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CAPITLA BUDGETING IN ULTRATECH CEMENT WITH SPECIAL REFERENCE TO ANANTAPURAMU DISTRCT

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ABSTRACT

Capital budgeting is long term planning foe making and financing proposed capital outlays. They have long term and significant effect on profitability of the concern.
Capital investment decision is not easily reversible without much financial loss to the firm. But it may promise better future earnings in such cases it may be preferred to increase future earnings. The payback period of the GT TEXT facilities is positive 4.58. The investment recovered in fourth year. The payback period of the capacity of the turbines is 3.39. The investment in third year The NPV of capacity of the steam turbines project is in positive 805.74. Long term investment once made cannot be reversed without significance loss of invested capital. The investment becomes sunk and mistakes rather than being readily rectified must often be born until the firm can be withdrawn through depreciation charges.

KEYWORDS: *Involves, Decision, Acceptance, Obtained.*

INTRODUCTION

Capital budgeting is the process of making investment decision and capital expenditure. Capital budgeting is employed to evaluated expenditure decision which involve current outlay that are likely to produces benefits over a period of time longer than one year. Capital budgeting decisions refer to assets which are in operation and yield a return over a period of time, usually exceeding one year. It is a long term investment decision involving huge capital expenditure. Capital budgeting process involves planning, availability and controlling allocation and expenditure of long term investment funds.

According to **Charles T.Horngreen** has defined as “Capital budgeting is long term planning foe making and financing proposed capital outlays.”

Capital expenditure involves a non-flexible, long term commitments of funds. Thus Capital expenditure decisions are also called as long term investment decision. Capital budgeting decisions involves the planning and control of Capital expenditure

Features:

1. It involves exchange of current funds for the benefits to be achieved in future.
2. Future benefits are expected to be realized over a serious of years
3. They generally involve huge funds..
4. They are inversable decision.
5. They have long term and significant effect on profitability of the concern.
6. There is relatively high degree of risk.

Importance:

Capital budgeting decisions is of paramount importance in financial decision making. They also have a bearing on the competitive position of the enterprise. Capital budgeting decisions determines the future destiny of the company.

- An opportune investment decision can yield spectacular returns where as an ill-advised and incorrect investment decision can endanger the very survival even of the large sized firms.
- A capital expenditure decision has its effect over a long term time span and inevitably affects the company's future cost structure.
- Capital investment decision is not easily reversible without much financial loss to the firm.
- Capital investment involves cost and the majority of the firms have scares capital recourses.
- Capital investment decision is of national importance because it determines employment, economic activities and economic growth.

Need for Capital Budgeting:

Capital budgeting decisions are vital to an organization as they include the decisions as to.

- Where or not funds should be invested in long term projects such as setting of an industry purchase of plant and machinery etc.
- To analysis the proposal for expansion or creating additional capacities.
- To decide the replacement of permanent asset as building and equipments.
- To make financial analysis of various proposals regarding capital investment so as to choose the best out of many alternative proposals.

Types of Capital Budgeting:

A) Accept –reject decisions:

This is a fundamental decision in capital budgeting. If the proposal is rejected he firm does not invest in it so by applying this criterion all independent projects are accepted. Independent projects are projects that do not complete with one another in such away the acceptance of project preclude

the possibility of acceptance of another.

B) **Mutually exclusive project decisions:**

These are the which complete with other in such a way that the acceptance of one will exclude the acceptance of other projects. The alternatives are mutually exclusive and only one may be chosen.

C) **Capital rationing decisions:**

Capital rationing refers to situation in which the firm has more acceptable investments requiring greater amount of finance then is available with the firm. It is concerned with selection of group of investment proposals out of many investment proposals actable under accept reject criterion under financial constrains.

Factors influencing Capital Expenditure Decisions:

There are many factors financial as well as non financial which influence the capital expenditure decisions and the profitability of the proposal yet there are many other factors which have to be taken in to consideration while taking a capital expenditure decision. There are.

