

## A STUDY ON COST CONTROL PRACTICES AT Dr. REDDY'S LABORATORIES, HYDERABAD

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### ABSTRACT

This paper investigates cost control practices at Dr. Reddy's Laboratories, Hyderabad, a leading pharmaceutical company in India. Cost control is critical in the pharmaceutical industry due to its impact on profitability, competitive advantage, and sustainability. The study employs a qualitative research approach, utilizing interviews and document analysis to explore the strategies, tools, and challenges associated with cost control at Dr. Reddy's Laboratories. Findings reveal that the company employs a range of practices including budgeting, variance analysis, cost reduction initiatives, and strategic sourcing to manage costs effectively. However, challenges such as regulatory pressures, market dynamics, and technological advancements influence the implementation and effectiveness of these practices. The study concludes with recommendations for enhancing cost control practices in the pharmaceutical sector, emphasizing the need for continuous adaptation and innovation to navigate the evolving landscape effectively.

**Key Words:** Cost control, Cost Reduction, actual costs, Budgeted costs, Expenses

### 1. INTRODUCTION

Most of the enterprise wants to maximize the profit, which is possible by decreasing the production cost. For this purpose, management uses two efficient tools like Cost Control Practices.

Cost Control is a technique which makes available the necessary information to the management that actual costs are aligned with the budgeted costs or not. Cost control refers to the process of monitoring and managing expenses within an organization to maintain financial stability and achieve profitability. This process involves identifying and analyzing various cost factors, such as operational expenses, production costs, and overheads, and implementing measures to reduce or optimize them.

It aims to strike a balance between minimizing costs without compromising the quality of products or services. By effectively controlling costs, businesses can enhance their competitiveness, improve operational efficiency, and generate higher profits, ultimately leading to long-term growth and success. There are many cost control practices like Cost reduction, Standard Cost Accounting, Budgetary Control, Cost Accounting, Earned value management, Budgeting, Analysis of variance, Outsourcing, Continual improvement process. In this study, the emphasis on cost control practices will be explained where cost reduction is studied in depth. Cost Reduction is a process, which aims to lower the unit cost of a product manufactured or service rendered without affecting its quality. It can be done by using new and improved methods and techniques. It ascertains substitute ways to reduce the production cost of a unit. Thus, cost reduction ensures savings in per unit cost and maximization of profits of the enterprise. Cost Reduction aims at cutting off the unnecessary expenses which occur during the production Process, storage,

selling and distribution of the product. Tools of cost reduction focus on Quality operation and research, Improvement in product design, Job Evaluation & merit rating, variety reduction, etc.

### 1.1 NEED FOR THE STUDY

The importance of value reduction programs inside a corporation can't be overdone. Firms that are unit losing cash, ought to increase profits, or should become a lot of competitive ought to cut expenses so as to succeed. Knowing the way to implement effective value reduction ways is the crucial consider the survival of a business.

When a corporation should generate additional cash as quick as attainable, management can need to decide that prices most effectively reduced. If the reduction is required quickly, expenses cut initial can usually be people who don't seem to be fastened or directly tied to production. It's not an honest plan to drastically cut back expenses that turn out the corporate product or service while not careful analysis.

### 1.2 SCOPE OF THE STUDY

Since it will not be possible to conduct a micro level study of all type industries in Andhra Pradesh and Telangana, the study is restricted to Dr. REDDY'S LABORATORIES LIMITED only

### 1.3 OBJECTIVE OF THE STUDY

- To understand the profit position of the company by study of cost profit Analysis.
- To study the value estimates and also the revenue expenditure and revenue receipts.
- To study the variations of the particular from the value estimates.

## 2. REVIEW OF LITERATURE

**DarshanaLakmal**, The article "Cost Analysis for Decision Making and Control" explores the critical role of cost accounting techniques, particularly marginal costing and absorption costing, in aiding managerial decision-making and control. It emphasizes that management requires accurate and timely cost data to effectively plan and control business activities. Marginal costing focuses solely on variable manufacturing costs for valuing inventories and determining the cost of goods sold, thereby providing a clearer picture of contribution margins and aiding short-term decision-making processes. In contrast, absorption costing allocates both variable and fixed manufacturing costs to products, presenting a more comprehensive view of total production costs but potentially obscuring contribution margins.. Overall, the paper underscores the importance of choosing the appropriate costing method based on the specific needs of the business and the decision at hand. It advocates for a balanced approach in cost analysis to provide management with actionable insights for effective planning, control, and strategic decision-making in business enterprises.

