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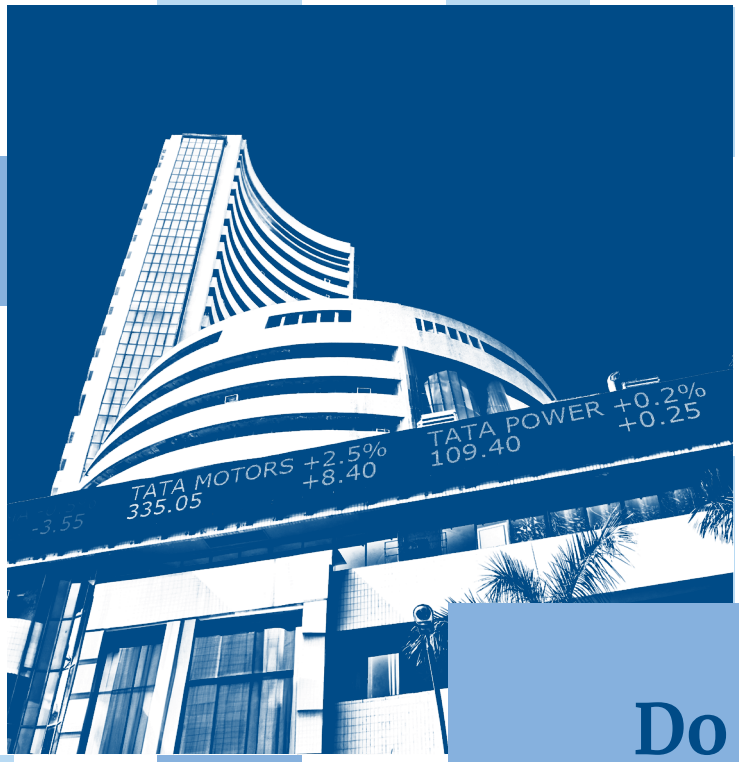

Do Indian Investors Value R&D?

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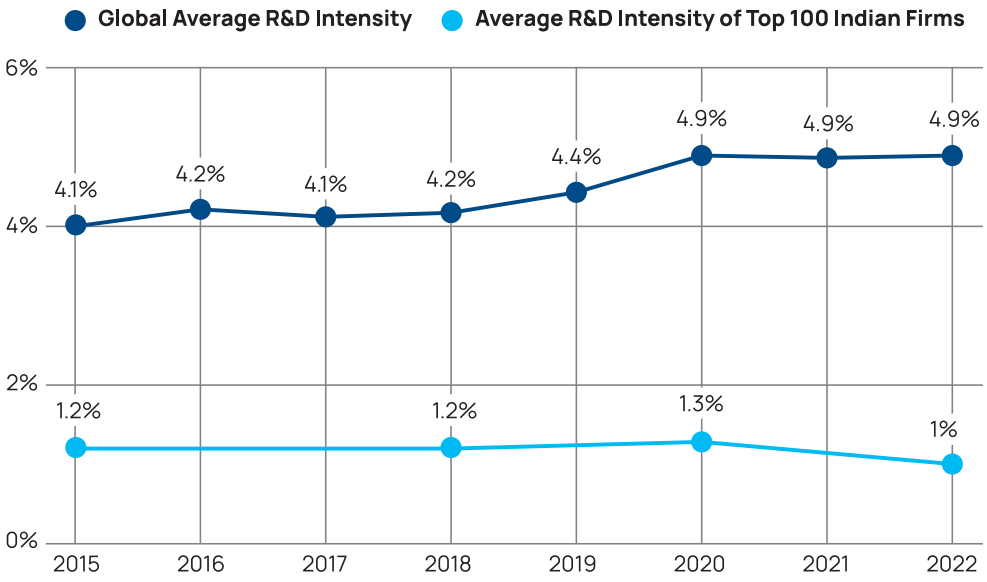
Firms around the world are ramping up their investments in R&D. Between 2015 and 2022, the average R&D intensity of the top 2,000 global R&D spenders grew from 4.1 per cent to 4.9 per cent. In contrast, the average R&D intensity of top 100 Indian R&D spenders in the same time period declined from 1.2 per cent to 1 per cent. What explains this divergence? What differs in the market pressures they face?

