

An Analysis of Capital Budgeting with Reference to Multivista Global Private Limited

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ABSTRACT

A study has been conducted out in Multivista Global Pvt Ltd to know about the capital budgeting. Capital asset management requires a lot of money; therefore, before making such investments, they must do capital budgeting to ensure that the investment will procure profits for the company.

This study has been conducted to analyse the capital planning of a company. They utilize capital budgeting strategies to assess which initiatives will provide the best returns across a given period.

The main objective is to study capital budgeting. The secondary objective is to evaluate the cash Inflows and Outflows of the company to determine the Project's Profitability.

The research design used for the study of analytical research design. The data collected by using the annual report, financial statements. It concentrates on the state of affairs with reference to the bank reconciliation of the company. The capital budgeting process has been analyzed using its methods.

They are trend analysis comparative balance sheet and ratio analysis based on the analysis

valuable suggestion and recommendation are given to the company.

I. INTRODUCTION

Capital budgeting is a critical aspect of financial management for any organization, whether it's a multinational corporation or a small business. It involves the process of making decisions regarding long-term investments in assets that will generate cash flows over several years. These investments typically involve substantial amounts of money and have the potential to significantly impact the future profitability and growth of the company.

The capital budgeting is done to allocate financial resources to projects that will maximize the firm's value. Thus, it involves evaluating various investment opportunities and selecting those that offer the highest potential return relative to their risks. The decision-making process in capital budgeting is complex and involves analysing factors such as cash flows, risk, timing, and strategic alignment with the company's goals.

- The amount of investment made in the project determines the profitability of a company.

Methods of Capital Budgeting

It is of prime importance for a company when dealing with capital budgeting decisions that it determines whether or not the project will be profitable. Although we shall learn all the capital budgeting methods, the most common methods of selecting projects are:

- Payback Period (PB)
- Internal Rate of Return (IRR)
- Net Present Value (NPV)
- Accounting of return (ARR)
- Profitability Index (PI)

Payback Period (PBP)

The payback period is the time it takes for an investment project to recover its initial cost through cash inflows. It is a simple and intuitive measure of liquidity and risk but does not account for the time value of money. Projects with shorter payback periods are generally preferred as they allow for quicker recovery of investment and reduced exposure to risk.

Internal Rate of Return (IRR)

IRR is the discount rate at which the NPV of an investment project is zero. In other words, it is the rate of return that makes the present value of cash inflows equal to the present value of cash outflows. IRR provides insight into the project's profitability and is often used as a benchmark for comparing different investment opportunities. A project is typically accepted if its IRR exceeds the company's cost of capital.

Net Present Value (NPV)

NPV is the difference between the present value of cash inflows and the present value of cash outflows associated with an investment project. A positive NPV indicates that the project is expected to generate more cash inflows than outflows and thus increase the firm's value. NPV is considered one of the most reliable methods for evaluating investment projects as it accounts for the time value of money and considers all cash flows over the project's life.

Accounting rate of return (ARR)

It is calculated by dividing the average annual accounting profit generated by an investment project by the initial investment cost and expressing the result as a percentage. It provides insight into the average annual profitability of an investment relative to its initial cost. However, ARR has limitations, such as ignoring the time value of money and not considering

cash flow timing, which should be considered when using this metric for investment decision-making.

Profitability Index (PI)

PI is the ratio of the present value of cash inflows to the present value of cash outflows for an investment project. It measures the value created per unit of investment and helps prioritize projects based on their efficiency in generating returns.

II. OBJECTIVES OF THE STUDY

Primary objective:

- To analyse the capital budgeting technique with reference to Multivista Global Private Ltd.

Secondary objectives:

- To evaluate the cash Inflows and Outflows of the company.
- To determine the Project's Profitability.

III. SCOPE OF THE STUDY

This study highlights the review of capital budgeting and capital expenditure management of the company. Capital expenditure decisions require careful planning and control. Such long-term planning and control of capital expenditure is called capital budgeting. The study also helps to understand how the company estimates the future project cost. The study also helps to understand the analysis of the alternative proposals and deciding whether or not to commits funds to a particular investments proposal whose benefits are to be realized over a period of time longer than one year. The capital budgeting is based on some tools namely Payback period, Average rate return, Net present value, Profitability index, and Internal rate of return.

