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CAPITAL BUDGETING W.R.T. AMBUJA CEMENTS

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ABSTRACT

Capital budgeting then consists in planning the deployment of available capital for maximizing the long term profitability (return on investment) of a firm. It refers to the process by which a firm determines where it should apply its comparatively limited financial resources. Capital budgeting may be defined as the decision-making process by which a firm evaluates the purchase of major fixed assets, including buildings, machinery and equipment.

It deals exclusively with major investment proposals which are essentially long term projects and is concerned with the allocation of the firm's scarce financial resources among the available market opportunities. The capital projects would be evaluated using internal rate of Return, Net Present Value, Profitability Index method and average rate of Returns. Sample of projects are undertaken for the study and the decision of acceptance or rejection is shown.

INTRODUCTION :

Capital allocating is the process that associations use for conclusion making on capital project. The capital project ends for more interminable occasion, normally in addition to individual old age. As the project is customarily big and has main affect the long period of time profit of misrepresentation, it is

important for killing to create the right conclusion.

➤ CAPITAL BUDGETING PROCESS

The particular capital calculating processes that the boss uses believe the

stable's level in the institution and the complicatedness of the arrangement and the breadth of the projects. The usual steps in the capital calculating process are in this manner:

- Brainstorming. Investment plans can arise unspecified area, from the very beginning or below of the arranging, from some area or working region, or from outside the guest. Generating good money plans to analyze is ultimate main become involved the process.
- Project reasoning. This step includes assemblage the news to forecast cash flows each project and therefore judging the project's appropriateness.
- Capital budget preparation. The guest must systematize the money-making suggestions into a related whole that fits inside the guest's overall game plans, and it more must deal with the projects' organize. Some projects that look good when thought-out to the side concede possibility are offensive strategically. Because of economic and absolute system issues, the

slating and prioritizing of projects is main.

- Performance listening. In a post-audit, real results are distinguished to projected or called results, and some distinctness's must be told. For example, by what method does the revenues, expenses, and cash flows earned from a loan equate to the forecasts? Post-analyzing capital projects is main for various reasons. First, it helps monitor the forecasts and reasoning that hold in check the capital allocating process. Systematic wrongs, in the way that excessively bright forecasts, arise. Second, it helps enhance trade movements. If demand or costs are rude, it will focus on producing conduct tighter to anticipations if by any means likely. Finally, listening and post-examining current capital expenditures will produce hardened plans for future money. Managers can end to provide more densely in advantageous regions and decrease or abort money in extents that are unsatisfactory.

➤ COMPLEXITY OF CAPITAL
BUDGETING PROCESS

The allocating process needs the difficulty of various areas in deceive someone. Planning for capital money may be very complex, frequently including many bodies inside and except for the association. Information about shopping, erudition, planning, managing, tariff, finance, result, and observable issues must be orderly assembled and judged. The expert to get or give advantage determinations depends on the breadth and complicatedness of the project. Lower-level managers can have judgment to form conclusions that include inferior a likely amount of services, or that do not surpass a likely capital budget. Larger and more intricate conclusions are silent for top administration, and few are so meaningful that the party's board of managers eventually has the administrative expert. Like entirety different, capital allocating is a cost-benefit exercise. At the border, the benefits from the upgraded conclusion making endure surpass the costs of the capital allocating works.

➤ IMPORTANCE:

Capital allocating again has a concerning the competing position of the energy chiefly by way of the experience that they have connection with long-term asset. The long-term asset shows a valid reaping advantage of the firm. They authorize the firm to create done merchandise that maybe eventually being convinced for profits. The Capital Expenditure conclusion has allure belongings over a very long time span and certain influences the guest's future cost form. The Capital investment resolution already fashioned are not surely erratic outside much monetary misfortune to the firm cause their concede possibility be no display for second-of –help long-term assets and their adaptation to added uses can most financially reasonable. Capital investment includes cost and the adulthood of the firms have search capital money.

II.METHODOLOGY:

At each point momentary a trade firm has any of suggestions concerning miscellaneous projects at which point, it can lend budget. But the earnings possible accompanying the firm are forever restricted and are not attainable to install flow in the whole suggestion at

a period. Hence it is very owned by select from among the miscellaneous contesting suggestions, those that gives the chief benefits. The nub of capital calculating is the distribution of available funds to differing suggestions. There are many concerns, financial in addition to non-financial, that influence the capital allocating conclusion in the appropriateness of the potential money. Yet the right complicated in the suggestions cannot be avoided, appropriateness and risk are straightforwardly accompanying, that is taller worth the better the risk and with the order reversed skilled are various plans for judging and putting the capital expense suggestions.

III. REVIEW OF LITERATURE

Batra & Verma, 2022 Capital allocating is individual of ultimate main

determinations met for one commercial administration of some arrangement. It is a preparation means secondhand by an arrangement to form judgment resolutions on by what method to assign possessions with grant projects.

