A PROJECT REPORT
ON TOPIC
“A STUDY ON CAPITAL BUDGETING
OF TVS MOTOR COMPANY ”
SUBMITTED TO HP UNIVERSITY SHIMLA

In partial fulfillment of the requirement
For the Award of the Degree
Of

BACHELOR OF BUSINESS ADMISTRATION
IN
SWAMI VIVEKANAD GOVT. DEGREE COLLEGE
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"Acknowledgement is an art, one can write glib stanzas without meaning a word, on other hand one can make a simple expression of gratitude" I am highly thankful to Principal **Mr. Ramakrishna ,** Coordinator(BBA) **Assistant Professor Rajender Kumar** . I also express deepest gratitude to my family for their blessing and good wishes

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Signature of candidate

DECLARATION

I hereby declare that the Project Report was submitted by me under the supervision and guidance of **Mr. Naresh Kumar** , project guide collage of **SWAMI VIVEKANAND GOVERNMENT COLLEGE , GHUMARWIN** in partial fulfilment of **B.B.A. 6th semester**.I further declare I am solely responsible for omission and commission of errors if any.

Signature of candidate

CARTIFICATE

This is to certify that the report entitled "**A STUDY ON CAPITAL BUDGETING AT TVS MOTOR COMPANY**'' for the award of the degree of bachelor of business administration **(BBA)** from swami vivekanand govt. College carried out by **MADHU BALA BBA 6thsem.**Uni.Roll.No.5190350015 under my supervision and guidance, no part of this report has been submitted to any other Degree/Diploma and this report may be taken for evaluation.

Signature of student **Signature of guide**

Signature of coordinator (BBA):

Date-

Place-Ghumarwin

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CHAPTER-1 .1

Company profile

The TVS Group was first presented in 1911 by Mr. Television. Sundaram Iyengar established. The TVS assemble has a solid nearness in the production of bicycles, auto parts, and PC peripherals. In 2016-17, the TVS Motor Company was the third biggest car maker in India, with more than 13,000 ($ 2 billion) income. The main organization of TVS Group is the yearly limit of 3 million units every year and 4 million vehicles every year. TVS Motor Company is the 2th biggest exporter in India with fares to 60 nations.

The main dispatch of the TVS Motor Company was in August 2006 with 50 cc. The sulked TVS were 50. It's 100 cc. The principal Indian organization to present Indo- Japanese. Business creation of cruisers began in 1984. It was additionally the principal Indian organization to dispatch nearby participation in India in 1994. It's developing quickly since it began to end up one of India's driving bike makers.

TVS Motor Company Limited (TVS Motor), an individual from the TVS Group, is the biggest gathering based on size and exchange, with more than 3 crore (30 million) clients riding a TVS bicycle

PROMOTORS:

- Sundaram clayton ltd
- Insurance companies
- Financial institutions

Vision:

TVS Motor Driven by the customer:

TVS motor will be responsive to customer requirements consonant with its core competence and profitability. TVS motor will provide total customer satisfaction by giving the customer the right product, at the right price, at the right time

Mission:

We are committed to being a highly profitable, socially responsible, and leading manufacturer of high value for money, environmentally friendly, life time personal transportation products under the TVS brand, for customers predominantly in Asian markets and to provide fulfillment and prosperity for employees, dealers and suppliers.

QUALITY POLICY:

The company began its TQM journey in the year 1987. During

2002 the company won the internationally coveted Deming Application Prize; it was the first two wheeler company in the world to get that prize.

Product /services profile:

TVs motors Organization restricted is occupied with assembling of bike mono parts three with assembling of bike and embellishments incorporates Jupiter Scoot Getup and we go and 100 XL very hard core

COMPETITORS

- **Bajaj Auto Limited**
- **Hero Motor Corp (Hero Honda)**
- **Yamaha**
- **Suzuki**
- **Harley Davidson**
- **Royal Enfield**

Swot

- One of the Indian players in tremendous brand value and bicycles
- Excellent R and D, and different items in every classification
- Best Distribution and Good Service Centers
- The TVS Group has more than 40,000 workers and has in excess of 15 million clients
- Integrate itself with popular brand envoys
- 'scoot' is the second name for the bike area

Weakness:

- The nonattendance of premium bicycle section

- Lack of committed worldwide promoting structures
- Lack of experience giving deals backing to economically fueled bicycles

Opportunities:

- Motor Vehicle Division is a standout amongst the most developing ventures
- Fare of bicycles implies constrained worldwide markets

Threats

- Strong challenge from Indian and global brands
- Dependence on government approaches and rising fuel costs
- Affects offers of good open transportation bicycles

Awards

- "Bike of the Year" CNBC-TV18 AutoCAD Auto Awards 2006
- "Bike of the Year" OVERDRIVE Awards 2006
- "Bike Of The Year" Business Standard Motoring Awards 2006
- "Indigenous design of the year" OVERDRIVE Awards 2006
- ."Design of The Year 2006 - Two Wheelers" BBC Top Gear Design Awards 2006

Current status

TVS Motor Company registers sales of 307,954 units in March 2022 as against sales of 322,643 units in the month of March 2021.

Total two-wheelers registered sales of 292,918 units in March 2022 as against sales of 307,397 units in March 2021. Domestic two-wheeler sales registered sales of 196,956 units in March 2022 as against sales of 202,155 units in March 2021.

Motorcycle registered sales grew from 157,254 units in March 2021 to 160,522 units in March 2022. Scooter sales of the Company registered 94,747 units in March 2022 as against sales of 104,513 units in March 2021.

The shortage in supply of semiconductors has impacted the production and sales of premium two-wheelers.
We are cautiously optimistic that the supply of semiconductors will improve in the coming months.
The Company's total exports registered sales of 109,724 units in the month of March 2022 as against sales of 119,382 units in March 2021. Two-wheeler exports registered sales of 95,962 units in March 2022 as against sales of 105,242 units in March 2021.
Three-wheeler of the Company registered sales of 15,036 units in March 2022 as against sales of 15,246 units in March 2021.
During the fourth quarter of the financial year 2021-22, two-wheeler of the company registered sales of 8.15 Lakh units of sales as against 8.87 Lakh units registered in the fourth quarter of financial year 2020-21. Three-wheeler sales grew from 40,965 units in the fourth quarter of financial year 2020-21 to 41,774 units in the fourth quarter of the financial year 2021-22.

History

T. V. Sundaram Iyengar began with Madurai's first bus service in 1911 and founded TVS, a company in the transportation business with a large fleet of trucks and buses under the name of Southern Roadways.