According to India's industry leaders, one of the reasons for their underinvestment in R&D is Indian investors. A common refrain is that Indian investors do not value R&D investments. In this brief, we aim to explore this perception and provide empirical evidence. We start by examining industrial R&D in India and its divergence from global industrial R&D. This is followed by a review of the global investor landscape and the academic literature around R&D and investor sentiment. We then highlight the IPO setting as a unique opportunity to study investor behaviour in India and our analysis of the Indian investor landscape. We conclude by looking at the questions that emerge from the data. Our findings suggest that Indian investors place limited value on the R&D activities of firms.

India's Industrial R&D is an Outlier

Unlike other countries, industry does not dominate India's R&D expenditure. Between 2015-16 and 2022-23, Indian industry's share in the national R&D spend declined from 44 per cent to 36 per cent (Centre for Technology, Innovation and Economic Research, 2025). This period also saw a decline in the R&D intensity of Indian industry with the average R&D intensity of the top 100 Indian R&D spenders (accounting for 80 per cent of industrial R&D expenditure)declined from 1.2 per cent to 1 per cent.

Figure 1: Comparison of Average R&D Intensity of Top 2000 Global Firms and with Top 100 Indian Firms, 2015 – 2022



Source: EU Industrial R&D Investment Scoreboard (various years), CTIER Handbook: Technology and Innovation in India (various years)

Global firms on the other hand have increased their focus on R&D. Between 2015 and 2022, the average R&D intensity of the top 2,000 global firms has increased from 4.1 per cent to 4.9 per cent. One of the reasons for this focus on R&D and innovation in global firms is investor behaviour.

Global Investors Spur Firms to Innovate

Evidence suggests that globally, investors value the R&D activities of firms. For example, (Mazzi et al., 2022) quotes analysts from global investment houses saying "R&D is absolutely crucial to the future of any commercial organisation" and that they "take R&D spend as a per cent of revenue or as the per cent of profit and literally just build that into their forecasts". Apart from quantitative metrics around R&D, voluntary non-financial disclosures in annual reports help investors better predict the future earnings of firms (Mazzi et al., 2025). While analysts find R&D disclosures useful they also acknowledge that the current level of disclosure is not enough. They demand more granular information

on the R&D activities undertaken by firms including types of projects undertaken, segments for R&D spending, and spending on new projects as opposed to ongoing projects, among others (Mazzi et al., 2022).

Global firms, on their part, use multiple channels like annual reports and press releases to disclose information around R&D to investors. A study of Korean manufacturing firms shows that a majority of firms voluntarily disclose information around R&D infrastructure, R&D expenditure, research units, achievements from R&D activities, and patents (Yu, Lee & Kim, 2020). Firms also use R&D disclosures to showcase their innovation identity to investors. An illustrative example comes from the 2025 annual report of Sandvik AB, a global industrial engineering firm. In the section 'Sandvik as an investment', the company explicitly highlights successful innovations as a driver of its market leading position, calls R&D a "part of our DNA", and provides the proportion of sales coming from new products (Sandvik AB, 2026).

Firms with such R&D disclosures are rewarded by investors. A study of US firms shows that announcements of increased R&D spending have a positive effect on firm value, even for firms with declining earnings (Chan, Martin & Kensinger, 1990). A more recent paper found that unexpected increases in R&D spending by US firms are followed by positive stock returns (Songur & Heavilin, 2017). In Korea, voluntary R&D disclosures in annual reports has been shown to have a positive impact on cash inflow, reducing the cost of capital either from banks or investors (Yu, Lee & Kim, 2020).

All this suggests that global investors value R&D and reward R&D-focussed firms with stock gains and lower costs to capital. This acts as a signal to firms, spurring them to increase their focus on R&D and innovation.

R&D Disclosures in the IPO Process Serve as Signals to Investors

Initial Public Offerings (IPOs) are a unique opportunity for private firms to reduce information asymmetry, signal innovation prowess and attract investors. For example, private firms in the US disclose R&D tax credits during the IPO process to showcase their innovativeness. These firms incur high costs to calculate and claim these R&D tax credits, even when

the corresponding tax benefit is minimal. They do this because it signals to investors the quality of their R&D investments. These firms are in turn rewarded by investors with higher IPO proceeds and post-IPO stock returns (Hepfer, Judd & Rice, 2025).

