

# Impact of Research & Development Expenses on Financial Position of Dabur India Ltd.

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## Abstract

In 1990, India and China had almost the same GDP per capita. Since then, driven by its manufacturing sector, China's economy has grown much faster than has India's and its GDP per capita on a PPP(Purchasing Power Parity) basis is 90% higher than India's GDP per capita. To achieve faster rates of economic growth India urgently needs to strengthen its own manufacturing sector.

The most common problems in manufacturing industries these days are: Lack of investment in Research and Developing section, Global competitiveness with low price manufacturer like china, Lack of potential buyer for high price products, Lack of adaptability in industries, Lack of experience of Indian industry in manufacturing, Lack of initiation from the Government.

**Keywords:** Research And Development Expenses, Profitability, Financial Position, Financial Performance.

### Introduction

Indian Food industry is one of the fastest growing food industries and has made its noteworthy place in the globe market. The Indian food industry is currently growing remarkably. The growth of Indian middle class with increasing purchasing power and availability of trained manpower at reasonable cost is another reason for the eminent growth and has pushed it to new capacities. The increasing competition in food companies has opened up many choices for domestic consumers at competitive costs. The Indian Food industry is growing in all respects and it is also serving as an important source of employment. Innovation and new product launches are a major factor driving growth in sales of food items. The food sector is anticipated to onlooker strong growth and to pick up its share in global markets as well.

The innovation plays a crucial role in the competition. The relationship between competition and innovation can be positive or negative, depending on specific competition perception and specific innovation activity. Firms' perceptions about their competitive environment are important for innovation and are better measures of firm-specific competition.

The objectives of the paper are to examine the impact of R&D in the food industry that is whether R&D is used as cost reducing or performance promoting expenditure. This paper also focuses on the impact of R&D on the financial performance of the Indian food industry. To examine the impact of research and development expenses on financial performance of the Indian food industry, Britannia Industries Ltd. is selected as one of the top ten companies of Indian food industry. This paper indicates that R&D plays a crucial role both for reducing cost and improving financial performance. For this purpose, Dabur India Ltd., one of the top ten companies as per market capitalization, is selected to study. The study is undertaken for financial analysis of selected food sector company- Dabur India Ltd. for 7 years.

### Review of Literature

#### Case study: Dabur India Ltd.

Dabur India Ltd is one of the largest companies of foods and beverages sector. The following figure shows the financial performance of a company over a period. These financial data include research and development expenditure, sales and profitability over a given period. The data represented in a table and graphic form to understand the effect of research and development expenditures on sales and profit of a company. The financial data collected for a period from 2013-14 to 2019-20.

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**Impact of Research & Development Expenses on Profitability**

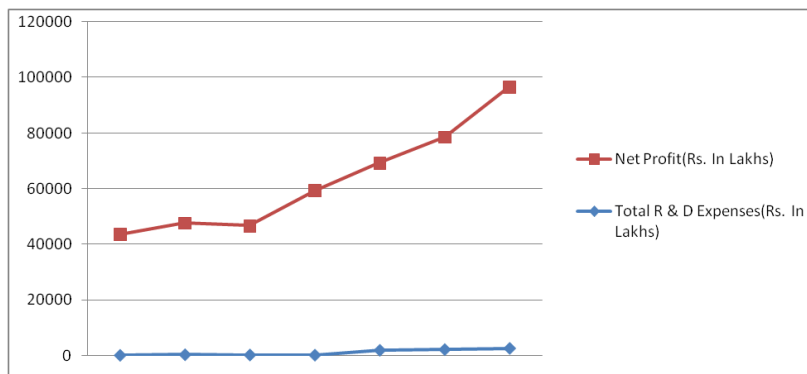
Dabur India Ltd.							(Rs. In lakhs)
Expenditure on R&D	31-03-2020	31-03-2019	31-03-2018	31-03-2017	31-03-2016	31-03-2015	31-3-2014
a) Capital	0	0	191	197	225	333	551.41
b) Recurring	2658	2231	1965	219	280	368	153.91
c) Total	2658	2231	2156	416	505	701	705.32
d) Total R&D expenditure as a percentage of Total Turnover	0.46 %	0.41%	0.44 %	0.10 %	0.13 %	0.21 %	0.24%
Research & Development Expenditure	1105	890	772	219	271	0	103.91
Contribution to scientific research	1553	1341	1193	0	9	368	50
<b>Total R &amp; D Expenses</b>	<b>2658</b>	<b>2231</b>	<b>1965</b>	<b>219</b>	<b>280</b>	<b>368</b>	<b>153.91</b>
Net sales	573970	541902	485,680	4,33,418	3,74,277	3,26,437	2,85,687
<b>Net Profit After Taxation</b>	<b>93951</b>	<b>76258</b>	<b>67,210</b>	<b>59,098</b>	<b>46,324</b>	<b>47,141</b>	<b>43,333</b>

