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REVENUE BUDGETING

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Abstract
The project titled "Revenue Budgeting @ Dr. Reddy's Laboratory " aims at evaluating the Revenue Budgeting or investment decisions to set up a facility at

Dr.Reddy's Laboratories Ltd For Manufacturing New Drug 30 For Supplies directly from bulk units.

The following Revenue budgeting techniques are used for evaluation assuming 9% as discounting factor:

- *Non-discounted techniques like Payback Period (PBP), Average Rate Of Return (ARR)*
- *Discounted techniques like Net Present Value (NPV), Internal Rate Of Return (IRR) and Profitability Index (PI)*

REVENUE Budgeting or investment decisions are of considerable importance to the firm.

Introduction

Definition: Revenue Budget consists of the revenue receipts of the government (tax revenues and other revenues) and the expenditure met fromthese revenues.

Description: Tax revenues comprise proceeds of taxes and other duties levied by the Union. Other revenues are receipts of the government mainly consisting of interest and dividend osssn investments made by the government, and fees and receipts for other services rendered by the government.

Revenue expenditure is expenditure for the normal running of government departments and various services, interest charges on debt incurred by government, subsidies and so on.

Broadly speaking, expenditure which does not result in the creation of assets is treated as revenue expenditure. All grants given to state governments and other parties are also treated as revenue expenditure, even though some of the grants may be for creation of assets.

An efficient allocation of REVENUE is the most important finance function in the modern times. It involves decisions to commit the firm's funds to the long-term assets. The investment decisions of a firm are generally known as the REVENUE budgeting, or REVENUE Expenditure Decisions. A REVENUE Budgeting Decision may be defined as the firm's decision to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years. The project aims at evaluating the investment proposal for setting up a facility in Dr. Reddy's Laboratories Ltd.

Revenue Budgeting In Dr.Reddy's

The company has separate department for all REVENUE investments evaluation.
User department specifying the details of the project to be executed will raise an internal order request form.
The project proposal will be initially evaluated by the HOD (Head Of the Dept.).
After initial approval from the HOD the project will be evaluated by the Projects Team (Meant for evaluation of REVENUE investments said in point no.

(1) Taking out the Technicalities of the projects and viability in the existing environment. This team will evaluate the project basically in these areas.

1 Guidelines from Pollution Control Board
2 Applicability of CGMP
3 Safety
4 Financial viability

Once the project team evaluates the project the investment proposal will be taken to the Vice President/ President (SBU Head) based on the amount involved in the project.

After evaluation and approval from Projects team and concerned approving authority an internal order, will be created by Finance Dept, under which the total costs incurred will be traced and REVENUE zed under the project.

Objectives of Study

- To understand the concept of Revenue Budgeting and to Know the various techniques used to analyze the Revenue Budget.
- To know the investment pattern of the sample organization
- To Know the net income of the organization and to understand the analyze rate of return
- To analyze the net present value and payback period
- To understand whether the investment is profitable or not.

Research Methodology

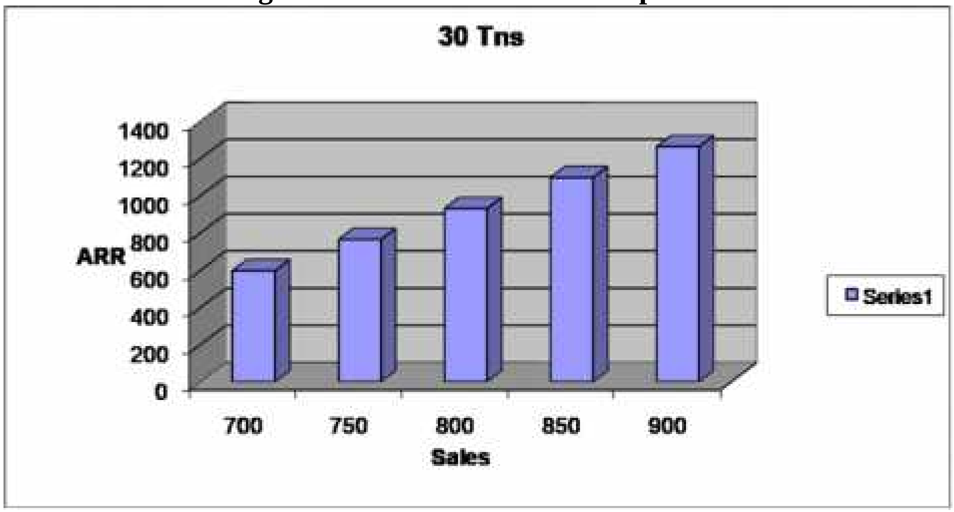
The primary data needed for the project analysis has been collected through unstructured interviews and discussions conducted with the finance department.