IV. NEED FOR THE STUDY

This study examines the capital budgeting process at Multivista Global Private Ltd. Understanding capital budgeting is essential for companies trying to make sense of the complex world of investment choices. In its most basic form, capital budgeting is a vital tool that helps businesses

allocate resources to those initiatives that have the best chance of being profitable and expanding over time. Through a thorough examination of the projected yields, related hazards, and investment horizons of different investment options, businesses may make well-informed decisions that complement their strategic goals and optimise shareholder value. Additionally, capital budgeting makes it easier for businesses to effectively plan for the long term by enabling them to foresee opportunities, needs, and obstacles. This increases their capacity for adaptation and resilience in the face of changing market conditions. Furthermore, it is essential to risk management since it helps businesses recognise, evaluate, and reduce possible risks associated with investment projects, guaranteeing responsible

V. LIMITATIONS OF THE STUDY

- Capital budgets are often exclusively cost centers.
- It involves large number of funds so the decision has to be taken carefully.
- Only known factors are considered while applying capital budgeting decisions.

VI. LITERATURE REVIEW

Riya Sureka, Satish Kumar (2022) This study synthesizes and reviews the existing literature on capital budgeting (CB) practices and their application to theories, contexts, characteristics and methodology. It aims to identify the prevalent issues and gaps in the literature and provide potential avenues for future research. After comprehensive search and rigorous scrutiny, this review encompasses 185 articles. A systematic literature reviews (SLR), triangulated with the bibliometric method, is carried out, adopting a meticulous approach to achieve a comprehensive overview of the field. Based on cluster analysis, four distinct themes are identified. Additionally, a conceptual framework is developed that shows the antecedents, moderators and outcomes of research on capital budgeting,

Grounded on the detailed content analysis, 11 actionable future research directions are proposed to advance this field of research.

Deepraj Mukherjee & Christina Theodoraki (2022) The lack of robust financial management is an integral growth constraint faced by small and medium enterprises (SMEs). For the sustainability and growth of SMEs, it is vital to choose the correct long-term projects. Yet, literature shows that SMEs across the globe hardly practice the sophisticated capital budgeting (CB) method. The present study identifies, prioritizes, and proposes a structural model of the barriers to CB practices. this study is the first to identify, prioritize, and structure the barriers to CB practices. Also, it is the first to apply multi-criteria decision-making tools in this field of research. Our findings can help financial managers/practitioners of SMEs to formulate sophisticated CB techniques in their investment decision strategies and efficiently manage their long-term funds.

Simi so Siziba and John Henry Hall, (2021), This study examines the evolution of the application of capital budgeting techniques. Previous studies mostly used cross-sectional inquiries to understand the capital budgeting practices of firms. Only a few researchers have undertaken longitudinal studies to generalise the findings of the individual cross-sectional studies to the wider population and to identify the emerging trends in the use of capital budgeting techniques (CBTs). The findings show that six capital budgeting techniques, namely, the net present value (NPV), the internal rate of return (IRR), the payback period (PBP), the accounting rate of return (ARR), the return on investment (ROI) and the real option valuation (ROV), are the most popular methods for evaluating capital investments.

Andrey Malenko (2019) The study optimal design of a dynamic capital allocation process in an organization in which the division manager with empire-building preferences privately observes the arrival and properties of investment projects and headquarters can audit projects at a cost. Under certain conditions, a budgeting mechanism with threshold separation of financing is optimal. Headquarters: (1) allocate a spending account to the manager and replenish it over time, (2) set a

threshold, such that projects below it are financed from the account, while projects above are financed fully by headquarters upon an audit. Further analysis studies when co- financing of projects is optimal and how the size of the account depends on past performance of projects.

Rogério João Lunkes and Antonio Cezar Bornia, (2020), this article aimed to highlight the relationships between these characteristics and the use of capital budgeting practices. For the selection of articles published on "capital budgeting" it was used the Proknow-C tool. It was found that the theory-practice gap is both related with the organizational and managerial characteristics from the practical point of view, but requires a review by academicians. Organizations should seek professionals with experience in capital projects appraisal and who are familiar with and knowledgeable in the use of adequate practices for decision-making. This research contributes by indicating the research gaps that need to be explored by researchers and by trying to identify the difficulties found by managers that interfere in the capital budgeting results.