Early history

Sundaram Clayton was founded in 1962 in collaboration with Clayton Demander Holdings, United Kingdom. It manufactured brakes, exhausts, compressors and various other automotive parts. The company set up a plant at Hosur in 1976, to manufacture mopeds as part of their new division. In 1980, TVS 50, India's first two-seater moped rolled out of the factory at Hosur in Tamil Nadu, India. A technical collaboration with the Japanese auto giant Suzuki Ltd. resulted in the joint-venture between Sundaram Clayton Ltd and Suzuki Motor Corporation, in 1987. Commercial production of motorcycles began in 1989.[2]

Suzuki relationship

TVS and Suzuki shared a one-year-long relationship that was aimed at technology transfer for design and manufacture of two-wheelers specifically for the Indian market. Re-christened TVS-Suzuki, the company brought out several models such as the Suzuki Supra, Suzuki Samurai, Suzuki Shogun and Suzuki Shaolin. In 2001, after separating ways with Suzuki, the company was renamed TVS Motor, relinquishing its rights to use the Suzuki name. There was also a 30-month moratorium period during which Suzuki promised not to enter the Indian market with competing two-wheelers.

Recent

TVS Apache RR 310 is their latest 310 cc motorcycle

TVS Scooty Streak – one of the discontinued scooters of Scooty series

TVS also competes in the 3 Wheeler segment

Recent launches include the flagship model TVS Apache RR 310, the TVS Apache RTR 200, TVS Victor and TVS XL 100. TVS has recently won 4 top awards at J.D. Power Asia Pacific Awards 2016, 3 top awards at J.D. Power Asia Pacific Awards 2015 and Two-Wheeler Manufacturer of the Year at NDTV Car & Bike Awards (2014–15).

In early 2015, TVS Racing became the first Indian factory team to take part in the Dakar Rally, the world's longest and most dangerous rally. TVS Racing partnered with French motorcycle manufacturer Sherco, and named the team Sherco TVS Rally Factory Team. TVS Racing also won the Raid de Himalaya and the FOX Hill Super Cross held at Sri Lanka. In three decades of its racing history, TVS Racing has won over 90% of the races it participates in.

In 2016, TVS started manufacturing the BMW G310R, a model co-developed with BMW Motorrad after their strategic partnership in April 2013. In December 2018, the Hosur plant where the motorcycle is manufactured rolled out its 50,000th G310R series unit.

On 6 December 2017, TVS launched their most-awaited motorcycle, the Apache RR 310 in an event at Chennai. The 310 cc motorcycle with an engine which was co-developed with BMW features the first ever full fairing on a TVS bike, dual-channel ABS, EFI, KYB suspension kits, etc. It is expected to rival bikes like KTM RC 390, Kawasaki Ninja 250SL, Bajaj Pulsar and Domineer and Honda CBR 250R after hitting the market. The Apache RR 310 is designed and realized entirely in India.

On 17 April 2020, it has been reported that TVS Motor Company acquired Norton Motorcycle Company in an all cash deal. In the short term, they will continue the production of motorcycles at Donington Park using the same staff.

CHAPTER-1 .2

Introduction to Topic

Capital expenditure management or capital budgeting is concerned with planning and control of capital expenditure. Capital budgeting is defined as the acquisition of durable productive facilities in the expectations of future gains. To win the competitive edge, every organization is much construction on the financial aspect of development. It involves the current outlay of cash in return for an anticipated flow of future benefits and these benefits are available in the long run. Therefore, capital budgeting refers to a long-range investment programmers and is translated into annual budget outlay and may relateto National Five Year Plans.

Capital budgeting is a crucial financial decision of a firm. It relates to the selection of an asset or investment proposal for the lifetime of the project. Capital budgeting is the allocation of available resources of the organization to the various investment proposals, as the demand on resources is almost always higher than the availability of resources.

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. For example: the decision to acquire special equipment mayrequire a large immediate outlay of funds. It also commits the company to the maintenance and operations of the equipment for a long period of time.

Organization is frequently faced with capital budgeting decision. Any decisions that require the use of resources or course of action whose benefits are likely to be availablein future over the lifetime of the project. Capital budgeting is more or less a continuous process in any growing concern. Some of the decisions may directly affect the profit of the firms whereas some other decisions may directly affect the profit by influencing theoperating costs. However, in all cases, the decisions have a long-term impact on the performance of the organization.

Given the importance of capital budgeting, the decision regarding investment, management faces the challenging task of allocating the limited available resources in amatter that would maximize the profits or the objectives of the organization.

Financial management, in the modern sense of the term can be broken down in tofour decisions as function of finance, they are:-

- The investment or long-term asset- mix decision.
- Financing or capital – mix decision.
- Dividend or profit allocation.
- Liquidity or short-term asset – mix decision.

DEFINITION:

Charles T Horn green has defined as "Capital budgeting is the long term planningfor making and financing proposed capital outlays."
In other words of ***Lynch,*** "Capital budgeting is concerned with planning and developmentof available capital for the purpose of maximization the long-term profitability of the concern."

MEANING:

Capital budgeting is the process of making investment decision and capital expenditure. It also involves a non-flexible, long-term commitment of funds thus capital expenditure decisions are also called as long-term Investment decisions.

FEATURES:

- It involves exchange of current funds for the benefits to be achieved infuture.

- Future benefits are expected to be realized over a series of years.
- They generally involve huge funds.
- They are irreversible decisions.
- They have long term and significant effect of probability of the concern.
- There is relatively high degree of risk.

GUIDELINES FOR BUDGET DEVELOPMENT

Establish cost guidelines and benchmarks to assist analysts in budget development.

- Clarify our understanding of funding constraints and conditions to make it easier to correctly align project types with funding sources.
- By taking a more comprehensive approach to the budget development and implementation cycle, eliminate low-value tasks and help all participants focus on the most important issues.
- Improve tools for the budget processes to reduce the burden of administrative tasks and increase time available for analysis and decision-making.
- Ensure better connections between the operating and capital budgets
- Improve the allotment and monitoring processes to

reduce time spent on non-value added tasks.

- Improve the guidance available for everyone involved in the capital budget process.
- Make better use of information about facility needs and conditions for budget development and monitoring.
- Streamline the budget bill process.

IMPORTANCE:

There are the several factors that make capital budgeting decisions among the critical decisions to be taken by the management. The importance of capital budgeting can be understood from the following aspects of capital budgeting decisions.

By taking capital budgeting decision, a finance manager makes a commitment into future. He is also committing to the future needs for funds of that project.

The capital budgeting decisions generally involve large commitment of funds.

As a result, substantial portion of capital funds is blocked. Thus, relatively, more attention is required for capital budgeting decisions.

Most of the capital budgeting decisions are irreversible decisions. Once taken, the firm may not be in a position to revert back unless it is ready to absorb heavy losses which may result due to abandoning a project midway.

Capital budgeting decisions affect the capacity and strength of a firm to face competition. A firm may lose competitiveness if the decision to modernizeis delayed.