A) **Urgency:** Some time an investment is to be made to be made due urgency for the survival of the firm or to avoid heavy losses. In such circumstances proper evolution cannot be made through profitability tests.

B) Degree of Uncertainty: Profitability is directly related to risk higher the profits greater is the risk.

C) Intangible Factors: Sometimes a capital expenditure has to be made due to certain emotional and intangible factors such as safety and welfare of the workers, social welfare and goodwill of the firm.

D) **Availability of funds:** As the capital expenditure generally requires the provisions of laws solely influence by this factor and although the project may not be profitable.

E) **Future earnings:** A project may not be profitable as compared to another today. But it may promise better future earnings in such cases it may be preferred to increase future earnings.

Research Methodology:

The term research design is defined as "The ways and methods that are followed in analyzing the data available". In the above statement it is quite clear that in order to find out the actual position of the company the various methods of analysis should be made.

Data Collection: The study depends upon secondary data from various sources.

Secondary Data: secondary data is collected from annual reports, schedules, budgets, and other statements provided by the finance department of Ultratech Cement Corporation Pvt Ltd.

Need of the Study:

A brief Para on alternative results obtained should be included in the report. This should be done taking in to consideration factors like optimum size of the plant, location, product mix, technology, demand, transportation.

Scope of the Study:

The scope of the present study includes the following. Understanding the importance of the capital budgeting in Ultratech Cement Corporation Pvt Ltd. evaluating an investment proposal of setting up facility at Ultratech Cement Corporation Pvt Ltd.

Objectives:

- To find out the effective and efficient plan for the long term investment.
- To ascertain the risk factor in the investment plan.
- To analysis the proposal for creating additional capacities.
- To decide the replacement of permanent asset such as building and equipments.
- To make financial analysis of various proposals regarding capital investment so as to choose the best out of many alternative proposals.

Limitations of the Study:

- The study was conducted with the data available and analysis was made accordingly.
- Detailed analysis could not be carried for the limited time span.
- Since the study is based on the financial data that are obtained from the company's financial statements the limitations of financial statements shall be equally applicable.

REVIEW OF LITERATURE:

Sahu (2002) A simplified model for liquidity analysis of paper companies" in his analysis identified the effective of Liquidity Management with usefulness and develops a simple model for current and quick ratios of 12 Indian paper companies for the period of 1989-1990 to 1996-1997. This study revealed the effective management of liquidity in the paper companies.

Ashita Raveendran (2003) presented a survey of the Financial Structure and Performance of the Engineering Industry in Kerala. In her survey data of four engineering groups, namely, metal products, machinery, electrical and transport products were analysed. She concluded that the liberalised policy should at the upgradation of the technology, thereby improving the quality and productivity of the engineering industry. Measures for cost control, modernisation, upgradation, computerisation and the like. Will help in strengthening the forward and backward linkages of the engineering industry within the state.

Hamsalakshmi and Manickam (2004) have made "A study on financial performance analysts of selected software companies". The study has been focused on examining the structure of liquidity position leverage and profitability. The study has revealed a favourable liquidity position and working capital position. The study has also pointed out that the companies rely more on internal financing and the overall profitability has been increasing at a moderate rate.

BRICKLEY (2006): Capital budgeting is a long term assets which deals with the investment that gives high return. And these aspects are prepared a year advance and these can be extended to five, ten or fifteen years in futures.

Deep, D. and Umaya Salma Sharahan (2007) presented Liquidity Management of Leading Automobile Study an empirical study on liquidity management of leading automobile company from 1995 to 2006. The researcher observed that the liquidity position of the company it was

suggested that to utility it's assess in an effective manner increase cash balance and reduce its current liability.

Dharmendra S. Mistry (2010) in this study "A Comparison of Financial Performance of Major Gujarat Pharma" players through value added and economic value added. The purpose of this study is to classify major Gujarat pharmacy players in cohesive categories on the basis of positive correlation with firm size, funds of proprietors, and funds of money-lenders and have significant impact on economic value added.

