Budgeting process in BEL

Introduction:-

Budgeting is an annual exercise which begins in July and ends in October of each year. Over the years the various formats in which data is collected has been streamlined and the process also has been standardised. The Budget process is considered to be an all encompassing operating plan which takes into account the likely activity of the Unit/SBU in the next few years and freezes the requirement to augment the facilities to achieve the same. The likely activity of the Unit/SBU is derived from the Corporate Roll on Plan and the commitments given to Administrative Ministry on various Product/Projects.

Every year Company gets its Budget (Capital & Revenue) approved by the Board in the month of October. The approvals are sought for Revised Estimates (RE) figures for the year under reference, Budget Estimates (BE) for the immediate next year and Forecast (FC) for the year next to Budget Year.

A. Capital Budget

Process of Capital Budgeting:

The Capital Budget is presented to the Board after assessing the requirements of individual items and review at various stages/levels. The Capital Budgeting process has been set out in the Budget Manual of the Company. The synopsis of the process followed is brought out below:

a) At Units/ SBU Level:

Section/Departmental Heads identify the individual items of Plant and machinery, Test instruments, computers, furniture and infrastructure requirements required for their respective division. The same is further classified as Additions, Replacements, Research & Development Needs, Civil works etc. These items are then put up to the divisional heads level for discussion and consideration. At this stage the requirement is vetted with reference to the existing facilities, the order book position, specific testing facilities required and then forwarded for the consideration of the various Committees.

- The SBUs/Units in BEL has got various Capital Item Committees such as
  - Plant & Machinery Committee;
  - Test Instruments Committee;
  - Computer Committee; and
  - Furniture Committee etc.

These Committees have representation from various functional areas.

- Heads of indenting divisions give their requirements to respective committees for review. During the review, the requirement are discussed in detail with reference to the need, similar facilities available elsewhere in the SBU/Units and pruned. Specific exercise carried out are as follows:

Requirement of Capital Asset other than PCs/ Printers/ Laptops is reviewed with reference to:

Reason for requirement, present status of working, priority to purchase, incremental saving in expenditure and time, automation requirements considering the volumes, feasibility of sharing of facilities across units, requirement of customers regarding quality enhancement and the additions/fresh sanctions required for meeting the production and sales targets;

- Requirement of PCs/ Printers/ Laptops/ Scanners are reviewed keeping in view the age of the existing computers. Replacement is not allowed prior to 4/5 years unless there is a requirement due to specific new projects taken up where upgraded PCs/Laptops are required. Otherwise, new requirement of PCs/Laptops is to be linked with the new additional manpower recruitment during the year.
- After this review, Finance Division consolidates the requirements across divisions and puts up to the SBU/Unit Head for consideration. The Board norms followed in vogue for various expenditure proposals on Augmentation needs – Additions, Replacements, R&D and Civil Works is given below:-
    - Additions: - 25% of Profit After Tax (PAT) of the respective years.
    - Replacements: - Depreciation of the relevant previous year.
    - R&D: - 2% of the turnover of the relevant Budget year.
    - Civil Works: - Need based and subject to availability of funds.

  At the SBU/Unit Head level the consolidated requirement of all the divisions is once again screened with reference to the limits as per the Board Norms mentioned above, the order book position, the future plans of the SBU/Unit and changes made appropriately.
- In the case of Bangalore Unit, this is further consolidated SBU wise by Central Finance and put up to the Operational Director for review. In the case of Other Units, the Capital Budget proposals of individual Units are analysed by Corporate Finance and put up to Director (Other Units) and after discussions on each Units Budget, necessary changes are made.

b) At Corporate Level:

During the consolidation exercise of Capital Budget at Corporate level, individual items are reviewed by functional directors.

Review is done considering the followings:

(a) Prioritisation of requirements based on total Budget ;

(b) Optimisation of facilities (balancing between Units) ;

(c) Automation requirements and standardisation ;

(d) Possibility of Outsourcing ;

(e) Compliance with norms subject to availability of funds ;

(f) Sales plan and profitability of the Units ; and

(g) Status of already approved items.

The consolidated Capital Budget is put up to the Board for approval as per the extant delegation of powers clearly indicating the extent of approvals within CMD's Powers, within the powers of CIC and those items which are to be approved by the Board.

