

A NOTE ON R&D EXPENSES DISCLOSURES BY INDIAN PHARMACEUTICAL FIRMS

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ABSTRACT

The current note is prepared to highlight the extent of R&D disclosures made by Indian Pharmaceutical firms in the annual reports. For the study all the constituent pharmaceutical firms of Nifty 500 index were taken. In total 37 pharmaceuticals firms were part of Nifty 500 index, out of which data for 4 firms was not available for March 31, 2015, thus final study was conducted on 34 firms. It has been observed, that in most of the cases firms merely put very generic statements like, "Revenue expenditure on Research and Development is recognised as expense in the year in which it is incurred. Capital expenditure on Research and Development is shown as addition to Fixed Assets", such disclosures lacks explanation about the criteria based on which firm classifies R&D expense as revenue or capital.

Keywords: *R&D disclosures, Pharmaceuticals*

I. INTRODUCTION

As per Accounting standard 26 (hereafter AS-26) on Intangible assets, R&D expense should be capitalized if it is certain that project will yield positive results and firm can generate economic benefits out of it, otherwise expense needs to be charged to income statement as and when incurred. Notes to accounts section in the annual report of Indian Pharmaceutical firm's states accounting treatment of R&D cost by respective firms, it has been observed, that in most of the cases firms merely put statements like, "Revenue expenditure on Research and Development is recognised as expense in the year in which it is incurred. Capital expenditure on Research and Development is shown as addition to Fixed Assets", such disclosures lacks explanation about the criteria based on which firm classifies R&D expense as revenue or capital. The purpose of this note is to highlight the extent of disclosure made by Indian pharmaceutical firms for R&D expenses in the annual report. For the study all the constituent pharmaceutical firms of Nifty 500 index were taken. In total 37 pharmaceuticals firms were part of Nifty 500 index, out of which data for 4 firms was not available for March 31, 2015, thus final study was conducted on 34 firms. Table-I, provides data in terms of sales, assets, R&D expense, R&D expense capitalized, R&D expense treated as expense for the sample firms, in the table all the figures are in Indian currency (Rs.) and in million. Lupin Ltd. invested maximum amount

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of Rs. 11,96.9 million on R&D during the accounting year 2014-15, out of which Rs. 974.1 was capitalized and Rs. 10,987.8 was expensed. The highest capitalization of R&D expense worth Rs. 1,301 million was by Cipla Ltd. for the accounting year 2014-15. Dr. Reddy's Laboratories Ltd. expensed Rs. 11,230 million during the accounting year 2014-15, which was highest expensing amongst the sample firms for that year. Further analysis reveals that Jubilant Life Sciences Ltd. capitalized almost 54 percent of its R&D cost for the accounting year 2014-15. The objective of this note is to highlight the extent of R&D cost disclosures by Indian pharmaceutical firms in the annual report, thus remaining part of the note will reproduce R&D disclosures by selected sample firms in the annual report for the accounting year 1024-15.