A timely decision to take over a minor competitor may ultimately result even in the monopolistic position of the firm. These decisions affect the future position of the firm to a considerable extent.

DIFFICULTIES:

Capital budgeting decisions are not easy to take. There are number of factors responsible for this. The problems in capital budgeting decisions may be as follows:

Capital budgeting decisions involve long-term commitments. However, there is a lot of uncertainty in the long-term. Therefore, an element of riskis involved. The uncertainty may be with reference to cost of the project, future expected returns, future competition, legal provisions, political situation etc.

The cost of benefits of a decision may occur at different time period. They are not logically comparable because of the time value of money.

The financial manager may face difficulties in measuring the cost and benefits of projects in quantitative terms. It is very difficult in the extent

Of impact as the sales of other products may also influence by these factors other than the new products.

ASSUMPTIONS:

Capital budgeting decisions process is a multi-faceted and analytical process. A numberof assumptions are required to be made and evaluated in the financial aspects.

The capital budgeting decisions are taken with a primary motive of increasing the profit of the firm. No other motive influences the decision of the financial manager.

It is very difficult to estimate the cost and benefits (proposal beyond 2-3 years in future) which are reasonably accurate and certain.

It assumes that a proposal will be accepted or rejected on the strength of its merits alone. The proposal will not be considered in combination with other proposals to consider the maximum utilization of available funds.

CAPITAL BUDGETING PROCESS

Capital budgeting is process of selecting best long-term investment project. Capitalbudgeting is long-term planning for making and financing proposed capital outlaying.

Steps for capital budgeting process as follows:

1 – To Identify Investment Opportunities

The first step is to explore the available investment opportunities. Next, the organization's capital budgeting committee is required to identify the expected sales shortly. After that, they recognize the investment opportunities keeping in mind the sales target set up by them. There are points which need to be taken care of before starting the search for the best investment opportunities. It includes regularly monitoring the external environment to get an idea about the new investment opportunities. Then, define the corporate strategy based on the organization's **SWOT analysis**, i.e., analysis of its strength, weakness, opportunity, and threat, and seeking suggestions from its employees by discussing the strategies and objectives with them.

Example:

Identification of the underlying trends of the market, which can be based on the most reliable information before selecting a specific investment. For instance, before choosing the investment to be made in the company involved in the gold mining, firstly, the underlying commodity's future direction needs to be determined; whether the analysts believe that there are more chances of price getting declined or the chances of price rise is much higher than its declination.

2 – Gathering of the Investment Proposals

After identifying the investment opportunities, the second process in capital budgeting is to collect investment proposals. Before reaching the committee of the capital budgeting process, these proposals are seen by various authorized persons in the organization to check whether the bids given are according to the requirements. Then the classification of the investment is done based on the different categories such as expansion, replacement, welfare investment, etc. This classification into the various types is done to make the decision-making process more comfortable and facilitate budgeting and control.

Example:

The real estate company identified two lands where they could build their project. Out of the two lands, one land is to be finalized. So, one will submit the proposals from all the departments. Then, various authorized persons will see the same in the organization to check whether the bids are multiple requirements. Also, the same will then be classified for a better decision-making process.

3 – Decision Making Process in Capital Budgeting

Decision-making is the third step. In the stage of decision making, the executives will have to decide which investment needs to be made from the investment opportunities available, keeping in mind the sanctioning power open to them.

Example:

For instance, the managers at the lower level of management, like work managers, plant superintendents, etc., may have the power to sanction the investment up to the limit of $10,000 beyond the permission of the **board of directors** or senior management required. If the investment limit extends, the lower management must involve the top management to approve the investment proposal.

4 – Capital Budget Preparations and Appropriations

After the decision-making step, the next step is to classify the investment outlays into the higher value and the smaller value investment.

Example:

When the value of an investment is lower and is approved by the lower management level, then for getting speedy actions, they are generally covered with blanket appropriations. But, if the investment outlay is of higher value, it will become part of the **capital budget** after taking the necessary approvals. The motive behind these appropriations is to analyze the investment performance during its implementation.

5 – Implementation

After completing all the above steps, the investment proposal under consideration is implemented, i.e., put into a concrete project. Several challenges can be faced by the management personnel while executing the tasks as they can be time-consuming. For the implementation at a reasonable cost and expeditiously, the following things could be helpful: –

Formulation of the project adequately: Inadequate formulation is one of the main reasons for the project's delay. So, all the necessary details should be taken by the concerned person in advance, and proper analysis should be done well in advance to avoid any delay in the implementation of the project.

Use of responsibility accounting **principle:** For the expeditious execution of the various tasks and the cost control, one should assign specific responsibilities to the project managers, i.e., the timely completion of the project within the specified cost limits.

Network technique use: Several network techniques like the Critical Path Method (CPM) and Program Evaluation and Review Technique (PERT) are available for project planning and control, which will help monitor the projects properly and efficiently.

Example:

For prompt processing, the capital budgeting committee must ensure that management has adequately done the homework on the preliminary studies and the concise formulation of the project before its implementation. After that, the project is implemented efficiently.

6 – Review of Performance

Review of performance is the last step in capital budgeting. First, the management must compare the actual results with the projected results. The correct time to make this comparison is when the operations get stabilized.

Example:

With this review, the capital budgeting committee concludes on the following points: –

To what extent the assumptions were realistic.

The efficiency of the decision-making.

If there are any judgmental biases.

Either the hopes of the sponsors of the project are fulfilled.

Thus, the process is a complex one consisting of the various steps required to be followed strictly before finalizing the project

Types of Capital Budgeting Decisions

Capital budgeting refers to the total process of generating, evaluating, selectingand following up on capital expenditure alternatives. The firm allocates or budgets financial resources to new Investment proposals. Basically, the firm may be confronted with three types of capital budgeting decisions:

- Accept-Reject Decision.
- Mutually Exclusive Project Decision.
- Capital Rationing Decision.

❖ Accept-Reject Decision:

This is a fundamental decision in capital budgeting. If the project is accepted, the firm would invest in it; if the proposal is rejected, the firm does not invest in it. By applying this criterion, all independent projects are accepted. Independent projects are the projectsthat do not compete with one another in such a way that the acceptance of one precludesthe possibility of acceptance of another.

Mutually Exclusive Project Decision:

Mutually Exclusive Projects are those which compete with other projectsin 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. Thus, mutually exclusive projects acquire significance when more than one proposal is acceptable underthe accept-reject decision.

Capital Rationing Decision:

Capital rationing refers to a situation in which a firm has more acceptable investments than it can finance. It is concerned with the selection of a group ofInvestment proposals out of many investment proposals acceptable under the accept- reject decision. The projects can be ranked on the basis of a pre-determined criterion suchas the rate of return. The projects are ranked in descending order of the rate of return.