**FitsumKidane**, The article "The Role of Cost Analysis in Managerial Decision Making" examines the critical role of cost analysis in managerial decision-making within profit-oriented organizations. It emphasizes that a robust costing system is essential for effective decision-making across various business functions. Cost analysis aids managers in crucial areas such as pricing strategies, profit planning, setting standard costs, capital investments, marketing decisions, and overall cost management strategies. The paper underscores the empirical evidence supporting the necessity of accurate cost analysis systems to enhance organizational profitability and strategic planning. It concludes by highlighting the increasing importance of cost-effective decision-making frameworks in

today's competitive business environment, urging organizations to prioritize effective cost analysis practices for sustainable growth and profitability.

**Dr. I. Satya Narayana,** The article "A Case Study on Cost Analysis and Control" explores the fundamental concepts of cost analysis in production economics. It emphasizes that total production costs consist of fixed costs (FC) and variable costs (VC), where fixed costs are determined by the capital input (K) at a rental price (r), and variable costs are determined by labor input (L) at a wage rate (w). This distinction between fixed and variable costs is crucial in understanding how costs accumulate with changes in output levels. Furthermore, the article underscores the broader valuation of costs, encompassing not just monetary expenses but also factors like effort, materials, time, and risks involved in production. It highlights the evolving role of accountants beyond traditional auditing and accounting, emphasizing their contribution to strategic resource management and decision-making. The profession of cost and management accounting is positioned as pivotal in driving management decisions, particularly in optimizing scarce resources and fostering economic prosperity. This perspective is seen as increasingly vital in the context of global economic changes and the demand for effective resource allocation both domestically and internationally.

**LawalBabatunde Akeem's, 2017,** This article "Effect of cost control and cost reduction techniques in organizational performance" investigates the critical role of cost control and cost reduction techniques in enhancing organizational performance. The study, conducted through a descriptive survey research approach with 50 administered questionnaires, employs regression analysis using SPSS to analyze collected data. The findings underscore the significant positive impact of effective cost control practices on organizational performance. Moreover, the study highlights that management style also influences organizational performance positively. By emphasizing the importance of budgeting as an effective tool for cost control and reduction, the article provides insights into how organizations can navigate rising operational costs to optimize profitability. This research contributes valuable perspectives on operational efficiency and financial management strategies essential for sustaining competitive advantage in today's business environment.

### 3. RESEARCH METHODOLOGY

An organized, systematic, data-based complicated scientific investigation, or investigation into a precise problem, is undertaken with the intentions of discovering a reply to resolve it.

#### 3.1 Sources of data:

**Primary data:** Basic information is accrued by using speaking with the Finance Manager and different applicable officers in the company's administrative office.

**Secondary data:** All secondary information used for learning about have been accrues from annual reports, manuals and different posts substance of the organizations.

#### 3.2 Sample Technique: Purposive Sampling Method

#### 3.3 Sample Size:8

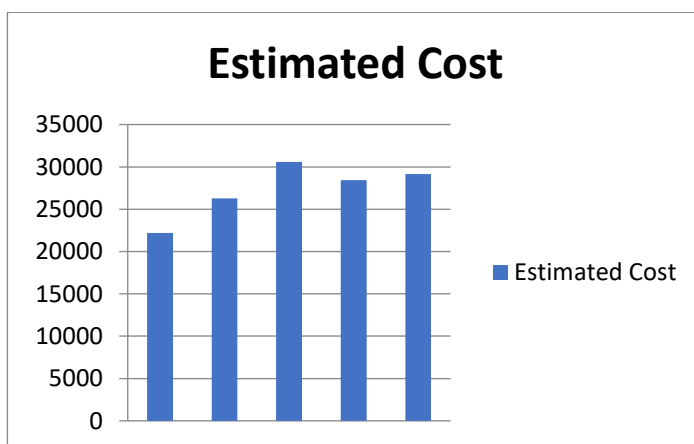
#### 3.4 LIMITATIONS OF THE STUDY

- This study is based on historical data of company.
- This study based on cost analysis.
- Gathering information from company is tough job.

