

Capital Budgeting With Reference To Ultratech Cement

Rapelli Alekhya, Master of Business Administration,

DR. Venkata Rangaiah, Professor, HOD, Department of Master of Business Administration,

Mr. G Subba reddy, Assistant Professor, Department of Master of Business Administration,

St. Martin's Engineering College, Hyderabad, Telangana – 500014.

ABSTRACT

The Financial Administrator must recognize that every financial decision he makes will influence, in a very real way the decision he will make subsequently, even though the decision may appear to be in unrelated areas and separated by a period of several months. His decision influence the way in which creditors, potential investors, suppliers and even prospective employees view the firm from their own points of view.

Financial statements analysis may be done for a variety of purposes, which may range from simple analysis of short term liquidity position.

Analysis refers to the process of critical examination of the financial information contained in the financial statement in order to understand and make decisions regarding the operations of the firm.

Ratio Analysis is a widely used tool of financial analysis. The term ratio in it refers

to the relationship expressed in mathematical terms between two individual figures or group of figures connected with each other in some logical manner and are selected from financial statements of the concern.

Broadly the objective of the Analysis of Financial statement is to understand the information contained in the financial statement with a view to the weakness and strengths of the firm This study suffers from different limitations also. The ratios may not be taken for granted and accepted at faced values. These ratios are numerous and there are widespread variations in the same measure.. The use of ratio analysis is not confirmed to financial management only.

There are different parties interested in the ratio analysis for knowing the financial position of a firm for different purposes. In view of various uses of ratios, there are many types of ratios, which can be calculated from the information given in the financial statements

1. INTRODUCTION:

Among the various business decisions capital budgeting decisions are critical and crucial decisions. Therefore special care must be taken while taking these decisions.

CONCEPT AND MEANING:

The term capital budgeting refers to “long term planning for proposal capital outlay and their financing. It includes rising long-term funds and their utilization. It may be defined as firm’s, formal process of acquisition and investment of capital.

Capital Budgeting may also be defined as “The decision making process which the firm evaluates the purchase of major fixed assets. It involves firm’s decision to invest its current funds for addition, disposition, modification and replacement of fixed assets”.

It deals exactly with major investment proposals, which are essentially long-term projects and incurred among the available market opportunities.

Capital budgeting is the process of making investment decision in capital expenditure. A Capital expenditure may be defined as an expenditure, the benefits of which are expected to be received over a period of time exceeding one year. The main characteristic of a Capital expenditure is that the expenditure is incurred at the one point of time whereas benefits of the expenditure are related at different point of time in future.

In simple language we may say that a capital expenditure is an expenditure incurred for acquiring or improving the fixed assets, the benefits of which are to be received over a number of years in future

SCOPE OF THE STUDY:

The efficient allocation of capital is the most important financial function in the modern times. It involves decision to commit the firm’s, since they stand the long- term assets such decision are of considerable importance to the firm since they send to determine its value and size by influencing its growth, probability and growth.

The scope of the study is limited to collecting the financial data of ULTRATECH CEMENTS for four years and budgeted figures of each year.

NEED AND IMPORTANCE:

Capital Budgeting means planning for capital assets. Capital Budgeting decisions are vital to an organization as to include the decision as to:

- Whether or not funds should be invested in long term projects such as settings of an industry, purchase of plant and machinery etc.,
- Analyze the proposals for expansion or creating additions capacities.

- To decide the replacement of permanent assets such as building and equipments.
- To make financial analysis of various proposals regarding capital investment so as to choose the best out of many alternative proposals.

OBJECTIVES OF THE STUDY:

Capital Budgeting decisions are based on the objective of efficient utilization of resources by reducing costs. Therefore capital expenditure decision can be two types –

- (1) Expenditure which increases revenue
 - (2) Expenditure which reduces costs.
- There is difference between capital expenditure increasing revenue and capital expenditure reducing costs. The former has more uncertainty when compared to the later. The overall objective of capital expenditure is to maximize the firm's profits and thus optimizing the return on investment. This objective can be achieved either by increased revenue or by reducing costs

METHODOLOGY:

At each point of time a business firm has a number of proposals regarding various projects in which, it can invest funds. But the funds available with the firm are always limited and are not possible to invest trend in the entire proposal at a time. Hence it is very essential to select from amongst the various competing proposals, those that gives the highest benefits.

The crux of capital budgeting is the allocation of available resources to various proposals. There are many considerations, economic as well as non-economic, which influence the capital budgeting decision in the profitability of the prospective investment.

Yet the right involved in the proposals cannot be ignored, profitability and risk are directly related, i.e. higher profitability the greater the risk and vice versa there are several methods for evaluating and ranking the capital investment proposals.