Gurbuz Osman, Aybars Aslı and Kutlu Ozlem (2010) evaluates "Corporate Governance and Financial Performance with a Perspective on Institutional Ownership: Empirical Evidence from Turkey", the impact of corporate governance on financial performance in Turkey, taking the issue of institutional ownership into account. The purpose of this study is also to explore how institutional ownership, distinguishing between domestic and foreign ownership affects the financial performance of the companies, which are listed in the Corporate Governance Index. **Neha Mittal (2011)** studies the determination of capital structure choice of the selected Indian industries. The main objective is to investigate whether and to what extent the main structure theories can explain the capital structure choice of Indian firms. It has applied multiple regression models on the selected industries by taking data for the period 2001-2008. It examines the relevance of capital structure in selected Indian industries based on a regression analysis and data study. It concludes that the main variables determining capital structure of industries in India are agency cost, assets structure, non-debt tax shield and size.

Palani, A. and Yasodha, P. (2012) conducted an important study on Working Capital Management in Loyal Textile Mills Limited, Chennai. The period of the study was five years from 2006-07 to 2010-11. The objective of the study was to evaluate the extent to which working capital has been effectively utilized by Loyal Textile Mills Ltd. The data for the research was collected from secondary sources i.e., annual reports of the company. The Research Methodology was mainly based on ratio analysis techniques and statistical tools with Z-Score analysis. The Z-score of the company indicated that the company was credit worthy in the first 3 years.

Seyed Mohammad Alavinasab and Esmail Davoudi (2013) in their study examined the relationship between working capital management and profitability for listed companies on Tehran stock exchange. Hundrden forty seven companies were selected for the period of 2005-2009. The effect of various variables of working capital management including cash conversion cycle, the current ratio, current asset to total asset ratio, current liabilities to total asset ratio and debt to total asset ratio on return on assets and return on equity are studied. Multivariate regression and Pearson correlation are used to test the hypothesis.

Vaijayanthimala and Vijayakumar (2014) analyzed liquidity management and trade-off between risk and profitability in Indian cement industry during the study period. The analysis of correlation between liquidity and profitability showed positive correlation in Associated Cement Companies Limited, Chettinad Cement Corporation Limited, Dalmia Cement Limited, Madras Cements Limited and Shree Cement Limited. However, there was negative correlation between liquidity and profitability in the case of Birla Corporation Limited, Grasim Industries Limited and India Cements Limited. Further, the analysis of correlation between risk and profitability depicted a positive correlation in all the selected companies.

Desai and Joshi (2015) studied impact of financial restructuring on corporate performance of Steel Industry in India. Secondary sources of data were considered for the study. Financial statements of steel sector firms, both large and medium scale firms, were analysed by taking sales, gross profits, net profits, gross assets, taxes paid and current ratio as parameters, before and after the restructuring. Paired t-test was used to compare the performance of these firms before and after the restructuring. Results of the study indicated that financial restructuring had a significant impact on the financial performance of large and medium sized firms in the long run.

Data Analysis:

Calculation of cash flows after tax:

Year	CFBDT	DEP	CFBT	TAX	CFAT	EAT
2014-15	1000	663.2	336.2	----	1000	336.2
2015-16	1328	663.2	664.8	----	1328	664.8
2016-17	2642	663.2	1978.8	----	2642	1978.8
2017-18	2642	663.2	1978.8	----	2642	1978.8
2018-19	2642	663.2	1978.8	----	2642	1978.8
					10254	**6838.00**

Calculation of Payback period:

Year	CFBDT	Cumulative CFAT
2014-15	1000	1000
2015-16	1328	2328
2016-17	2642	4970
2017-18	2642	7612
2018-19	2642	10254

PBP + 4+ 2642/4970=4+0.53=4.53.