SELECTION OF PROJECTS

Experience shows that many projects are recommended for inclusion in the capital budget that despite of the apparent desirability, may not be necessary for the firmor many not produce additional earnings commensurate with the capital involved. They keep capital outlays within regional limits; capital budgets control producers should be designed to ensure that more desirable project get the priority over others. The proposalsubmitted by the operating divisions or departments for inclusions or the capital budget can be classified under the following categories:

Urgently essential to satisfactory operations.

Replacement resulting from wear and tear or obsolescence.

Desirable on an earnings basis and

Desirable from the stand-point of logical expansion and development

TECHNIQUES OF CAPITAL BUDGETING

Capital budgeting decision process involves estimation of cost and benefits of a proposal, estimation of required rate of return, and evaluation of different proposals in order to select one. These cost and benefits are expressed in terms of cash flows arising out of a proposal. Once the proposal completed we can discussed the various techniquesto arrive at the optimal investment decision.

The method of evaluation of capital expenditure proposal can be classified in totwo broad categories:

Traditional or Non-Discounting Techniques

Discounted Cash Flows or Time Adjusted Techniques.

TRADITIONAL AND NON-DISCOUNTING TECHNIQUES:

Pay Back Period Method.

Post Pay Back Profitability Method.

Pay back reciprocal Method.

Rate of Return Method of Accounting Method (ARR).

DISCOUNTING CASH FLOWS OR TIME ADJUSTE TECHNIQUES:

Net Present Value Method (NPV).

Internal Rate of Return Method (IRR).

Profitability Index or benefit cost ration Method (PI).

TRADITIONAL AND NON-DISCOUNTING TECHNIQUES:

The traditional techniques do not discount the cash flows to find out their present worth. There are two such techniques available to find out. They are:

PAY BACK PERIOD METHOD:

The pay back sometimes called as payout or pay off period method represents the lengthof period of cash proceeds produce by the investment to be equal to the original cash outlay, i.e. the time required for the project to pay for itself back within a certain period. This method is a traditional method of evaluation of capital budgeting decisions.

$$\textbf{PAY BACK PERIOD} = \frac{\textbf{INITIAL INVESTMENT}}{\textbf{ANNUAL CASH INFLOWS}}$$

It is the ratio of the initial fixed investment over the annual cash inflows for the recoveryperiod.

ACCEPT – REJECT CRITERION:

The pay back method can be used as a decision criterion to accept or reject investment proposal by the different alternatives. If single investment is being considered, as line annual pay back period is less than the pre-determined payback period the project will be accepted, it not it would be rejected. Projects are under consideration that they may be ranked regarding to the length of the payback period. However, the different proposals are to be ranked in order to priority, and then the proposal with in shortest payback period will be first in the priority list.

POST PAY BACK PROFITABILITY METHOD:

One of the drawbacks of payback period is that it does not taken into account the cash inflows earned after one payback period and hence the true profitability of the project cannot be assessed. Hence, an improvement over this method can be made by taking into account the returns which are receivable beyond the payback period.

$$\text{POST PAY BACK PROFITABILITY INDEX} = \frac{\text{POST PAYBACK PROFITS}}{\text{INVESTMENT}} \times 100$$

PAYBACK RECIPROCAL METHOD:

Sometimes, Payback Reciprocal Method is employed estimate the internal rate of returngenerated by a project. Payback Reciprocals can be calculated as:

$$\text{PAYBACK RECIPROCAL} = \frac{\text{ANNUAL CASH INFLOW}}{\text{TOTAL INVESTMENT}}$$

(This can also be calculated in percentage by multiplying the above by 100.) This method can be used under the following two conditions:

Equal cash inflows are generated every year.

The project under consideration has a long life which must be atleast twice the payback period.

RATE OF RETURN METHOD:

This method takes into account the earnings expected from the investment over their whole life. It is known as average rate of return method because under this method the concept of accounting profit (Net Profits after tax and depreciation) is used rather than cash inflows. The project with high rate of is selected as compared to the onewith lower rate of return.

The return on investment method can be used in several ways as follows:

AVERAGE RATE OF RETURN OR ACCOUNTING RATE OF RETURN (ARR):

Under this method average profit after tax and deprecation is calculated and then it isdivided by the total capital outlay or total investment in the project. In other words it establishes the relationship between average annual profits to total investment.

$$\text{ARR} = \frac{\text{AVERAGE ANNUAL PROFIT AFTER TAX}}{\text{AVERAGE INVESTMENT IN THE PROJECT}} \times 100$$

RATE PER UNIT OF INVESTMENT METHOD:

This method is small variation of the average rate of return method. In thismethod the profit after tax and deprecation is divided by the total investment.

$$\text{RETURN PER UNIT OF INVESTMENT} = \frac{\text{TOTAL PROFIT (PADT)}}{\text{NET INVESTMENT IN THE PROJECT}} \times 100$$

RETURN ON AVERAGE INVESTMENT METHOD:

In this method the return on average investment is calculated. Using of average investment for the purpose of return on investment is preferred because the original investment is recovered over the life of the asset on account of deprecation charges.

AVERAGE RETURN ON AVERAGE INVESTMEN METHOD:

This is the most appropriate method of rate of return on investment. Under this method, average profit after deprecation and taxes is divided by the average amount of investment.

AVERAGE RATE ON = AVERGAE ANNUAL AFTER DEPRECATION AND TAXES × 100

DISCOUNTING CASH FLOWS OR TIME ADJUSTE TECHNIQUES:

The distinguishing characteristic of the discounted cash flow capital budgeting techniques is that they have taken into consideration the time value of money while evaluating the cost and benefits of the project.

NET PRESENT VALUE (NPV) METHOD:

The NPV method is a modern method of evaluating investment proposals. This method takes into consideration the time value of money and attempts to calculate the return oninvestment by introducing time element.

It may be defined as the summation of the present value of the cash proceeds ineach year minus the summation of the present values of net cash outflows in each year. The NPV of all inflows and outflows of cash during the entire life of the project is determined separately for each year by discounting these flows by the firm’s cost of capital.

NPV = CF1 + CF2 + CFN = e = CFt

(1 + K) 1 + (1 + K) 2 (1 + K) n = t = 1 (1 + K) T

Where CF = Cash Flow for corresponding year.K = Cost of capital

N = number of years.

INTERNAL RATE OF RETURN (IRR) METHOD:

IRR is a modern technique of capital budgeting that takes into account the time value of money. It is also known as time-adjusted rate of return, discounted rate ofreturn or yield method. In this method, the cash flows of the project are discounted at return as a suitable rate by hit and trail method, which equates the NPV so calculated tothe amount of investment. Under this method, since the discount rate is discounted internally, it is called as internal rate of return method.

It is defined as the discount rate, which equates the aggregate present value,i.e., net cash inflows after tax (CFAT) with the aggregation present value of cash outflow of a project.

