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A STUDY AND ANALYSIS OF CAPITAL BUDGETING ON TVS MOTOR COMPANY LIMITED

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ABSTRACT:

The main task of financial management is to choose the best results from the investment, and this is the most important decision for the finance manager because any decision made by the president in this regard can affect the operations of the company and its profits for many years.

The purpose of the research is to examine the decisions of companies in the financial investment process by examining the importance of capital investment in organizations and to determine the sources of financial capital in which the company will be well invested in various ways. business decisions. It also provides information on cash flow and cash flow for each year.

Thus, the comparison gives a clear idea of the investment and return that will be useful for the next year. The analysis is based on data collected from the Income and Expense Report and the Business Report.

Financial resources such as present value, rate of return, and method of repayment over time are used in the analysis of the collected data. Some other estimation tools such as standard deviation, correlation analysis, and analysis of variance were also used in this study.

KEYWORDS:

Profit, Investment, Capitalisation, Capital planning, Capital budgeting, Finance management &

INTRODUCTION:

Capital budgeting, also known as "investment analysis," is a planning process used to determine the long-term capital expenditures an organization must make.

Investment financing involves selecting projects that will add value to the company. This can include just about anything from acquiring more land to buying a new car or replacing an old machine. Businesses, especially corporations, are often required, or at least approved, to carry out activities that increase profits and therefore the wealth of their owners.

When a company is faced with a financial decision, one of its first tasks is to determine whether the project will be profitable.Net present value (NPV), rate of return (ARR), and payback period (PB) methods are the most commonly used methods for project selection.

According to management preferences and selection criteria, there should be more guidance for one method than the other. However, these measurements are widely used to indicate strengths and weaknesses.

OBJECTIVES FOR THE STUDY:

Primary Objective:
To study the capital budgeting management i.e., profitability analysis; analysis; risk factor analysis; statement showing financial viability.

Secondary Objective:

To analyse the changes of the capital of the capital budgeting management.

To evaluate the effectiveness of the capital budgeting- expenditure decisions in SCCL. Suitable suggestions to improve the Capital Budget Management

To study and ensure planning for the future by setting up various budgets.

SCOPE OF STUDY

To know the Sales budget of the company.

To analyse the elimination of wastage and increase in profitability.

To find out the standard deviation for Total assets.

REVIEW OF LITERTURE

AUTHOR: Sihlaer William. W
YEAR OF PUBLICATION:2022
Financial Management: Policy and Practice, Mumbai: Jaico Press, Financial Management aims to assist CEOs of small businesses, especially fast, growing people, to ensure that the company's financial management is reliable. has been included. the company's strategy. From the methodology of the book, all the details were recorded.

AUTHOR: Rakesh HM
YEAR OF PUBLICATION:2022
A study of capital use in Mumbai, listed companies, nuanced management research journal, 2(2), p.15, December March 2012 to March 2013, Research conducted by

Focus on Capital Within the scope of capital budgeting investment. Budgeting Practices, a questionnaire was sent to 5,163 people responsible for capita l expenditures in companies listed on the Bombay Stock Exchange.

AUTHOR: Kulkarni P.V. and Satya prasad B.G. YEAR OF PUBLICATION:2022

Financial Management: A Perspective, Mumbai: Himalaya Press, this book considers investment decisions in the face of risk and uncertainty. The focus is on the type and location of the risk.

AUTHOR: Kengatharan Linesiya
YEAR OF PUBLICATION:2022
Capital Budgeting Theory and Practice: A Review and Agenda for Future Research. Applied Economics and Finance, 3(2), The main purpose of this research is to identify the inconsistencies in the current budget and practices in the last two years, thus laying the groundwork for future scholarships.

RESEARCH METHOLODOGY:
Research methods are the techniques and tools by which you research a subject or a topic. Research methodology involves the learning of various techniques to research and acquiring knowledge to perform tests, experiments, surveys, and critical analysis. Research methodology simply refers to the practical "how" of any given piece of research. It's about how a researcher systematically designs a study to ensure valid and reliable results that address the research aims and objectives.

RESEARCH DESIGN
The study basically uses secondary data.
PRIMARY DATA

The primary data is the data which is collected fresh and first hand and for the first time which is originals nature. Primary data can collect through personal interview questionnaire etc. To support the secondary data

SECONDARY DATA

The secondary data for the project regarding investment and various investment analysis were collected from websites, textbooks and magazines.

Sources of data collection:

Company yearly Reports.

Company audited financial statements

TOOLS FOR ANALYSIS:
Traditional Methods (Non-Discounted Cash Flow):

- Payback Period Method
- Average Rate Of Return Method

Modern Methods (Discounted Cash flow)

- Net Present Value Methods
- Internal Rate Of Return methods
- Profitability Index

DATA ANALYSIS AND INTERPRETATION

Payback Period Method (PBP):

Year	Initial investments	Annual cash Inflow	Payback period
2018-2019	497.32	176.63	2.18
2019-2020	382.64	375.28	1.0
2020-2021	558.66	444.68	1.25
2021-2022	741.33	-128.08	5.70
2022-2023	1015.56	405.51	2.5

INTERPRETATIONS:

The shorter the payback period, the sooner the company recovers its cash investment. Whether a cash payback period is good, or poor depends on the company's criteria for evaluating projects. From the above, it is inferred that the company have its highest payback in 2021-2022 with 5.78years. The current year (2022-2023) PBP is found to be 2.5 year. This shows that the company recovers its investment in 2.5 year.