Calculation of ARR:

Avg Income = 6938/5=1387.6

Avg Investment=4145/2=2072.5

ARR=1387.6/2072.5*100=66.95%

Calculation of NPV @ 15 %

Year	CFAT	PV @ 15 %	PVCF
2014-15	1000	.870	870.0
2015-16	1328	.756	1003.9
2016-17	2642	.658	1738.4
2017-18	2642	.572	1511.2
2018-19	2642	.497	1313.2
			6436.5

=**6436.5**
(-) Initial investment = 4145.0

Profit =2291.5

The payback period of the centralized blade shop is 4.53. The investment recovered in the third year.
The NPV of the centralize blade shop project is in positive: 2291.5

Calculation of Cash Flow after Tax (2.2 GT Test facilities)

Year	CFBDT	DEP	CFBT	TAX	CFAT	EAT
2014-15	35	32.16	2.84	---	35	2.84
2015-16	40	32.16	7.84	---	40	7.84
2016-17	103	32.16	70.84	---	103	70.84
2017-18	103	32.16	70.84	---	103	70.84
2018-19	506	32.16	70.84	---	506	403.84

Calculation of Pay Back Period

Year	CFBDT	Cumulative CFAT
2014-15	35	35
2015-16	40	75
2016-17	103	178
2017-18	103	281
2018-19	506	787

PBP=4+103/178=0.58
=4 +0.58 = 4.58

Calculation of ARR
Avg income= 626.2/5=125.24
Avg investment = 268/2= 134
ARR=125.24/134*100=93%

Year	CFAT	PV @ 15 %	PVCF
2014-15	1000	.870	30.45
2015-16	1328	.756	30.24
2016-17	2642	.658	67.77
2017-18	2642	.572	58.91
2018-19	2642	.497	251.98
			439.85

= 439.85
(-) Initial investment = 268.00

Gain = 171.35

The payback period of the GT TEXT facilities is positive 4.58. The investment recovered in fourth year. The NPV of the GT test facilities is in positive: 171.35.

Calculation of Cash Flows after Tax (2.3 Capacity of steam Turbines)

Year	CFBDT	DEP	CFBT	TAX	CFAT	EAT
2014-15	1046	250.24	795.76	-----	1046	795.76
2015-16	4520	250.24	4269.76	-----	4520	4269.76
2016-17	4520	250.24	4269.76	-----	4520	4269.76
2017-18	4520	250.24	4269.76	-----	4520	4269.76
2018-19	4520	250.24	4269.76	-----	4520	4269.76
					19126	**17874.8**

Calculation of Pay Back Period

Year	CFAT	Cumulative CFAT
2014-15	1046	1046
2015-16	4520	5566
2016-17	4520	10086
2017-18	4520	14606
2018-19	4520	19126

PBP=3+4520/5566=0.81
=3+0.81=3.81

Calculation of NPV @ 15 %

Year	CFAT	PV@15%	PVCF
2014-15	1046	.870	910.02
2015-16	4520	.756	3417.12
2016-17	4520	.658	2947.16
2017-18	4520	.572	2585.44
2018-19	4520	.497	2246.44

12106.18
(-) Initial investment = 10262.00

1844.18

Calculation of ARR
Avg income=17874.8/5=3574.96
Avg investment =10262/2=5131

ARR=3574.96/5131*100=69.67%.
The payback period of the capacity of the steam turbines is 3.81. The investment recovered in third year.
The NPV of capacity of the steam turbines is in positive 1844.18

Calculation of Cash Flows after Tax (2.4 Facilities for Manufacturing Special Tools)

Year	CFBDT	DEP	CFBT	TAX	CFAT	EAT
2014-15	20	17.68	2.32	----	20	2.32
2015-16	45	17.68	27.32	----	45	27.32
2016-17	60	17.68	42.32	----	60	42.32
2017-18	35	17.68	17.32	----	35	17.32
2018-19	42	17.68	24.32	----	42	24.32
					202	**113.6**

