

**"A STUDY ON CAPITAL BUDGETING IN SIBAR AUTO PARTS LTD.,
TIRUPATI"**

A PROJECT REPORT

*Submitted in partial fulfillment of the
Requirements for the award of the degree of*

MASTER OF COMMERCE (FM)

Submitted By

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DEPARTMENT OF COMMERCE

**SVU COLLEGE OF COMMERCE MANAGEMENT AND
COMPUTER SCIENCES**

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TIRUPATI-517502

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**DEPARTMENT OF COMMERCE
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CERTIFICATE

This is to certify that the project entitled "**A STUDY ON CAPITAL BUDGETING IN SIBAR AUTO PARTS LTD., TIRUPATI**" is a bonafide for the work done during 2019-20 and submitted by **P.KISHORE (REG.NO:Reg.No: 35519063017)**, in partial fulfillment of the requirements for the award of the degree of **MASTER OF COMMERCE (FINANCIAL MANAGEMENT)** during the academic year 2018-2020 in the **DEPARTMENT OF COMMERCE, SRI VENKATESWARA UNIVERSITY, TIRUPATI.**

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DECLARATION

I hereby declare that the project report entitled "**A STUDY ON CAPITAL BUDGETING IN SIBAR AUTO PARTS LTD., TIRUPATI**" is an original work carried out by me and it has been submitted in partial fulfillment for award of “MASTER OF COMMERCE”, **UNDER THE GUIDANCE OF Prof. P.MOHAN REDDY to THE DEPARTMENT OF COMMERCE, SRI VENKATESWARA UNIVERSITY, TIRUPATHI.**

The findings in the report are based on information collected by me and are not submitted for achievement of any other degree.

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PREFACE

In order to bring the innovative skills of students, project work has been including in our curriculum. Its objective is to trap potential of students creative ability by enabling them to work identifies in producing worthwhile project.

The present study deals with the CAPITAL BUDGETING MANAGEMENT in SIBAR AUTO PARTS LTD.

The report is presented in five chapters:

Chapter-1 deals with Introduction, Company profile and Industryprofile

Chapter-2 deals with Review of Literature

Chapter-3 deals with Research Methodology

Chapter-4 deals with Data Analysis and Interpretation

Chapter-5 deals with Findings, Suggestions and Conclusion

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CHAPTER-1

INTRODUCTION

Capital budgeting is a required managerial tool. One duty of a financial manager is to choose investments with satisfactory cash flows and rates of return. Therefore, a financial manager must be able to decide whether an investment is worth undertaking and be able to choose intelligently between two or more alternatives. To do this, a sound procedure to evaluate, compare, and select projects is needed. This procedure is called capital budgeting.

Capital budgeting (or investment appraisal) is the planning process used to determine whether a firm's long term investments such as new machinery, replacement machinery, new plants, new products, and research development projects are worth pursuing. It is budget for major capital, or investment, expenditures.

Many formal methods are used in capital budgeting, including the techniques such as

- Net present value
- Profitability index
- Internal rate of return
- Modified Internal Rate of Return
- Equivalent annuity

These methods use the incremental cash flows from each potential investment, or *project*. Techniques based on accounting earnings and accounting rules are sometimes used - though economists consider this to be improper - such as the *accounting rate of return*, and "return on investment." Simplified and hybrid methods are used as well, such as *payback period*.

CAPITAL IS A LIMITED RESOURCE

In the form of either debt or equity, capital is a very limited resource. There is a limit to the volume of credit that the banking system can create in the economy. Commercial banks and other lending institutions have limited deposits from which they can lend money to individuals, corporations, and governments. In addition, the Federal Reserve System requires

each bank to maintain part of its deposits as reserves. Having limited resources to lend, lending institutions are selective in extending loans to their customers. But even if a bank were to extend unlimited loans to a company, the management of that company would need to consider the impact that increasing loans would have on the overall cost of financing.

In reality, any firm has limited borrowing resources that should be allocated among the best investment alternatives. One might argue that a company can issue an almost unlimited amount of common stock to raise capital. Increasing the number of shares of company stock, however, will serve only to distribute the same amount of equity among a greater number of shareholders. In other words, as the number of shares of a company increases, the company ownership of the individual stockholder may proportionally decrease.

The argument that capital is a limited resource is true of any form of capital, whether debt or equity (short-term or long-term, common stock) or retained earnings, accounts payable or notes payable, and so on. Even the best-known firm in an industry or a community can increase its borrowing up to a certain limit. Once this point has been reached, the firm will either be denied more credit or be charged a higher interest rate, making borrowing a less desirable way to raise capital.

Faced with limited sources of capital, management should carefully decide whether a particular project is economically acceptable. In the case of more than one project, management must identify the projects that will contribute most to profits and, consequently, to the value (or wealth) of the firm. This, in essence, is the basis of capital budgeting.

IMPORTANCE OF CAPITAL BUDGETING:

The importance of Capital Budgeting can be understood from the fact that an unsound investment decision may prove to be fatal to the very existence of the organization.

The importance of capital budgeting arises mainly due to the following:

1. Large Investment:

Capital Budgeting decision, generally involves large investment of funds. But the funds available with the firm are scarce and the demand for funds exceeds resources. Hence, it is very important for a firm to plan and control its capital expenditure.

2. Long term commitment of funds:

Capital expenditure involves not only large amount of funds but also funds for long-term or on a permanent basis. The long-term commitment of funds increases the financial risk involved in the investment decision.

3. Irreversible nature:

The capital expenditure decisions are of irreversible nature. Once, the decision for acquiring a permanent asset is taken, it becomes very difficult to dispose of these assets without incurring heavy losses.

4. Long term effect on profitability:

Capital budgeting decisions have a long term and significant effect on the profitability of a concern. Not only the present earnings of the firm are affected by the investment in capital assets but also the future growth and profitability of the firm depends up to the investment decision taken today. Capital budgeting decision has utmost importance to avoid over or under investment in fixed assets.

5. Difference of investment decision:

The long-term investment decisions are difficult to be taken because of uncertainties of the future and higher degree of risk.

6. National Importance:

Investment decision though taken by individual concern is of national importance because it determines employment, economic activities and economic growth.

PROBLEMS & DIFFICULTIES IN CAPITAL BUDGETING:

- 1. Future Uncertainty:**Capital Budgeting decisions involve long-term commitments. There is lot of uncertainty in the long-term. The uncertainty may be with reference to cost of the project, future expected returns, future competition, legal provisions, political situation etc.,
- 2. Time Element:** The implications of a Capital Budgeting decision are scattered over a long period. The cost and benefits of a decision may occur at different point of time. The cost of a project is incurred immediately. However, the investment is recovered over a number of years. The future benefits have to be adjusted to make them comparable with the cost. Longer the time period involved, greater would be the uncertainty.
- 3. Difficulty in Quantification of Impact:**The finance manager may face difficulties in measuring the cost and benefits of projects in quantitative terms.

Example:The new product proposed to be launched by a firm may result in increase or decrease in sales of other products already being sold by the same firm. It is very difficult to ascertain the extent of impact as the sales of other products may also be influenced by factors other than the launch of the new product.

ASSUMPTIONS IN CAPITAL BUDGETING:

The capital budgeting decision process is a multi-faceted and analytical process. A number of assumptions are required to be made. These assumptions constitute a general set

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of condition within which the financial aspects of different proposals are to be evaluated. Some of these assumptions are:

1. Certainty with Respect to Cost and Benefits:It is very difficult to estimate the cost and benefits of a proposal beyond 2-3 years in future. However, for a capital budgeting decision, it is assumed that the estimate of cost and benefits are reasonably accurate and certain.

2. Profit Motive:Another assumption is that the capital budgeting decision are taken with a primary motive of increasing the profit of the firm. No other motive or goal influences the decision of the finance manager.

3. No Capital Rationing:The Capital Budgeting decision in the present chapter assumes that there is no scarcity of capital. It assumes that a proposals will be accepted or rejected in the strength of its merits alone. The proposal will not be considered in combination with other proposals to the maximum utilization of available funds.

The activities can be listed as follows:

- ❖ Dis-investments i.e., sale of division or business.
- ❖ Change in methods of sales distribution.
- ❖ Undertakings an advertisement campaign.
- ❖ Research & Development programs.
- ❖ Launching new projects.
- ❖ Diversification.
- ❖ Cost reduction.

FEATURES OF INVESTMENT DECISIONS:

- The exchange of current funds for future benefits.
- The funds are invested in long-term assets.

- The future benefits will occur to the firm over a series of years.

IMPORTANT OF INVESTMENT DECISIONS:

- ❖ They influence the firm's growth in long run.
- ❖ They effect the risk of the firm.
- ❖ They involve commitment of large amount of funds.
- ❖ They are irreversible, or reversible at Substantial loss.
- ❖ They are among the most difficult decisions to make

KINDS OF CAPITAL BUDGETING:

Every capital budgeting decision is a specific decision in the situation, for a given firm and with given parameters and therefore, almost infinite number of types of forms of capital budgeting decisions may occur. Even if the same decision being considered by the same firm at two different points of time, the decision considerations may change as a result of change in any of the variables. However, the different types of capital budgeting decision undertaken from time to time by different firms can be classified on a number of dimensions. Some projects affect other projects of the firm is considering and analyzing. At the other extreme, some proposals are pre-requisite for other projects. The project may also be classified as revenue generating or cost reducing projects can be categorized as follows:

From the point of view of firm's existence. The capital budgeting decision may be taken by a newly incorporated firm or by an already existing firm.

New Firm:

A newly incorporated firm may be required to take different decision such as selection of a plant to be installed, capacity utilization at initial stages to set up or not simultaneously the ancillary unity etc.,

Existing Firm:

A firm which already exists may be required to take various decisions from time to time meet the challenge of competition of changing environment. These decisions may be:

Expansion of Existing Business:

Sometimes, the firm may be interested in Increasing the Installed production capacity so as to increase the market share in such a case, the finance manager is required to evaluate the expansion program in terms of marginal costs and marginal benefits.

Diversification:

Sometimes, the firm may be interested to diversify into new product lines, new markets, production of spares parts etc., in such a case, the finance manager is required to evaluate not only the marginal cost and benefits, but also the effect of diversification on the existing market share and profitability. Both the expansion and diversification decisions may be also be known as revenue increasing decisions.

Replacements and Modernization Decision:

This is a common type of a capital budgeting decision. All types of plant and machineries eventually require replacement. If the existing plant is to be replaced because of the economic life of the plant is over, then the decisions may be known as a replacement decision. However, if an existing plant is to be replaced because it has become technologically outdated (Though the economic life may not be over) the decision any be known as a modernization decision. In case of a replacement decision, the objective is to restore the same or higher capacity, whereas in case of modernization decision, the objectives are to increase the efficiency and/or cost reduction. In general, the replacement decision and the modernization decision are also known as cost reduction decisions.

