

A Study on Capital Budgeting of Eatman Foods India Pvt Ltd At Erode

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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. To study the types of capital investment undertaken and the methods of appraisal used. To study measure the present value of money invested. The influence of firm growth in the long-term consequence capital investment. The decision and have considerable impact on what the firm can do in future. 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.

Keywords- Capital budgeting, IRR, PBP, NPV

I. INTRODUCTION

Capital budgeting is an essential part of every company's financial management. Capital budgeting is a required managerial tool. One duty of financial manager is to choose investment with satisfactory cash flows with high returns. Therefore a financial Manager must be able to decide whether an investment is worth undertaking and able to decide and be able to choose intelligently between two or more alternatives. Capital budgeting involves the planning and control of capital expenditure. It is the process of deciding whether or not to commit resources to a particular long term project whose benefits are to be realized over a period of time .A capital budgeting decision is defined as the firms decision to invest its Current funds efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years. The firm's investment decisions would generally include expansion, acquisition, modernization, and replacement of the long-term assets. They are assessment of

future events, which are difficult to predict. It is really complex problem to estimate the future cash flow of an investment

II. STATEMENT OF THE PROBLEM

To evaluate the practices of capital budgeting for evaluation of investment proposals in the Eatman Foods industry in Erode. Capital budgeting is important because it creates the accountability and the measurability. Capital budgeting deals with high volume production keeping in view the quality of products produced. Through the analysis of capital budgeting we can know the demand so that production and sales can be taken up without delay

III. NEED OF THE STUDY

- The investment becomes sunk, and mistakes, rather than being readily rectified, must often be borne until the firm can be withdrawn through depreciation charges or liquidation. It influences the whole conduct of the business for the years to come.
- 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 is quite important to ensure adequate rate of return on investment, calling for the need of capital budgeting.
- The implication of long term investment decisions are more extensive than those of short run decisions because of time factor involved, capital budgeting decisions are subject to the higher degree of risk and uncertainly than short run decision.

IV. OBJECTIVES OF THE STUDY

- To study the types of capital investment undertaken and the methods of appraisal used.
- To study measure the present value of money invested.
- To Study measure the profitability of the project by considering all cash flows.

- To Study analyses the strength and weakness of existing process of capital budgeting.
- To Study make any suggestions if any for improving the financial position of the company.

V. SCOPE OF THE STUDY

Capital investments representing the growing edge of a business is deemed to be very important three inter-relegated factors

- The influence of firm growth in the long term consequence capital investment.
- The decision and have considerable impact on what the firm can do in future.
- The affect the risk of the firm it is difficult to inverse capital investment.
- Identification of business need and definition of the investment projects.
- Development and evaluation of proposal.
- Implementation of the project and post audit.

VI. LIMITATIONS OF THE STUDY

- The study is limited for the period of five years (2019-2020 to 2022-2023).
- The study is carried based on the information and documents provided by the company.
- The result of the study is only suitable to Eatman Foods industry.

VII. REVIEW OF LITERATURE

TITLE: RISK AND UNCERTAINTY
AUTHOR: ROGERIO AND JOOLUNKES
YEAR: 2020

A systematic review of the literature and Production of identifying research possibilities of this essay. Originality: This study adds to the literature by outlining a methodology spot budgeting discrepancies with previously published scientific research. It also advances engineering management practices by highlighting the challenges faced by engineering managers when creating capital budgets.

TITLE: CAPITAL BUDGETING PRACTICES AND POLITICAL RISK
AUTHOR: DAVID M. POWER AND SUZANNE G. M
YEAR: 2022

Evidence from Lebanon on capital budgeting practices and political risk -This study intends to investigate how capital investment projects are valued in Lebanon, whether Lebanese businesses consider risk throughout this process, and how political risk affects capital budgeting. Design/methodology/approach

TITLE: CAPITAL BUDGETING PRACTICES
AUTHOR: MOTA J, MOREIRA AC,
YEAR: 2023

A Survey of Two Industries Journal of Risk and Financial Management 16(3) 191 This research examines the capital budgeting practices used by small and medium-sized firms (SMEs) in two Portuguese industries, footwear and metalworking, aiming at answering the following research questions: How much knowledge do managers have about capital budgeting practices? What are the most used practices? How much importance do they attribute to applying them? The results document that most companies in both industries are familiar with capital budgeting practices.

VIII. RESEARCH METHODOLOGY

In this chapter, an attempt has been made to describe the research methodology followed for conducting the study, more specifically, this chapter deals with the research problem, the objectives of the research study, rationale of the study, research design, data processing and analysis and relevance of the study.

MEANING

Research methodology may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying the research problem along with the logic behind them.

DEFINITION

According to Kerlinge “scientific research is a systematic, controlled empirical and critical investigation of proposition about the presumed relationship about various phenomena”.

