

# Medical Devices

*A small scale medical device manufacturing company put through a strategical transformation of getting DSIR In-house R&D centre recognition for its non-structured R&D, that led to stunning saving in tax*

## Executive Summary

### Project timeline and facts

- Project started in June 2015
- DSIR application submitted in July 2015
- Recognition received from 30.10.2015 till 31.03.2018
- Approval u/s received from 30.10.2015 to 31.03.2017

### Company's background:

- Medical Device manufacturer (IV cannula, Safty AV Needle, Safty IV cannula)
- Manufacturer of rubber and plastic components for automotive industries.
- Rs. 65.00 Cr Annual turnover
- Manpower: 340
- Annual R&D expend: Rs.2.5 Cr

### Company's Challenge:

To transform its Research activities and position itself to get benefit by:

- Addressing challenges to understand eligible Research and Development(R&D) activities
- Improving and structuring the R&D operations
- Achieving the benefits which can be availed for pursuing R&D

### SCPL's Solutions:

To identify the eligible R&D activities and help the company get benefits from it.

- Performing free evaluation visits to understand R&D actives along with the study of available R&D incentives
- Executing the project with experts by extracting the R&D from manufacturing unit without any additional investments
- Helping to get the R&D incentives by getting DSIR In house R&D centre recognition and Approval

### Impact on Client's Business:

- Increase in company's turnover
- Gets eligible for various R&D fund available
- Gets various clients which prefer "in house R&D centre recognition"

- Companies are able to get “INDIA PHARMA MEDICAL DEVICES COMPANY OF THE YEAR- 2016 Award

### **Approximate return of Investment and Savings:**

- Saves approximately\* Rs. 49.83 lacs of tax while expending Rs.144.50 Lacs (Capital and recurring) on conducting R&D
- Companies are able to restructure their R&D centre without any additional investment involved
- Companies become eligible to avail Custom and excise duty benefits

### **COMPANY’S CHALLENGE:**

Every company strives to have the in-house R&D activities for continuous development and growth in today’s competitive world. But when we talk about Research, it can be basic sciences research or the applied sciences research. Since the ‘applied research’ generates revenue for a company, it is relevant and beneficial for a company.

#### **The companies are often under the dilemma:**

Whether they are conducting any R&D? Does new product development (NPD) fall under the category of doing research? Does the activity of developing Special purpose machines (SPMs), new processes fall under R&D?

For a company, these activities are regular operational work where they design, make proto-samples of IV cannula, conduct the testing on their product samples. Company does these activities without proper structure, documentation and in dedicated manner causing struggle to the company in identifying the right eligible R&D activities.

Company leaders know they should be strategic and can avail the 200% weighted tax deduction under section 35(2AB) of income tax act (on conducting “Scientific research” as the act says), but need some guidance which can give the answers to these questions resulting in the potential savings.

### **SCPL's SOLUTIONS:**

We started from conducting the free of cost evaluation visit to validate the R&D activities, checking the eligibility of the company for relevant tax benefits and gave them a report. This report contains approximate investment to be done, observations and recommendations along with proposal for getting “In-house R&D centre recognition” by Department of Scientific and Industrial research (DSIR) for company’s non-structured R&D centre.

While executing the project (Started on 20th June 2015), our experts not only focussed on preparing and submitting the application to DSIR, but also educated company’s R&D team on eligible R&D activities, and extracted the R&D centre from their manufacturing facility. We identified the area of Design, prototyping at production floor and dedicated lab for conducting validation cum testing of proto samples at the first floor with a separate entry.

Our approach, which ultimately involves inputs from various technical and financial advisors, is not only gives a company the answers which they seek but also help to identify, prioritize, and solve the technical and financial R&D problems. We have been able to identified company’s R&D manpower, Layout of R&D, eligible R&D equipments for conducting R&D, company’s short and long term goals. We even helped company to identify the future R&D projects along with R&D budget.

Most importantly, as not all companies maintain their R&D expenses dedicatedly and show in Annual report, therefore it’s very difficult to identify the R&D expenses of last three years.

With help of our lead consultant and experienced team, we are able to identify company's last three year's R&D expenses which involves Capital (equipment, fixed assets) and recurring expenses (Manpower salary, Raw material, utility etc).

We also provide clarity to company on how to manage and segregate tools and fixtures which they developed in R&D and used for production. This task is very difficult for a company, specifically in IV cannula and medical device sector.

As the DSIR process involves application submission (Completed on 25th July 2015) followed by discussion cum meeting of company's R&D team with DSIR scientists. Our experts prepare the walk-in R&D centre video along with R&D presentation which they need to present during the meeting.

Before the DSIR meeting, we conduct a "Mock session" for company's R&D team which creates the environment of actual DSIR meeting and clarifies all the doubts and questions which may asked by DSIR penal.

After submitting post meeting documents to DSIR, company successfully receives the "in house R&D centre for getting the 200% weighted tax deduction, we initiate the project and submit the relevant document to DSIR. We also conduct a session for the company on "preparation of dedicated cost centre" for maintaining R&D expenses and accounts.

Once company receives the approval letter (FORM 3CM) we file the FORM 3CL for F.Y 2015-16 reporting Rs. 144.50 R&D expenses during the eligible period (from 30.10.2015 to 31.03.2016).

With a solid project execution plans in place and a thoroughly developed strategy, we help the company to identify places to improve R&D activities, reinvest in R&D and technology, and redeploy R&D staff as needed. We stayed on the job from R&D strategy management through solid on-time project execution, also making sure the company could see value addition in results from the project and also get its R&D restructured with minimal investment

## **IMPACT ON CLIENT'S BUSINESS:**

Today company is saving approximately Rs. 17 on every Rs. 100 expense on R&D annually. When company's R&D grows, its business and cliental also receives positive impact.

Followed by company's DSIR recognition for its R&D centre, company also received a "INDIA PHARMA MEDICAL DEVICES COMPANY OF THE YEAR AWARD" later next year by "**Ministry of Chemicals and Fertilizers**"

Company is now generating more IP than before, hence proceeding towards becoming a Research leader in IV cannula sector in India which ultimately gives growth in revenue for the company by having more clients.

Company also get eligible for funding options available for them for conducting R&D along with eligibility to get Custom and excise duty benefits.

## **Approximate return of investment:**

Later-on, that year (2015-16) company was able to save approximately \*Rs. 49.83 lacs of tax while expending Rs. 144.50 Lacs which includes capital and recurring expenditure of R&D.

Company invested not more than Rs. 11 Lacs including our commercial to execute the project and able to save Rs. 49.83 lacs in the year.

This tax saving, company will be going to avail for next year also till company have approval and DSIR recognition.

Additionally, Company was able to restructure its R&D centre without any additional investment involved where they were having the feeling that to avail these incentives company should be having dedicated building to conduct R&D.

With this company gets eligible to get Custom and excise duty benefits on purchase of R&D equipment.

Of course, there are always more improvements to be made in R&D, so [SCPL](#)'s team is still working with the company on yearly basis to review and audit the R&D expenses

In addition to that [SCPL](#) initiated IP project also with the company by which they are receiving all kind of advisory services on research "under one umbrella".

*For more information, please visit [www.dsir.in](http://www.dsir.in) , [www.scinnovation.in](http://www.scinnovation.in) or contact.*

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*Rs. 49.83 lacs, is just a start and saving of 6 months, company will get full year benefits in next F.Y. 2016-17 till company have approval and DSIR recognition*