# A STUDY ON CAPITAL BUDGETING OF TVS MOTORS

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## ABSTRACT:

This study examines TVS Motors' capital budgeting decisions and the utilization of two tools: the Average Rate of Return (ARR) and the Karl Pearson coefficient of correlation. Capital budgeting involves evaluating potential investments to determine which projects are most likely to generate positive returns. The ARR method calculates the average annual profit of an investment relative to its initial cost, providing a simple metric for decision-making. The Karl Pearson coefficient of correlation, on the other hand, assesses the relationship between two variables, such as investment returns and project risk factors, helping managers understand the potential impact of various factors on investment outcomes. By employing these tools, TVS Motors can make informed decisions regarding capital allocation and maximize shareholder value.

**Keywords:** TVS motors, Average Rate of Return, Karl's Pearson coefficient Correlation

## INTRODUCTION:

Capital budgeting is a critical process for companies like TVS Motors, where strategic investment decisions play a pivotal role in shaping future growth and profitability. It involves evaluating potential investment opportunities and determining which projects are worth pursuing based on their expected returns and associated risks. To facilitate this decision-making process, companies utilize various tools and techniques, among which the Average Rate of Return (ARR) and the Karl Pearson coefficient of

correlation are commonly employed. These tools provide valuable insights into the financial viability of investment projects and the relationship between different variables influencing investment outcomes. In this study, we explore how TVS Motors utilizes these tools in its capital budgeting process to make informed and effective investment decisions, ultimately aiming to enhance shareholder value and sustain long-term competitiveness in the automotive industry.

## OBJECTIVE OF THE STUDY

1. To evaluate the cash inflows and outflows of TVS motors.
2. Assess the company's investment decisions using capital budgeting techniques such as ARR.
3. Calculate the amount of available net cash for investment.

## STATEMENT OF THE PROBLEM

The problem addressed in this study conducted by TVS Motors revolves around the evaluation of prospective projects through capital budgeting techniques. Specifically, the study aims to determine whether the anticipated returns from these projects align with a suitable benchmark, indicating their viability and potential for maximizing shareholder wealth. The research seeks to address the challenge of selecting the most profitable investment opportunities among various alternatives by utilizing capital budgeting methodologies such as the Average Accounting Return (ARR) and other financial ratios. Additionally, the study aims to identify any limitations in the data gathering process or analytical techniques employed, providing insights into potential areas for improvement in the capital budgeting decision-making process at TVS Motors.

## SCOPE OF THE STUDY

TVS Motors conducted a study on capital budgeting to evaluate prospective projects' lifetime cash inflows and outflows. The study aimed to determine whether the anticipated returns generated match a suitable goal benchmark. Companies utilize capital budgeting strategies to evaluate which initiatives will provide the highest return over a given period. The study also covers the conceptual background, which comprises information regarding capital budgeting and its various techniques such as ARR. It will cover study design, data gathering methods, and limitations. The fourth chapter deals with data analysis and interpretation, which includes various ratios used to assess the company's financial statement.

## REVIEW OF LITERATURE

**T. Ravi Reddy (2019)[1] "A study on capital budgeting in TVS motor Company".** This paper examines the evaluation of cash inflows and outflows of a company. Analysis of the company's investment decisions using capital budgeting study based on primary and secondary data collected from the company's annual reports and financial statements. Studies using payback period, accounting Rate of return and net present value tools. The study concludes that the spending plan is an essential budgeting tool for evaluating

organizational performance, focusing on cash for successful purchases, business expansion, and equipment purchases.

**Mr. K. Murugan, Dr. MMM Najim, Mr Sathish raj, Naresh R (2020)[2] "A Study of Capital Budgeting at TVS Motors".** This study examines how management uses capital budgeting strategies to evaluate which initiatives will provide the highest return over a given period. Data collected from both primary and secondary sources Research methodology is a systematic way of solving a problem and research design is the basic framework. The result of this study is compared to the specific responsibilities of the other, the internal rate of return process for the capital expenditure plan may not be appreciated, which increases the option used.

**Md. Anhar Sharif Mollah, Md. Abdur Rouf and S.M. Sohel Rana (2020)[3] "A Study on Capital Budgeting Practices of Some Selected Companies in Bangladesh".** The purpose of this paper is to examine current capital budgeting practices in Bangladeshi listed companies and provide a normative framework and practitioners. In this study, data were collected using a structured questionnaire survey from Chief Financial Officers (CFOs) of companies listed on the Dhaka Stock Exchange in Bangladesh. The data obtained were then descriptive using descriptive and inferential statistical techniques. This study concluded that net present value was the most widely used method of capital budgeting, closely followed by internal rate of return and payback period also revealed that CFOs adjust their risk factor using discount rate.

## RESEARCH METHODOLOGY

This study is based on only secondary data; the essential limitations of the secondary data would have affected the study. Ratios are computed on the basis of financial statements of the industry. Hence, future performance of the manufacturing units not reflected. The financial statements are subject to window dressing. It will affect the results in the process of analysis. The absolute figures may prove decorative as ratio analysis is primarily quantitative analysis and not qualitative analysis. Many people may interpret the results in different ways as ratio is not an end by itself.

## SOURCE OF DATA

The method of data collection used in the study is secondary data. Secondary data are collected from records, annual reports of the company. The major sources of data for this project were collected from the official website, balance sheet and profit &loss account through annual reports of five years.