C = A1 + A2 + A3 + (1+R) 1 + (1+R) 2 + (1+R) 3

Where

C = Initial cash outlay at time Zero.

PROFITABILITY INDEX METHOD (OR) BENEFIT-COST RATIO

It is also a time – adjusted method of evaluating the investment proposals. ProfitabilityIndex is also called a Benefit- Cost Ratio or Desirability Factor is

PROFITABILITY INDEX (PI) =	**PV OF CASH INFLOWS**
	INTITAL CASH OUTLAY

the relationship between the present values of cash inflow at the required rate of return to the initial cashoutlay of the investment. The formula to calculate Benefit – Cost Ratio or Profitability Index as follow:

ACCEPT OR REJECT CRITERION:

If PI > 1 (ACCEPT). If PI < 1 (REJECT).

In case of the alternative proposal, the project with higher PI has to be accepted.

A1, A2, A3 Future net cash flows at different periods.

1, 2, 3…. N number of years.

R= Rate of discount or internal rate of return.

RISK AND UNCERTAINITY IN CAPITAL BUDGETING:

Capital budgeting entails decisions to commit present funds in long term investment in anticipation of future returns. The amount of investment and the returns from them cannot be predicted with certainty due to certain variables like market for the product, technology, government policies, etc.

The uncertainty associated with the investment and the returns is what makes decision makers to consider probability distributions in their estimates, hence, making capital budgeting to be considered under uncertainty and risk.

All the techniques of capital budgeting requires the estimation of future cash inflow and cash outflow. The cash flow is estimated, based on the following factors:

- Capacity of the project.
- Depreciation cost.
- Rate of taxation.
- Future demand of the product.
- Expect economic life of the product. Etc.

But due to uncertainties about the futures, the estimates of demand, production, sales,selling price, etc., cannot be exact. To evaluate and select among projects that will maximize owner’s wealth, we need to assess the uncertainty associated with project’s cash flows. In evaluating a capital project, we are concerned with measure of risk.

The uncertainty arises from different sources, depending on the type of investment being considered, as well as the circumstances and the industry in which it operating. Uncertainty may due to:

- Economic conditions.
- Market conditions.
- Taxes.
- Interest rates.
- International conditions.

STEPS INVOLVED:

Identifying the need of the project preparation of project report with respect to as follows:

- Utilization.
- Efficiency.
- Capacity of the particular project.
- Loss of market.
- Loss of good will.
- Technological requirements.
- Justification based on money earnings.

CHAPTER-2

2.1 NEEDS & OBJECTIVES OF STUDY NEEDS

- The project study is undertaken to analyze and understand the Capital Budgeting
- To know about the company's operations of using various capital budgeting techniques.
- The financial department can implement and can get positive results by maintaining proper financial reports.
- To analyze the proposal for expansion or creating additional capacities
- To make financial analysis of various proposals regarding capital investment so as to choose the best out of many alternatives proposals.

OBJECTIVES

- To know the important differences, that can arise in evaluating projects when using Net Present Value (NPV), Internal Rate of Returns (IRR), and Profitability Index (PI).
- To analyze the strengths and weakness of existing Techniques in capitalbudgeting.
- To evaluate capital projects using traditional methods of investment appraisal anddiscounted cash flows methods.
- To make recommendations and to improve further process of capital budgeting
- To measure the profitability of the project by considering all cash flows.

2.2 Scope of Study

The study has been conducted from information over a financial period of years that they have given over balance sheet and profit and loss account it ascertains the future value of venture and current value of ventures and risks by means of current points is determined. By means of this study we can determine the company risk and financial stability in future period. In this research the study is conducted for 4 years.

2.3 Research Methodology

Research methodology is a systematic way to solve a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researchers go about their work of describing, explaining and predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained. Its aim is to give the work plan of research

RESEARCH DESIGN

Research design is a basic framework, which provides guidelines for the whole research process. The research design specifies the methods for data collection and data analysis. As the research uses Secondary data for the study, it relates to analytical research study. Analytical research is which involves critical thinking skills and evaluation of facts and information relative to the research being conducted.

DATA COLLECTION

The method I used for research methodology was analytical means of study and this study is made under:

- **SECONDARY DATA:**

The secondary data for the project regarding investment and various investment analyses were collected from websites, and analyzing through data. Sources of data collection: Company yearly Reports. Company audited financial statement

Tools used: Following techniques are used to make decision regarding capital budgeting.

- **Payback period.**
- **Accounting rate of return.**
- **Net present value.**
- **Internal rate of return.**

