A Study on the Impact of Capital Budget at Hillstone Granites Private Limited

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ABSTRACT

In order to fully comprehend capital budgeting practices and their financial impact, this study on the impact of capital budgeting in Hillstone Granites Private Limited uses a mixed-methods research methodology, combining qualitative and quantitative approaches. While secondary data is obtained from published works, industry reports, and company publications, primary data collection includes surveys, interviews, and financial reports from the business. The impact of capital budgeting on financial performance is assessed through the use of financial ratios and metrics in thematic analysis of qualitative data and statistical techniques in quantitative data analysis. In order to provide information for well-informed investment decisions and efficient resource allocation, the study intends to assess Hillstone Granites' capital budgeting procedures, examine their financial effects, and pinpoint areas for improvement.

KEYWORDS

Capital Budgeting, Investment Decision, Financial Analysis, Net Present Value, Internal Rate of Return, Accounting Rate of Return, Payback Period, Profitability Index, Budget Impact Analysis, Financial Performance

INTRODUCTION

The planning process of capital budgeting, sometimes referred to as "investment analysis," is used to ascertain the long-term capital expenditures that an organization needs to make. An organization's first course of action when faced with a financial decision is to determine whether a project will be profitable The drawback to using the IRR method is that it overestimates the value of reinvestment of cash flows over time, which may lead to abnormally high rates of return.

Capital budgeting decisions may be made by a company in a number of different ways, each referred to as a project. A capital budget is an arrangement of assets that are dependent on each other and are evaluated as a whole.

He has to decide if he will produce this new product. Land acquisition, facility construction, and manufacturing equipment purchases are all included in this capital project. Furthermore, a larger working capital investment from the company in the form of cash, inventory, or receivables may be required for your project. Resources required for continuing business operations that support long-term investments are collectively referred to as working capital.

REVIEW OF LITERATURE

1. Mawih Kareem ALANI and Maha Saud AL AMRI (2024), conducted separate studies on the factors influencing the capital budget of industrial companies listed in the Omnai region. 38 companies from the 2008–2022 period on the Muscat securities market were included in the study. The variables affecting the capital budget of Omnai-listed industrial companies were identified using the pool regression model. It was determined that risk, tangibility, and leverage were statistically positively correlated.

2. Mr. Satyaki J. Bhatt (2019), Elements impacting the capital budget of the automotive sector. For the years 2009–2023, the study took into account a sample of three businesses. The study's variables included size, return on net worth, interest coverage ratio, debit-equity ratio, and return on capital employed. The industry's capital budget is determined by a number of ratios, including the debit-equity ratio.

3. Sayha Swat Siddiqui (2012), in the study, looked at the factors that affect the capital budget of Bangladeshi non-bank financial institutions (NBFIs). 24 businesses were taken into consideration for the 2006–2008 study period. LTD, STD, and TD were the dependent variables in the study, while the independent variables were debt service capacity, liquidity ratio, growth rate, firm size, age, and operating leverage. The factors influencing capital structure were examined using the FGIS regression model. Long-term debt ratios, short-term debt ratios, and debt ratios are all negatively correlated with the profitability ratio, while operating leverage, firm age, LTD, STD, and TD are positively correlated

4. Yahoob Ahmad (2010),examined how Pakistani textile companies listed on the Karachi Stock Exchange are affected by capital budgets. A sample of forty-six textile companies was considered for the study between 2005 and 2009. The pooled regression analysis model was utilized to identify the factors that impact the capital budget of textile companies in Pakistan. The results of the study showed that size and profitability were negatively correlated with leverage. Both growth and tangibility were found to positively correlate with leverage, but the relationship between the two was found to be highly significant.

5. Keshar J. Bazal (2004), examined the factors that influence the capital budget of Nepali listed companies, using a sample of l08 companies for analysis. Size, business risk, growth, earning rate, dividend payout, debt service capacity, and operating leverage were the independent variables in this study, while financial leverage served as the dependent variable. The capital budget of listed Nepali companies was determined using the multiple regression model. Size, business risk, growth, earnings, dividend payout, debt service capacity, operating leverage, and financial leverage were all found to be significantly unrelated.

RESEARCH METHODOLOGY

This research uses a descriptive research proposal.