The capital budgeting may also be classified from the point of view of the decision situation as follows:

Independent Project Decision:

This is a fundamental decision in Capital Budgeting. It also called as accept / reject criterion. If the project is accepted, the firm invests in it. In generally all these proposals, which yield a rate of return greater than a certain required rate of return on cost of capital, are accepted and the rest are rejected. By applying this criterion all independent projects with

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one in such a way that the acceptance of one precludes the possibility of acceptance of another. Under the accept –reject decision all independent projects that satisfy the minimum investment criterion should be implemented.

Mutually Exclusive Projects Decision:

Mutually Exclusive project are those, which compete with other projects in such a way that the acceptance of one will exclude the acceptance of the other projects. The alternatives are mutually exclusive and only one may be chosen. Suppose a company is intending to buy a new machine. There are three competing brands, each with a different initial investment adopting costs. The three machines represent mutually exclusive alternatives as only one of these can be selected. It may be noted here that the mutually exclusive projects decisions are not independent of the accept –reject decisions.

Capital Rationing Decision:

In a situation where the firm has unlimited funds all independent investment proposals yielding return greater than some pre-determined levels are accepted. However this situation does not prevail in most of the business firms in actual practice. They have a fixed capital budgeting.

A large number of investment proposals compete for these limited funds, the firm must therefore ration them. The firm allocates funds to projects in a Manner that it maximizes long run returns; this rationing refers to a situation in which a firm has more acceptance investment than it can finance. It is concerned with the selection of a group investment proposals acceptable.

Under the accept – reject decision capital rationing employees ranking of the acceptable investment projects. The project can be ranked on the basis of predetermined criterion such as the rate of return. The project is ranked in the descending order of the rate of return.

CAPITAL BUDGETING PROCESS:

Capital Budgeting is complex process as it involves decision relating to the Investment of current funds for the benefit for the benefit to be achieved in future and the future are always uncertain. However, the following procedure may be adopted in the process of Capital Budgeting.

IDENTIFICATION OF INVESTMENT PROPOSALS:

The capital budgeting process begins with the identification of investment proposals. The proposal about potential investment opportunities may originate either from top management or from any officer of the organization. The departmental head analysis various proposals in the light of the corporate strategies and submits the suitable proposals to the capital expenditure planning.

SCREENING PROPOSALS:

The expenditure planning committee screens the various proposals received from different departments. The committee reviews these proposals from various angles to ensure that these are in accordance with the corporate strategies, or selection criterion of the firm and also do not lead departmental imbalances.

FIXING PRIORITIES:

After evaluating various proposals, the unprofitable uneconomical proposal may be rejected and it may not be possible for the firm to invest immediately in all the acceptable proposals due to limitation of funds. Therefore, it essential to rank the project proposals after considering urgency, risk and profitability involved in there.

FINANCIAL APPROVAL AND PREPARATION OF CAPITAL EXPENDITURE BUDGET:

Proposals meeting the evaluation and other criteria are approved to be included in the capital expenditure budget. The expenditure budget lays down the amount of estimated expenditure to be incurred on fixed assets during the budget period.

IMPLEMENTING PROPOSALS:

Preparation of a capital expenditure budget and incorporation of a particular Proposals in the budget doesn't itself authorize to go ahead with the implementation of the project.

A request for the authority to spend the amount should be made to the capital Expenditure committee, which reviews the profitability of the project in the changed circumstances. Responsibilities should be assigned while implementing the project in order to avoid unnecessary delays and cost overruns. Network techniques like PERT and CPM can be applied to control and monitor the implementation of the projects.

PERFORMANCE REVIEW:

The last stage in the process of capital budgeting is the evaluation of the performance of the project. The evaluation is made by comparing actual and budget expenditures and also by comparing actual anticipated returns. The unfavorable variances, if any should be looked into and the causes of the same be identified so that corrective action may be taken in future.

CAPITAL BUDGETING METHODS IN PRACTICE:

- ❖ In a study of the capital budgeting practices of fourteen medium to large size companies in India, it was found that almost all companies used pay back.
- ❖ With pay back and / or other techniques, about 2/3rd of companies used IRR and about 2/5th NPV. IRR found to be second most popular method.
- ❖ Pay back gained significance because of its simplicity to use & understand its emphasis on the early recovery of investment & focus on risk.
- ❖ It was found that 1/3rd of companies always insisted on computation of pay back for all projects, 1/3rd for majority of projects & remaining for some of the projects.
- ❖ Reasons for secondary of DCF techniques in India included difficulty in understanding & using these techniques, lack of qualified professionals & unwillingness of top management to use DCF techniques.
- ❖ One large manufacturing and marketing organization mentioned that conditions of its business were such that DCF techniques were not needed.

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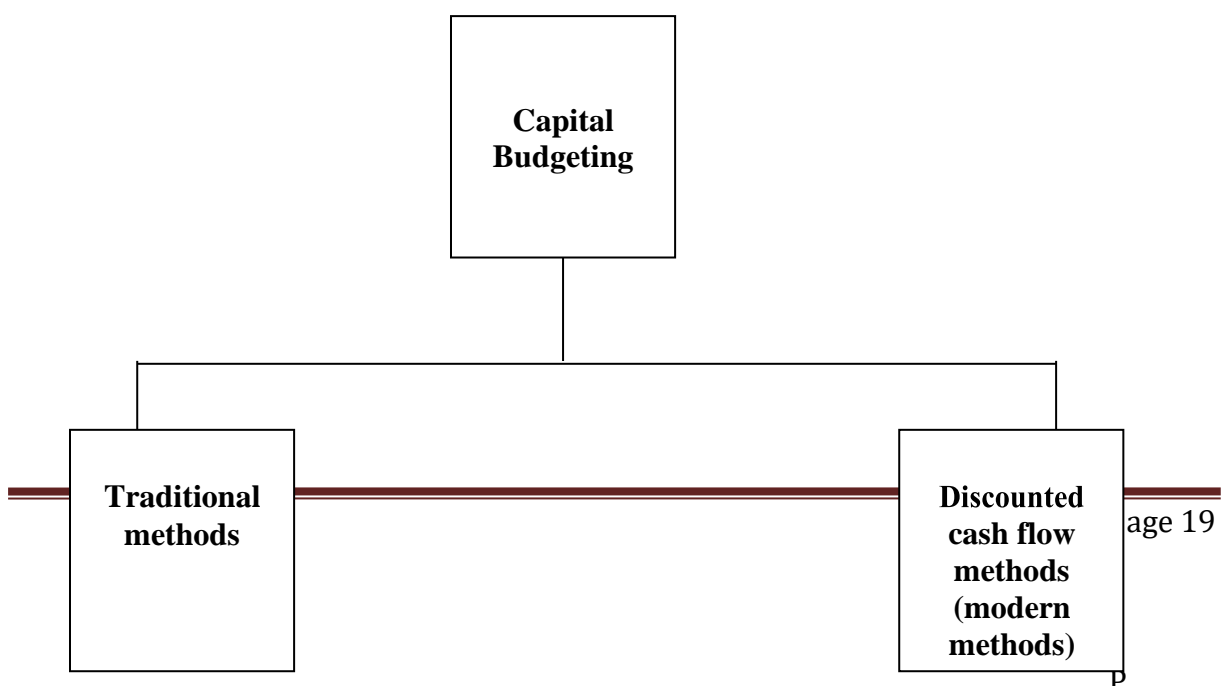
- ❖ Yet another company stated that replacement projects were very frequent in the company, and it was not considered necessary to use DCF techniques for evaluating such projects.
- ❖ Techniques in India included difficulty in understanding & using three techniques, lack of qualified professionals & unwillingness of top management to use DCF techniques.

INVESTMENT EVALUATION CRITERIA:

- Estimation of cash flows.
- Estimation of the required rate of return.
- Application of a decision rule for making the choice.

Consideration of cash flows is to determine true profitability of the project and it is an unambiguous way of identifying good projects from the pool. Ranking is possible it should recognize the fact that bigger cash flows are preferable to smaller ones & early cash flows are preferable to later ones I should help to choose among mutually exclusive projects that which maximizes the shareholders wealth. K it should be a criterion which is applicable to any considerable investment project independent of other. There are number of techniques that are in use in practice. The chart of techniques can be outlined as follows:

CAPITAL BUDGETING TECHNIQUES CHART:



CAPITAL BUDGETING APPRAISAL METHODS:

It views of the significance of capital decision, it is absolutely necessary that the method adopted for appraisal of capital investment proposals is a sound one.

There are several methods for evaluating and ranking the capital investment proposals. In case of all these methods the main emphasis is on the return which will be derived on the capital invested in the projects.

I. TRADITIONAL METHOD

1. Payback period method

The term pay back refers to the period in which the project will generate the necessary cash to recoup the initial investment.

$$\text{Payback period} = \frac{\text{Initial investment}}{\text{Annual cash inflow}}$$

Accept or reject criteria

The payback period can be used as criteria to accept or reject an investment proposal. A project whose actual payback period is more than what has been predetermined by the

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management will be straight away rejected. Taking into account the reciprocal of the cost the maximum acceptable payback period.

Advantages:

1. It is an important guide to investment policy.
2. It lays a great emphasis on liquidity.
3. It is simple to operate and easy to understand.
4. This method costs less as it
5. requires only very little effort for its computation.
6. It weights early returns heavily and ignores distant returns.

Disadvantages

1. It fails to consider the period over which an investment is likely to fetch incomes.
2. It ignores the value of money.
3. This method does not take into consideration the cash flows beyond the payback period.

2. Accounting/Average rate of returns (ARR)

Average rate of return is average of the net profit after taxes over the whole of the economic life of the project are taken. Under this method return, is expressed as percentage of capital or investment. Accounting rate of returns may be calculated using any one of the following formulas.

$$\text{ARR} = \frac{\text{Average net profit after tax}}{\text{Average investment}} * 100$$

The amount of average net profit after taxes and “Average Investment” are calculated as

$$\text{A. Average net profit after tax} = \frac{\text{Total net profit after taxes}}{\text{No. of years}}$$

$$\text{B. Average Investment} = \frac{(\text{Investment} - \text{Scrap value} + \text{Additional working capital})}{2}$$

Accept or reject criteria

- In case of independent projects, calculated ARR of the project will be accepted otherwise rejected.
- While evaluating mutually exclusive projects, calculated ARR of the alternatives will be compared to judge the profitability. The projects, which has higher rate of return, will be accepted.
- $\text{ARR} \geq \text{Standard}$ will be accepted otherwise rejected.

Advantages:

1. It is simple to calculate and easy to understand and hence it is widely used.
2. It uses the entire earnings of a project in calculating rate of return.
3. It facilitates the comparison of new product project with that of cost reducing project other projects of competitive nature.

Disadvantages:

1. This method is like payback period method, ignores the time value of money.
2. This method cannot be applied to a situation where investment in a project is to make in parts.

