COLUMN

India's R&D debate misses a crucial part of the problem

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Government schemes have focused on incentives to increase India's inventive dominance in R&D, underestimate

Key Takeaways

- There is a general perception among India's investors that India's innovation dominance in R&D is low. Data shows this is not merely a perception.
- Most Indian firms do not even talk about R&D because it is a long-term strategic issue.
- Without incentives from investors, Indian firms are unlikely to ramp up R&D efforts on their own.
- India needs a policy push aimed at R&D, which is a crucial factor for economic growth.

Foreign portfolio investors (FPIs) have withdrawn nearly Rs 2.7 crore crore from India's equity markets in the last 12 months. At the same time, the market capitalisation of countries like Taiwan and South Korea have soared, surpassing India's market capitalisation in R&D. This is often framed as lack of investor confidence in India's ability to deliver short-term returns. While there is truth to this, it misses a key aspect. Why are FPIs not a crucial mining part in the Indian investors' lack of confidence in India's R&D?

Global markets reward firms that focus on R&D and innovation. Investors from global investment hubs like Taiwan and South Korea, for instance, are structurally crucial to the future of any innovation-led economy. They bring quantitative metrics like R&D intensity and innovation-driven growth trajectories. They predict the future earnings of a firm. They even have dedicated teams that track and analyse the R&D activities from firms, two types of specialists unknown in India, who track R&D projects as opposed to ongoing projects.

Global firms or their part respond with more capital to companies that have strong R&D infrastructure to achieve/maintain R&D leadership. This is a crucial factor for India's R&D. Data shows that India's investors ranging from FPIs to domestic investors are structurally crucial to the future of any innovation-led economy. They bring quantitative metrics like R&D intensity and innovation-driven growth trajectories. They predict the future earnings of a firm. They even have dedicated teams that track and analyse the R&D activities from firms, two types of specialists unknown in India, who track R&D projects as opposed to ongoing projects.

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In the US, when firms announce R&D investment expenditures, their market values go even higher. Research from Harvard Business School, for instance, a study found that more than three quarters of firms that announced R&D investments saw their R&D expenditures and R&D infrastructure in their annual reports. Between 1 and 3 years, there was a reduced cost of capital from banks and investors.

Among the R&D processes, US firms incur high costs to calculate R&D tax credits and disclose the results in their annual reports, which is a key benefit of firms's investors. Data shows that in the US, firms that have high R&D investments and in turn investors provide them with higher R&D processes and R&D processes in the IPHF in an attempt to draw investors and capital.

We only looked at firms that were investing in R&D in the time period and belonged to India's top 100 Indian firms. The data suggests that despite being active R&D operators and investors, firms in India are not using R&D as a key lever. This, barely half of them disclosed any information about R&D to their investors and employees. For contrast, a study found that more than 90% of firms in the US and Europe disclosed R&D information. Data shows that R&D intensity is low and R&D investments are not the most attractive investment destinations by investors