

# 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

### Project timeline and facts

- Project started May 2016
- DSIR application submitted on 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.
- 71.50 Cr Annual turnover
- Manpower: 146
- Annual R&D spend: 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 the same Lack of clarity 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 can restructure its R&D centre without any additional investment and cost involved*
- *Company becomes 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. Cikautxo The parent company operates in Spain and it also operates in the Czech Republic, Slovakia, Romania, USA, Mexico, China and India

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

[SCPL](#) was introduced to the Indian subsidiary by its Spanish partner Zabala Innovation Consulting firm which is a 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 are new to the company, design improvements of existing process/product/ for existing product of the company, developing various new methods of analysis and testing for products, but it's not easy to identify the actual R&D activities in a dedicated manner. As most of the companies don't separate the R&D centres as they treat activities like New Product development and product improvement as part of routine work.

During an evaluation visit SCPL' team found out that these activities were routine work for the company, where in the design, produce proto-samples of rubber hoses, conduct the testing on their product samples. The Company conducts these activities without proper structure, documentation and in a dedicated manner causing difficulty to find the right R&D activities for which it is eligible.

The multinational companies also face a different type of issue in India as they don't have clarity on the eligibility of such schemes by Indian government for their Indian subsidiary. The Company was in dilemma because of this lack of awareness of the scheme. The company was not sure about "What is the right eligible R&D for us to demonstrate to the department?, Are we eligible as an MNC for DSIR recognition scheme? Does a new product development (NPD) fall under category of doing research?"

In addition to this , the company did not allocate dedicated area for conducting New product development activities. At the time of initialization of this project drawing & designing centre co-existed with accounting department, proto typing was mixed with production, raw material used for protos were also mixed up with production's raw material, there were no dedicated manpower for R&D. In short, the company's R&D activities were completely mixed up with production or other departments.

Company leaders knew they should be strategic and can avail the 150% weighted tax deduction under section 35(2AB) of income tax act (on conducting "Scientific research" as the act says), but were looking for some guidance which can give the answers of these questions resulting in potential savings.

## **PROPOSED SOLUTIONS:**

We started the project by conducting the free of cost evaluation visit with help of Zabala consulting as our point of contact in the project, to validate the R&D activities, checking the eligibility of the company for relevant tax benefits.

While executing the project (Started on May 2016), our experts not only focused on preparing and submitting the application to DSIR, but also educated company's R&D and accounts team on eligible R&D activities, and extracted the R&D centre from their existing manufacturing facility.

Our approach, which ultimately involves various technical and financial advisors, is not only giving company the answers which they seek but also help to identify, prioritize, and solve the technical and financial R&D problems. We identified a two floor building inside the factory premises and we replaced account department with drawing and design centre at first floor, and at the ground floor company housed the product testing room, oven room and impulse room which we included in R&D centre. For prototyping we identified an oldest and 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. With the help of layout, we identified the manpower and equipment which will be used in R&D.

Most importantly, as not all companies maintain their R&D expenses independently and disclose the same 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 were able to identify company's last three-year R&D expenses which involves 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 13<sup>th</sup> July 2016) followed by discussion cum meeting of company's R&D team with DSIR scientists, our experts prepared the walk-in R&D centre video along with R&D presentation which was to be presented by them during the meeting.

Before the DSIR meeting, we conducted a "Mock session" for company's R&D team which simulated the environment of actual DSIR meeting and clarified all the doubts and questions which may be asked by DSIR panel. DSIR asked some queries related to technology and asked for some undertaking/documents from company. After meeting we successfully submitted all the queries and documents to DSIR.

In our mock session we covered the most important part of the process, that is, to give DSIR a clarity that the Indian subsidiary is not getting any technological help of group company while conducting R&D activities. Also, it was clarified that the Indian subsidiary designs and develops its own products besides focusing and catering to Indian market as per India customer requirements.

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

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

With a solid project execution plans 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 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 structured R&D centre. Company has become benchmark for DSIR in case of similar circumstances. Company also became eligible for funding options available for them to conduct R&D along with ability to get custom and excise duty benefits.

## **ADVANTAGES:**

The multinational company changed its view towards Indian government and this scheme. Additionally, the company could able 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 facility to conduct R&D additionally now company can invest in this R&D centre and avail the tax benefits too.

The company will be availing tax benefits for this year and will continue to do so till the company secures approval and DSIR recognition.

With this, the company becomes eligible to get custom and excise duty benefits on purchase of R&D equipment.

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

*Rajesh Ravindranathan  
(Client Acquisition Specialist)  
[letstalk@scinnovation.in](mailto:letstalk@scinnovation.in)*