VII. RESEARCH

METHODOLOGY

In the project titled "Analysis of Capital Budgeting," Research methodology is a way to systematically solve the research problem. The systematic method used in this study is collecting data and at analysing the data to find a solution to the search problem. The research and development techniques used in this research is ratio analysis. Ratio analysis is referred to as the study or analysis of the line items present in the financial statements of the company.

VIII. DATA COLLECTION

1.PRIMARY DATA

The research has been collected data with the help of primary way. It includes personal discussion with staff member off concern. Also, Researcher has been collected the data with the help of investigation and questionnaires'

2. SECONDARY DATA

The secondary data are collected from information which is used by other. It is not direct information. This information already collected and analysis by other and that information used by others. This secondary data are collected from following.

- 1) Companies' income statement
- 2) Internet Website

REFERENCE PERIOD

The reference period of the study is 5 years from 2018-2019 to 2022-2023.

IX. DATA ANALYSIS AND INTERPRETATION

Table No.2.1 Table showing Comparison of NET PRESENT VALUE for five years from 2019 to 2023

Year	2023	2022	2021	2020	2019
Initial Investment	2,408.33	1,936.80	1,645.36	1,415.28	1,224.67
Net Cash Flow per annum	-96.89	25.49	-77.61	65.57	173.38
NPV	-2144.33	-2,339.33	-1434.36	-1236.28	-752.67

Analysis and Interpretation:

From the below chart we can see that the NPV has been fluctuating over the past five financial years. It stood at about -2144.33 for the current financial year as compared to the previous financial years figure of about -2339.33. The NPV is negative for two years where the company is not able to get the cash inflows out of the fund invested.

Chart No.2.1(a) Chart showing Comparison of NET PRESENT VALUE for five years from 2019 to 2023

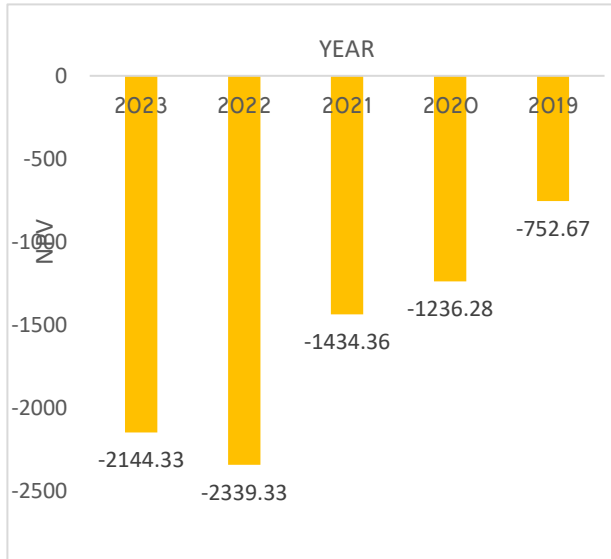


Table No.2.2 Table showing Comparison of Pay Back period for five years from 2019 to 2023

Year	2023	2022	2021	2020	2019
Cost of machinery	850000	615000	585000	568000	515000
Annual cash Flow	185000	165000	145000	136000	127000
PBP	4.59	3.72	4.0	4.17	4.05

Analysis and Interpretation:

From the below chart 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 years figure of about 4.05

Chart No. 2.2 (a) Chart showing comparison of Pay Back period for five years from 2019 to 2023

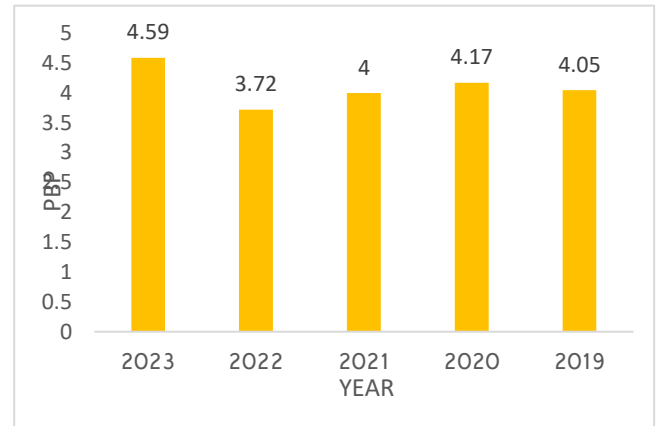


Table No.2.3 Table showing Comparison of accounting rate of return for five years 2019 to 2023

Year	2023	2022	2021	2020	2019
Average accounting profit	662.59	558.08	489.28	347.83	261.63
Average investment	748.12	519.52	493.27	259.84	98.49
ARR	0.88	1.07	0.99	1.33	2.65

Analysis and Interpretation:

From the below chart we can see that the accounting rate of return figures have comedown from 2.65 in the financial year of 2019 to about 0.88 for the current financial year of 2023.