II. DISCOUNTED CASH FLOW TECHNIQUES

1. NET PRESENT VALUE METHOD

NPV is considered the best method of evaluating the capital investment proposals. In case of this method cash inflow and cash out flow associated with each project are first worked out. The manager then calculates the present values of these, cash inflow and out flows at the rate of acceptable. This rate of return is considered as the cut of rate is generally determined based on cost of capital. Cash out flows represent the investment and commitment of cash in the project at various points of time. The working capital is taken as cash out flow in the year the project starts commercial production. The NPV is the difference between the total present value of future cash inflows and the total present value of future cash out flows.

The equation for calculating NPV in case of conventional cash flows can be put as follows.

$$NPV = \frac{A_1}{(1+r)^1} + \frac{A_2}{(1+r)^2} + \frac{A_3}{(1+r)^3} + \dots + \frac{A_n}{(1+r)^n} - C$$

Where ; NPV= Net present value, A1, A2, A3.....A_n = annual cash inflows.

R = Discounting rate/ cost of capital

1, 2, 3..... n = no. of years

C = cash out flows

Accept or Reject criteria

Net present value be used as an “accepted or rejection” in case the NPV is positive, the project should be accepted. However the NPV is negative the project should be rejected. Symbolically represents.

$NPV > 0$ Accept the proposal

$NPV < 0$ Reject the proposal.

Advantages:

1. It is generally accepted by economist.
2. It is superior to other methods of evaluating the economic worth of investments.
3. It recognizes the time value of money.
4. It recognize the all cash flows throughout the life of the project

Disadvantages:

1. It may not give good results while comparing project with unequal lives and investment.
2. It is not easy to determine on appropriate discount rate.
3. As compared to the traditional methods the net present value method is more difficult to understand.

2. INTERNAL RATE OF RETURN

Internal rate of return (IRR) is the rate that equates the investment outlay with the present value of cash inflow received after one period. This also implies that the rate of return is the discount rate which makes NPV=0.

$$\text{IRR} = \text{LDF} + \frac{(\text{LDFV} - \text{Investment})}{(\text{LDFV} - \text{HDFV})} * C$$

Where,

LDF = Lower Discount Factor

LDFV = Lower Discount Factor Value

HDFV = Higher Discount Factor Value

Inv = Actual Investment

C = Difference in Rate of Return

Accept or reject criteria:

Internal rate of return is the maximum rate of interest, which an organization can afford to pay on the capital invested in a project would qualify to be accepted if IRR exceeds the cut-off rate. While evaluating two or more projects, a project giving the higher rate of return would be preferred. This is because the higher the rate of return, the more profitable is the investment.

Advantages:

1. It provides more precise information regarding profitability.
2. It helps the firm to choose from among different alternatives.
3. It considers the profitability of the project for its entire economic life and hence enables evaluating of true profitability.

3. PROFITABILITY INDEX:

Profitability index is one of the methods of evaluating the investment proposal. It is also called as benefit cost ratio and measures the relationship between present values of cash out flows and cash inflows. Thus, it can be calculated by using formula.

$$\text{Profitability index} = \frac{\text{Present value of cash inflows}}{\text{Present value of cash out flows}}$$

Accept or reject criteria

The proposal is accepted if the profitability index is more than one and rejected in case the profitability index is less than one. In case of mutually exclusive projects and capital rationing situation projects are ranked in orders of their profitability index and accepted.

$PI \geq 1$ Accept the proposal

$PI < 1$ Reject the proposal

1. It evaluates the worth of projects in terms of their relative magnitude. Hence it is superior to P.V. method.
2. It can be used to choose between mutually exclusive projects by computing in gametal benefit- cost ratio.

Disadvantages

1. It involves more calculations than the traditional methods and hence it is very difficult to understand.
2. In some cases of mutually exclusive nature, P.I is inferior to N.P.V method.

CHAPTER-2

RESEARCH METHODOLOGY

This chapter discusses the research methodology used as well as the process adopted for data collection in the study. It focuses in particular, on the hypotheses of the study, the universe and the sample, method of data collection used, and the statistical tools applied for the purpose of analyzing and interpreting the data.

NEED FOR THE STUDY

- The project study is under taken to analyze and understand the Capital Budgeting process in Sibar Auto Parts Ltd, which gives main exposure to practical implication of theory knowledge.
- To know about the organization's operation of using various Capital Budgeting Techniques.
- To know how the organization gets funds from various resources.

OBJECTIVES OF THE STUDY

- To study the technique of capital budgeting for decision-making.
- To measure the present value of rupee invested.
- To understand the practical usage of capital budgeting technique.
- To understand the nature of risk and uncertainty.

SCOPE OF THE STUDY:

Various aspects of capital budgeting such as definition, objectives, importance, process and methods are include in the study. A brief details pertaining to Sibar Auto Parts Ltd with regard to its establishment and financial summary for the years 2014-15 to 2018-1 are covered. Besides the capital budgeting tools employed by Sibar Auto Parts Ltd in appraising projects has been examined.

For the purpose of this study, a case study of a A.K.Financed by the corporation has been analyzed and calculate cash flows, Pay Back Period, Average Rate of Return, Net Present Value, Internal Rate of Return, Profitability Index.

SOURCE OF THE STUDY

To achieve a foresaid objective the following methodology has been adopted. The information for this report has been collected through the primary and secondary sources.

Primary Sources:

It is also called as first handed information the data is collected through the observation in the organization and interview with officials. By asking question with the accounts and other persons in the financial department. A part from these some information is collected through the seminars, which were held by Sibar Auto Parts Ltd.

Secondary Sources:

The Secondary Data has been collected through the various books, company financial statements, magazines, brochures & Websites.

LIMITATIONS OF THE STUDY

- Lack of time is another limiting factor i.e., the schedule period of 8 weeks are not sufficient to make the study independently regarding Capital Budgeting in Sibar Auto Parts Ltd.
- The busy schedule of the officials in the Sibar Auto Parts Ltd is another limiting factor. Due to the busy schedule officials restricted me to collect the complete information about organization.
- Non-availability of confidential financial data.
- The study is conducted in a short period, which was not detailed in all aspects.
- All the techniques of capital budgeting are not used in Sibar Auto Parts Ltd. Therefore it was possible to explain only few methods of capital budgeting.

REVIEW OF LITERATURE:

An efficient allocation of capital is the most important finance function in modern times. It involves decisions to commit firm's funds to long-term assets. Such decisions are tend to determine the value of company / firm by influencing its growth, profitability & risk.

Investment decisions are generally known as capital budgeting or capital expenditure decisions. It is clever decisions to invest current in long term assets expecting long-term benefits firm's investment decisions would generally include expansion, acquisition, modernization and replacement of long-term assets.

Such decisions can be investment decisions, financing decisions or operating decisions. Investment decisions deal with investment of organization's resources in Long term (fixed) Assets and / or Short term (Current) Assets. Decisions pertaining to investment in short term Assets fall under "Working Capital Management". Decisions pertaining to investment in Long term Assets are classified as "Capital Budgeting" decisions.

Capital budgeting decisions are related to allocation of investible funds to different long-term assets. They have long-term implications and affect the future growth and profitability of the firm.

In evaluating such investment proposals, it is important to carefully consider the expected benefits of investment against the expenses associated with it. Organizations are frequently faced with Capital Budgeting decisions. Any decision that requires the use of resources is a capital budgeting decision. Capital budgeting is more or less a continuous process in any growing concern.

Example: Purchase of Land is an example of Capital Budgeting decision. Similarly replacement of outdated equipment with modern machines, purchase of a brand or business, computerization and networking the organization, investment in research and development of a product launch of a major promotional campaign etc., are all examples of Capital Budgeting decisions. However, in all cases the decisions have a long-term impact on the performance of the Organization. Even a single wrong decision may in danger the existence of the firm as a profitable entity.

SIGNIFICANCE OF THE STUDY:

The importance of this research in its usefulness. This study will be of immense interest to those responsible for appraising capital budgeting decision in firms. The study will also be of immense help to accounting on banking student interested in this area.

It is hoped that the research findings will be primary importance to the management of the government Cyber Auto Mobiles.

STATEMENT OF PROBLEM:

This study which is an appraisal of capital budgeting in government Cyber Auto Mobiles, is to find out how the various Cyber Auto Mobiles appraise as capital budgeting decisions. For every organization, the usefulness of financial statement enhance decision making. Information provided should be current and meaningful.

The continuing inflation of recent year has led to an increasing awareness of some of the disadvantage of historical cost accounting. The following problems associated against the capital budgeting decision in government parastatals.

- i. The inability to provide current information for decision making.
- ii. Limitation of capital evaluation models and appraising investment.
- iii. Lack of infrastructure facilities militate the production and service of organization.

iv. Finally the monitoring/post auditing of all capital budgeting decision is important. However this is costly and after ignored in practical.

Management should under take this activities as it can contribute favourably to the firms over all returns risk and value.

STUDY OF HYPOTHESES :

Based on the review of literature, the following null hypotheses were formulated

H01: The size of a company's capital budget, its sales revenue and nature of the company do not affect the selection of a particular capital budgeting method.

H02: Age of the company and education of CEO do not affect the selection of a particular capital budgeting method.

H03: The size of a company's capital budget, its sales revenue and nature of the company do not affect the choice of methods for incorporation of risk in capital budgeting.

H04: Age of the company and education of CEO do not affect the choice of methods for incorporation of risk in capital budgeting.

H05: The types of investment project (new, existing or replacement) do not affect the selection of a particular capital budgeting method as well as the methods for risk incorporation.

H06: The size of a company's capital budget, its sales revenue and nature of the company do not affect the choice of different methods for calculating the cost of capital.

H07: Age of the company and education of CEO do not affect the choice of different methods for calculating the cost of capital.

H08: The size of a company's capital budget, its sales revenue, nature of the company and variables as age of the company and education of CEO do not affect the level of difficulty associated with different stages of capital budgeting process.

2.10 TOOLS OF ANALYSIS:

Throughput Analysis

Throughput analysis is the most complicated form of capital budgeting analysis but also the most accurate in helping managers decide which projects to pursue. Under this method, the entire company is considered as a single profit-generating system. Throughput is measured as an amount of material passing through that system.

The analysis assumes that nearly all costs are [operating expenses](#), that a company needs to maximize the throughput of the entire system to pay for expenses, and that the way to maximize profits is to maximize the throughput passing through a bottleneck operation. A bottleneck is the resource in the system that requires the longest time in operations.

This means that managers should always place a higher priority on capital budgeting projects that will increase throughput passing through the bottleneck.

DCF Analysis

Discounted cash flow (DCF) analysis looks at the initial cash outflow needed to fund a project, the mix of cash inflows in the form of revenue, and other future outflows in the form of maintenance and other costs.

These costs, except for the initial outflow, are discounted back to the present date. The resulting number from the DCF analysis is the net present value (NPV). Projects with the highest NPV should rank over others unless one or more are [mutually exclusive](#).

Payback Analysis

[Payback analysis](#) is the simplest form of capital budgeting analysis but it's also the least accurate. It's still widely used because it's quick and can give managers a "back of the envelope" understanding of the real value of a proposed project.

