drug administrations, Narcotics Bureau and the BMC. Such corporate guerrilla warfare seems to be working. It has actually crippled supplies to Subhiksha pharmacies. The RDCA has expanded to new cities, including Mumbai, Ahmedabad, Pune and Chandigarh. Now pharmacies have started to offer discounts. “For the first time, customers have started asking me for a discount,” says Ashraf Biran, who runs a more-than-four-decade-old pharmacy in Parel, central Mumbai. “We can fight them on everything, but not price.” Drug associations say revenues for pharmacies close to Subhiksha stores could be dented by as much as 30%.

With margins on medicines being capped at 16% for retailers, chemists say rising costs for rent, power and wages put them in a tight position. Already, wages for pharmacists have gone up to Rs10,000 a month from Rs 6,000 two years ago as organized pharmacy chains, such as Fortis Health world and Lifetime Healthcare, have entered the market. It will be hard for small retailers to survive this. With several more players, including Wal-Mart Stores Inc., and the Reliance-Anil Dhirubhai Ambani Group, planning to enter the pharmacy business, chemists know the deeper implications.

Retail pharmacies or Chemist’s form a major portion of this unorganized healthcare retail sector, and as such dominate this sector. The sector has done phenomenally well in India due to the emotional relationship that exists between the shopkeeper and his
customer. On the average the number of customers coming to these pharmacies range from approximately 25 to 500 per day depending on the location, and proximity to medical care centers and hospitals.

In India the unorganized sector caters to a number of needs of the customer other than medicines which include medical accessories, toiletries, daily use supplies, food and nutritional products. In fact, a few pharmacies cater to patient’s needs like dressing and injections. This contributes to a monthly turnover of rupees 5 to 10 lakhs for the pharmaceutical shop on the average.

The unorganized sector has dominated the retail sector due to the emotional and trustworthy relationship that exists between the retailer and his customer. But this cannot overlook the organized sector with the entry of big names in the business which is threatening to uproot the existence of the unorganized sector. An in depth study has revealed a number of flaws in the existing system, ranging from unqualified personal running the pharmacy to poor in store infrastructure and drawbacks with training. Many of the shopkeepers have not undergone any medical training before opening their shops and neither are they aware of any medical training institutes. Often a pharmacist serves the legal requirements of a number of pharmacies which is clearly against the legal requirements. Storage of pharmaceuticals and other medical products leaves a lot to be desired besides a number of other mandatory aspects. In chapter 10 which follows, the field surveys as can be seen is revealing.

These revelations indicate the threat to the unorganized sector from the organized sector. It is a fact that currently the unorganized sector has a stranglehold over the healthcare retail segment. The domestic organized players with the various
advantages they have over the unorganized sector in the form of value addition and skilled personnel are slowly but surely taking a foothold in the healthcare retail sector. The players in the unorganized sector are not ignorant of this risk from the organized sector. With the likelihood of introduction of FDI in the retail sector in the near future, there is a potential threat posed to the retailers in the unorganized sector. Even though the government has so far not permitted introduction of FDI in retail except for partial permission for single brand retail with a view to protect the rights of the domestic unorganized players, the entry of foreign direct investors is a sure possibility in the near future years particularly with the end consumer benefiting in terms of value addition, better price and better services besides the government benefiting through tax revenues. This then evokes the thought: what if FDI is permitted in this sector?

As a sector, Indian healthcare, (other than retail) attracted US $ 1,488 billion from 2004 to 2007. Further the projected need for this sector for the next 20 years is estimated as US $ 50 billion annually. Though not in retail there has been considerable infusion of private equity in the healthcare segment, a positive sign of confidence and growth. In the year 2006 alone this sector attracted US $ 379 million that formed 6.3% of the total private equity of US $ 5.93 billion. Here it must be noted that pharmacy retail which is part of the healthcare is primarily consumer-oriented sector consisting of at least 6.5 lakh registered chemists and has the potential to attract substantial investment. Another aspect to think about is the issue of the final delivery system. With substantial FDI coming in this sector (other than healthcare retail) one is likely to end up with a total healthcare system which is extremely well developed on
one end and primitive at the other. In the healthcare model of the developed world you see a total system which is seamless which in turn lends itself to providing maximum efficiency and resultant productivity beginning with the manufacturing at one end and ending with the delivery of services and drugs to the end user (patient). Further this level of evolution of the system lends itself to active government involvement in the healthcare of its citizens and further facilitates it. Under the present method in which we are operating in India where we do not get even the very basic document like the bill for purchase, practically nothing is recorded. Again, a huge need gap and opportunity. In short we have good manufacturing systems and capabilities but an unsound end delivery system as far as healthcare retail is concerned

For the moment let us assume that this quantum of FDI is received it would then have to be deployed in the most appropriate manner to meet the interests of the stake holders. Looking at the draw backs of the present Indian pharmacy scenario broadly speaking some factors that draw our immediate attention:

The store infrastructure- layout, facilities, equipment, storage

The inventory

The manpower- particularly the pharmacist and training associated

The infrastructure and institution associated with training and regulatory aspects
Investors will place their money where there is good scope to get returns and this in turn can happen only if the gap between what it is and what it should be is obvious. This is what the Indian healthcare retail market offers.

Each of the factors requires funds and attention. Any health store brand interested in entering India would have systems, procedures and plans in place and would require maintaining standards essentially to protect the international image it would carry. It is highly unlikely that any dilution would be entertained. These are cost elements like inventory. On the one hand we have the high cost of infrastructure and real estate (sunk cost) which going by the thumb rule is between 60 to 70% of the total cost of the project. Such investment and systems would necessitate performance against benchmarks leading to the requirement of educated and trained manpower. This once again implies cost. Hence the fund requirement is implied.