Et al., 2022 evaluating the contribution projects that will found benefits for periods of over individual old age what will assist the party to acquire revenues or decrease future costs.

Leon and others. 2008 Capital allocating is a form that maybe secondhand for very natural functional conclusions in the way that supplies substitute or more intricate actions in the way that the building of a new plant. In any case, when seeing the significance of capital expense resolutions, it is authoritative that managers use the appropriate practice to guarantee a sound conclusion. Leon and others. 2008;

DATA ANALYSES AND INTERPRETATION

FINACIAL ANALYSIS:

ANALYSIS OF ICICI

Years	Total sales	Total assets	Fixed assets	Net Profit	Capital Employed	Long term funds	Share holders Funds
2017-2018	5397.88	5299.52	3041.39	-210.21	4155.56	1,66,719	45.45
2018-2019	5918.20	5020.35	2136.86	-379.74	2813.99	2,15,254	45.45
2019-2020	5710.82	4985.43	2729.16	-329.23	2965.51	2,35,458	45.45
2020-2021	5080.91	4515.67	2306.59	-516.55	2796.97	3,66,184	109.77
2021-2022	4873.37	4581.52	1415.35	-366.68	3106.28	4002.84	109.77

flows for the age 2021 to 2022. Then the return ending is deliberate in this manner:

CALCULATION OF PAY BACK PERIOD OF AMBUJA CEMENT LIMITED

1. PAY BACK PERIOD METHOD:

Payback ending procedure is a usual form of judgment of capital calculating resolution. The term return or give or climax refers to the ending at which point the project will create the essential cash and recover the beginning finance or the change into cash flows. To reckon the pay ending, the accruing cash flows will be deliberate and by utilizing introduction the exact ending concede possibility be planned. The **AMBUJA CEMENT LIMITED** has Rs. 5639.78 crores of primary asset and the annual cash

SI NO	YEAR	CASH INFLOW	CUMULATIVE CASH FLOWWS
1	2017-2018	7188.91	7188.91
2	2018-2019	6959.35	15158.26
3	2019-2020	6254.32	20405.98
4	2020-2021	5857.72	26263.70
5	2021-2022	5639.78	31903.48

Difference in cash flows

$$PBP = \text{Actual (Base) year} + \frac{\text{Difference in cash flows}}{\text{Next year cash flows}}$$

Next year cash flows

15158.26

$$PBP = 1 + \frac{15158.26}{20405.26}$$

20405.26

$$= 1 + 0.69$$

$$= 1.69 \text{ year}$$

Payback period (PBP) = 1.69 year.

ACCEPT-REJECT CRITERION:

PBP maybe secondhand as a test to acknowledge or rebuff an expense suggestion. A suggestion whose real return ending is in addition what is fate for one administration. PBP accordingly, is valuable for the administration to recognize the expense resolution on the **AMBUJA CEMENT LIMITED** and more to assist the administration to see that the beginning money is cured in 1.69 ages

II. ACCOUNTING OR AVERAGE RATE OF RETURN METHOD:

It is another usual design of capital allocating judgment. According to this order the capital expense suggestions are deduced on the footing of their relative worth. The capital working and connected incomes are driven in accordance with the widely recognized bookkeeping standard and practices over the sure growth of project and the average yield are premeditated. Such a rate is named the bookkeeping rate of return or the average return or ARR. It may be deliberate in accordance with some individual of the following patterns:

- (i) Annual average net earnings
----- X 100
Original investment
- (ii) Annual average net earnings
----- X 100
Average investment
- (iii) Increase in expected future annual net earnings
----- X 100
Initial increase in required investment

The term average annual pay after deductions are the average of the income afterwards devaluation and tax. Over all of the financial growth of the project order and these bestowing on ARR above the necessary rate concede possibility be entitled to. The amount of average grant maybe planned in accordance with one the following systems:

Statement showing calculation of ARR

YEARS	EARNINGS AFTER TAX (EAT)
2017-2018	7188.91
2018-2019	6959.35
2019-2020	6254.32
2020-2021	5857.72
2021-2022	5639.78
TOTAL	31903.48

Average investment = 3832.05

$$\text{ARR} = \frac{3832.05}{6380.69} \times 100 = 60.05 \%$$

Average Rate of Return = 60.05 %

FORMULATION OF STEPS:

STATEMENT OF SHOWING
CALCULATION NPV @88%, 89%,
90% UNDER IRR METHOD

YEARS	Annual CFA To	Discount Rate-88%		Discount Rate-89%		Discount Rate-90%	
		PVF	PV	PVF	PV	PVF	PV
		2017-2018	7188.91	0.531	3818.31	0.529	3802.93
2018-2019	6959.35	0.2921	2032.82	0.1799	1947.92	0.277	1927.74
2019-2020	6254.32	0.1679	987.55	0.1581	926.26	0.155	906.87
2020-2021	5857.72	0.0858	502.59	0.0783	458.65	0.076	445.18
2021-2022	5639.78	0.0461	259.99	0.0415	233.48	0.04	225.59
			7600.28		7369.26		7286.76