The conceptual framework that directs the research process is known as research design, and it acts as a roadmap for gathering, measuring, and analysing data. Setting up parameters for data collection and analysis with the intention of striking a balance between procedural economy and relevance to the research goal is known as research design.

DESCRIPTIVE RESEARCH

A descriptive study examines how two or more variables relate to one another. Surveys and other fact-finding research are included. Key features of this approach include the researcher's inability to control the variables and their ability to report only on events. Survey methods like comparison and correlational methods are part of the research methodology used in descriptive research.

SOURCE OF DATA

Data must be gathered in two different forms

- Primary data
- Secondary data

Primary Data

The phrase "primary data" describes information that is specific to the original character and has been collected for the first time.

Secondary Data

Information that has already been collected and analyzed by another person is referred to as secondary data, or already-available data. The company profile and website provided the secondary data. Secondary data makes up the vast majority of the data used in this project.

DATA ANALYSIS AND INTERPRETATION

PAY BACK PERIOD

Payback Period=	Initial Investment
	Cash Inflow per Period

CALCULATION OF ANNUAL CASH INFLOW

Year	**2020**	**2021**	**2022**	**2023**	**2024**
Total Sales	1606310970	1952574983	2062496269	2177381956	2371633523
Less: Costs	1555885007	1815614157	1961324252	2068196415	2286017710
EBDT	50425963	136960826	101172024	128327364	85615818
LESS: Depreciation or other exceptional items	-	967090	-	10393113	12541810
EBT	**50425963**	**135993136**	**101172024**	**117934251**	**73074008**
LESS: Tax	17100966	100752605	(22354952)	38433857	26851541
PAT (Annual Cash Inflow)	**33324997**	**35241131**	**123526969**	**79500394**	**46222467**