Chart No.2.3(a) Chart showing the comparison of accounting rate of return for five years from 2019 to 2023

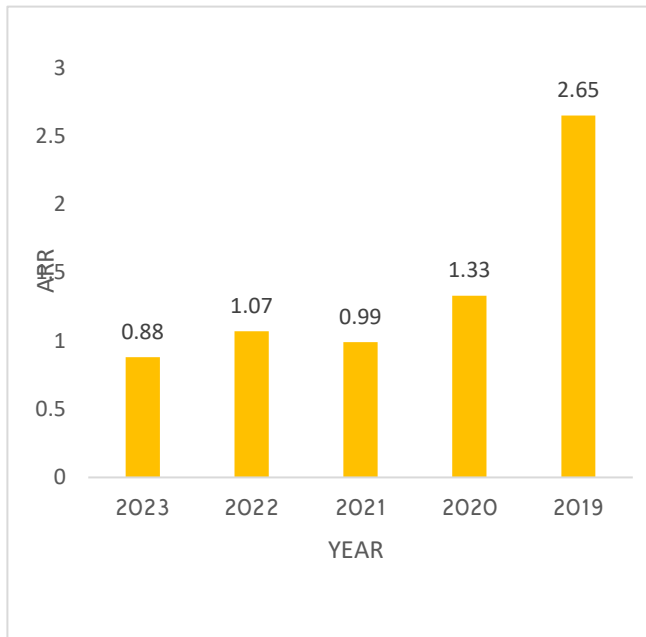


Table No.2.4 Table is showing comparison of return on net worth for five years from 2019 to 2023

Return on Network / Equity = Net					
Year	2023	2022	2021	2020	2019
Return on Network / Equity (%)	30.02	32.25	31.16	27.38	25.96
Net income	12308.68	11295.18	10130.83	7992.06	7088.84
Shareholder equity	2408.33	1936.80	1645.36	1415.28	1224.67
Income / Shareholders equity					

Analysis and Interpretation:

From the below chart we can see that the

return on network or equity percentage has stood at 30.02 for the current financial year of 2023.

Chart No.2.4(a) Chart showing return on net worth and equity for five years from 2019 to 2023

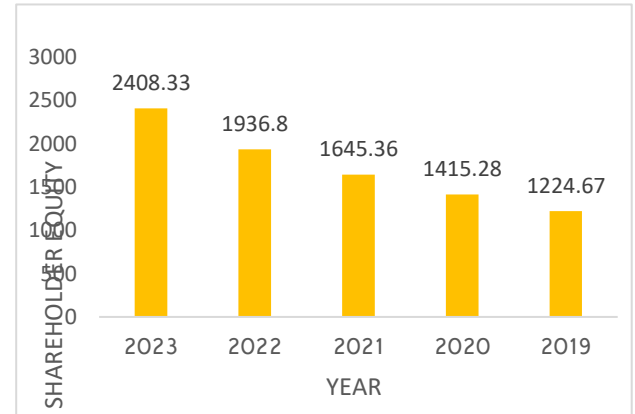


Table No.2.5

Table is showing comparison of return on capital and employed for five years from 2019 to 2023

Year	2023	2022	2021	2020	2019
Return on Capital Employed (%)	18.27	16.32	14.73	12.85	6.22
Net operating profit	12009.07	11106.25	9916.57	7854.45	6965.40
Capital employed	2408.33	1936.80	1645.36	1415.28	1224.67

Return on capital employed = Net Operating Profit/ (Total asset – Current Liabilities)

Analysis and Interpretation:

From the below chart we can see that the return on capital employed percentage has seen an increasing trend and stands almost at triple for the

financial year of 2023.