This analysis calculates how long it will take to recoup the costs of an investment. The payback period is identified by dividing the initial investment in the project by the average yearly cash inflow that the project will generate.

CHAPTER-3

COMPANY THEMES

INDUSTRY PROFILE

The present automobiles are most sophisticated combining luxury, safety economy in utilizing the energy resource with great speed and least environment. Pollution using various field of science likes aerodynamics, mechanical expertise and electrical engineering. Every day improvement in the existing models holding the price line in reasonable range involving high become necessity. Present day consumer satisfaction involves great skill in marketing, advertising and positioning the product line whim and Cashion advances with increased performance and reduce size. Business minded people started selling them top the society.

The automotive components and ancillary industry I Indian has made big strides in last couple of year following of the phased manufacturing programmer for his main product. With the launching of a major modernization scheme by the manufactures, substantial progress has been made towards indigenization of the auto components and spare parts.

TOTAL CONTRIBUTION TO GDP

Introduction:

The Indian auto industry is one of the largest in the world with an annual production of 21.48 million vehicles in FY 2013-14. The automobile industry accounts for 22 per cent of the country's manufacturing gross domestic product (GDP). An expanding middle class, a young population, and an increasing interest of the companies in exploring the rural markets have made the two wheelers segment (with 80 per cent market share) the leader of the Indian automobile market. The overall passenger vehicle segment has 14 per cent market share.

India is also a substantial auto exporter, with solid export growth expectations for the near future. Various initiatives by the Government of India and the major automobile players in the Indian market is expected to make India a leader in the Two Wheeler and Four Wheeler market in the world by 2020.

Market Size:

Sales of commercial vehicles in India grew 5.3 per cent to 52,481 units in January 2015 from a year ago, according to Society of Indian Automobile Manufacturers (SIAM). Sales of cars also grew for a third month in a row to 169,300 units in January 2015, up 3.14 per cent from the year-ago period. Car market leader Maruti Suzuki India witnessed 8.6 per cent higher sales at approximately 118,551 units in February 2015, out of which 107,892 were sold in domestic market and 10,659 units were exported.

Hyundai Motor India Ltd (HMIL) reported a 2.4 per cent growth in total sales at 47,612 units in February, compared with 46,505 units in the same month last year. In the two-wheeler segment, Hero Motorcar witnessed sales of 484,769 units in February 2015. TVS Motor Co posted 15 per cent higher sales at 204,565 units against 177,662 units. Bajaj Auto sold a total of 243,000 two and three-wheelers segment.

Investments:

To match production with demand, many auto makers have started to invest heavily in various segments in the industry in the last few months. The industry has attracted foreign direct investment (FDI) worth US\$ 12,232.06 million during the period April 2000 to February 2015, according to the data released by Department of Industrial Policy and Promotion (DIPP).

Some of the major investments and developments in the automobile sector in India are as follows:

- DSK Hyosung has announced to set up a plant in Maharashtra and is planning to add 10-15 dealerships in the next financial year (FY 15-16) mostly in the tier-II cities and introduce more models in the 250cc segment.
- Germany-based luxury car maker Bayerische Motoren Werke AG's (BMW) local unit has announced to procure components from seven India-based auto parts makers.
- Mahindra Two Wheelers Limited (MTWL) has acquired 51 per cent shares in France-based Peugeot Motorcycles (PMTM).
- Suzuki Motor Corp is planning to sell the automobiles made in the Gujarat plant, in Africa.

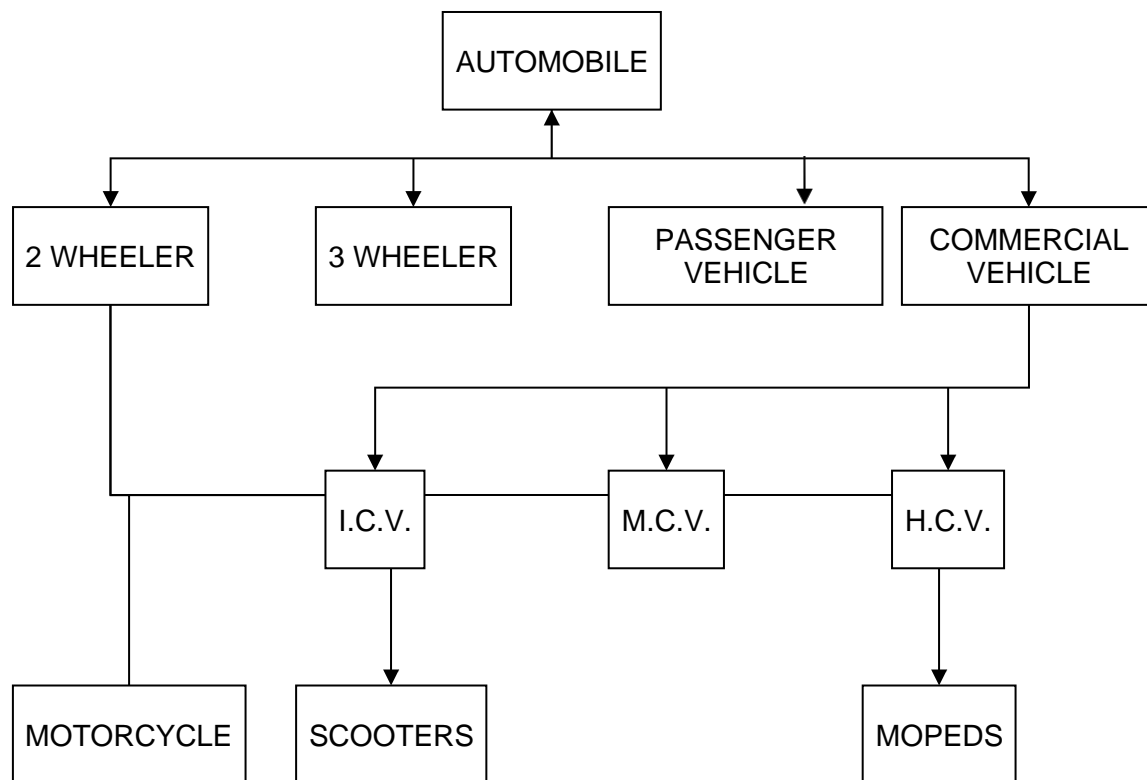
- Tata Motors Ltd, India's largest automobile maker, will sell trucks in Malaysia, Vietnam and Australia to strengthen its presence in the Asia-Pacific region.

Government Initiatives

The Government of India encourages foreign investment in the automobile sector and allows 100 per cent FDI under the automatic route. Excise duty on small cars, scooters, motorcycles and commercial vehicles was reduced in February last year to 8 per cent from 12 per cent to boost the 'Make in India' initiative of the Indian government.

Some of the major initiatives taken by the Government of India are:

- Under the Union budget of 2015-16, the Government has announced to provide credit of Rs 850,000 to farmers, which is expected to boost the tractors segment. The government is aligning to ensure that at least one family member is economically strong to support the family. This is expected to improve the sentiments of entry-level two-wheelers.



COMMERCIAL VEHICLES	TATA MOTORS, ASHOK LEYLAND, SWARAJ MAZDA, MAHINDRA & MAHINDRA, FORCE MOTORS, EICHER MOTORS
PASSENGER VEHICLE	TATA MOTORS, MARUTI UDYOG, HONDA MOTORS, TOYATA, SKODA, MAHINDRA & MAHINDRA, DAIMLER CHRYSLER, HINDUSTAN MOTORS
TWO WHEELER	HERO HONDA, BAJAJ AUTO, HONDA MOTORS, TVS MOTORS, YAMAHA, KINETIC MOTORS
THREE WHEELER	BAJAJ AUTO, PIAGGIO INDIA

RAW MATERIALS

Most of the raw materials to manufacture cylinder blocks are available from Hyderabad, Chennai and Calcutta. The following are some of the raw materials used for the production:

- ❖ Aluminum Alloy
- ❖ Caustic Soda
- ❖ Shell Sand
- ❖ LDO oil
- ❖ Chromic Acid
- ❖ Diamond Honing sticks
- ❖ Nickel Carbonate

COMPANY PROFILE

M/S SIBAR AUTOPARTS Ltd. Was originally incorporated as private limited company by name M/s SIBAR AUTOPARTS (PVT) Limited in the year 1983, located at industrial estate, TIRUPATHI. It was converted into public limited company in the year 1994. The company is presently engaged in manufacturing and marketing of aluminum hard chrome plated cylinder kits mainly for the two wheelers up to engine capacity 150cc.

The company had started o aluminum foundry with a small capital of Rs.3.00 lacks to manufacture aluminum alloy casting. The castings were supplied to reputed establishments viz., TVS, SHKNEY PARIS ROHME LTD etc. In the year 1987, the company expanded its activity to achieve the original conceived idea of manufacturing aluminum hard chrome plated cylinders blocks for two wheelers applications. The entire technology development was started by in-house R&D skills and in the course of time the technology was developed with the in-house R&D's network, the quality of the product was found very good land it was accepted in the European market immediately. The company was reached about 272 lacks

worth of exports and the company also received MERIT AWARD FRO EXPORT PROMOTION COUNCIL for EXCELLENCE in exports during the year 1994-95 and in the same year the company had come out with a public issue and it was oversubscribed by 18 times which only shows the company's credibility among the investors. The company has become public since then and company started developing the cylinders for domestic ORIGINAL EQUIPMENT (OE) manufacturers. In the process the company has developed various models of Asia's biggest two wheeler manufacture like M/S BAJAJ AUTO Ltd, M/S HERO MOTORS Ltd, and M/S ENFIELD INDIA Ltd, etc. from a turnover of approximately Rs.190 lacks in the year 1993-94 the company achieved Rs.843 lacks turnover in the year 1996-97. Besides serving these OEMS in India, the company is still in the over – seas market with a very good network. The technology developed by the company is UNIQUE.

About Sibar Auto Parts Ltd.

Sibar Auto Parts Ltd., incorporated in the year 1983, is a Small Cap company (having a market cap of Rs 3.7 Cr.) operating in Auto Ancillaries sector Sibar Auto Parts Ltd. key Products/Revenue Segments include Auto Cylinders which contributed Rs 8.06 Cr to Sales Value (66.00% of Total Sales), Job Work which contributed Rs 4.15 Cr to Sales Value (33.99% of Total Sales), for the year ending 31-Mar-2014.

For the quarter ended 31-Mar-2015, the company has reported a Standalone sales of Rs. 3.85 Cr., down -2.51% from last quarter Sales of Rs. 3.95 Cr. and up 14.81% from last year same quarter Sales of Rs. 3.35 Cr. Company has reported net profit after tax of Rs. 0.07 Cr. in latest quarter. The company's management includes Mr. A J Sharma, Mr.VinayagamMunuswamy, Mr. A J Sharma, Mr.KRajendra Prasad, Mr.KSubbaiah, Mr.PMadhuprathap, Mr.PVeeranarayana, Mr.RamachandraChowdaryAmineni.Company has SPC & Associates as its auditors. As on 31-Mar-2015, the company has a total of 9,535,100 shares outstanding.

