

EMPLOYEE ATTITUDE TOWARDS CAPITAL BUDGETING STUDY

CONDUCTED ON SRI LAXMI TULASI AGRO PAPER (P) LTD

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ABSTRACT:

A financial plan in a strategy communicated in quantitative term. The term has been gotten from the French word “roll” which implies a little pack. The spending plan gives a measuring stick from which the presentation can be assessed. It is smarter to contrast the genuine outcomes and the spending plan as opposed to the past since the previous outcomes may not be reasonable for current and anticipated conditions. It bargains in earthenware tails to supply the over all in the Andhra Pradesh. The significance of the investigation is capital planning helps uncertainty making measure in making trail esteem. Capital planning it the drawn-out monetary arranging measure for taking long haul speculation. The assessment of strategies of capital planning is utilized for breaking down the venture in Sri Laxmi Tulasi Agro Private Limited, Rajahmundry.

Key words: Capital Budgeting, Payback Period, NPV, PI

INTRODUCTION:

The importance of financial functions has grown to the point that a new field of study called financial management has emerged. Accordingly, this area These days, money is considered the lifeblood of every company, and the concept is starting to catch on throughout the globe. Managers engage in financial management when they plan and regulate the use of their company's resources. Prior to its separation from economics in 1890, it was considered a subfield of economics. There is yet no independent corpus of knowledge in the field; instead, it relies mostly on economic theory.

Both researchers and professionals in the field of management find the goals of financial management to be quite intriguing. Academics are very interested in this topic since there are still issues surrounding it and no clear consensus on a solution has been reached. Theorising financial management gives practising managers the conceptual and analytical insights they need to make skillful judgements, and these decisions often include money. Consequently, these themes pique the attention of practising managers. These days, managers have a far bigger role in policymaking and decision-making, according to the latest theories in financial management. At the highest levels of management, financial management is crucial in addressing difficult issues. They have a significant role in allocating money and are hence largely accountable for the enterprise's destiny.

INDUSTRY PROFILE:

"Papyrus" (cypress papyrus), a plant that was abundant in the Egyptian delta, is where the term "paper" is derived from etymologically. The ancient Egyptians (3000 BC) used a sheer made of the plant's bark and leaves as a writing medium. Almost everyone agrees that the process of creating paper originated in China, namely in the 2nd century. A Chinese official named T.sailun made paper in the second century B.C. out of mulberry and other bast fibres, fishnets, old rags, and hemp waste (about 105 A.D.).

Paper was a well held secret for more than 500 years since the Chinese saw it as a crucial creation; eventually, word of this innovation spread westward. A city in China that had a paper mill in the seventh century was the birthplace of the country's paper industry.

In the fourteenth century, with the introduction of printing, the demand for paper skyrocketed; the Arabs gave it the name "KAGAZ," which is still widely used today in India. England was the birthplace of papermaking in 1496. In 1690, the Written House Mill in Germany Town, Pennsylvania was constructed, making it the earliest mill in the United States.

COMPANY PROFILE:

In 1997, "SRI LUXMI TULASI AGRO PAPER {P} LIMITED" was developed by Sri P. Satyanarayana Reddy and their business colleagues. The promoters all come from commercial and industrial backgrounds. Managing Director and chairman of SLTAP is Sri P. Satyanarayana Reddy. With over 30 years of experience in the business world, he is a dynamic leader with creative ideas to get his team where they need to go. He is an accomplished businessman with a Master's degree in commerce who has worked in the banking, mining, transportation, and LPG industries. He began his career as an electrical engineer with M/s. AP Rayon at Kamalapuram, Warangal district, Andhra Pradesh, under the supervision of Sri V.MONAHARA REDDY, B.Tech. (Electrical Engineering), MBA. Over the course of his career, which spanned over 25 years, he worked with NTPC, ACC Babcock, and the paper sector, among others. Participated actively in the renovation and commissioning of SRI LUXMI TULASI AGRO PAPER {P} LTD at ASWARAOPETA, and has the innate ability to seek out novel ideas for manufacturing operations. Reddy, Sri T. Subbaraami With a Master of Commerce and extensive background in trade, Mr. N.V. Reddy serves as Executive Director, and Mr. N.V. Reddy has a Master of Technology in Chemical Engineering and forty years of experience managing a paper manufacturing facility.