Chart No.2.5(a)

Chart is showing the comparison of return on capital and employed for five years 2019 to 2023

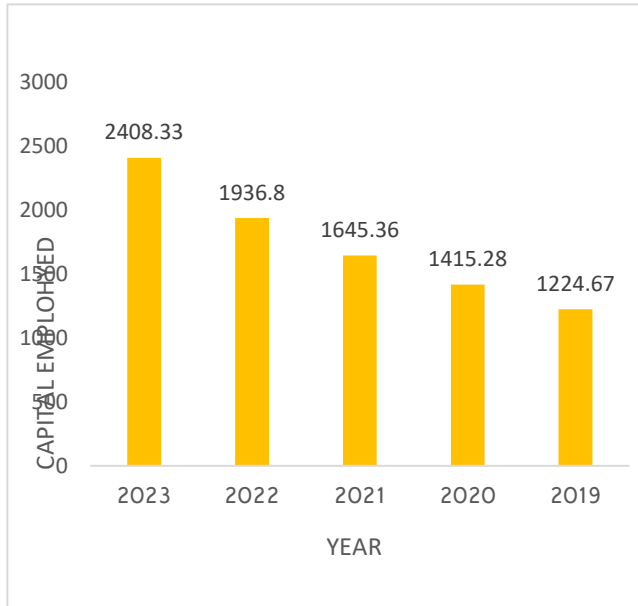


Table No.2.6 Table is showing comparison of return on assets for five years from 2019 to 2023

Year	2023	2022	2021	2020	2019
Cash earnings retention ratio	19.18	16.72	15.77	17.11	16.60
Retained earnings	2360.82	1889.29	1597.85	1367.77	1177.16
Net income	12308.68	11295.18	10130.83	7992.06	7088.84

Year	2023	2022	2021	2020	2019
Return on Assets (%)	9.45	8.70	7.55	7.33	3.71

Net income	12308.68	11295.18	10130.83	7992.06	7088.84
Total assets	5904.67	4962.57	4604.20	3564.70	3119.27

$$\text{Return on assets} = \frac{\text{Net Income}}{\text{Total assets}}$$

Analysis and Interpretation:

From the below graph we can see that the return on assets percentage has been increasing after the financial year of 2019. It is the highest in the financial years 2023.

Chart No. 2.6(a) Chart is showing the return on assets for five years 2019 to 2023

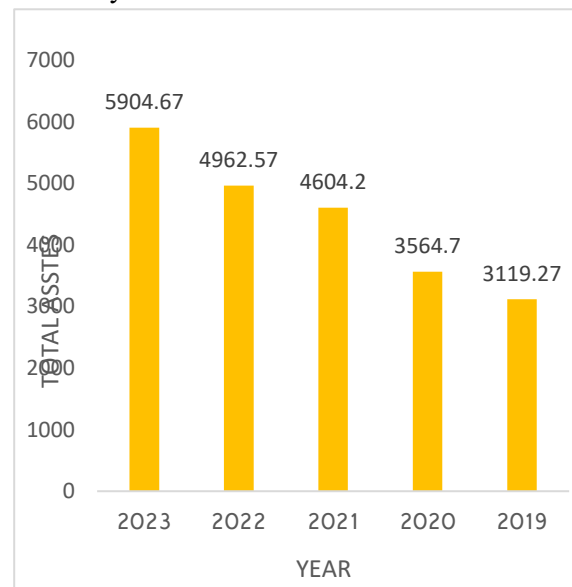


Table No.2.7 Table is showing comparison of cash earnings retention ratio for five years 2019 to 2023

$$\text{Cash Earnings Retention Ratio} = \frac{\text{Retained Earnings}}{\text{Net Income}}$$

Analysis and Interpretation:

From the below graph we can see that the cash earnings retention ratio percentage has been almost constant over the last 4 financial years from 2019 to

2023. However, it increased for the current financial year and stood highest.

Chart No.2.7(a) Chart is showing comparison of cash earnings retention ratio for five years 2019 to 2023

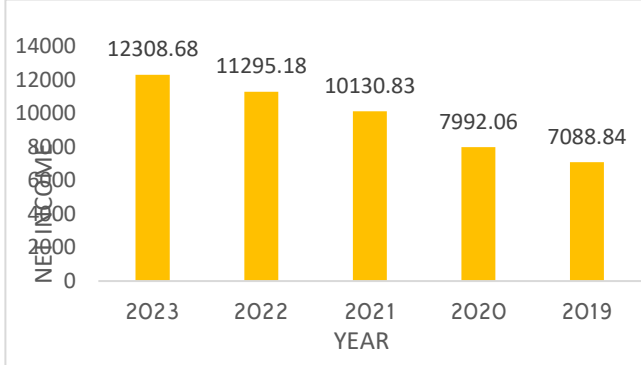


Table No.2.8 Table is showing comparison of valuation ratio for five years 2019 to 2023

Year	2023	2022	2021	2020	2019
Market capital	0.39	0.42	0.47	0.60	0.68
Net operating revenue	12009.07	11106.25	9916.57	7854.45	6965.40
Capital	47.51	47.51	47.51	47.51	47.51

Market Cap/Net Operating Revenue = Revenue generated by real estate - Operating expenses.