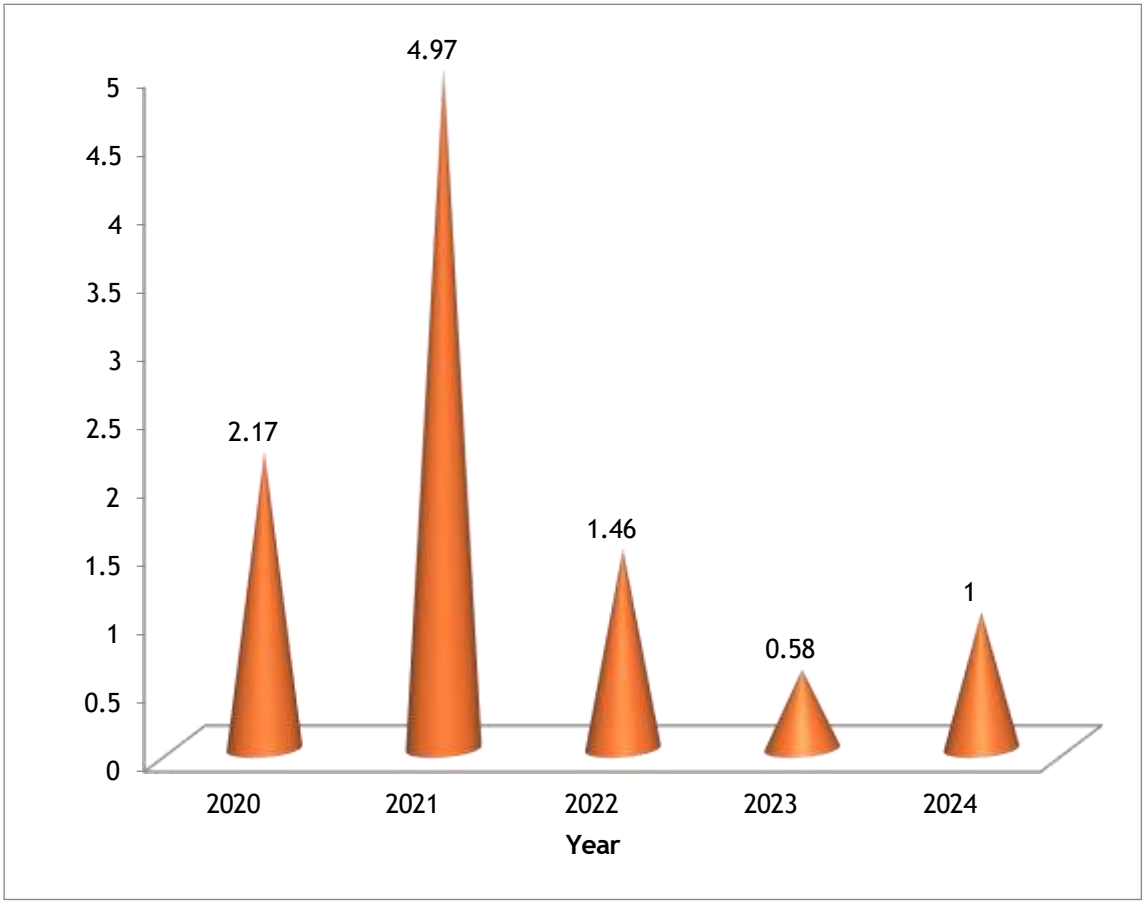
Payback Period Analysis

Year	Initial investments	Annual cash Inflow	Payback period
2020	72368453	33324997	2.17
2021	175080399	35241131	4.97
2022	180236203	123526969	1.46
2023	46246000	79500394	0.58
2024	46246000	46222467	1.00

INTERPRETATION

The shorter the payback period, the sooner the company recovers its cash investment. Whether a cash payback period is good or poor depends on the company's criteria for evaluating projects. From the above it is inferred that the company have its highest pay back on 2021 with 4.97 or 5 years. The current year (2024) PBP is found to be 1 year. This shows that the company recovers its investment in 1 year.

PAYBACK PERIOD ANALYSIS



ACCOUNTING RATE OF RETURN (ARR)

PAT

Average Rate of Return (ARR) = *100

Original Investment

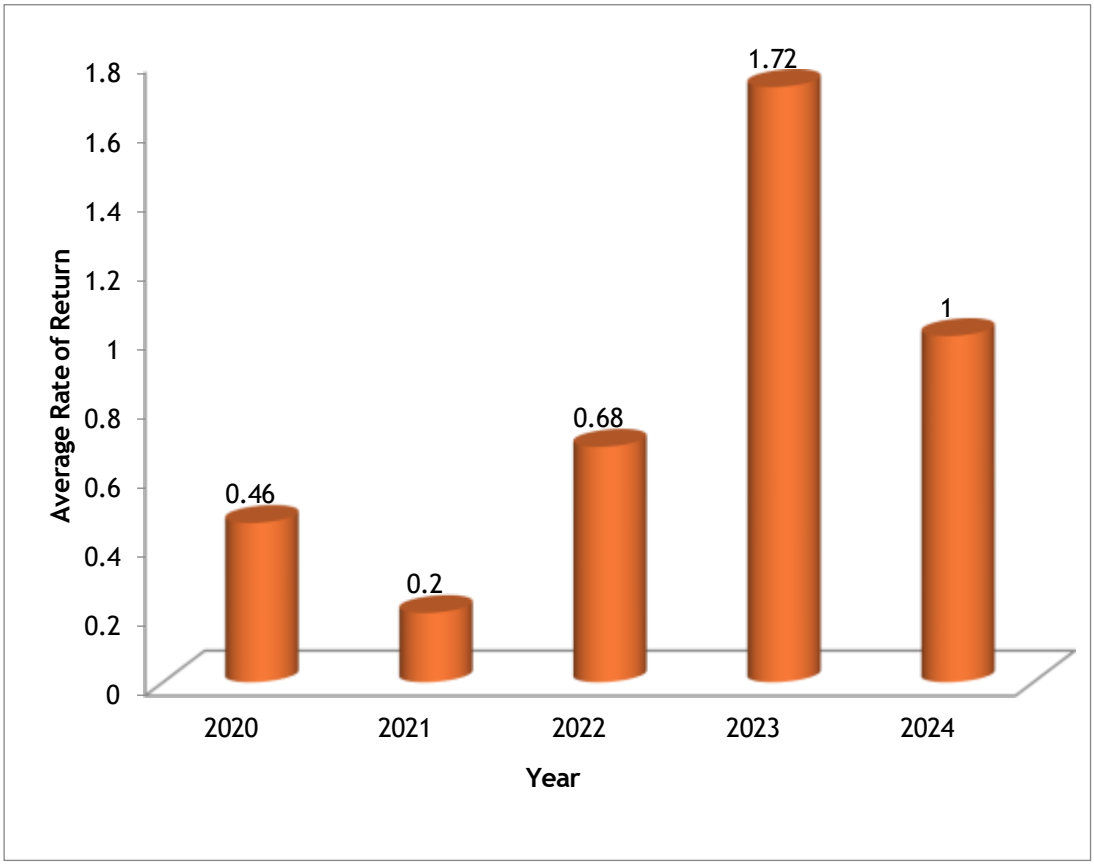
AVERAGE RATE OF RETURN (ARR)