#### 4. DATA ANALYSIS AND INTERPRETATION:

Table 4.1.1:Revenue Cost Analysis of the year 2018-2023(Estimated Cost)

Year	Estimated Cost
2018-2019	22205.22
2019-2020	26263.35
2020-2021	30584.06
2021-2022	28443.84
2022-2023	29156.36



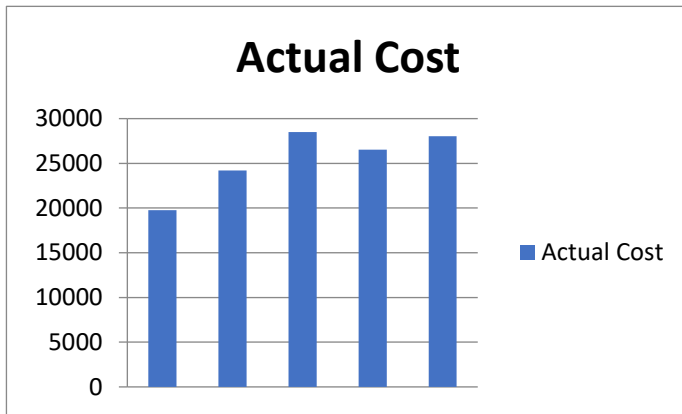
Graph 4.1.1

#### Interpretation:

From the above table, the totals of Revenue Cost Analysis (Estimated Cost) of this company is high in the year 2020-2021 compared to other years.

Table 4.1.2:Revenue Cost Analysis of the year 2018-2023(Actual Cost)

Year	Actual Cost
2018-2019	19777.50
2019-2020	24182.47
2020-2021	28480.7
2021-2022	26524.1
2022-2023	28030.6



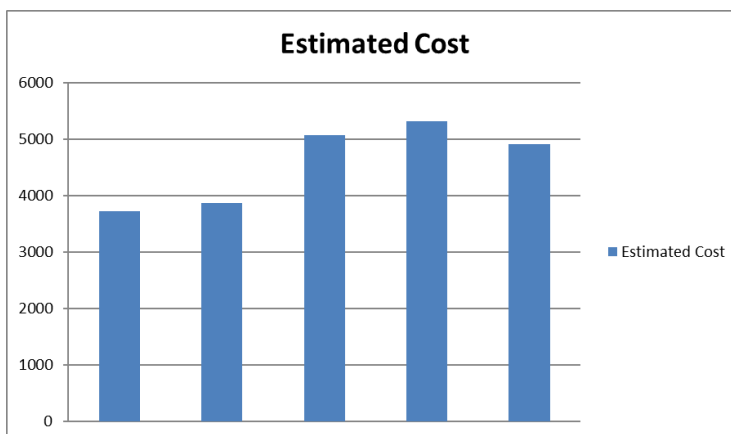
Graph 4.1.2

#### INTERPRETATION:

From the above table, the totals of Revenue Cost Analysis (Actual Cost) of this company is high in the year 2020-2021 compared to other years.

Table 4.2.1: **Operational Expenditure Cost of the year 2018-2023 (Estimated Cost)**

Year	Estimated Cost
2018-2019	3718.33
2019-2020	3860.66
2020-2021	5074.93
2021-2022	5318.66
2022-2023	4905.83

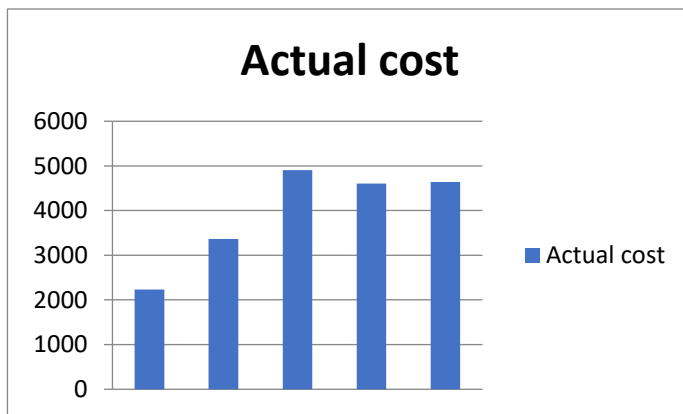


Graph4.2.1

#### INTERPRETATION:

From the above table, the totals of Operational Expenditure Cost (Estimated Cost) of this company is high in the year 2021-2022 compared to remaining years. Table 4.2.2: **Operational Expenditure Cost of the year 2018-2023(Actual Cost)**

Year	Actual Cost
2018-2019	2233.18
2019-2020	3368.19
2020-2021	4904.80
2021-2022	4602.64
2022-2023	4637.55



