<u>Techtronics – Case on Capital Budgeting</u>

Techtronics Ltd. are considering a new project of manufacturing of pocket video games involving a capital expenditure of Rs. 500 lakhs and working capital of Rs. 150 lakhs. The capacity of the plant is for an annual production of 12 lakhs units and capacity utilization during the 6 years working life of the project is expected to be as indicated below

Year	Capacity Utilization %
1	33.3333%
2	66.6667%
3	90%
4 - 6	100%

The Selling Price of the pocket video game per unit is expected to be Rs. 200 netting a contribution to sales of 40 %. Annual fixed costs (excluding depreciation), are estimated to be Rs. 480 lakhs per annum from the third year onward; for the first and second year it would be Rs. 240 lakhs and Rs. 360 lakhs respectively. The depreciation is charged using WDV method at 25%. The rate of income tax may be taken as 50 %.

At the end of the third year an additional investment of Rs. 100 lakhs would be required for a part of machine.

The company will use the discounting factor of 15%. The individual year wise factors are as follows:

Year	PV Factor @ 15%
1	0.8696
2	0.7561
3	0.6575
4	0.5718
5	0.4972

Terminal value of the fixed assets may be taken at 10 % and for the working capital at 50 %. Calculation may be rounded off to lakhs of rupees.

Questions:

Examine the following things with respect to capital budgeting technique: Cash Outflow, Depreciation, Terminal Cash Inflow, Recurring Cash Inflow **[CO4 – 5 Marks]**

Evaluate whether the proposal is viable based on NPV method. **[CO5 – 5 Marks]**