Year	**PAT**	**Initial investments**	**ıge Rate of Return**
2020	33324997	72368453	0.46
2021	35241131	175080399	0.20
2022	123526969	180236203	0.68
2023	79500394	46246000	1.72
2024	46222467	46246000	1.00

INTERPRETATION

The chart shows that, in the year 2021 the company had lower expected rate of return than the minimum rate so the investment on the particular project can be reduced. In the year 2023 the project has a higher rate of return than the minimum rate. Higher rate of return indicates that investment made in the particular year has higher cash inflow in the future. The Average rate of return for the year 2024 is reduced to 1 year.

AVERAGE RATE OF RETURN (ARR)



NET PRESENT VALUE

Present value = Cash flows * Present value of Rs. 1 @ 10% discount using present value table

Net present value = Present value of all cash inflows – present value of initial investment.

Decision Rule:

Accept: NPV > Zero Reject: NPV< Zero

NET PRESENT VALUE ANALYSIS

Year	**PAT**	**ing present value Table (PresentvalueofRe.1 @10%)**	**Present Value of Net Cash Flows**	**Present value of Initial investment**
2020	33324997	0.909	30292422.27	65782923.78
2021	35241131	0.826	29109174.21	144616409.6
2022	123526969	0.751	92768753.72	135357388.5

2023	79500394	0.683	54298769.1	31586018
2024	46222467	0.621	28704152.01	28718766
		TOTAL=	**235173271.3**	**406061505.8**

Calculation:	
Present value of all cash flows	23,51,73,271.3
Less: Present value of all Initial Investment	40,60,61,505.8
Net Present Value	**(17,08,88,234.5)**

INTERPRETATION

Above table clearly indicates that the Net Present Value for the five years from 2020 to 2024 is (17,08,88,234.5)

A negative NPV indicates that the project will probably be unprofitable and therefore should be adjusted, if not abandoned altogether. NPV enables a management to consider the time value of money it will invest. This concept holds that the value of money increases with time because it can always earn interest in a savings account. Therefore, any other investment of that money must be weighed against how the funds would perform if simply deposited and saved.

FINDINGS

- The current year (2024) PBP is found to be 1 year. This shows that the company recovers its investment in 1 year.
- The Average rate of return for the year 2024 is reduced to 1 year the Net Present Value for the five years from 2020 to 2024 is (17,08,88,234.5). A negative NPV indicates that the project will probably be unprofitable and therefore should be adjusted, if not abandoned altogether.

SUGGESTION

- If the repayment period is shorter, the company receives its money earlier. The quality of the payback period shall be determined by the project appraisal criteria of the company. In the case of investments made in a given year, a higher rate of return implies a higher inflow of cash in the future.
- A negative net present value (NPV) suggests that the project is likely to be unprofitable and should be modified, if not completely abandoned.
- The time value of the money that a management will invest can be taken into account thanks to NPV. According to this theory, money's value rises over time because savings accounts can always earn interest. Consequently, any additional use of that money must be evaluated in relation to the results of merely depositing and saving the money.

CONCLUSION

This budget is intended for large capital expenditures or investments. It is a procedure used to decide whether a company's suggested investments or projects are worthwhile. Budget allocation for fixed investment opportunities is essential since these investments typically have a long lifespan and are difficult to undo once made. In order to ascertain which project will generate a higher return over time, management must employ long-term capital investment budgeting techniques. This makes it a strategic asset allocation process. According to this study, long-term capital investment budgeting basically entails assessing the value of capital investment proposals using projections of cash inflows and outflows. The study highlights that, in the modern era, the most crucial financial function is the effective allocation of capital.

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