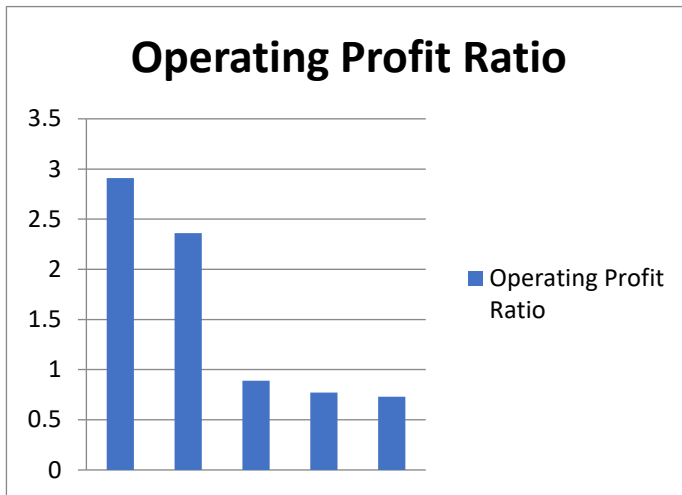
Graph 4.2.2

### INTERPRETATION:

From the above table, the totals of Operational Expenditure Cost(Actual Cost) of this company is high in the year 2020-2021 compared to remaining years.

Table 4.3: **OPERATING PROFIT RATIO**

Year	Operating Cost	Net Sales	Operating Profit ratio
2018-2019	104.8	3597	2.91
2019-2020	138	5823	2.36
2020-2021	103.4	11523	0.89
2021-2022	117	15163	0.77
2022-2023	123	16792	0.73

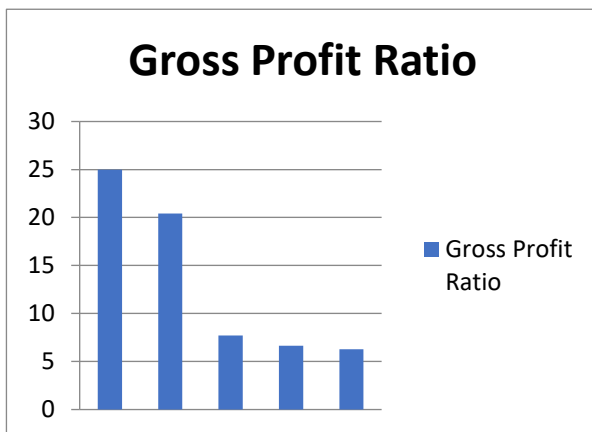


#### INTERPRETATION:

From the above analysis, the Operating Profit Ratio of this company is better in the year 2018-2019. It is very satisfactory.

Table 4.4: **Gross Profit Ratio**

Year	Gross Profit	Net Sales	Gross Profit Ratio
2018-2019	901.28	3597	25
2019-2020	1188.52	5823	20.41
2020-2021	889.24	11523	7.71
2021-2022	1006.2	15163	6.63
2022-2023	1057.8	16792	6.29



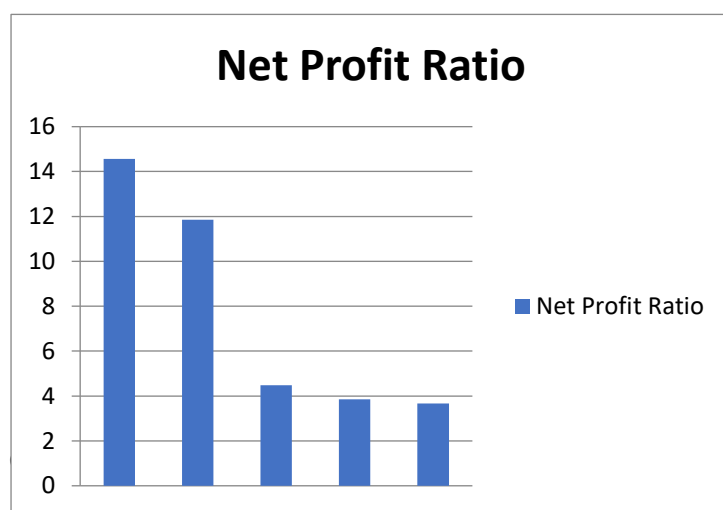
Graph 4.4

#### INTERPRETATION:

From the above analysis, the Gross Profit Ratio of this company is better in the year 2018-2019. It is very satisfactory.

Table 4.5: Net Profit Ratio

Year	Net Profit	Net Sales	Net Profit Ratio
2018-2019	524	3597	14.56
2019-2020	691	5823	11.86
2020-2021	517	11523	4.48
2021-2022	585	15163	3.85
2022-2023	615	16792	3.66



### INTERPRETATION:

From the above graph, the Net Profit Ratio of this company is better in the year 2018-2019. It is very satisfactory.

