



A Case Study (Automotive industry)

A road map to the future for the Multinational automotive company, put through a strategic transformation of its “Non-structured R&D facility” for getting DSIR In-house R&D centre recognition

Executive Summary

Introduction

Project timeline and facts

Project started May 2016

DSIR application submitted June 2016

Recognition received from 23.09.2016 till 31.03.2019

Approval u/s 35(2AB) received from 23.09.2016

Company's background:

A multinational automotive company with parent company in Spain

Manufacturer of rubber and plastic components for automotive industries.

Rs. 71.50 Cr Annual turnover

Manpower: 146

Annual R&D expend: Rs. 1.99 Cr

Company's Challenge:

Multinational companies don't have full clarity on eligibility for DSIR recognition and approval process provided by Govt of India

Company's unstructured R&D centres and activities in India

R&D and production facilities were in same premises and mixed in activities

Not having clarification on R&D activities to be shown for Indian company as major R&D being conducted by parent company in Spain

Proposed Solutions:

Free evaluation visit for explaining eligibility to company's stakeholders

Extraction of R&D centre and activities from production area without any investment

Helping to get R&D activities structured.

Impact on organization:

Company received In-house R&D centre recognition from DSIR (Government of India)

Gets eligible for various R&D fund available

Gets eligible to avail tax benefits u/s 35(2AB) of income tax act

Advantages:

Company able to restructure its R&D centre without any additional investment and cost involved

Company get eligible to get Custom and excise duty benefits

INTRODUCTION:

The Spanish based parent company is a part of the MONDRAGON Corporation and specialises in the development and production of rubber and plastic components for a variety of different applications. The parent company operates in Spain and it is also operates in the Czech Republic, Slovakia, Romania, USA, Mexico, China including India.

In India the group came into picture in the year 2011 by registering as a subsidiary and a manufacturer of rubber and plastic components for automotive industries focusing Indian costumer needs.

SCPL were introduced to the Indian subsidiary via our Spanish partner Zabala Innovation Consulting firm which acts as the chief consultant to the parent company.

COMPANY'S CHALLENGE:

As per DSIR guidelines in India, the In-house R&D units should be engaged in innovative research & development activities related to the line of business of the company, such as development of new technologies which may already be present in the market but new to the company, design improvements of existing process/product/ for existing product of the company, developing new various methods of analysis and testing for products, but it's not easy to identify the actual R&D activities in a dedicated manner.

During an evaluation visit by our SCPL' team, we came to know that the company was into design, production of proto-samples of rubber hoses and testing of their product samples without any suitable structure, documentation which resulted in a challenging condition where we were unable to identify the precise eligible R&D activities.

All the multinational companies face such concern in India, such having no clarity on the eligibility of such schemes by Indian government for their Indian subsidiary. Organizations were not sure about "What are the factual eligible R&D for us to present before the department? Are we eligible as an MNC for DSIR recognition scheme? Is a new product development (NPD) come under category of doing research? Will our activity of developing Special Purpose Machines (SPMs), new processes fall under R&D?"

Most of the companies do not possess a dedicated area for conducting new product development activities nor did they have a dedicated system for manpower for R&D. During the initialization of the project, drawing & designing centre were combined with the Finance Department, proto typing was mixed with production, raw material used for protos were also mixed with production's raw material. In short, company's R&D activities were combined with production and other departments.

Industry leaders were aware of the 150% weighted tax deduction under section 35(2AB) of income tax act (on conducting "Scientific research" as the act says), but did not have the proper guidance to pursue the same.

PROPOSED SOLUTIONS:

SCPL started the project by undertaking an evaluation visit with help of Zabala consulting who acted as our point of contact in the project, to validate the R&D activities, examining the eligibility of the business for relevant tax benefits.

During the course of the project (Started on May 2016), our lead Consultant Experts not only focused on preparation and submission of the application to DSIR, but also educated the company's R&D and accounts team on eligible R&D activities and in due course, extracted the R&D centre from their existing manufacturing facility.

We specialise in various technical and financial advisories and also help to identify, prioritize, and solve the technical and financial R&D problems. We initially identified a two storied building located within the factory premises and we replaced the accounts department with a drawing and design centre on the first floor and built a product testing room on the ground floor. We amalgamated the oven room and impulse room as an R&D centre. For the purpose of prototyping, we identified a small extrusion line for R&D prototyping. With the help of this, we identified the complete layout for R&D in a structured way with proper documentation process available and we identified the manpower and equipment which were going to be used in R&D. With the help of our lead consultant and experienced team, we were able to identify the company's last three-years of R&D expenses which included Capital (equipment, fixed assets) and recurring expenses (Manpower salary, Raw material, utility etc.).

As the DSIR process involves application submission (Completed on 28th June 2016 online and hardcopy submitted on 13th July 2016) followed by discussion cum meeting of the company's R&D team with DSIR scientists, our experts prepared the walk-in R&D centre video along with the R&D presentation for the DSIR meeting.

Before the DSIR scheduled meeting, we conducted a "Mock session" with the company's R&D team and simplified all the doubts and questions which may be put forth by DSIR team. After the meeting we successfully submitted all the queries and documents to DSIR.

During a mock session, we cover important aspects of the process to give DSIR proper clarity about Indian subsidiary not getting any technological help of the group company while conducting R&D activities and the Indian subsidiary is designing and developing its own products focusing and catering to Indian market as per India costumer requirements.

After submitting post meeting documents to DSIR, the company successfully received the "in house R&D centre Recognition"

After the In-house R&D centre Recognition, the company is eligible for getting indirect tax benefits. For availing the 150% weighted tax deduction, we initiated the project for the approval and submitted the relevant document to DSIR. We also educated the company's accounts team for "preparation of dedicated cost centre" and maintaining R&D expenses.

With a solid project execution plan in place and a thoroughly developed strategy, we helped the company to identify the layout for R&D, places to improve R&D activities, reinvest in R&D and technology, and redeploy R&D staff as and when 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 get its R&D restructured with minimal investment.

IMPACT ON ORGANIZATION:

The company not only received the In-house R&D centre recognition from DSIR but also got its R&D centre properly structured. The company also becomes eligible for funding options available for them for conducting R&D along with Custom and excise duty benefits.

For more information, please visit www.dsir.in , www.scinnovation.in or contact.

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