The secondary sources of data are annual reports, brochures and web resources. A case study approach has been used for the study of REVENUE budgeting at Dr. Reddy's Laboratories Ltd.

Data Analysis And Interpreations

RM cost Rs./ kg	485
Fixed Costs for New Drug 30 Per Month	Rs/ month
Labour	110,833
Utilities	595,620
Repairs & Maintenance	41,667
Depreciation	176,667
Interest	172,000
	1,066,787

Average Rate of Return for 30 Tons per Month



Interpretations

The ARR more than the pre-specified rate of return is accepted. The company requires a rate of return of 20%. Therefore, ARR of the project, which is greater than 20% as specified by management, is accepted but most viable is at a price of Rs.900 with respect to quantity of 30 Tns per month or 360 Tns per annum.

Need of the Study

The study is being conducted for the purpose of a budget is an accounting plan, a forecast of activities of an enterprise in a forthcoming period. It is a formal plan of action in monetary terms. A quantitative monetary expression of future activities. It is a Management Plan what it proposes to do in the next Financial Period usually a Year. It is a Quantified Plan for future activities. Quantitative Blue Prints of Action. A Budget is effectively used for Control purposes. Control involves the Evaluation of Performance through comparison of Actual results with the plan and using the feedback either, to take corrective action or to modify the plan. A Budget sets the targets for each Functional Area and thus, provides a unique tool to Managers for effectively carrying out their control function

Scope of The Study

The scope of the present study includes the following:
Understanding the importance of REVENUE budgeting in Dr. Reddy’s Laboratories Ltd
Evaluating an investment proposal of setting up facility at Dr. Reddy’s Laboratories Ltd for manufacturing NEW DRUG 30 for supplies directly from bulk units.

Objectives of The Study

The main objectives of the study are:
To study the REVENUE BUDGETING process in Dr. Reddy’s Laboratories Ltd.
To analyze and assess the financial viability of the investment proposal using the traditional and modern techniques.

Research Methodology

The primary data needed for the project analysis has been collected through unstructured interviews and discussions conducted with the finance department.
The secondary sources of data are annual reports, brochures and web resources. A case study approach has been used for the study of REVENUE budgeting at Dr. Reddy’s Laboratories Ltd.

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Limitations of the Study

The study was conducted with the data available and analysis was made accordingly.

Due to the confidential financial records, the data is not exposed so the study may not be detailed and full fledged. Since the study is based on the financial data that are obtained from the company's financial statements, the limitations of financial statements shall be equally applicable.

Findings

1. Average Rate of Return: As per the management, the minimum rate of return expected is 20%. The project showing ARR greater than 20% is accepted with respect to operation level 30 Tons or 20 Tons or 11 Tons per month variation in sales price.
2. Pay Back Period: The project is accepted when Pay Back is less than 3 years which is standard payback period set by the management. The project, which gives lesser payback period among difference in sales price and quantity to be produced, is accepted and it is at price of Rs.900 whether the quantities are 30 Tons or 20 Tons or 11 Tons

Suggestions

1. Budgeting in DR. REDDY'S LABORATORITES LTD is mainly a performance based i.e., based on the performance, where as zero-based budgeting is ideal for the company like DR. LABORATORIES LTD.
2. There should be effective coordination between the different departments like Production sales, Purchase, Finance, Marketing etc., this iwll enhance the efficiency of the organization.
3. There should be a proper budgeting control system .

Conclusions

1. It is concluded that the project is viable and profitable as the ARR is getting more than 20%.
2. The PBP indicates that investment is fully recovered in short period depending upon sales price and quantity.
3. NPV of the project is considered as better because of its higher Net Present Value.

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