TITLE OF THE STUDY

Title of the project is “A Study on Capital Budgeting in Eatman Foods India Pvt Ltd at Erode

RESEARCH DESIGN

Research design is the blueprint of the various methods for conducting the research project. It includes the procedures for obtaining the information needed, the way in which they are processed and the method of presentation of the results to solve the research problem. Research design adopted for the study is analytical in nature. In which descriptive research means related to critical evaluation of the existing facts and information is made in order to draw certain conclusion.

SOURCES OF DATA

The objectives and aims indirectly formulate and re-correct the activities. The task of data collection begins after research problem has been defined and research design/plan chalked out while deciding about the data collection to be used for studying two types of data is used.

IX. DATA COLLECTION METHOD

SECONDARY DATA

Major emphasis for this study is given to the secondary data and which have already been collected by someone else and which have been already passes on.

It is taken from the company's annual report; the financial department offered records and collected from journals and websites.

DATA COLLECTION

The study is entirely based on secondary data, which are collected from the published annual report of the company and the appropriate record in the company.

X. TOOLS ARE USED

- Payback Period
- Accounting Rate of Return
- Net Present Value
- Internal Rate of Return
- Ratio analysis
- Current ratio
- Internal rate of return

FIXED ASSETS TO PROPRIETORS' FUNDS RATIO

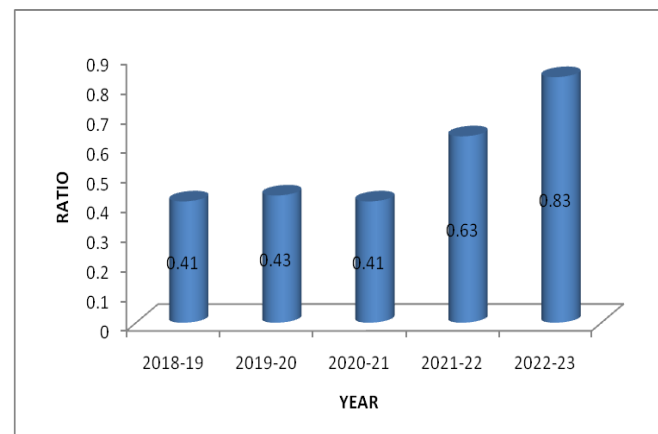
Year	Fixed asset	Shareholders fund	Ratio
2018-19	15058.51	37069.47	0.41
2019-20	17127.38	39811.32	0.43
2020-21	16777.40	41024.64	0.41
2021-22	26770.65	42666.35	0.63
2022-23	36168.61	43504.78	0.83

Source: Secondary data

INTERPRETATION

The above table shows the Fixed Asset to Proprietors fund Ratio during the year 2018-2019 was 0.41. In the year 2019-2020 was 0.43. In the year 2020-2021 the Fixed Asset to Proprietors fund Ratio is decreased to 0.41. In the year 2021-2022 and 2022-2023 the ratio was increased to 0.63 to 0.83. The Fixed Asset to Proprietors fund Ratio is increasing in year by year.

FIXED ASSETS TO PROPRIETORS' FUNDS RATIO



XI. RESULT

The above table shows the Fixed Asset to Proprietors fund Ratio during the year 2018-2019 was 0.41. In the year 2019-2020 was 0.43. In the year 2020-2021 the Fixed Asset to Proprietors fund Ratio is decreased to 0.41. In the year 2021-2022 and 2022-2023 the ratio was increased to 0.63 to 0.83. The Fixed Asset to Proprietors fund Ratio is increasing in year by year.

XII. SUGGESTIONS

It is suggested the company may reduce further its dept. capital to increase the earnings per share of the shareholder. It is recommended the combined leverage is very

high by increased operating as well as financial leverage indicating increased total risk to the firm to it may be suggested to reduce financial leverage. It is suggested the net sales are decreased, so, measures need taken to improve the sales turnover. It is recommended that the company may use more unsecured loans rather than secured loans so as to reduce the interest burdens and thus the overall cost of capital.

XIII. CONCLUSION

Capital budgeting decision is a comprehensive and time-consuming task. It is a cyclical process, which starts with generation of proposal and ends up with monitoring and continued revaluation of the proposals. The study has revealed that there are certain shortcomings and pitfalls at different stages of capital budgeting decision. The originations of the capital investment idea and project formulation are centralized. Staff working in the company is fully involved in the process. The question of screening the proposals formulated does not emerge, as there was limited number of proposals.

For appraising the screened proposals, pay back method is employed. Techniques were not considered though there was scope for employing such techniques. The industry had a definite plan of action for implementing the proposals. But, the management did not follow the time frame, which ultimately resulted in time and cost overrun.

The analysis of variance between 'estimate' and 'actual' with reference to selected indicators has indicated that estimates have never been realistic as the assumptions regarding estimates were not scientifically made. Each variable considered exhibited a wide variance between the actual and projected-almost in all the years under review. The actual was much less than the projected one indicating the need to undertake a great deals of corrective measures in the preparation of capital expenditure.

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