Table I
Financial Data for Sample Firms

<i>S.No.</i>	<i>Expression</i>	<i>Sales</i>	<i>Total assets</i>	<i>R&D</i>	<i>R&D capital account</i>	<i>R&D current account</i>
1	Ajanta Pharma Ltd.	13678.5	10875.3	778	77.3	700.7
2	Alembic Pharmaceuticals Ltd.	20340.4	15336	1267.1	176.8	1090.3
3	Alkem Laboratories Ltd.	32102.5	48985.9	1581.9	68.8	1513.1
4	Aurobindo Pharma Ltd.	82583.5	102704.5	3598.8	416.4	3182.4
5	Biocon Ltd.	22742	33487	1033	22	1011
6	Bliss G V S Pharma Ltd.	3148.3	6188.3	37.9	11.9	26
7	Cadila Healthcare Ltd.	49721	77256	5554	314	5240
8	Caplin Point Laboratories Ltd.	2313.6	2235.8	77.5	18.7	58.8
9	Cipla Ltd.	102277.9	168662.9	8441.4	1301	7140.4
10	Divi'S Laboratories Ltd.	31115.1	51862.7	276.7	0.1	276.6
11	Dr. Reddy'S Laboratories Ltd.	100939	191779	11919	689	11230
12	F D C Ltd.	8967.8	11435.9	226.6	20.5	206.1
13	Glaxosmithkline Pharmaceuticals Ltd.	34440.9	64899.2	21.9	0	21.9
14	Glenmark Pharmaceuticals Ltd.	52860.3	86191.5	2909.2	136.1	2773.1
15	Granules India Ltd.	12498.4	11089.1	146.9	62.9	84
16	Indoco Remedies Ltd.	8652.2	8526.9	380.3	163.6	216.7
17	Ipca Laboratories Ltd.	31387.8	38335.4	1694.7	494.7	1200
18	J B Chemicals & Pharmaceuticals Ltd.	10607.5	14586	234.3	40.1	194.2
19	Jubilant Life Sciences Ltd.	33295.6	52796.3	540.3	288.8	251.5
20	Lupin Ltd.	98447.1	110959.8	11961.9	974.1	10987.8
21	Marksans Pharma Ltd.	4055.9	5286.3	174.1	2.1	172
22	Merck Ltd.	8978.8	12175.7	112.3	1.9	110.4
23	Natco Pharma Ltd.	7269.7	13965.9	517.2	42	475.2
24	Pfizer Ltd.	19263.3	26458.8	174	0	174
25	Piramal Enterprises Ltd.	17390.2	207617.1	2017.3	0	2017.3
26	Sanofi India Ltd.	20255.2	22609.3	40.3	7	33.3
27	Sequent Scientific Ltd.	4028.7	6771.6	96.9	0	96.9
28	Shilpa Medicare Ltd.	5709.1	7839.9	290.6	22.7	267.9
29	Strides Shasun Ltd.	9331.1	34904.5	456.6	96	360.6
30	Sun Pharma Advanced Research Co. Ltd.	1557.4	1673	2005.8	97.5	1908.3
31	Suven Life Sciences Ltd.	5214.4	7758.9	589.4	29.8	559.6
32	Torrent Pharmaceuticals Ltd.	34812	65512.7	1756.8	98	1658.8
33	Unichem Laboratories Ltd.	10989.5	12403.1	554.4	90.2	464.2
34	Wockhardt Ltd.	18932.9	47155.4	2628.4	214.1	2414.3

II. R&D DISCLOSURES

<i>S.No.</i>	<i>Firm</i>	<i>R&D Disclosure</i>
1	Ajanta Pharmaceuticals Ltd.	Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised over the period of expected future sales from the related project, not exceeding ten years. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable. Research and development expenditure of a revenue nature is charged to the revenue in the period in which it is incurred and expenditure of a capital nature is added to respective fixed assets.
2	Alembic Pharmaceuticals Ltd.	All revenue expenses related to R & D including expenses in relation to development of product/ processes and expenses incurred in relation to compliances with international regulatory authorities in obtaining of Abbreviated New Drug Applications (ANDA) are charged to the Statement of Profit & Loss in the year in which it is incurred.
3	Aurobindo Pharma Ltd.	As part of Intangibles: Research costs are expensed as incurred. Development expenditure incurred in respect of internally generated intangible assets such as product development is carried forward when the future recoverability can reasonably be regarded as assured.
4	Biocon Ltd.	Research and development costs, incurred for development of products are expensed as incurred. Development costs which relate to the design and testing of new or improved materials, products or processes or for existing products in new territories are recognised as an intangible asset when the Company can demonstrate all the following: a. it is technically feasible to complete the development of asset and it will be available for sale/use. b. it is expected that such development will be completed and used/sold. c. it is expected that such assets will generate future economic benefits. d. there are adequate resources to complete such development. e. it is possible to measure reliably the expenditure attributable to the asset during development. Research and development expenditure of a capital nature is added to fixed assets. Following the initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. The carrying value of the development cost is tested for impairment annually.
5	Bliss GVS Pharma Ltd.	Equipment purchased and cost of construction of assets used for research and development is capitalised when commissioned and included in the fixed assets. Revenue expenditure on research and development is charged in the period in which it is incurred under the natural heads of expenditure.
6	Cipla Ltd.	Revenue expenditure on Research and Development is recognised as expense in the year in which it is incurred. Capital expenditure on Research and Development is shown as addition to Fixed Assets.