(Source: Annual report from 2013-14 to 2019-20)

The above table represents the investment in capital expenditure of research and development as well as revenue nature expenditures on research and development. It also indicates the total R&D expenditure as a percentage of total turnovers for the last 7 years from 2013-14 to 2019-20. It also measures the level of sales, net profit and research and development expenditure from 2013-14 to 2019-20. It shows the total R&D expenditure as a percentage of total turnovers year by year

Year	Total R & D Expenses(Rs. In Lakhs)	Net Profit(Rs. In Lakhs)
2013-14	153.91	43,333
2014-15	368	47,141
2015-16	280	46,324

2016-17	219	59,098
2017-18	1965	67,210
2018-19	2231	76,258
2019-20	2658	93,951



From the above we can say that when research and development expenses increase from Rs.153.91 lakhs in 2013-14 to Rs.368 lakhs in 2014-15, it also leads to increase in profitability from Rs.43,333 lakhs in 2013-14 to Rs.47,141 lakhs in 2014-15. And when research and development expenses reduced from Rs. 368 lakhs in 2014-15 to Rs.280 lakhs in 2015-16, it also leads to decrease in profitability from Rs.47,141 lakhs in 2014-15 to Rs.46,324 lakhs in 2015-16. Thus investment in research and development expenses is one of the factors which affect the profitability. Research and development expenses affect on the profitability directly from 2013-14 to 2019-20 except in the year 2015-16. This graph represents the level of investment in revenue expenditure of research & development and its effect on profitability

**Benefits of Research and Development**

The R&D efforts have lead to the development and launch of new and improved products. Innovation has long been recognized as an important driver of economic growth. As a result, economies that have consistently high levels of innovation also tend to have high levels of growth.

1. R&D can help a company follow or stay ahead of market trends and keep the company relevant.
2. R&D can help you develop unique products and services.
3. R&D can drive product improvement or innovation within the existing business offering.
4. Unique products and services resulting from successful R&D projects can bring financial benefits to the business.
5. It can be claimed as tax relief to reduce company's tax liability. Qualifying R&D expenditure will be considered for tax relief purposes.
6. Engaging in R&D can help you strengthen your brand and reputation.

The following are the benefits derived as a result of the R & D in Dabur India Ltd.

**Ayurvedic**

The R&D efforts have lead to the development and launch of new and improved products such as Chyawanprakash, Honitus Lozenges (Honi orange flavor), Dabur Balm Strong, Dabur Balm Double action, Pudin Hara G - Lemon Fizz, new variant of Hajmola Tablets in Kaccha Aam Flavor. Besides the aforementioned products, the portfolio of Ayurvedic Classical products have been enriched with Vr. Vatgajankush Rasa (Gold), Krishna Chaturmukh Rasa,

Saptavinshati Guggulu, Pushpadhanwa Ras in a tablet form for neurological disorders, Piles & fistula and reproductive health respectively.