CAPITAL BUDGETING

MANAGEMENT:

Name	Designation
A J Sharma	Company Secretary
A J Sharma	Secretary
K Rajendra Prasad	Nominee Director
K Subbaiah	Director
P Madhuprathap	Director – Technical
P Veerananarayana	CEO
P Veerananarayana	Vice Chairman &Mng.Director
Ramachandra ChowdaryAmineni	Director

Cash flows Rs (in Crores)

Particulars	Mar'19	Mar'18	Mar'17	Mar'16	Mar'15
Profit Before Tax	.40	.11	.43	.26	-.01
Net Cash Flow from Operating Activity	1.72	1.23	4.57	-.13	.48
Net Cash Used in Investing Activity	-.66	.04	-.52	-.09	-.17
Net Cash Used in Financing Activity	-.91	-1.08	-4.04	.13	-.28

CAPITAL BUDGETING

Net Inc/Dec In Cash and Cash Equivalent	.16	.19	.00	-.10	.03
Cash and Cash Equivalent - Beginning of the Year	.27	.08	.08	.17	.15
Cash and Cash Equivalent - End of the Year	.43	.27	.08	.08	.17

PROMOTERS:

The founder of this company is Mr. P.V.NARAYANA who is now as vice chairman and managing director. He completed his company diploma in Mechanical Engineering and completed his Training tool and Die making from NTTF, Dharwada. After attaining 8 years of experience in reputed companies like M/s Suvega Moped Ltd, M/s HERO Megistic Ltd, And etc and setup this unit.

Now this company is also supported with to young men who are the son's of vice chairman and managing director. Mr.MadhuPratap, now as the director-Technical completed his graduation in Mechanical Engineering, and Post graduation in Industrial. Engineering and

Management. Mr. Ravichandra, now as Executive director, completed his graduation in chemical Engineering.

TECHNOLOGY:

The company started hard-chrome plating technology with in house research and development efforts. The company also developed NI-SI plating. In 1998 the company had entered technical collaboration with Italian company to refine its technology. Ours is the first company in India to this technology.

MANUFACTURING PROCESS:

The manufacturing process broadly consists of shell molding, die casting machining heat treatment, chrome plating, inspecting, packing and dispatch. The sand shell core and first made using shell core shooting machine, having a capacity of making 500nos. Modules/shift. The shells are then housed in the dies. Aluminum LM-13 grade alloy, melted in bate-out titling furnace, are then transferred to an electrical holding furnace, where the melt is and treated with necessary chemicals. The molten metal held in the holding furnace for around 4 hrs. is cast is then used for making casting by using permanent would gravity dies or low pressure die- casting. After atmospheric cooling (times 3 hours) the casting is sawed. Fettling of the casting is then done to remove the flashes. The casting is then heat treated in a pit – furnace (temp 510 c for 3 ½ hours) quenched in the water (temp 60 c) and aged for 2 hours in oven at 200 c _250 c for stabilization of the micro structural properties of the casting. The rough casting is then machine and made ready for hard chrome plating. The casting is then degreased using tri-chloreothylene and then chromo- plated. The hard chrome plated cylinder are further machine is sophisticated machine and tested with measuring instruments. These operations are very critical and having very close tolerance those are subsequently sent to AC room plated kit there in Ac room and bore measurement is recorded are a temperature of 20c.

ADVANTAGES OF SIBER ALUMINUM HARD CHROME CYLINDERS:

1. The life of the aluminum cylinder block is much longer than conventional cast iron cylinder blocks. This is due to higher hardness in aluminum cylinder block

because the bore is plated with hard chrome/nickel. Since the hardness much higher, the wear pattern of the bore is also much less.

2. Since the aluminum is a light metal, the fuel efficiency is also better.
3. Since both piston and cylinder block are of the same material, the expansion is uniform, which will be an added advantage.
4. Since the bore is finished with nickel, the ratio of oil use may also be comparatively less. This helps to maintain very low emission.
5. Since the wear pattern of the cylinder bore is very less, the cost of maintenance is very negligible.
6. Better “eye-appeal”.
7. There is no need to see bore up to 60,000 kms.
8. Replacing rings easy at nominal cost.
9. 60% reduction in engine weight.
10. More economical.
11. None to beat price.
12. Ready availability of spares with leading two wheeler dealer through our distributor.

CUSTOMER:

Automotive item O.E.M Customer for casting:

1. M/S Greaves cotton ltd-RANIPET.
2. M/S Greaves cotton ltd- AURANGABAD.
3. M/S Same Deutz- FAHRINDIA (P) LTD RANIPET
4. ALKRAFT THERMOTECHNOLOGIES PVT.LTD. CHENNAI (Is 9001-2000 certified unit)

Auto Motive Item O.E.M (INDIA) Customer For Cylinder Blocks:

CAPITAL BUDGETING

1. M/S BAJAJ AUTO LTD. PUNE.
2. M/S HERO MOTORS LTD- GAZIABAD.

Auto Motive Item O.E.M (Exports) Customer for Cylinder Blocks:

1. M/S Electrolux, Meculloch- TALIANA, ITALY,
2. We have replacement market in EUROPE and we supply to ITALY, NETHERLANDS, and DENMARK etc.

Electrical Transmission Line Item and other are casting Customer:

1. M/S GR power switches Gear Limited HYDERABED. (ISI 9001 certified unit)
2. M/S KLEMMEN engineering corporation CHENNAI.
3. M/S SEIMENS LIMITED (Hyderabad works) Hyderabad (under process)

ACHEVEMENTS

- ◆ The Company always maintained status of single source supplier with all its customers. Its customers by serving then quality products delivery scheduled without interception of their production.
- ◆ The company was success full in giving satisfied results of VRDE
- ◆ (Vehicle Research Development Estate) for their simulation air crafts engines both hard chrome and NI-SI PLATING.
- ◆ The company also satisfied NAL (National aeronautical Ltd) Bangalore by giving them NI-SI plating on propeller shaft ring.
- ◆ The company was awarded Merit of Excellence in Exports from Promotion Council in India.
- ◆ The company has been awarded ISO 9001-2000 quality management system (Under clause 7 permissible exclusion: 7.3).

PRODUCT PROFILE

In India automobile engine cylinders are predominantly of cast iron or of aluminum with cast iron sleeves whereas worldwide there is a growing shift to aluminum alloy cylinders and engine blocks. Aluminum cylinders with hard chrome plating reduce engine weight significantly. Also the wear and tear the piston bore is reduced drastically because cylinders have about 900 Vickers hardness, consequently giving better mileage and fuel efficiency.

Unlike aluminum with cast iron sleeves hard chrome plated aluminum cylinders are of uniform material and provides excellent heat dissipation. Further very close clearance is possible between bore and piston for optimal engine power output without fear of seizure at higher temperature. Aluminum chrome plated cylinders also consume less oil than cast iron cylinders and hence are less polluting and cheaper to maintain.



4.





CAPITAL BUDGETING

COMPETITORS:

Company	Sales (Rs. Million)	Current Price	Change (%)	P/E Ratio	Market Cap.(Rs. Million)	52-Week High/Low
Bosch	88201.00	23655.30	2.67	73.44	742750.40	27989/11700
Motherson Sumi Sys	45245.00	486.85	2.45	83.39	429362.44	534/294
Wabco India	11107.01	5714.20	2.38	89.83	108384.57	6038/2496
Tube Investments	35255.70	347.85	1.31	53.87	65101.45	409/255
Amtek India	29912.24	180.65	-0.96	27.36	50213.00	190/41
Sundaram- Clayton	11967.60	1972.00	3.73	56.07	39897.67	2100/795
Amtek Auto	39506.83	161.45	3.43	9.85	35570.33	272/129
Federal-Mogul Goetz	11369.72	429.60	2.41	95.21	23899.56	512/192
Minda Corporation	6167.55	91.00	0.83	59.97	19047.36	100/86
Igarashi Motors	3612.28	511.10	-0.51	31.96	15643.98	538/131
Suprajit Engineering	4822.96	125.30	-0.56	33.71	15038.51	170/86
Wheels India	18231.52	1219.25	-0.16	49.33	14670.36	1608/580
Bosch Chassis	6993.50	595.95	0.00	0.00	12391.59	597/593
Gabriel India	12866.08	80.85	-0.37	19.35	11613.61	107/41
Auto.Axle	6769.27	752.00	1.55	56.93	11364.21	862/457
Sona Koyo Steerg Sys	10429.95	52.00	-2.07	57.49	10334.58	65/29

CAPITAL BUDGETING

ZF Steering Gear (I)	NA	1092.00	0.85	27.86	9908.04	1370/350
Jamna Auto Inds.	7163.83	220.90	-1.12	29.72	8747.88	275/100
JBM Auto	5658.06	213.30	1.96	25.90	8701.65	310/46
Minda Industries	11080.62	532.75	-0.51	15.89	8452.27	655/211
Shanthi Gears	1557.60	101.50	-1.74	88.99	8294.16	179/76
JMT Auto	2969.26	151.60	1.07	58.96	7638.10	188/79
Banco Products (I)	4472.24	101.20	-0.49	17.35	7237.69	184/84
FiemInds	7184.16	595.75	4.43	17.45	7126.50	945/450
Munjal Showa	NA	172.30	-0.69	9.11	6891.14	252/110
Fairfield Atlas	3603.50	241.00	0.00	12.70	6584.25	241/240
Setco Automotive	3528.53	232.10	-0.26	26.38	6201.56	294/97
Rico Auto Inds	9303.90	43.30	-7.08	3.41	5857.84	58/15
ShivamAutotech	3985.92	114.00	0.88	20.26	5700.00	135/30
Hindustan Composites	1069.37	1120.00	0.00	21.37	5513.76	1448/476
Hi-Tech Gears	3610.21	269.30	1.55	27.43	5054.22	378/114
Sharda Motor Inds.	8183.29	811.00	-0.86	13.35	4822.47	1150/333
Steel Strips Wheels	10638.32	302.50	0.20	11.71	4615.90	396/162
India Nipon	2626.69	391.20	-1.61	19.53	4424.75	512/205

CAPITAL BUDGETING

Electric

Denso India	11999.00	142.70	0.00	0.00	3978.43	143/142
Rane Engine Valve	2659.20	589.50	1.68	16.87	3960.85	700/300
Munjal Auto Inds	8164.67	77.50	-0.64	8.86	3875.00	134/64
Subros	11710.56	58.45	-0.34	17.26	3506.33	81/34
Lumax Auto Tech	4766.10	255.00	-0.43	10.85	3476.04	387/130
Rane Madras	7266.00	315.00	-1.56	26.61	3310.85	514/249
Phoenix Lamps	3708.83	112.55	0.36	11.48	3153.57	178/86
IST	213.19	537.00	-4.96	92.49	3131.81	585/260
AliconCastalloy	4410.46	280.60	-0.11	17.19	3086.60	349/131
Automobile Cargo	3029.80	471.20	0.23	19.83	3025.87	611/262
Lumax Industries	11166.98	319.70	0.63	18.03	2988.47	478/290
Jay Bharat Maruti	NA	132.70	-0.52	7.19	2872.96	180/62
Pricol	8911.48	30.15	0.00	0.00	2858.12	69/27
Ucal Fuel Sys.	4656.32	101.40	-1.84	11.33	2242.32	166/58