CAPTER-3

FINANCIAL STATEMENTS

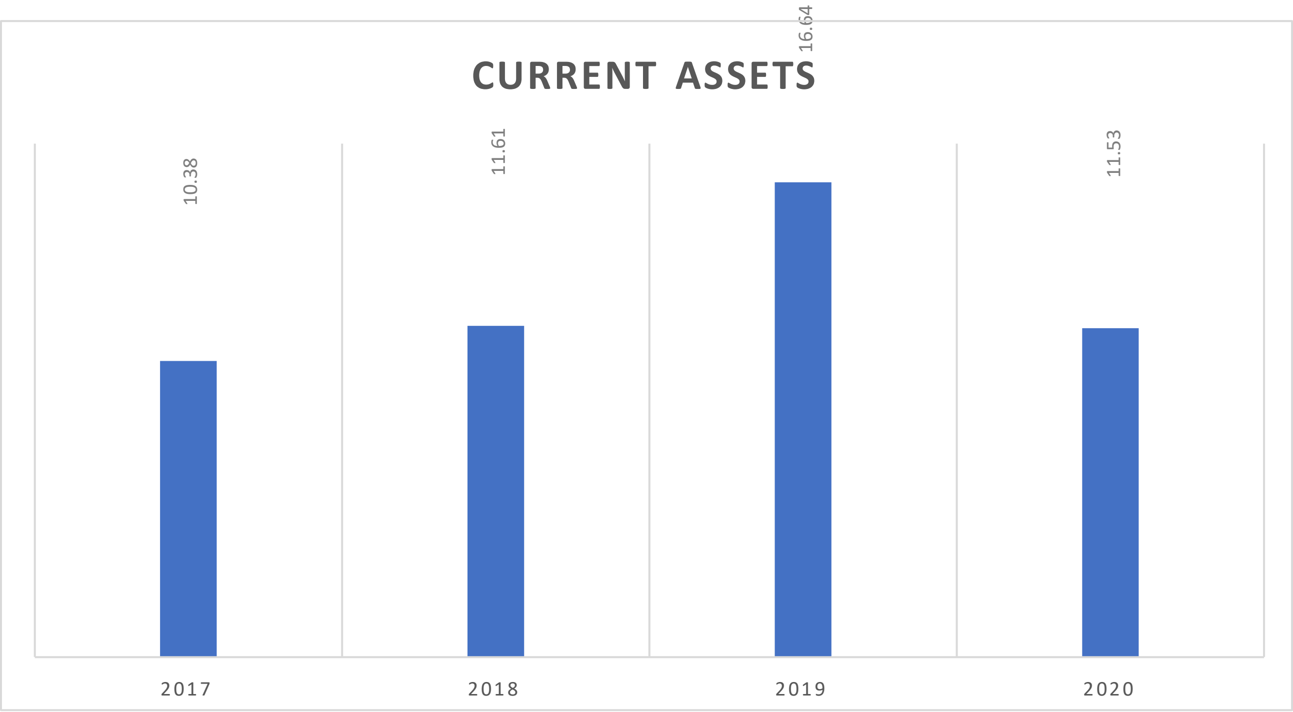
BALANCE SHEAT OF 4 YEARS

PARTICULARS	2017	2018	2019	2020
SOURCES OF FUND				
CAPITAL ACCOUNT	11.5	6.99	7.1	11.53
SECURED LOANS	76.58	11.3	11.07	10.98
UNSECURED LOANS	13.41	10.03	24.48	19.87
TOTAL	10.15	12.74	14.23	14.12
APPLICATION OF FUNDS				
FIXED ASSETS LESS DEPRECIATION	19.96	26.16	26.07	23.57

FIXED-FLAT	30.81	30.81	30.81	30.81
CURRENT ASSETS ,LOANS&ADVANCES:				
INVESTMENTS	16.31	17.81	19.32	20.82
DEPOSITS	19.74	15.97	40.81	31.4
LOAN'S &ADVANCES	13.07	13.2	13.05	13.05
SUNDRY DEBTORS	0.22	0.58	4.12	0.29
CLOSING STOCK	5.32	6.54	8.54	4.32
CASH & BANK BALANCES	1.23	3.18	3.68	6.46
CURRENT ASSETS **(a)**	10.38	11.61	16.64	11.53
LESS: SUNDRY CREDITORS	44.08	3814	66.31	19.8
LESS: OUTSTANDING LIABILITIES	9.05	7.59	1.47	8.66
CURREBT LIABILITIES **(b)**	53.14	45.74	81.03	28.47

NET CURRENT ASSETS (a-b)	50.72	70.42	85.42	86.84
TOTAL	10.15	12.74	14.23	14.12

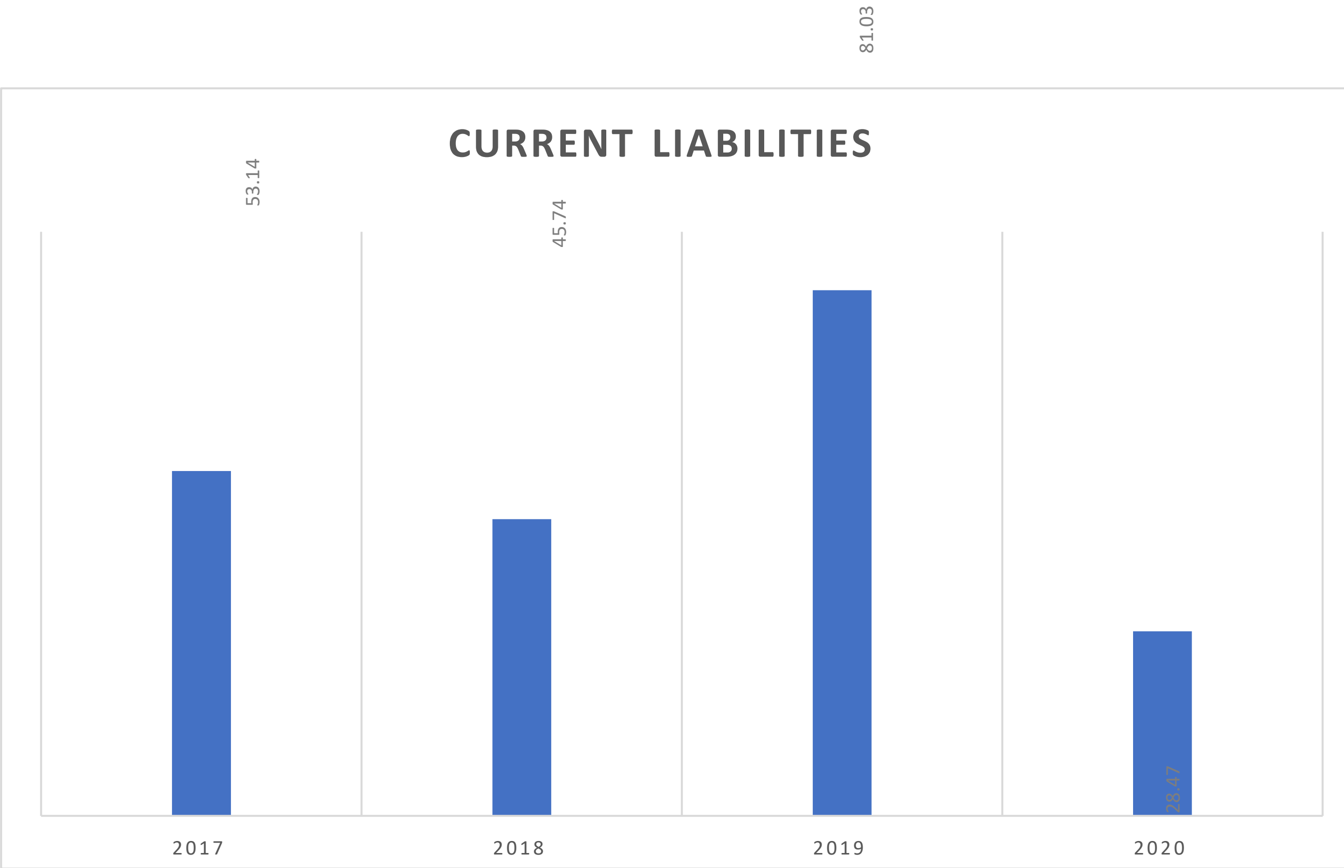
FIGURE SHOWING COMPARISON OF CURRENT ASSETS FOR FOUR YEARS 2017 to 2020.



Interpretation:

From the above Figure it is interpreted that the current assets have been increased gradually from 2017-2019 and again decreased down drastically on financial year of 2020. It was highest in the year 2019.