Following existing products have undergone improvement for enhanced efficacy / quality.

1. Hingoli - Improved formulation for better efficacy
2. Sat Isabgol - As part of continuous efforts to improve quality, the purity of Dabur Sat Isabgol has been enhanced to 99%.

As a result of well-conceived bio-resources development programme, significant acreage of land has been brought under cultivation of endangered medicinal plants. In addition to this the group is also working closely with forest departments of different states for in-situ resource augmentation. The cumulative deliveries from these projects have exceeded 250 tons & thereby saving more than 1000 tons of Biomass. The group is also working upon a variety of agronomic innovations & thereby shall enhance returns to the stakeholders.

#### **Personal Care**

The R&D efforts have lead to the development and launch of following products:

#### **Oral Care**

Babool Mint Fresh Gel launched in India.

#### **Skin Care**

UVEDA Range of following products launched in India.

1. Complete Fairness Cream
2. 2 In 1 Moisturiser
3. Moisturising Face Wash
4. Clarifying Face Wash

#### **Hair Care**

1. Vatika sun protect black shampoo- launched in India.
2. Vatika Antidandruff Hair Oil launched in GCC
3. Vatika Prostyle Hair Oil launched in Nepal
4. Amla Cooling Hair Oil launched in GCC
5. Warming & Cooling Massage Oil launched in US
6. Sesame Oil launched in US
7. Amla Snake Oils-3 variants launched in GCC
8. Amla Hair Food-3 variants launched in South Africa
9. Vatika rinse off conditioners launched in GCC

R&D at plant level has resulted in Cationic guar sale of 32 MT of paper grade and 16 MT of paint grade. Sale of D-Oiled Hydroxy propyl tamarind was of 15 MT.

#### **Government Initiatives**

The Government of India has taken several initiatives to promote a healthy environment for the growth of manufacturing sector in the country. Some of the notable initiatives and developments are:

1. The Government of India has introduced several policy measures in the Union Budget 2017-18 to provide impetus to the manufacturing sector. Some of which include reduction of income tax rate to 25 per cent for MSME companies having turnover up to Rs 50 crore (US\$ 7.5 million), MAT credit carry forward extended to 15 years from 10 years and abolishment of Foreign Investment Promotion Board (FIPB) by 2017-18.
2. The Government of India has launched a phased manufacturing programme (PMP) aimed at adding more smartphone components under the Make in India initiative thereby giving a push to the domestic manufacturing of mobile handsets.
3. The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment.
4. The Ministry of Heavy Industries and Public Enterprises, Government of India, has approved the setting up of four Centres of Excellence (CoE) in areas of textile machinery, machine tools, welding technology and smart pumps, which will help raise the technology depth of the Indian Capital Goods Industry
5. The Ministry of Defence, Government of India, approved the "Strategic Partnership" model which will enable private companies to tie up with

foreign players for manufacturing submarines, fighter jets, helicopters and armoured vehicles.

6. The Union Cabinet has approved the Modified Special Incentive Package Scheme (M-SIPS) in which, proposals will be accepted till December 2018 or up to an incentive commitment limit of Rs 10,000 crore (US\$ 1.5 billion). (Exchange Rate Used: INR 1 = US\$ 0.015 as on October 30, 2017).

### Conclusion

Empirical research and surveys of business activities show that innovation leads to new and improved products and services, higher productivity, and lower prices. The effects of R&D expenses on operating income and profitability ratios will vary across companies. In firms where R&D expenses have been increasing rapidly over time, it can push up operating income significantly and can make return on capital a much higher number. When research and development expenditure increases, sales and profit of Dabur India Ltd. also increase year by year.

With impetus on developing industrial corridors and smart cities, the government aims to ensure holistic development of the nation. The corridors would further assist in integrating, monitoring and developing a conducive environment for the industrial development and will promote advance practices in manufacturing.

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