CHAPTER-4**DATA ANALYSIS AND INTERPRETATION****I. TRADITIONAL METHODS**

SHOWS PAYBACK PERIOD FOR GIVEN PROJECT

YEARS	PROFIT AFTER TAX	DEPRECIATION	CASH INFLOWS(PAT+DEPRECI ATION)	CUMULATIVE CASH INFLOWS
2014-15	8,85,153	87,05,418	95,90,571	95,90,571
2015-16	85,840	71,82,301	72,681,41	1,68,58,712
2016-17	21,86,324	10,64,844	32,51,168	2,01,09,880
2017-18	2,51,74,396	9,03,707	2,60,78,103	4,61,87,983
2018-19	1,97,34,256	10,35,358	2,07,69,614	6,69,57,597
			Total = 6,69,57,597	

Source: (Company annual reports)

In case of unequal cash inflows, the payback period can be computed by calculating the cumulative cash inflow and checking whether the values are recovered to the original outlay and taking the remaining amount and apply the formulae i.e.,

Investment = 2,10,22,334**Required amount**▪ **PBP** = Last year before recovery + -----**Next year CFAT**

9,12,454

= 3 +

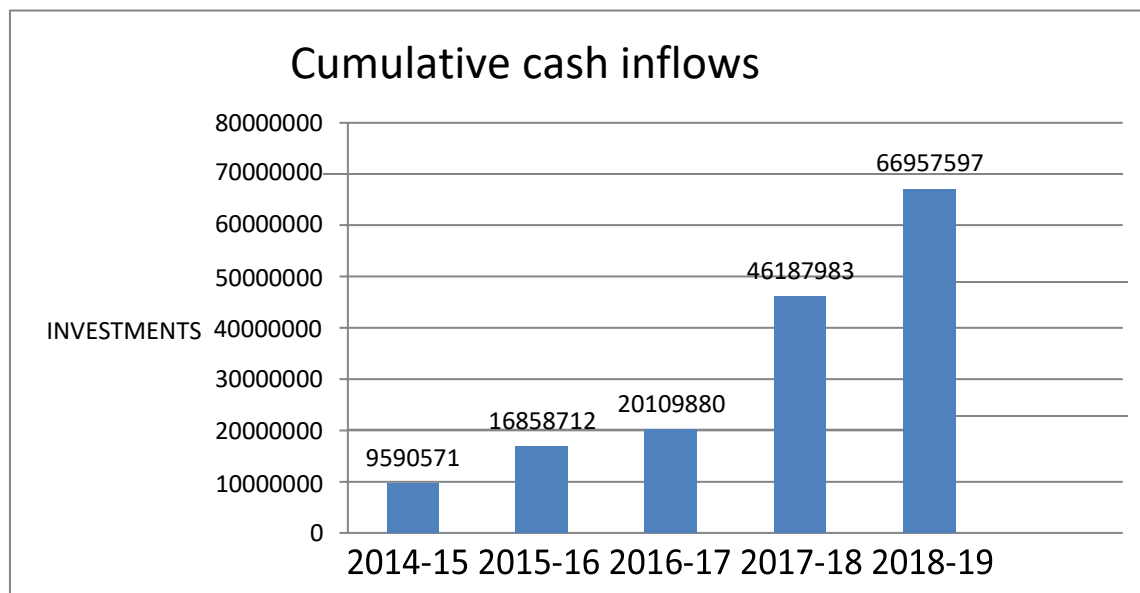
2,60,78,103

= 3+0.0349

= 3.0349

GRAPH NO: 4.1

GRAPH TITLE: PAYBACK PERIOD OF PROJECT



- a) In the Pay Back method the Investment and the cumulative cash inflows are fluctuating from year to year where as in the year 2014 it is 95,90,571 and in the year 2019 is 6,69,57,597.
- b) Cash inflows are in the order of increasing from 2014 and 2019.

CRITERIA FOR EVALUATION:

The Pay Back Period computed for a project is less than the Pay Back Period set by the management of the company it would be accepted. A project actual Pay Back Period is more than the determined period by the management it will be rejected.

DECISION:

The standard Pay Back Period is by SIBAR AUTO PARTS LTD for considering the expansion project is 5 years but the actual Pay Back Period is 3.0349 years hence this project is accepted.

TABLE NO: 4.2

SHOWING ARR FOR GIVEN PROJECT

YEARS	PROFIT AFTER TAX	DEPRECIATION	CASH INFLOWS(PAT+DEPRECIATION)
2014-15	8,85,153	87,05,418	95,90,571
2015-16	85,840	71,82,301	72,681,41
2016-17	21,86,324	10,64,844	32,51,168
2017-18	2,51,74,396	9,03,707	2,60,78,103
2018-19	1,97,34,256	10,35,358	2,07,69,614
	Total = 4,80,65,969	Total = 1,88,91,628	

Source : (Company annual reports)

➤ Average rate of return (ARR)

$$\text{ARR} = \frac{\text{Average Profit}}{\text{Average Investment}} * 100$$

$$\text{Average Profit} = \frac{\text{Total profits}}{\text{No. of years}}$$

$$= \frac{4,80,65,969}{5}$$

$$= 96,13,193.8$$

CAPITAL BUDGETING

Total investment – Scrap value+other expenses

Average Investment = -----

2

2,10,22,334 – 1,88,91,628

= -----

2

= 21,30,706

96,13,193.8

= -----* 100

21,30,706

= 4.5117*100

= 451.741

451.741

PER YEAR = -----

5

= 90.348%



Accounting rate of return (ARR)

Average Profit

$$\text{ARR} = \frac{\text{Average Profit}}{\text{Original Investment}} * 100$$

1,33,91,519.4

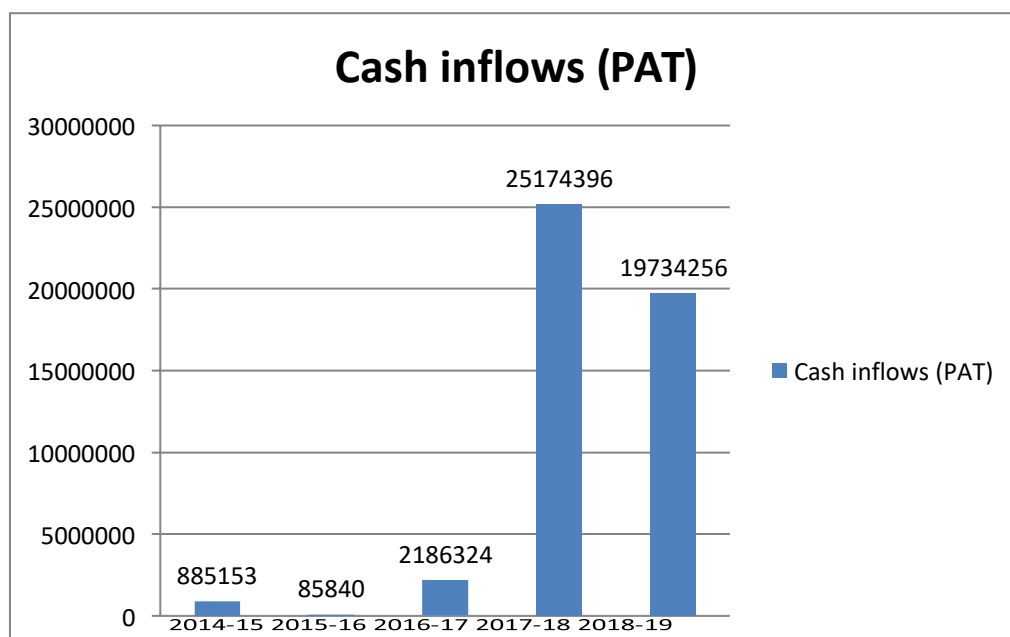
$$= \frac{\text{Average Profit}}{2,10,22,334} * 100$$

$$= 0.6370 * 100$$

$$= 63.7013 \%$$

GRAPH NO: 4.2

GRAPH TITLE: ARR FOR GIVEN PROJECT



- a) In the Pay Back method the Investment and the case inflows are fluctuating from year to year where as in the year 2014 it is 8, 85,153 and in the year 2019 is 1,97,34,256.
- b) Cash inflows are in the order of increasing,decreasing from 2014 to 2019.

CRITERIA FOR EVALUATION:

ARR is higher than minimum rate of return established by the management are accepted. It rejected project have less ARR than the minimum rate set by the management.

DECISION:

The standard ARR is by SIBAR AUTO PARTS LTDmanagement is higher. The actual ARR is 90.348 % it is higher than the standard ARR set by the management. Hence this project is accepted.

II. DISCOUNTED CASH FLOW TECHNIQUES

TABLE NO: 4.3

SHOWS NPV FOR GIVEN PROJECT

YEARS	CASH INFLOWS	Discount factor 18%	NET PRESENT VALUES
2014-15	95,90,571	0.847	81,23,213.637
2015-16	72,681,41	0.718	52,18,525.238
2016-17	32,51,168	0.609	19,79,961.312
2017-18	2,60,78,103	0.516	1,34,56,301.15
2018-19	2,07,69,614	0.437	90,76,321.318
		TOTAL	2,57,43,651.66

Source :(Company annual reports)

NPV = Present Value of Cash inflow – Present Value of the Cash outflow

Present cash inflows = **2,57,43,651.66**

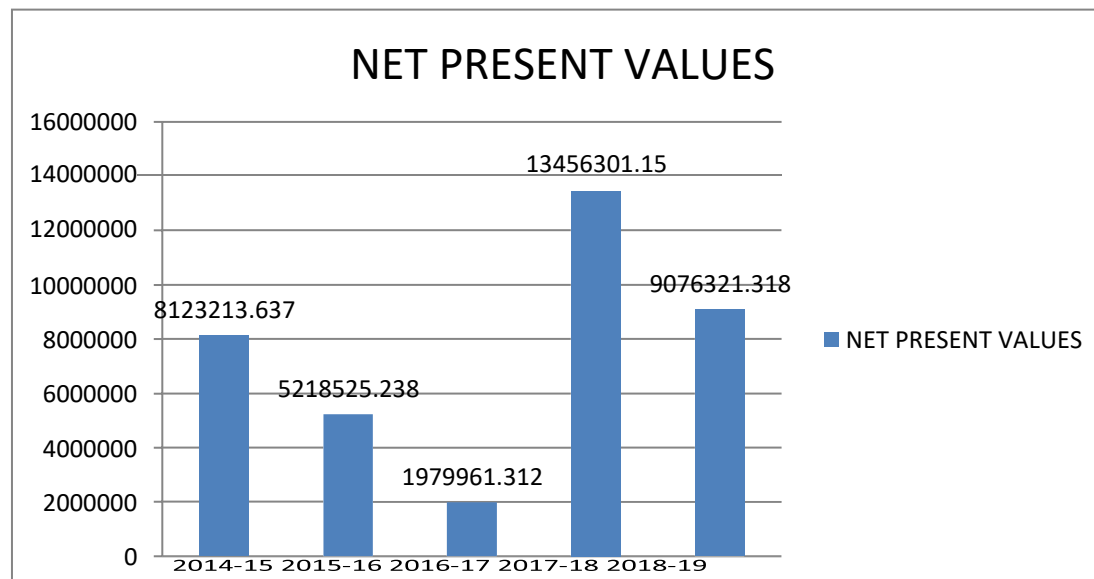
Present cash outflows = 2,10,22,334

= **2,57,43,651.66 - 2,10,22,334**

NPV = 47,21,317.66

GRAPH NO: 4.3

GRAPH SHOWING NPV FOR GIVEN PROJECT



Source : (Above Table 4.3)

The Net Present Value is the difference between the “Present Value of Cash Inflows” and Present Value of Cash Outflows.