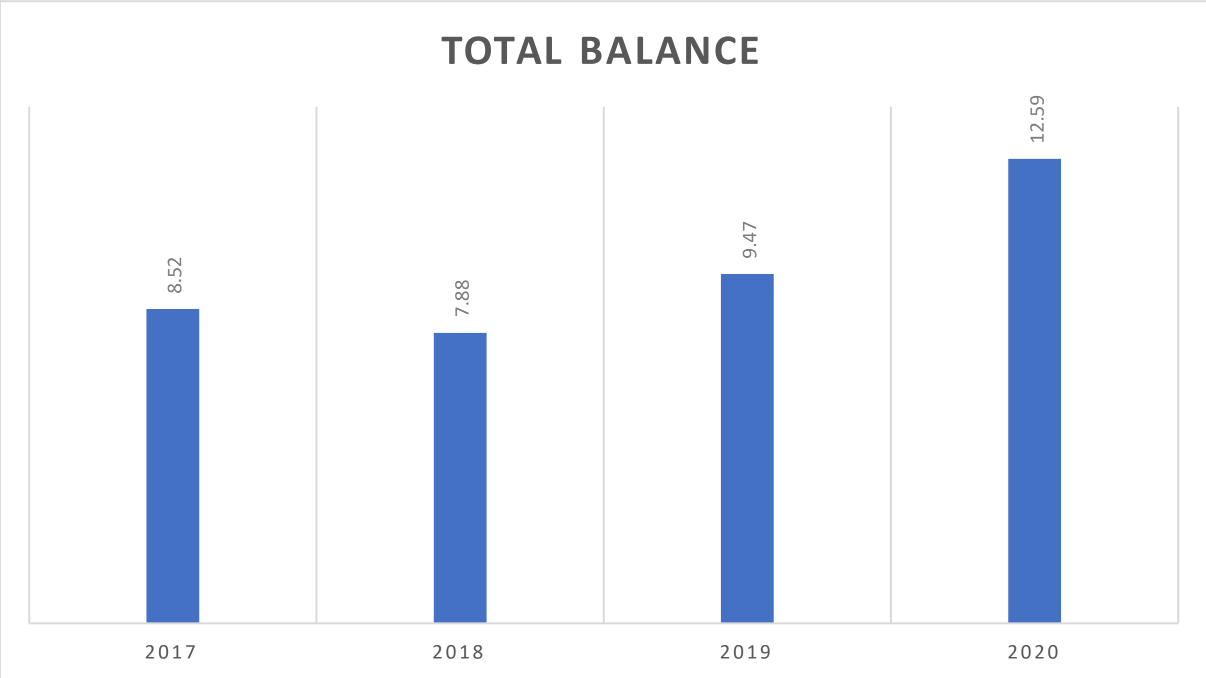
FIGURE SHOWING COMPARISON OF CURRENT LIABILITIESFOR THE FOUR YEARS FROM 2017 to 2020



Interpretation:

From the above figure is interred we can see that the current liabilities has increased on topreached maximum in 2019. It was the lowest in the financial year of 2020.

FIGURE SHOWING COMPARISON OFTOTAL BALANCEFOR THE FOUR YEARS FROM 2017
To 2020



Interpretation:

The above figure inters that showing the total balance is gradually increased on 4 financial years and become stable in last 2 financial years between 2019-20. It was highest in the financial year 2019. And it was slightly begins to decrease in the financial year 2020.

TABLE SHOWING PROFIT AND

LOSS ACCOUNTPROFIT AND

LOSS ACCOUNT: IN CRORE

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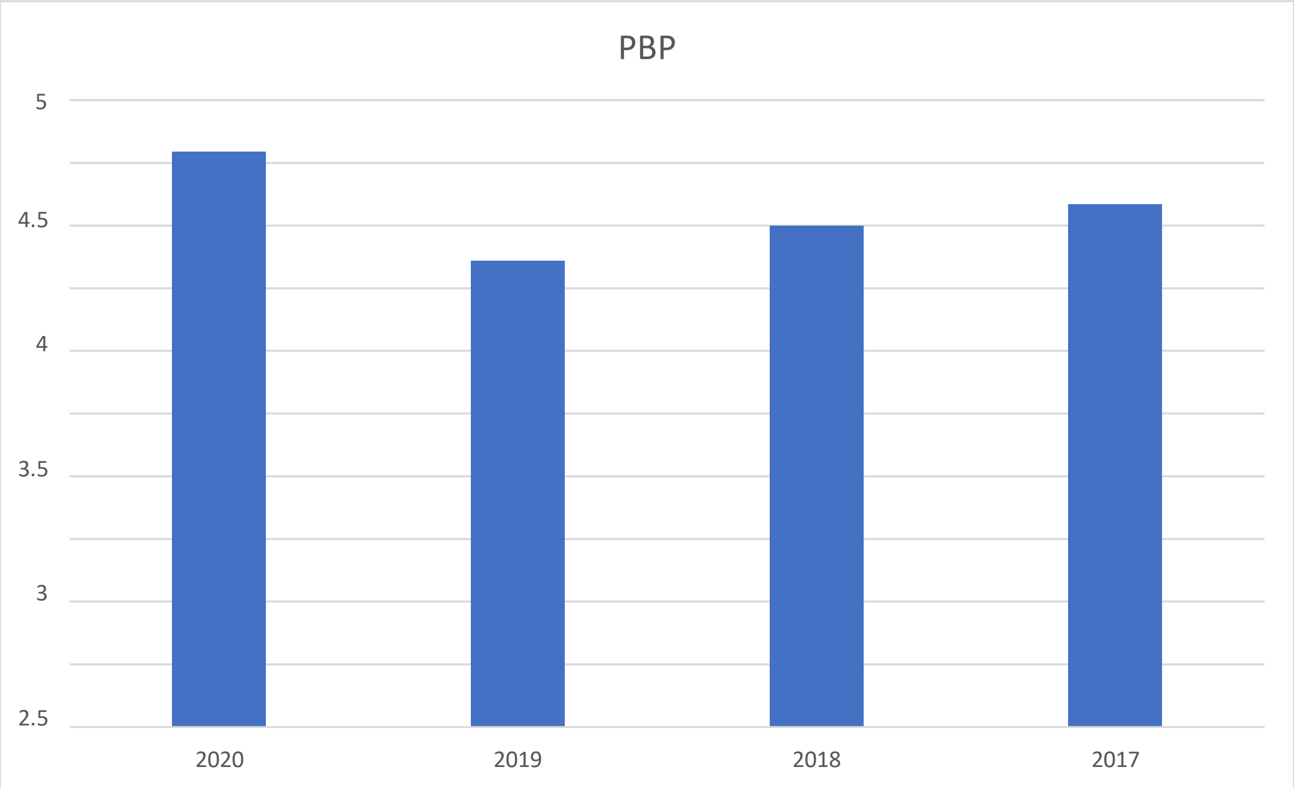
PARTICULARS	2017	2018	2019	2020
INCOME				
SALES	45.34	59.55	65.74	54.443
OTHER INCOME	77.26	14.7	26.33	25.78
TOTAL	53.07	61.03	68.37	57.02

EXPENSES				
COST OF GOODS SOLD	41.39	48.89	56.57	44.2
ADMINISTRATIVE EXPENSES	46.51	47.6	39.19	47.09
EMPLOYEE COST	50.4	50.16	49.22	51.67
FINANCIAL CHANGES	6.43	10.28	12.46	9.37
SELLING & DISTRIBUTIONEXPENSES	1.56	1.04	3.3	3.33
DEPRECIATION	3.91	4.39	4.37	4.05
TOTAL	52.22	60.24	67.43	55.76
NET PROFIT	**8.52**	**7.88**	**9.47**	**12.59**

TABLE SHOWING COMPARISON OF PAYBACK PERIOD FOR FOUR YEARS FROM 2017 to 2020.