Drawing on this logic, we used the IPO setting to understand if Indian investors value R&D. We analysed the mandatory document that is filed by every firm before launching an IPO: the Red Herring Prospectus (RHP). An RHP serves as a pitch book to investors, informing them about the firm's activities and attracting them to participate in the IPO. If Indian investors value R&D as an indicator of long term growth, then firms would include R&D disclosures in the RHP in an attempt to draw investor participation.

To study this, we looked at 93 firms, listed between 2013 - 2024, belonging to India's top 10 industrial R&D sectors, and for which RHPs were available on the Securities and Exchange Board of India's (SEBI) website (see figure 2 for the sample selection process). We focussed on four types of R&D disclosures: net proceeds to R&D, innovation identity, R&D expenditure outside of financial statements, and information about R&D capabilities and infrastructure (see table 1). This information was extracted from the RHP through an automated keyword search followed by a manual assessment of the flagged paragraph containing the keyword. The full list of keywords and the characteristics of the sample can be found in the appendix.

Figure 2: Sample Selection Process

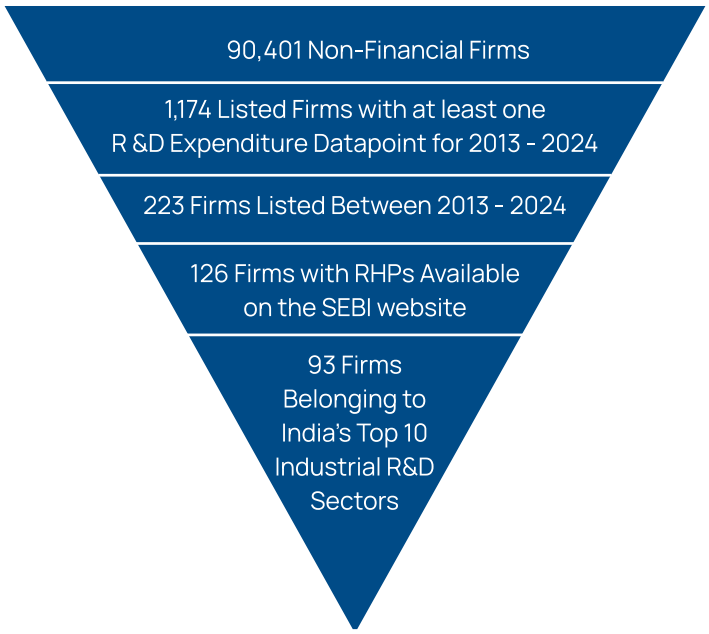


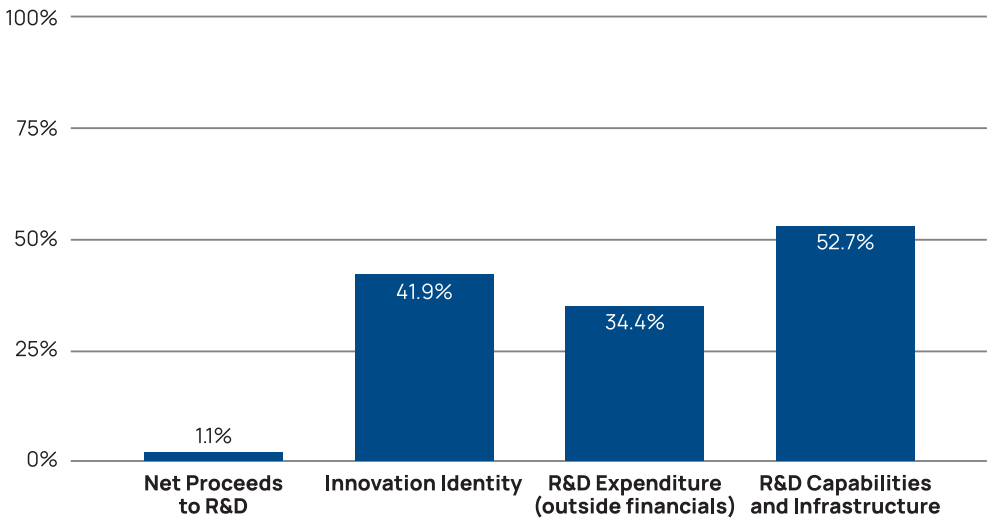
Table 1: Types of R&D Disclosures Analysed

Disclosure Type	Description	Signal to Investors
Net Proceeds to R&D	Firm explicitly states IPO funds will be invested in R&D	Commitment to innovation
Innovation Identity	Firm describes itself to be innovation or R&D driven or similar	Orientation towards innovation
Mention of R&D Expenditure (outside of financial statements)[1]	Firm uses R&D expenditure in narrative sections of RHP	R&D as competitive advantage
R&D Capabilities and Infrastructure	Firm discloses details around R&D centres/ team	Innovation strength

Indian Investors Do Not Value R&D Enough: Evidence from IPOs

The analysis shows that despite the firms in the sample belonging to India's top 10 industrial R&D sectors and being active R&D spenders, most firms do not disclose information about R&D. Less than 50 per cent of the firms even showcased their innovation identity, a signal that requires the least amount of disclosure of R&D activities.