Calculation of Pay Back Period

Year	CFAT	Cumulative CFAT
2014-15	20	20
2015-16	45	65
2016-17	60	125
2017-18	35	160
2018-19	42	202

Calculation of NPV @ 15 %

Year	CFBDT	PV@15%	PVCF
2014-15	20	.870	17.4
2015-16	45	.756	34.02
2016-17	60	.658	39.48
2017-18	35	.572	20.02
2018-19	42	.497	20.87
			131.79

131.79
(-) Initial investment = 221.00

Loss 89.21

Calculation of ARR

Avg income=113.6/5=22.72

Avg investment =221/2=110.5
ARR=22.72/110.5*100=20.56%
The payback period of the facilities for manufacturing special tools project exceeding life of the project. The NPV facilities manufacturing special tools is negative 89.2.

Calculation of Cash Flows after Tax (2.5 9F GTG)

Year	CFBDT	DEP	CFBT	TAX	CFAT	EAT
2014-15	300	38.16	261.84	------	300	261.84
2015-16	1500	38.16	1461.84	------	1500	1461.84
2016-17	1500	38.16	1461.84	------	1500	1461.84
2017-18	1500	38.16	1461.84	------	1500	1461.84
2018-19	1500	38.16	1461.84	------	1500	1461.84
					6300	**6109.20**

Calculation of Pay Back Period

Year	CFAT	Cumulative CFAT
2014-15	300	300
2015-16	1500	1800
2016-17	1500	3300
2017-18	1500	4800
2018-19	1500	6300

PBP=2+1482/1800=2.82
Calculation of NPV @ 15 %

Year	CFBDT	PV@15%	PVCF
2014-15	300	.870	261
2015-16	1500	.756	1134
2016-17	1500	.658	987
2017-18	1500	.572	858
2018-19	1500	.497	745.5
			3985.5

3985.5
(-) Initial investment = 3180.0

Profit =805.5

Calculation of ARR:

Avg income=6109.2/5=1221.84

Avg investment =3180/2=1590

ARR=1221.84/1590*100=76.84%

The payback period of the 9F GTG and aug of new facilities is 2.84.

The NPV of 9F GTG and Aug of new facilities is in positive 805.5.

Findings:

- The payback period of the centralized blade shop is 3.11. The investment recovered in the third year. The NPV of the centralize blade shop is in positive 2291.5
- The payback period of the GT text facilities is positive 4.01. The investment recovered in the fourth year. The NPV of the GT Test facilities project is in positive 170.85
- The payback period of the capacity of the turbines is 3.39. the investment in third year The NPV of capacity of the steam turbines project is in positive 805.74
- The payback period of the facilities for manufacturing special tools exceeding life of the project. The NPV facilities for manufacturing tool negative 89.21
- The payback period of the 9F GTG and aug of new facilities is 2.84 the investment recovered in third year. The NPV OF 9F GTG and aug of new facilities is in positive 3667.5

Suggestions:

- ✓ As large sum of money is involved which influences the profitability of the firm making capital budgeting an important task.
- ✓ Long term investment once made cannot be reversed without significance loss of invested capital. The investment becomes sunk and mistakes rather than being readily rectified must often be born until the firm can be withdrawn through depreciation charges.
- ✓ Investment decision are the base on which the profit will be earned and probably measured through the return on the capital.
- ✓ A proper mix of capital investment is quite important to ensure adequate rate of return on investment calling for the need of capital budgeting.

CONCLUSIONS:

That capital budgeting help the company to take better decision on introducing new scheme. The company has plan take 5 new scheme in the article. In which the first project of payback period centralized blade shop is 4.53 and The NPV of the GT test facilities is in positive: 171.35. The third scheme is 3.81 and pay back period NPV is positive 1844.18. The fourth scheme is The NPV facilities manufacturing special tools is negative 89.2. The fifth The NPV of 9F GTG and Aug of new facilities is in positive 805.5.

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