ACCOUNTING RATE OF RETURN (ARR):

Year	Net Profit	Initial investments	Accounting Rate of Return
2018-2019	725.40	497.32	1.45
2019-2020	646.80	382.64	1.69
2020-2021	607.50	558.66	1.08
2021-2022	730.88	741.33	0.98
2022-2023	1309.46	1015.56	1.56

INTERPRETATION:

The chart shows that in the year 2021-2022, the company had a lower expected rate of return than the minimum rate so the investment in the particular project can be reduced. In the year 2019-2020, the project has a higher rate of return than the minimum rate. A higher rate of return indicates that investment made in the particular year has a higher cash inflow in the future. The accounting rate of return for the year 2022-2023 is reduced to 1.56 year.

NET PRESENT VALUE (NPV):

Formula:

$$NPV = -C_0 + \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} + \dots + \frac{C_T}{(1+r)^T}$$

Let's calculate the NPV:

$$NPV = \frac{-3195.51}{(1+0.1235)^0} + \frac{176.68}{(1+0.1235)^1} + \frac{375.63}{(1+0.1235)^2} + \frac{444.68}{(1+0.1235)^3} + \frac{-128.08}{(1+0.1235)^4} + \frac{405.51}{(1+0.1235)^5}$$

$$NPV = -3195.51 + \frac{176.68}{1.1235} + \frac{375.63}{(1.1235)^2} + \frac{444.68}{(1.1235)^3} + \frac{-128.08}{(1.1235)^4} + \frac{405.51}{(1.1235)^5}$$

$$NPV = -3195.51 + 157.18 + 297.32 + 313.57 - 80.33 + 226.40$$

$$NPV = 138.63$$

INTERPRETATION:

NPV enables a manager to consider the_time value of money it will invest. This concept holds that the value of money increases with time because it can always earn interest in a_savings account. Therefore, any other investment of that money must be weighed against how the funds would perform if simply deposited and saved.

Profitability Index:

This method is also known as Benefit-Cost ratio because the numerator measures benefits and the denominator measures costs. "It is the ratio of the present value of cash inflow at the required rate of return to the initial cash outflow of the investment.

Formula:

$$\text{Profitability index} = \frac{\text{PV of future cash flows}}{\text{Initial investment}}$$

1. Calculate the total present value
2. Total Present Value=PV0 +PV1 +PV2 +PV3 +PV4 +PV5 Total Present Value=−3195.51+157.21+297.32+313.57−80.39+226.54
3. Total Present Value=-2281.26

Calculate the Profitability Index:

PI=-2281.26/-3195.51

=0.71

INTERPRETATION:

Therefore, the Profitability Index for the given cash flows is approximately 0.71 Typically, a Profitability Index greater than 1 indicates a desirable investment, but in this case, the negative value suggests that the project may not be profitable.

Internal Rate of Return methods Formula:

$$0 = CF_0 + \frac{CF_1}{(1+IRR)} + \frac{CF_2}{(1+IRR)^2} + \frac{CF_3}{(1+IRR)^3} + \dots + \frac{CF_n}{(1+IRR)^n}$$

$$= \frac{-3195.51}{(1+0.1235)^0} + \frac{176.68}{(1+0.1235)^1} + \frac{375.63}{(1+0.1235)^2} + \frac{444.68}{(1+0.1235)^3} + \frac{-128.08}{(1+0.1235)^4} + \frac{405.51}{(1+0.1235)^5}$$

$$= -3195.51 + \frac{176.68}{1.1235} + \frac{375.63}{(1.1235)^2} + \frac{444.68}{(1.1235)^3} + \frac{-128.08}{(1.1235)^4} + \frac{405.51}{(1.1235)^5}$$

$$= -3195.51 + 157.18 + 297.32 + 313.57 - 80.33 + 226.40$$

$$= 138.63$$

INTERPRETATION:

the Internal Rate of Return provides insight into the potential return on investment and helps guide decision-making processes by comparing the expected returns to the cost of capital.

FINDINGS:

- It is inferred that the company have its highest payback in 2021-2022 with 5.78years. The current year (2022-2023) PBP is found to be 2.5 year. This shows that the company recovers its investment in 2.5 year.
- In the year 2019-2020, the project has a higher rate of return than the minimum rate. A higher rate of return indicates that investment made in the particular year has a higher cash inflow in the future. The accounting rate of return for the year 2022-2023 is reduced to 1.56 year.
- The Net Present Value (NPV) of the cash flows, given a discount rate 138.68 Since the NPV is positive, it indicates that the project is expected to generate more cash inflows than outflows and is considered financially viable.
- The Profitability Index for the given cash flows is approximately 0.71 Typically, a Profitability Index greater than 1 indicates a desirable investment.
- The Internal Rate of Return shows 13.86% This also ensures a profitable investment

5.2 SUGGESTIONS:

- The shorter the payback period, the sooner the company recovers its cash investment. Whether a cash payback period is good or poor depends on the company's criteria for evaluating projects.
- A higher rate of return indicates that investment made in the particular year has a higher cash inflow in the future.
- A negative NPV indicates that the project will probably be unprofitable and therefore should be adjusted, if not abandoned altogether.
- NPV enables a manager to consider the time value of money it will invest. This concept holds that the value of money increases with time because it can always earn interest in a savings account.

- Therefore, any other investment of that money must be weighed against how the funds would perform if simply deposited and saved.

5.4 CONCLUSION:

- Capital budgeting or investment evaluation is the planning process used to determine the organization's long-term investments such as new machinery, replacement machinery, new factories, new products, and research and development will be worth following.
- Capital or investment finance, expenditure. It is a process used to determine whether
- A company's investment or project is worth making. The process of allocating funds that fixed assets is important because they are usually long lived and cannot be easily recovered all at once.
- Therefore, capital investment or investment decisions are very important to companies because they often determine their value by influencing their growth, profitability and risk. Analysis of the payback period and the average rate of return concluded that management should try to acquire capital efficiently.

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