- 7 Dr. Reddy's Laboratories Ltd. Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized as expense in the statement of profit and loss when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if: a) the product or the process is technically and commercially feasible; b) future economic benefits are probable and ascertainable; c) the Company intends to and has sufficient resources, technical and financial, to complete development of the product and has the ability to use or sell the asset; and d) development costs can be measured reliably.
- 8 Glaxosmithkline Pharmaceuticals Ltd. Revenue expenditure on research and development is recognised as expense in the year in which it is incurred and the expenditure on capital assets is depreciated over the useful lives of the assets.
- 9 Jubilant Life Sciences Ltd. As part of Internally generated intangible assets Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Statement of Profit and Loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products or processes. Development expenditure including regulatory cost and legal expenses leading to product registration/ market authorisation relating to the new and/ or improved product and/ or process development capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and directly attributable borrowing costs (in the same manner as in the case of tangible fixed assets). Other development expenditure is recognised in the Statement of Profit and Loss as incurred.
- 10 Lupin Ltd. Revenue expenditure pertaining to research is charged to the Consolidated Statement of Profit and Loss. Development costs of products are also charged to the Consolidated Statement of Profit and Loss in the year it is incurred, unless a product's technological feasibility has been established, in which case such expenditure is capitalised. These costs are charged to the respective heads in the Statement of Profit and Loss in the year it is incurred. The amount capitalised comprises of expenditure that can be directly attributed or allocated on a reasonable and consistent basis for creating, producing and making the asset ready for its intended use. Fixed assets utilised for research and development are capitalised and depreciated in accordance with the policies stated for Tangible Fixed Assets and Intangible Assets. Expenditure on in-licensed development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised, if the cost can be reliably measured, the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development and to use and sell the asset.

- 11 Piramal Enterprises Ltd. The research and development (R&D) cost is accounted in accordance with Accounting Standard - 26 'Intangible Assets'. **Research** Research costs, including patent filing charges, technical know-how fees, testing charges on animal and expenses incurred on development of a molecule till the stage of Pre-clinical studies and till the receipt of regulatory approval for commencing phase I trials are treated as revenue expenses and charged off to the Statement of Profit and Loss of respective year. **Development** Development costs (costs incurred when the lead molecule enters phase I trial and after obtaining regulatory approval for conducting phase I studies) relating to design and testing of new or improved materials, products or processes are recognised as an intangible assets and are carried forward under Intangible assets under development until the completion of the project as it is expected that such assets will generate future economic benefits. During the course of the studies, if it is observed that the studies are not proceeding as per expectations, the same are discontinued and the amounts classified under Intangible assets under development is charged off to Statement of Profit and Loss.
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References

Accounting Standard 26, Intangible Assets.

Annual reports for the accounting year 2014-15 of following firms:

Ajanta Pharmaceuticals Ltd.

Alembic Pharmaceuticals Ltd.

Aurobindo Pharma Ltd.

Biocon Ltd.

Bliss GVS Pharma Ltd.

Cipla Ltd.

Dr. Reddy's Laboratories Ltd.

Glaxosmithkline Pharmaceuticals Ltd.

Jubilant Life Sciences Ltd.

Lupin Ltd.

Piramal Enterprises Ltd.