Figure 3: Proportion of Firms with R&D disclosures in RHP



1 R&D expenditure is mandatorily disclosed in financial statements in an RHP, we looked for mentions of R&D expenditure elsewhere in the RHP

The only disclosure category that breaks the 50 per cent threshold is R&D capabilities for these firms. Even this proportion is low. The closest global data for comparison comes from the paper about R&D disclosures by Korean firms referenced earlier (Yu, Lee & Kim, 2020). The paper reports that more than 90 per cent of firms disclosed the "Location and characteristics of R&D infrastructure (workplace and production facilities)", the disclosure that most closely resembles the category "R&D Capabilities and Infrastructure" in our study. This difference in proportion of firms disclosing R&D activities is stark, despite the differences in the studies.

RHP narratives and investor communication strategies are often developed by investor relations specialists. These specialists are in close touch with investors and understand their sentiments. Thus, the low R&D disclosure rates in Indian firms' RHPs suggest that the Indian investor community has signalled disinterest in R&D to firms.

The Investor-Innovation Challenge for India

In a global environment that is pushing firms to increase their focus on R&D and innovation, Indian firms are turning away from it. Our data suggests this arises, at least in part, from investor disinterest in R&D. These findings raise questions about industry, investors and policymakers.

Foreign investors value R&D disclosures and reward firms with an R&D focus. Latest estimates suggest that Foreign Portfolio Investors (FPI) own a substantial 16.9 per cent of firms listed on the National Stock Exchange (Kumar, 2025). Increasing disclosures could attract these investors and improve access to capital, especially in a highly competitive equity market. How do we encourage Indian firms to voluntarily disclose more information about their R&D activities? In addition to increasing R&D disclosures, Indian firms must also look at providing useful and granular information to investors through metrics like sales proportion from new products, investments in emerging technologies, and R&D team composition.

Global examples show that investors value R&D and spur firms to increase their R&D focus. The departure of Indian investors from this global norm points to a larger, structural issue that must be analysed. Why do Indian investors not value R&D and how can we change this? Ensuring Indian investors place more value on R&D and demand more R&D disclosures will enable them to generate higher long term returns.

India's disclosure regulations largely follow global norms like the International Financial Reporting Standards. Global investors find the R&D information disclosed under these standards insufficient and propose multiple reform measures (Mazzi et al., 2022). What changes are required in the disclosure regulations to increase the use of R&D disclosures by investors? This could include expanding the scope of R&D disclosures beyond what is currently mandatory and identifying new standards that can be used to educate investors of the value of R&D.

Addressing these questions and bridging the structural gap between India's R&D ambitions and investor interest will require coordinated action from firms, investors, and regulators working towards building a market ecosystem that rewards innovation.

Appendix

A.1 Sample Characteristics

Sector	Number of Firms
Pharmaceuticals & Biotechnology	15
Automobiles & Parts	6
Oil & Gas	4
Software & Computer Services	4
Aerospace & Defence	2
Chemicals	24
Industrial Engineering	12
Industrial Metals & Mining	4
Electronic & Electrical Equipment	12
Food Producers	10

A.2 Keywords used for automated search

research based, technology capabilities, development expenditure, r&d capabilities, r&d facilities, r&d activities, technology based, focus on r&d, investment in r&d, focus on innovation, r&d investment, r&d centre, innovation center, research center, investments in r&d, in house research, focus on research, development expense, in-house r&d, r&d center, expenditure on research, investment in research, research centre, research expense, r&d expenditure, r&d expense, r&d unit, research activities, innovation based, incurred on r&d, research unit, incurred on research, research capabilities, r&d activity, research facilities, expenditure on r&d, innovation capabilities, technology focused, r&d focused, research expenditure, investments in research, development investment, innovation centre, (r&d) expense

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