LIMITATIONS:

- (1) All the techniques of capital budgeting presume that various investment proposals under consideration that are mutually exclusive which may not practically be true in some particular circumstances.
- (2) The techniques of capital budgeting requires estimation of future cash inflows and out flows. The future is always uncertain and the data collected for future may not be exact. Obviously, the result based upon wrong data can not be good.
- (3) There are certain factors like morale of employees, goodwill of the firm, etc., which cannot be correctly qualified but which otherwise substantially influence the capital decision.
- (4) Urgency is another limitation in evaluation of capital investment decision.
- (5) Uncertainty and risk pose the biggest limitation to the techniques of capital budgeting.

2. LITERATURE SURVEY

The investment decisions of a firm are generally known as the capital budgeting, or capital expenditure decisions. A capital 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 long term assets are those that affect the firms operations beyond the one year period. The firm's investment decisions would generally include expansion, acquisition, modernization and replacement of the long-term assets.

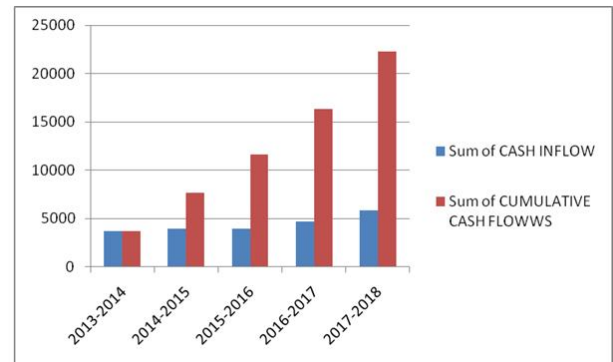
Sale of a division or business (divestment) is also as an investment decision. Decisions like the change in the methods of sales distribution, or an advertisement campaign or a research and development programme have long-term implications for the firm's expenditures and benefits, and therefore, they should also be evaluated as investment decisions. It is important to note that investment in the long-term assets invariably requires large funds to be tied up in the current assets such as inventories and receivables. As such, investment in the fixed and current assets is one single activity.

3. DATA ANALYSIS & INTERPRETATION

PAY BACK PERIOD METHOD:

Payback era technique is a traditional method of evaluation of declaratory budgeting. The payback or Contribution out or payoff refers to the period in which the enterprise firmness hold out the prime First-rise and bring to light the assets grant or the Primary out flows. To determine the in trouble with period, the cumulative money flows will be deliberate and by advantage exclamation the exact period may be purposeful. The ULTRATECH has Rs. 7683.708 lacks of Great assistance and the record Superior flows for the era 2013 to 2018. Appropriate the payback period is intentional as follows

CALCULATION OF PAY BACK PERIOD OF ULTRATECH CEMENTS MINES.



The above table shows that, the initial investment RS.4451.626 Lacks lies between first and second years with Rs. 3705.48 and 7655.76 lacks. The amount has been recovered in the first year and the remaining amount in second year (1907.896-1311.533=596.363)

4. FINDINGS OF THE STUDY

1. It is observed that the company is able to increase its profits from year to year.
2. The Gross profits from 2012 to 2017 increased from year to year
3. It is observed that the companies' net worth is increasing considerably.
4. By observing the sources & applications, it is clear that the company is actively increasing or standardizing its operations.
5. 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.
6. Since the initial investment RS.4451.626 lacks is lies between 88% and 89% the company ULTRATECH can determine the IRR as 88.5%

5. SUGGESTIONS

1. There are various developments taking in the industry to challenge so as to the company should develop as a full fledged research and developed department for bringing technological changes and improvements in its design & process.
2. The management has physically verified the stock of finished goods and work-in-progress at the end of the year.

3. Company needs to identify the potential business revenue generation which results to profit on operations.
4. In respect of service activities, there is a reasonable system of recording receipts, issues and consumption of materials and stores of allocation of materials consumed to the relative job. Commensurate with its size and nature of its business

6. CONCLUSION

- The budgeting exercise in ULTRATECH also covers the long term capital budgets, including annual planning and provides long term plan for application of internal resources and debt servicing translated in to the corporate plan.
- The scope of capital budgeting also includes expenditure on plant betterment, and renovation, balancing equipment, capital additions and commissioning expenses on trial runs generating units.
- To establish a close link between physical progress and monetary outlay and to provide the basis for plan allocation and budgetary support by the government.
- The manual recommends the computation of NPV at a cost of capital / discount rate specified from time to time.
- A single discount rate should not be used for all the capacity budgeting projects.
- The analysis of relevant facts and quantifications of anticipated results and

benefits, risk factors if any, must be clearly brought out.

- Feasibility report of the project is prepared on the cost estimates and the cost of generation.

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