Year	2020	2019	2018	2017
PBP	4.59	3.72	4.0	4.17

FIGURE SHOWING COMPARISON OF PAYBACK PERIOD FOR FOUR YEARS FROM 2017 to



2020

Interpretation:

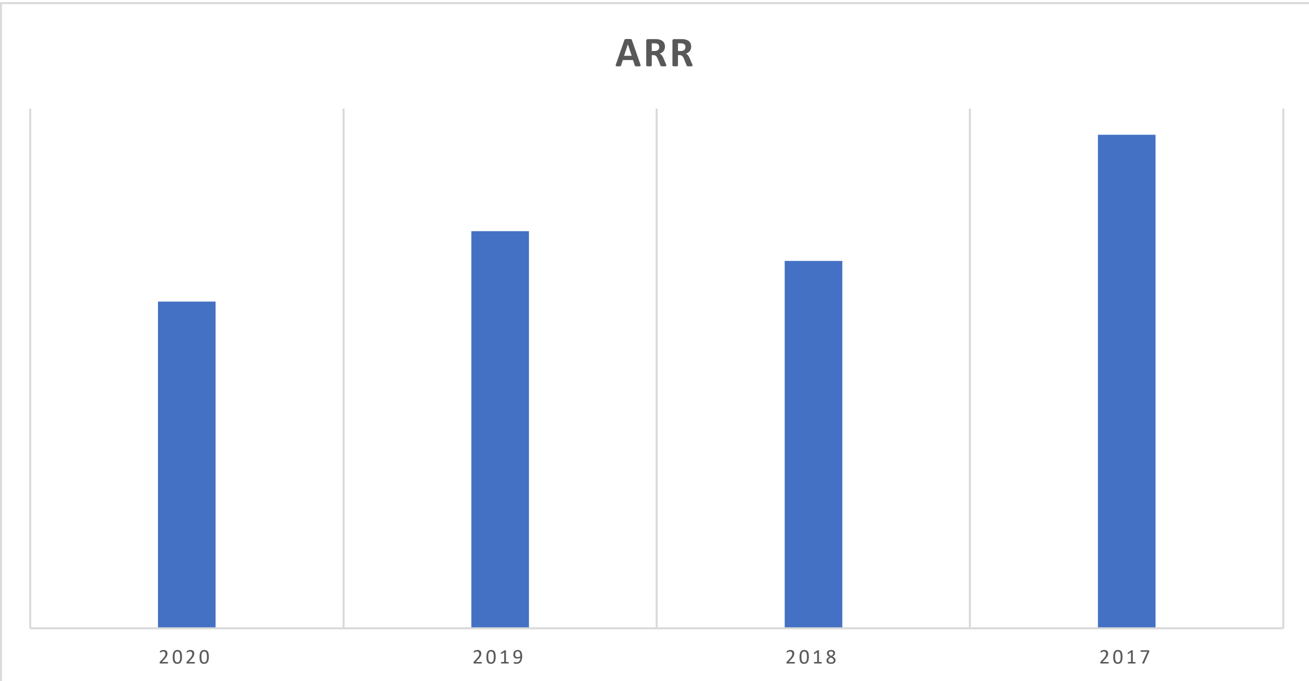
From the above figure interred that we can see that the PBP has been fluctuating over the past five financial years. It stood at about 4.59 for the current financial year as compared to the previous financial year's figure of about 4.17

TABLE SHOWING COMPARISON OFRATE OF RETURNFOR THE FOURYEARS 2017-20.

Year	2020	2019	2018	2017
ARR	0.88	1.07	0.99	1.33

FIGURE NO2.2.9

FIGURE SHOWING COMPARISON OF RATE OF RETURN FOR FOUR YEARS FROM 2017 to2020



Interpretation:

From the above figure interred that we can see that the Accounting rate of return figures have come down from 1.33 in the financial year of 2017 to about 0.88 for the current financial year of 2020.

CHAPTER 4

4.1 FINDING & CONCLUSION

1. Property speculation is recovered in a short period of time, and the offer is appropriate for a business.

2.The income derived from paid benefits. The re-evaluation rate for 2020 is 56.94 percent. The capital reimburses the cost of their expenses. There is a standard rate for ARR.

3. Because the net present value is uncertain and in negative, the initiative will be financially not viable for the organization in the long term.

4.The time range for repayment provides information about the venture's risk. However, the solid option does not provide criteria to indicate if speculation will grow the organizations' assessment.

The capital spending strategy provides basic liquidity, but it ignores the risk of money streams, cash time valuation, and future revenue beyond the growth period

1. This method must also assess the cost of money in order to determine compensation, but it must ignore money streams throughout the short reimbursement period.

2.The net present value estimation of capital spending indicates that speculation might increase the firm's estimation, but the capital expense is necessary to compute the net present value.

When compared to one another's particular responsibilities, the internal rate of return process for the capital spending plan may not be valued - boosting the option used

CONCLUSION

One of the most important financial methods for determining the project's success is to create a spending plan. So buying new gear, starting a firm, expanding, and altering the age of old equipment. Because the advanced plan considers the time estimation of cash, it is more successful than the traditional method. The Capital Budget has its own obstacle, but because of its favorable circumstances, its adverse effects are spread out with its use. In any case, in India, the capital spending process cannot be lawfully used at the institutional and administrative administration levels.

Following my consideration of this topic, I am aware of the extent of the budget. Capital abilities, I believe, may be employed in government organization ventures such as corporate and open organization services, open transportation administrations.

I really don't want to employ this technique in the future due to a lack of knowledge. Capital expenditure plans may be used by local governments as well as multinational corporations, and this statement can convey the importance of a capital spending plan

4.2 Suggestions & Recommendations

- The organization's encouragement is that the accompanying guidance be included into

The organization's day-to-day operations.

- This is a good reason to use the NPV approach when making a budgetary decision because it is based on current value. PBP was replaced.

- The organization's different offices must be in good working order.

- It is critical to maintain a data collection that will allow you to make better decisions.

- The company must use a comparable process to calculate the venture decision, which might be complex.

- When determining what is best, consider cost factors such as labor expenses,

Bookkeeping costs, and so on.

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