CRITERIA FOR EVALUATION:

In case of calculated NPV is positive or zero, the project should be accepted. If the NPV is negative, the project is rejected.

DECISION:

The project having the positive value. So, the project is accepted.

TABLE NO: 4.4

SHOWS IRR FOR GIVEN PROJECT @ 18%

YEARS	CASH INFLOWS	Discount factor 18%	PRESENT VALUES
2014-15	95,90,571	0.847	81,23,213.637
2015-16	72,681,41	0.718	52,18,525.238
2016-17	32,51,168	0.609	19,79,961.312
2017-18	2,60,78,103	0.516	1,34,56,301.15
2018-19	2,07,69,614	0.437	90,76,321.318
		TOTAL	2,57,43,651.66

GRAPH NO: 4.4

GRAPH SHOWS IRR FOR GIVEN PROJECT @18%

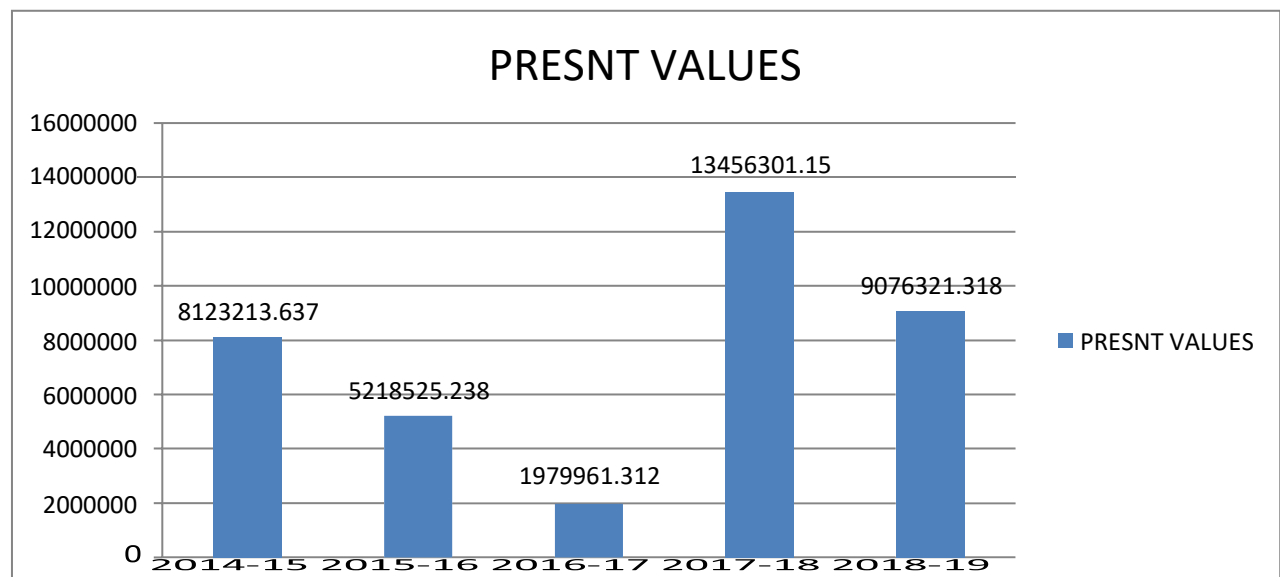


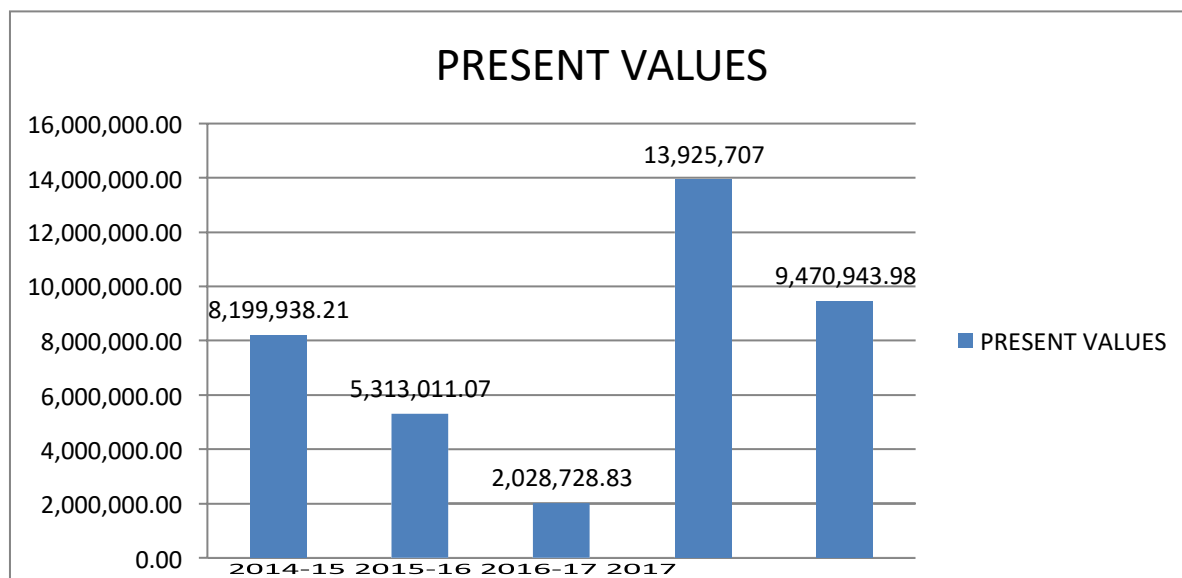
TABLE: 4.5

SHOWS IRR FOR GIVEN PROJECT @ 17%

YEARS	CASH INFLOWS	Discount factor 17%	PRESENT VALUES
2014-15	95,90,571	0.855	81,99,938.205
2015-16	72,681,41	0.731	53,13,011.071
2016-17	32,51,168	0.624	20,28,728.832
2017-18	2,60,78,103	0.534	1,39,25,707
2018-19	2,07,69,614	0.456	94,70,943.984
		TOTAL	3,89,38,329.09

GRAPH NO: 4.5

GRAPH SHOWS IRR FOR GIVEN PROJECT @ 17%



Source :(Above Table 4.5)

CAPITAL BUDGETING

The above mentioned two graphs represents the present values of the cash flows at two different factors i.e., 17% and 18%.

Lower discount factor value - Investment

$$\text{IRR} = \text{Lower rate} + \frac{\text{Lower discount value} - \text{Higher discount value}}{\text{Lower discount value} - \text{Higher discount value}} * (\text{HR} - \text{LR})$$

Lower discount value – Higher discount value

$$3,89,38,329.09 - 2,10,22,334$$

$$= 17 + \frac{3,89,38,329.09 - 2,10,22,334}{3,89,38,329.09 - 2,57,43,651.66} * (18 - 17)$$

$$3,89,38,329.09 - 2,57,43,651.66$$

$$1,79,15,995.09$$

$$= 17 + \frac{1,79,15,995.09}{1,31,94,677.43} * 1$$

$$1,31,94,677.43$$

$$= 17 + 1.3578 * 1$$

$$= 17 + 1.3578$$

$$= 18.35 \%$$

CAPITAL BUDGETING

CRITERIA FOR EVALUATION:

In method the project is accepted when IRR is higher than its cost of capital or cut off rate. If the project is not accepted when the IRR is less than the cost of capital.

DECISION:

The project is accepted because of the calculation IRR is higher than its cost of capital. So, this project is accepted.

SHOWS PROFITABILITY INDEX (PI) FOR GIVEN PROJECT

YEARS	CASH INFLOWS	Discount factor 17%	PRESENT VALUES
2014-15	95,90,571	0.855	81,99,938.205
2015-16	72,681,41	0.731	53,13,011.071
2016-17	32,51,168	0.624	20,28,728.832
2017-18	2,60,78,103	0.534	1,39,25,707
2018-19	2,07,69,614	0.456	94,70,943.984
		TOTAL	3,89,38,329.09

Present value of cash inflows

Profitability index = -----

Present value of cash out flows

3,89,38,329.09

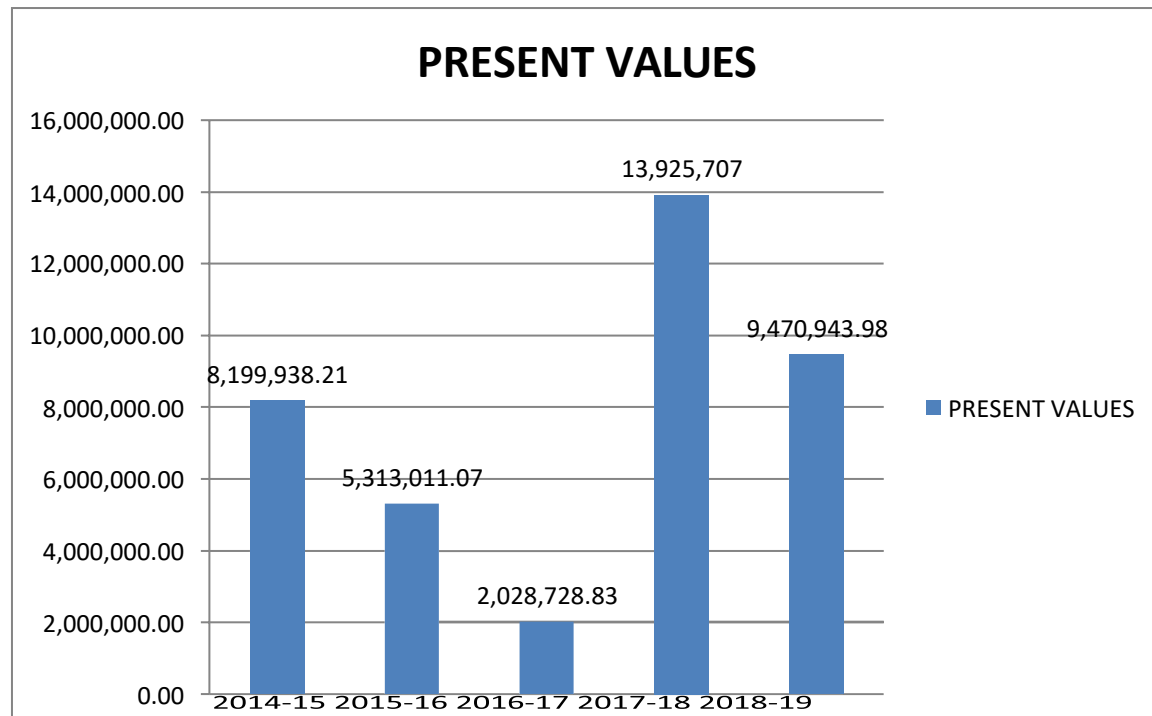
PI = -----

2,10,22,334

= 1.8522

GRAPH: 4.6

GRAPH SHOWING PI FOR GIVEN PROJECT



CRITERIA FOR EVALUATION:

A project can be accepted if its PI is greater than one. If PI is less than one it should be rejected.