Subsequently Unit wise Budget is put up to CMD for approval of the items within his powers, subject to the overall Budget approved by the Board. Followings are limits of sanctions empowered.

a) Under Approval of CMD:

Procurement of individual items costing ₹ 500 lakhs and below (₹ 250 lakhs and below in case of civil – Township works) will be approved under delegation of powers of CMD within the overall availability of the Budget provision.

b) Under Approval of Sub-Committee of the Board - Capital Investment Committee (CIC) :

Investments individually costing more than ₹ 500 lakhs and up to ₹ 1500 lakhs (more than ₹ 250 lakhs and up to ₹ 1000 lakhs in case of civil – Township works) are put up for approval of CIC.

c) Under Approval of Board :

Investments individually costing more than ₹ 1500 lakhs (more than ₹ 1000 lakhs in case of civil – Township works) are specifically recommended by CIC, which are justified individually for decision and specific approval of Board.

B. Revenue Budget

The Revenue Budget is prepared in line with Revised Schedule VI, so that evaluation of MoU parameters based on Annual Report of the Company becomes unambiguous at a later date.

Estimation of Income for the Year: The income for the Company mainly consists of the following three heads:-

1. **Sales**: The Budgeting process for Revenue Budget starts with finalisation of Sales for the Current year after analysis of the progress made by the Company up to September, likely despatches in the remaining months after considering the status of various projects to be executed, orders on hand etc.

   The sales for the Budget Year is arrived at after assessing the executable orders on hand, expected orders and the commitments given to the Customer/Administrative Ministry.

2. **Other Operating Revenues**: The income booked under this code head mainly consist of sale of scrap, export benefits, receipts form employees towards canteen, transport, water and rent recovered from colony residents, transfer from grants, provision withdrawn etc. The income under this code head is arrived at based on last year actuals and estimates for the current & Budget years.

3. **Other Income**: Other income mainly includes interest/dividend income earned by the Company. This interest income expected to be earned by the Company is on short term deposits deployed in various maturity buckets to meet the working capital requirement including the funds requirements for capital expenditure. The other heads contributing to income under this head are profit from sale of fixed assets, interest income from staff, IT refunds, FE gain, if any,.

Estimation of Expenses for the Year: After finalisation of the sales and income as explained above, the Cost factors are estimated by considering the following.

1. **Material Consumption**: Requirements of the materials for the production of stabilised products are estimated based on the previous batch actuals and for the new products/upgrades based on the D&E estimates/collaborators recommendations etc.

2. **Employee Benefit Expense**: The Employee Benefit expenses are estimated considering the actual expenses incurred during the previous year, normal Dearness Allowance increase, increase in cost due to promotions, planned intake during the year based on Human Resource Department estimates based on availability of executable orders vs. Manpower available, reduction in expenditure due to retirement, resignations etc. The statutory payments like Provident Fund, Gratuity is also considered. Estimated Leave Encashment is considered based on the actual of previous year. Provisions for likely future liability towards leave encashment, gratuity and provident fund are made based on actuarial valuation. Provision for pension, PPI etc is made as per the extant Policy/Rules.

3. **Other Expenses**: The budget is prepared taking into account the increase in activities consequent to the proposed increase in sales/production and the amounts already committed. The major components of Other Revenue Expenses are given below.

   i) **Transfer of Technology (ToT)/ Royalty expenditure:** The projects to be executed on ToT basis and Royalty payable per product as per the ToT agreement are considered while arriving at the estimated provision under this head.

   ii) **Rates & Taxes:** Normal rates and taxes payable to the Govt for the land etc. are considered based on actual expenditure incurred in previous year and likely increase etc.

   iii) **Software** expenses (Revenue) are arrived at after considering expenditure on software requirement of Unit/SBU's and for various R&D projects of our Central Research Labs plus AMC charges on SAP Software and additional licenses.

   iv) **Repairs & Maintenance** expenses are estimated on the basis of the works taken up in various units to upgrade the facilities in the production areas.

   v) **Publicity & Sales Promotion expenses** is estimated based on Marketing plan on efforts to build a brand image of the company and to promote the company's products.

   vi) **Exhibitions**: Exhibition expenses are estimated keeping in line of expected BEL's participation in major Exhibitions in India and abroad.