SCOPE OF THE STUDY:

- These percentages help in analysing the funds for investment purpose.
- The main characteristic of a capital expenditure is that the expenditure is incurred at one point of time whereas benefits of the expenditure are realized at different points of time in future.
- Capital expenditure involves nonflexible long-term commitment of funds.
- Thus, capital expenditure decisions are also called as long-term investment decisions.

OBJECTIVE OF THE STUDY:

- To understand the need of organization, to identify and in high quality capital projects

- To analyse the expansion of business by increasing production and quality by acquiring more fixed assets and the up-to-date machinery.
- To evaluate the financial investments associated with the replacement of existing assets so as to purchase of new assets.
- A capital budget determines funding for assets that produce income, and you will have to make decisions about which assets to buy based on a clear set of objectives.

METHODOLOGY:

Research is defined as a systematic, gathering recording and analysis of data about problem relating to any particular field. It determines strength reliability and accuracy of the project

❖ Secondary data

❖ Primary data

PRIMARY DATA:

It is the information collected directly without any reference in this study.

It is gathered through interviews with concerned officers and staffs either individually or collectively some of the information.

Interaction with the planning and development department employees.

Interaction with finance employees.

The primary data has been collected from the chief financial executive's/finance officers of the selected companies, which are involved in capital budgeting decisions by designing an appropriate questionnaire

SECONDARY DATA:

The secondary data was collected from already published source such as pamphlets of annual reports, return and internal records.

Accounting manuals of BHEL, brochures, magazines of unit, News of paper.

Throughout this data we solve the NPV, ARR, NPV, IRR, PI for the Phase-I. So finally, the project is viable because of positive returns.

The researcher has made use of available articles, books, research studies, reports, data and information from magazines and journals and visit to relevant websites has also been made.

DATA ANALYSIS AND INTERPRETATION

FINANCIAL ANALYSIS OF SRI LUXMI TULASI AGRO PAPER(P) LTD.,

Years	Total sales	Total assets	Fixed assets	Net Profit	Capital Employed	Long term funds	Share holders' Funds
2017-2018	5512.43	4437.49	3120.00	1007.61	1173.21	982.66	124.49
2018-2019	6385.50	5743.73	4365.38	977.02	2289.36	1175.80	124.49
2019-2020	7042.82	6213.17	4716.99	1093.24	3232.23	854.19	124.49
2020-2021	13205.64	14810.64	10890.33	1404.23	4145.56	2789.76	274.04
2021-2022	18270.69	16667.95	12166.13	2446.19	2812.99	2012.09	274.07

TRADITIONAL CAPITAL BUDGETING APPRAISAL METHODS

I. 0 PAY BACK PERIOD METHOD:

Then the payback period is calculated as follows:

CALCULATION OF PAY BACK PERIOD OF

SI.NO	YEAR	CASH INFLOW	CUMULATIVE CASH FLOWS
1	2017-2018	1244.84	1244.84
2	2018-2019	1300.02	2544.86
3	2019-2020	1481.32	4026.18
4	2020-2021	2169.96	6196.14
5	2021-2022	3348.75	9544.89

Source: data compiled from financial analysis

The above table shows that, the initial investment RS.2687.87 ... lies between second and third years with Rs. 2544.86 and 4026.18

$$\begin{aligned}
 \text{PBP} &= \text{Actual (Base) year} + \frac{\text{Difference in cash flow}}{\text{Next year cash flows}} \\
 \text{PBP} &= 2 + \frac{1481.32}{6196.14} \\
 &= 2 + 0.23
 \end{aligned}$$

$$= 2.239 \text{ year}$$

Payback period (PBP) = 2.239 year.

SOURCE TABLE: 5.1

PBP can be used as a criterion to accept or reject an investment proposal. A proposal whose actual payback period is more than what is pre-determined by the management.

PBP thus, is useful for the management to accept the investment decision and also to assist the management to know that the initial investment is recovered in 1.1884 year

II. ACCOUNTING OR AVERAGE RATE OF RETURN METHOD:

Cash flows of the Sri Luxmi Tulasi Agro Paper(P) Ltd., are shown in cash flow statement. ARR is calculated as follows

Statement showing calculation of ARR

YEARS	EARNINGS AFTER TAX (EAT)
2017-2018	1244.84
2018-2019	1300.02
2019-2020	1481.32
2020-2021	2169.96
2021-2022	3348.75
TOTAL	9544.89

Source: data compiled from financial analysis

$$\text{ARR} = \frac{\text{N} \times \text{Average annual EAT'S}}{\text{Average investment}} \times 100$$

$$\text{Average Annual EAT'S} = \frac{\text{Total amount}}{\text{No of years}}$$

$$= \frac{9544.89}{5} = 1908.97$$

$$\text{Average investment} = 1908.97$$

$$\text{ARR} = \frac{1908.97}{1908.97} \times 100 = 50.02 \%$$

$$\text{Average Rate of Return} = 50.02 \%$$

SOURCE TABLE: 5.2

ARR method allows fixing a minimum rate of return. Any project expected to give a return below it will be straight away rejected. The average rate of return is as good as 50.02 % of depicts the prospects of management efficiency.