DECISION:

Profitability index of the project is 1.8522 this is greater than one. So, it should be accepted.

CHAPTER-5

FINDINGS

- ➡ The standard Pay Back Period of the SIBAR AUTO PARTS LTD Industries for considering the projects is 5 years but the actual Pay Back Period is **3.0349** years.
- ➡ The standard ARR of SIBAR AUTO PARTS LTD management is higher. The actual ARR is **90.348%** it is higher than the standard ARR set by the management.
- ➡ The Net Present value of the project having the positive value.
- ➡ The project is accepted when IRR is higher than its cost of capital or cut of rate. If the project is not accepted when the IRR is less than the cost of capital. The project is accepted because of the calculation of IRR is higher than its cost of capital.
- ➡ A project can be accepted if its PI is greater than one. If PI is less than one it should be rejected. Profitability index of the project is 1.852, this is greater than one. So, it should be accepted.

SUGGESTIONS

- ❖ The organization need the capable personalities as management to lead to organization successfully. The management make the plans and implement of these plans. These plans are expressed in terms of long-term investment decisions.
- ❖ The investment plans are given good results so it is positive signal for expanding the business.
- ❖ By this investment details the investors of the firm getting the profits so it is familiar situation to firm and also to the investor.
- ❖ This firm is in profitable condition so the risk is minimum to the investment decisions of the company.
- ❖ Finally the financial position of the company is good so it can take up similar type of project to increase the profits.

CONSLUSION

An organization may face a situation where various investment proposals are identified, but it has to select one or some of the proposals either for shortage of funds or for some other reasons, with the capital budget techniques the situations are solves and made the best proposals with clear analysis.

Capital budget management is not a simple process in this sector, the raised proposals are solved with techniques of capital budgeting. This made the investors to think about the proposals by this analysis they were out of analysis, they were out of the dilemma and towards the best investment.

It can be summarized that most of the schemes selected for the analysis have shown better performance.

PROFIT AND LOSS ACCOUNT OF THE ON 31st March, 2017

SLNO	PARTICULARS	AMOUNT RS(LACS)
1.	INCOMES	
	sales(GROSS)	88880317
	LESS: excise duty	
	Sales(net)	
	Other income	351264
	Total	89231581
2.	EXPENDITURE	
	Cost of good sold	73510727
	Administrative expenses	7820214
	Depreciation	8705418
	Total	90036359
	Profit before tax	(804778)
	Provision for FBT	80376
	Provision for income tax	-
	Net profit after tax	885154
	Prior period item	129324
	Profit for the year	(1014478)
	Balance brought forward	(140003864)
	Profit/(loss)available for appropriations	(141018342)
	Transfer to general reserve	-
	Balance carried over to balance sheet	(141018342)

PROFIT AND LOSS ACCOUNT OF THE ON 31st March, 2018

SLNO	PARTICULARS	AMOUNT RS(LACS)
1.	INCOMES	
	sales(GROSS)	104047235
	LESS: excise duty	
	Sales(net)	
	Other income	319582
	Total	104366817
2.	EXPENDITURE	
	Cost of good sold	87710486
	Administrative expenses	9559869
	Depreciation	7182301
	Total	104452657
	Profit before tax	(85840)
	Provision for FBT	-
	Provision for income tax	-
	Net profit after tax	(85840)
	Prior period item	59497
	Profit for the year	(26343)
	Balance bought forward	(141018342)
	Profit/(loss)available for appropriations	(1411044684)
	Transfer to general reserve	-
	Balance carried over to balance sheet	(141044684)

PROFIT AND LOSS ACCOUNT OF THE ON 31st March, 2019

SNO	PARTICULARS	AMOUNT Rs
1	INCOME	
	sales(GROSS)	115982
	LESS: excise duty	
	Sales(net)	
	Other income	469955
	Total	116452414
	EXPENDITURE	
	Cost of good sold	102187988
	Administrative expenses	10594070
	Depreciation	1064844
	Total	113846902
	Profit before tax	2605511
	Provision for FBT	104429
	Provision for income tax	-
	Net profit after tax	2501082
	Prior period item	(314758)
	Profit for the year	2186324
	Balance bought forward	(141044684)
	Profit/(loss)available for appropriations	(138858361)
	Transfer to general reserve	-
	Balance carried over to balance sheet	(18858361)

CAPITAL BUDGETING

BALANCE SHEET AS ON 31st MARCH, 2015

SNO	PARTICULARS	AMOUNT 2010	AMOUNT 2009
1.	<u>SOURCES OF FUNDS:</u>		
	Shareholders' funds:		
	Share capital	55351000	55351000
	Reserves and surplus	1535979	1535979
	Loans funds :		
	Secured loans	118323986	123421934
	Unsecured loans	17597491	16525160
	TOTAL	192808456	196834073
2.	<u>APPLICATION OF FUNDS:</u>		
	FIXED ASSETS:		
	Gross block	131221531	130940766
	(-) depreciation	109690611	101041843
	Net block	21530920	29898923
	Capital work-in-progress		
	investments	701500	
	current assets		
	Inventories	3384268	5416988
	Sundry debtors	19071362	17653018
	Cash and bank balances	1452146	1054656
	Loans and advances	16036157	14270528
		39943933	38395190
	(-)current liabilities and Provisions		
	current liabilities	13392706	14417998
	Provisions	26426607	27180480
	Net current assets	39819313	140003864
	Miscellaneous expenditure	141018342	29433074
	Profit and loss account	29433074	196834074
	TOTAL		196834073

CAPITAL BUDGETING

BALANCE SHEET AS ON 31st MARCH, 2016

SNO	PARTICULARS	AMOUNT RS(LACS)	AMOUNT RS(LACS)
1.	<u>SOURCES OF FUNDS:</u>		
	shareholders' funds:		
	Share capital	55351000	55351000
	Reserves and surplus	1535979	1535979
	Loans funds :		
	Secured loans	117323986	118323986
	Unsecured loans	15772321	17597491
	TOTAL	189983286	192808456
2.	<u>APPLICATION OF FUNDS:</u>		
	Fixed assets:		
	Gross block	130962930	129291925
	(-) depreciation	114917951	107761004
	Net block	16044979	21530920
	Capital work-in-progress		
	Investments	701500	701500
	Current assets:		
	Inventories	5982167	3384268
	Sundry debtors	22790412	19071362
	Cash and bank balances	1718324	1452146
	Loans and advances	15586989	16036157
	(-)current liabilities and Provisions		
	Current liabilities	17050050	13392706
	Provisions	26268793	26426607
	Net current assets	2759048	124620
	miscellaneous expenditure	29433074	29433074
	5. Profit and loss account	141044684	141018341
	TOTAL	189983286	192808456

CAPITAL BUDGETING

BALANCE SHEET AS ON 31st March, 2017

SNO	PARTICULARS	AMOUNT RS
1.	<u>SOURCES OF FUNDS</u>	
	Shareholders' funds:	
	Share capital	55351000
	Reserves and surplus	1535979
	Loan funds	
	Secured loans	110329548
	Un secured loans	24023712
	Deferred tax liability(net)	104429
	TOTAL	191344668
	APPLICATION OF FUNDS	
	Fixed assets	
	Gross block	121387777
	(-)accumulated depreciation	105310981
	Net block	16076796
	Capital work-in-progress	
	Investments	701500
	Current assets, loan and advances	
	Inventories	4708431
	Sundry debtors	76054
	Cash and bank balances	760054
	Loans and advances	16501353
	Current liabilities and provisions	
	Current liabilities	12617778
	Provisions	26206884
	Net current assets	6274937
	Debit balance in profit and loss account	138858361
	TOTAL	191344668

BALANCE SHEET AS ON 31st March, 2018

SNO	PARTICULARS	AMOUNT RS
1.	<u>SOURCES OF FUNDS</u>	
	Shareholders' Funds:	
	Share capital	55351000
	Reserves and surplus	94514257
	Loan funds	
	Secured loans	75590507
	Un secured loans	6565682
	Trade payables	21310005
	Deferred tax liability(net)	291160
	TOTAL	68550243
	<u>APPLICATION OF FUNDS</u>	
	Assets	
	Non- Current assets	
	Fixed assets	22284152
	Tangible assets	18022959
	In Tangible assets	-
	Capital in work in progress	2543036
	Non-current investments	701500
	other non-current investments	1016657
	Current assets	46266091
	Inventories	4739655
	Trade receivables	24115515
	Cash and trade equivalents	802764
	Short term loans and advances	13542147
	Other current assets	3066010
	Total	68550243

CAPITAL BUDGETING



BALANCE SHEET AS ON 31st March, 2019

SNO	PARTICULARS	AMOUNT RS(LACS)
1.	<u>SOURCES OF FUNDS</u>	
	Shareholders' Funds:	
	Share capital	55351000
	Reserves and surplus	(747800001)
	Loan funds	
	Secured loans	64771339
	Un secured loans	260000
	Trade payables	20706402
	Deferred tax liability(net)	114736
	TOTAL	71440520
	Assets	
	Non- Current assets	
	Fixed assets	21022334
	Tangible assets	19046177
	In Tangible assets	-
	Capital in work in progress	-
	Non-current investments	701500
	other non-current investments	1274657
	Current assets	50418186
	Inventories	7348407
	Trade receivables	25104499
	Cash and trade equivalents	2694439
	Short term loans and advances	10169519
	Other current assets	5101322
	Total	71440520

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FINANCIAL MANAGEMENT : PRASANNA CHANDRA
ADVANCED MANAGEMENT : R.K.SHARMA
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