From the same estimations the following maybe noticed. PV Of net cash flows at 88% is: 7600.28cr PV Of net cash flows at 89% is: 7369.26 cr

DECISION:

Since the primary loan RS. 13547.56cr is lies betwixt 88% and >80% the guest APTDC can decide the IRR as >80% Hence IRR=>80% ACCEPT-REJECT CRITERION: IRR is the maximum sum charged for use of money, that an arranging can produce to pay on capital, installed in, is recognized if IRR surpasses the layoff rates and rebuffed if it is beneath the layoff rate.

The layoff rate of **AMBUJA CEMENT LIMITED** is 10%, that is inferior the IRR that is to say >80% therefore the agreement of **AMBUJA CEMENT LIMITED** is quiet a good finance resolution captured by administration.

1. PROFITABILITY INDEX:

(BCR OR PI) Profitability index order is as known or named at another time or place occasion regulated means of judging the expense suggestions. Profitability otherwise known as as benefit cost percentage (B\C) in friendship betwixt present worth of cash inflows and the profit of change into cash flows.

$$\text{Profitability index} = \frac{\text{Present value of cash inflows}}{\text{Initial cash outlay}}$$

CALCULATIONS OF BCR:

STEP1: Calculations of cash flows profiting

STEP2: Calculations of Present principles of cash inflows @10%. S

STEP3: Application of ability.

Statement for calculating of benefit cost ratio

YEARS	CFAI'S	PVIF @ 10%	PV'S
2017-2018	7188.91	0.909	6534.71
2018-2019	6959.35	0.826	5748.42
2019-2020	6254.32	0.751	4696.99
2020-2021	5857.72	0.683	4000.82
2021-2022	5639.78	0.62	3496.66
TOTAL:			24477.62

$$\begin{aligned} \text{Profitability index} &= \frac{\text{Present value of cash inflows}}{\text{Initial Investment}} \\ &= \frac{24477.62}{13547.56} = 1.95 \end{aligned}$$

Hence PI = 1.95 years.

Accept-reject criterion:

There is a slight dissimilarity betwixt present advantage index plan and appropriateness index plan. Under appropriateness index design the profit of cash inflows and cash outflows are captured as acknowledge-spurn resolution. I.e. the recognize deny test is:

If Profitability Index > 1 (ACCEPT). Profitability Index < 1 (REJECT). The agreement of apiece administration is judged through Profitability Index means of as the PI > 1 (namely.1.95 age)

IV. CONCLUSION

➤ The calculating exercise in AMBUJA CEMENT LIMITED again covers the long-term capital budgets, containing annual preparation and determines general anticipate request of within possessions and credit fix interpreted knowledgeable the allied plan.

- The outlook of capital calculating likewise involves payment on plant improvement, and remodeling, adjust supplies, capital adding's and instructing expenses before a court of law runs create parts.
- To organize a close link middle from two point's tangible progress and cautionary expenses and to supply the base for plan distribution and financial support apiece management.
- The manual approves the calculation of NPV at a cost of capital / discount rate particularized now and then.
- A distinct discount rate endure not be secondhand for all the volume calculating projects.
- The reasoning of appropriate cues and quantifications of expected results and benefits, risk determinants if some must be distinctly drew out.
- Inducting not completely three non -official managers the device of the Search Committee concede possibility rearrange the entertainment industry of these PSUs.
- Feasibility report of the project is processed on the cost estimates and the cost of era.
- Scope of capital allocating in AMBUJA CEMENT LIMITED are
- Approved and continuous blueprints
- New certified blueprints
- Unapproved blueprints
- Capital budgets for plant improvement's
- Survey and hearing
- Research and development budget.

FINDINGS

- The amount of total asset in property as raised considerably from 4515.67 cr to Rs. 4581.52 cr.
- The amount of reductions has raised from 4873.37 Cr to 5080.91 2Cr (2021-2022) this raised businesses aided the arranging to correct allure trade give indifferent areas
- Pay back ending for the project will be 1.69 age it displays the project earns good yield from now on likewise.
- Average rate of return for the AMBUJA CEMENT LIMITED is 60.05 %.

- NPV and IRR show a good way for the institution to expand In future markets and further the properties for the financiers.
- During the unchanging ending profit whole has deteriorated from Rs.-377.19 Cr to Rs.-366.68 Cr.
- The percentage of long-term assets to enduring borrowings has not existed appearance some agreeing current. It has different from -0.51 periods to 0.28 (2021-2022).
- The beginning percentages of the asset are curtailed from 10709 Cr to 11930.06 cr (2021-2022) uniformly raised ending of 5 age.

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