## PERIOD OF STUDY

The analysis has been taken for the period of five years for the financial year from 2017-2018 to 2021-2022.

## TOOLS USED

The secondary data were analysed with help of

1. Average Rate of Return (ARR)
2. Karl's Pearson Coefficient Correlation

## LIMITATION OF THE STUDY

- The study is restricted for a period of five years only commencing from 2018-

2022. So it shows limited period data is considered.

- As the financial information is confidential, they do not want to share accurate
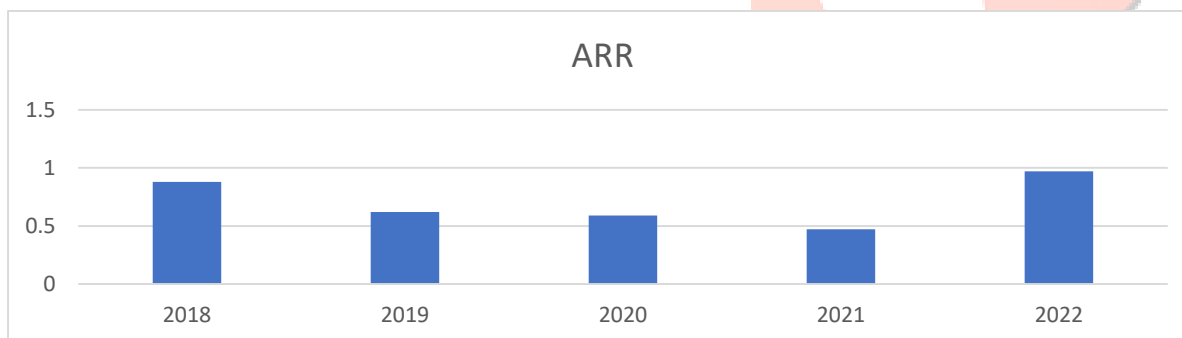
data or information.

## FINDINGS OF THE STUDY

### TABLE

**Table showing Comparison of accounting rate of return for the years 2018-2022**

**Source: Secondary Data**

The Accounting Rate of Return have come down from 0.88 in the financial year of 2018 to about 0.97 for the current financial year of 2022.



### KARL'S PEARSON COEFFICIENT OF CORRELATION

### CORRELLATION BETWEEN NET PROFIT AND NET SALES

| YEAR | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Average accounting profit | 662.59 | 670.14 | 592.25 | 612.04 | 893.56 |
| Average investment | 748.12 | 1085.61 | 1002.28 | 1288.85 | 920.61 |
| **ARR** | **0.88** | **0.62** | **0.59** | **0.47** | **0.97** |

|  |  | NET SALES | NET PROFIT |
|---|---|---|---|
| NET SALES | Correlation Coefficient | 1.000 | -.300 |
|  | Sig. (1-tailed) | . | .312 |
|  | N | 5 | 5 |
| NET PROFIT | Correlation Coefficient | -.300 | 1.000 |
|  | Sig. (1-tailed) | .312 | . |
|  | N | 5 | 5 |

**Source: Secondary Data**

The pearson's correlation is -1 (-.300), indicates a negative correlation between net profit and net sales, the variables are moving different direction.

## CORRELATION BETWEEN TOTAL INCOME AND TOTAL EXPENSES

|  |  | TOTALINCOME | TOTAL EXPENSES |
|---|---|---|---|
| TOTAL INCOME | Pearson Correlation | 1 | -.588 |
|  | Sig. (1-tailed) |  | .149 |
|  | N | 5 | 5 |
| TOTAL EXPENSES | Pearson Correlation | -.588 | 1 |
|  | Sig. (1-tailed) | .149 |  |
|  | N | 5 | 5 |

**Source: Secondary Data**

The pearson's correlation is -1 (-.588), indicates a negative correlation between total income and total expenses, the variables are moving different direction.

## CORRELATION BETWEEN CURRENT ASSET AND CURRENT LIABILITIES

|  |  | CURRENT ASSET | CURRENT LIABILITIES |
|---|---|---|---|
| CURRENT ASSET | Pearson Correlation | 1 | .787 |
|  | Sig. (1-tailed) |  | .057 |
|  | N | 5 | 5 |
| CURRENT LIABILITIES | Pearson Correlation | .787 | 1 |
|  | Sig. (1-tailed) | .057 | . |
|  | N | 5 | 5 |

**Source: Secondary Data**

The pearson's correlation is +1 (.787), indicates a positive correlation between current asset and current liabilities, the variables are moving towards same direction.

## FINDINGS

- Paid benefits is useful for the organization. The review rate to come back to 2022 is 2.56%. The capital returns the expense of their costs. ARR has a standard rate.
- The correlation is -1 (-.300), indicates a negative correlation between net profit and net sales.
- The correlation is -1 (-.588), indicates a negative correlation between total income and total expenses.

- The correlation is +1 (.787), indicates a positive correlation between current asset and current liabilities.

## CONCLUSION

A study on capital budgeting involve evaluating potential investments in long-term assets to determine their feasibility and potential return on investment. The conclusion of a capital budgeting project is typically based on the analysis of various financial metrics such as ratio analysis, average rate of return (ARR) and Karl's pearson coefficient of correlation. In conclusion, a capital budgeting project should be accepted if it meets the company's investment criteria, generates positive cash flows, and adds value to the organization. It is essential to consider the risks, timing, and strategic alignment of the project with the company's objectives before making a final decision.

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