   vii) **Provision for Doubtful Debts and Advances**: Provisions are made after carrying out a detailed review of Debtors more than 3 Years old as per accounting policy of the company and after reviewing doubtful advances. Provision is made for Liquidated Damages (LDs) whenever the same is actually deducted by the customer and also for anticipated LDs in respect of items supplied beyond delivery dates where the contract stipulates levy of LD. Provision is withdrawn when the doubtful debts is realised subsequently and wherever LD is waived by the customers (or) where all supplies are completed and full payment is made by the customers without deducting LD.

   viii) **Expenditure on Seminars & Courses:** The expenses under this head are estimated made as per the HR's plan on requirement of training for employees at different levels. Employees of the organisation mandatorily attend training programmes at MDI, IIMs etc on topics like leadership programs, Development Centres, training programs for AGMs and GMs on developing global leaders/creating global mindset respectively etc.

   ix) **Provision for Warranties**: As per accounting policy of the Company, provision for expenditure on account of performance guarantee and replacement/repair during the warranty period is made on the basis of trend based estimates.

   x) **Others**: Other expenses on power & fuel, water charges, insurance, bank charges, travelling, packing & forwarding, after sales service, office administration expenses etc, are estimated based on actual of the previous year and with nominal expected increase to meet increase in costs.

4. **Depreciation**: Depreciation is charged on assets owned by the Company at the rates as prescribed under Companies Act. This includes amortisation of intangible assets as

per the Accounting policy of the company. Anticipated additions to the gross block as projected in the Capital Budget are considered while estimating depreciation in Budget years.

5. **Finance Cost:** The interest expenditure is estimated keeping in tune with mismatch of receipts and payments and Lead Bank fee etc.

6. **Provision for Taxes**: Based on the current rates of Income Tax, provision is made in the respective Budget years after availing the applicable allowances like higher rates of depreciation and tax-free income on Wind Energy Project, Weighted deduction on R&D expenditure and deferred taxes as per Accounting Standard 22, "Accounting for Taxes on Income".

7. **Provision for Dividend**: As per the extant guidelines of the Government of India, provision for dividend will be made at 20% of the Profit after Tax in the respective years and after considering the provisions of Companies Act regarding payment of dividend. The required dividend tax at the current rate (including surcharge and education cess) will also be provided.

BALANCE SHEET

Projected Balance Sheet, in the Revised Schedule VI format, as at the end of the respective Budget Years is presented along with Revenue Budget to the Board. The major components of Balance Sheet include the following

i) **Share Capital**:

ii) **Reserves & Surplus**: The retained earnings will be added to the opening balance of Reserves for arriving at closing balance.

iii) **Government Grants**: These grants represent the money received from various Government agencies for specified projects and based on the progress of these projects; a portion is taken as Revenue during the respective year and the balance remaining outstanding in the Balance Sheet.

iv) **Non Current Liabilities**: These are liabilities which are expected to be due after one year from the reporting date and include items like Trade Payables, Security deposits, Long Term Compensated absences and BERECHS.

v) **Current Liabilities** :These are liabilities which are payable within a period of one year from the reporting date and include items like current maturities of Financial Leases, Security deposits, advance payment from Customers, Statutory liabilities, outstanding expenses and other current liabilities.

vi) **Non Current assets**: Under Non current assets, Tangible assets, Intangible assets, Capital work in progress and intangible assets under development are included. The Tangible assets will be projected taking into account the capital investment as planned in the capital Budget.

vii) **Noncurrent Investment**: These are basically moneys invested in Joint Venture, Subsidiary Companies.

viii) **Deferred Tax Assets:** The Deferred Tax asset represents those items which can be claimed in the Tax Return at a later date, since the same cannot be claimed immediately due to the timing differences.

ix) **Long Term Loans & Advances**: This includes items like Capital advances, Security deposit, Loans & advances to employees, advances for purchase and advance for Income Tax etc.

x) **Other Non Current assets**: These are items of Inventory, Trade Receivables and Claims Receivables which are not current in nature.

xi) **Current assets**: The Currents assets are Trade Receivables, Inventories, and Cash & Bank Balances, Short Term loans and advances and others. While projecting these figures in the Budget, the need for control on Trade Receivables and Inventory too are kept in mind.

Conclusion:-

The Budgeting Process followed in BEL ensures that the overall Corporate Vision, Mission and Objectives along with the annual Corporate targets formalised into actionable targets. The approved Revenue Budget becomes the basis for the Company to commit targets for the Company for the Budget Year with MoD/DPE. The approved Capital Budget is the basis of modernisation and augmenting the facilities in various plants across the Company to meet the Revenue targets.

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