TIME ADJUSTED (OR) DISCOUNTED CASH FLOW METHOD

The time adjusted or discounted cash flow methods take into accounts the profitability time value of money. These methods are also called the modern methods of capital budgeting.

Let us assume the discount rate be

YEA RS	CFAT'S	PVIF @ 10%	PV'S
2017-2018	1244.84	0.909	1131.55
2018-2019	1300.02	0.826	1073.81
2019-2020	1481.32	0.751	1112.47
2020-2021	2169.96	0.683	1482.08
2021-2022	3348.75	0.620	2076.22
TOTAL			6876.13
LESS: Initial Investment:			2687.87
NPV:			4188.26

Source: data compiled from financial analysis

SOURCE TABLE: 5.3

The accept -reject decision of NPV is very simple. If the NPV is positive then the project should be accepted and if NPV is negative then the project should be rejected

I.e .If $NPV > 0$ (ACCEPT)

and $NPV < 0$ (REJECT)

Hence in the case of Sri Luxmi Tulasi Agro Paper Pvt Ltd it is visible that the positive NPV shows the acceptance and importance of the project.

INTERNAL RATE OF RETURN METHOD:

(IRR) FORMULATION OF STEPS:

STATEMENT OF SHOWING CALCULATION NPV @88%,89%,90% UNDER IRR METHOD

		PVF	PV	PVF	PV	PVF	PV
2017-2018	1244.84	0.531	661.2 01	0.529	658.52	0.526	654.78
2018-2019	1300.02	0.2921	379.73	0.2799	362.70	0.277	360.10
2019-2020	1481.32	0.1579	223.90	0.1481	219.23	0.145	214.79
2020-2021	2169.96	0.0858	186.18	0.0783	169.90	0.076	164.91
2021-2022	3348.75	0.0461	151.37	0.0414	138.63	0.04	133.95
			1602.19		1548.98		1528.53

Source: data compiled from financial analysis

From the above calculations the following can be observed.

PV Of net cash flows at 88% is: 1602.19cr

PV Of net cash flows at 89% is: 1548.98cr

DECISION: Since the initial investment RS.2687.87cr is lies between 75% and 80% the company APTDC can determine the IRR as 76.51%

Hence IRR=76.5

IRR is the maximum rate of interest, which an organization can afford to pay on capital, invested in, is accepted if IRR exceeds the cut off rates and rejected if it is below the cut off rate. The cut off rate of is 10%, which is less than the IRR i.e76.51% hence the acceptance of . is quiet a good investment decision taken by management

FINDINGS:

- The capital budgeting decision for a manual issued by the planning Commission. It contains the following important provisions in the regard: (1) It suggest the use of various project evaluation techniques, such as return on investment (ROD, payback period, discounted cash flow (DCF) Evaluation and Review Technique (PERT), Critical path method (CPM), and strengths, weaknesses, opportunities and Threats (SWOT) Analysis.
- The total assets recorded consistent fluctuations from 1.24 (2015-2016) to 1.87 (2019-2020). The lowest recorded as 1.14 (2017-2018). This decline is an account of lower growth rates sales in those years.
- The fixed assets showing a fluctuating trend and increased from 2.57 times (2015-2016) to 3.65 times (2019-2020). These fluctuations any be due to fixed assets investment.

CONCLUSION:

- However, the Sri Luxmi Tulasi Agro Paper Pvt Ltd., is supplying crude to Phase II from internal sources (from Producing wells & Production installations) at cost. So that the project remains unaffected by the situations.
- It means the project is fully insulated/protected by increase in crude price and/or increase in exchange rate. This Project is evaluated as an independent undertaking to check the resistance, impact of outside market forces on the project.
- It is concluded that the project is viable in all the cases in Sri Luxmi Tulasi Agro Paper Pvt Ltd point of view as long as it maintains the Normal Annual Production Capacity.

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