Table 4.6: Profit &amp; Loss from the year 2018-2023

Basis	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Sales Turnover	7.28	34.99	164.03	177.78	199.82
Excise Duty	.00	.00	.00	.00	.00
<b>Net Sales</b>	<b>7.28</b>	<b>34.99</b>	<b>164.03</b>	<b>177.78</b>	<b>199.82</b>
Other Income	0.0720	0.0300	0.6000	0.7100	1.4600
<b>Total Income</b>	<b>7.35</b>	<b>35.02</b>	<b>164.03</b>	<b>178.49</b>	<b>201.28</b>
<b>Expenditure</b>					
Manufacturing Expenses	.00	.00	.00	.00	.00
Material Consumption	.00	.00	.00	.00	.00
Personal Expenses	3.57	24.45	36.80	27.05	22.03
Selling Expenses	.00	.00	61.38	35.30	39.53
Administrative Expenses	2.53	5.66	4.41	8.06	4.60
Expense Capitalized	.00	.00	.00	.00	.00



Provision Made	.00	.00	.00	.00	.00
<b>Total Expenditure</b>	<b>6.09</b>	<b>30.11</b>	<b>102.59</b>	<b>70.41</b>	<b>66.16</b>
Operating Profit	1.18	4.88	61.44	107.37	133.66
EBIT DA	1.25	4.91	62.04	108.08	135.12
Depreciation	.03	.14	.49	.87	1.28
Other Write off	.00	.00	.00	.00	.00
<b>EBIT</b>	<b>1.23</b>	<b>4.77</b>	<b>61.55</b>	<b>107.21</b>	<b>133.66</b>
Interest	.00	.53	25.38	88.53	77.02
<b>EBT</b>	<b>1.23</b>	<b>4.24</b>	<b>36.17</b>	<b>18.68</b>	<b>56.82</b>
Taxes	1.71	.00	.00	-2.04	-2.20
<b>Profit &amp; Loss for the year</b>	<b>-.48</b>	<b>4.24</b>	<b>36.17</b>	<b>18.68</b>	<b>56.82</b>
Non-Recurring Items	.00	.00	.53	-30.29	-29.63
Other non-cash adjustments	.00	.00	.00	.00	.00
Other adjustments	.00	.00	-.53	-.03	.46
<b>Reported PAT</b>	<b>-.48</b>	<b>4.24</b>	<b>36.17</b>	<b>-9.60</b>	<b>29.85</b>

## FINDINGS:

- Net Profit Ratio of the company is good in the year 2018-2019 i.e. 14.56%
- Gross Profit Ratio of this company is good in 2018-2019 is 25%.
- Operating profit ratio is good in 2018-2019 i.e. 2.91%.
- Average intensive are decreased 45.27 % & 36.47% the other Income also decreased 2.38 % & 2.90 % in 2019-2020 & 2018-2019 respectively.
- Operating maintenance cost decreasing in all years.
- Sales are less then profit also very less all years
- Revenue receipts are less and payments are high.
- Company's operating cost also very high.

## SUGGESTIONS:

The company shows strong profitability ratios and a downward trend in operating maintenance costs, several areas warrant attention for further improvement. Firstly, addressing the decline in average inventories and other income streams could involve strategies to stabilize and diversify revenue sources. Secondly, the persistent gap between sales and profits suggests potential inefficiencies in pricing strategies or market penetration efforts that should be explored. Thirdly, managing cash flow by enhancing revenue receipts and optimizing payment cycles is crucial to mitigate financial strain. Lastly, reducing high operating costs through efficiency initiatives and strategic cost management will be pivotal in maintaining competitive margins. These insights can guide Dr. Reddy's in enhancing operational effectiveness and financial sustainability, ensuring long-term growth and resilience in the pharmaceutical sector.

## CONCLUSION:

Every organization has pre-determined set of objectives and goals, however reaching those objectives and goals solely by correct coming up with and execution of the plans economically.

The Dr. REDDY'S LABORATORIES LIMITED restricted is objectives of coming up with promoting Associate in Nursing organizing an integrated development of machine motors Company. The Dr. REDDY'S LABORATORIES LIMITED restricted has value method in 2 stages. One is that the cost value and another is working maintenance value, the cost value shows the list of capital comes elite for investment at the side of their calculable value, operative & maintenance value refers to the repairs & maintenance prices, the special prices square measure seldom utilized in the organization like long prices, analysis & development value and value for practice.

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