Analysis and Interpretation:

From the below graph we can see that the market cap or net operating revenue has been steadily increasing for the last 5 financial years and for the current financial year of 2023 it has stood at about 0.39

Chart No.2.8(a) Chart is showing comparison of valuation ratio for five years 2019 to 2023

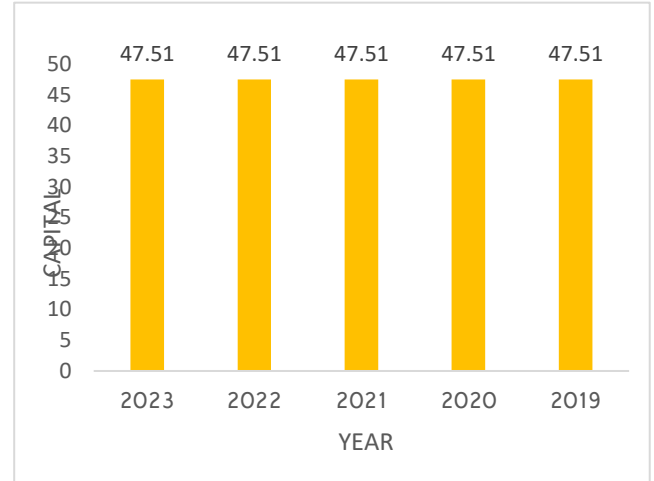


Table No.2.9

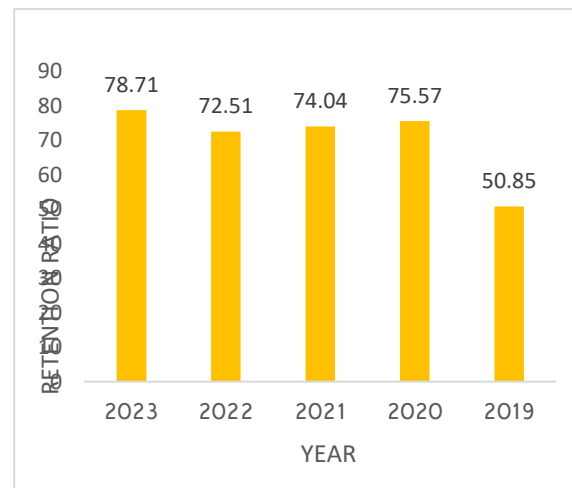
Table is showing comparison of retention ratio for five years 2019 to 2023

Year	2023	2022	2021	2020	2019
Retention Ratios (%)	78.71	72.51	74.04	74.57	50.85

Analysis and Interpretation:

From the below graph we can see that the retention ratio percentage has been showing a slight fluctuating trend over the past five financial years and for the current financial year of 2023 it is about 78.71.

Chart No.2.9(a) Chart showing the comparison of Retention Ratios (%) for five years from 2019 to 2023



X. FINDINGS OF THE STUDY

- ❖ Speculation put resources into property is recouped amid a brief timeframe, and the offer is suitable for an organization
- ❖ Paid benefit is useful for the organization The review rate to come back to 2018 is 56.94%. The capital returns the expense of their costs. ARR has a standard rate.
- ❖ Since the net present esteem is sure, the venture will in the long run be practical by the organization
- ❖ The reimbursement time frame gives some data about the danger of venture. Be that as it may, the solid choice does not give the criteria to demonstrate whether speculation will build the estimation of the organizations.
- ❖ The capital spending technique gives crude liquidity of liquidity yet overlooks the danger of money streams, cash time valuation and future income past the expansion time frame.
- ❖ This technique likewise needs to evaluate the expense of money to ascertain recompense yet disregard money streams over the limited reimbursement time frame.
- ❖ Net present esteem estimation of the capital spending states that the speculation can expand the estimation of the firm, however the expense of the capital expense is required to compute the net present esteem.
- ❖ The inner rate of return procedure for the capital spending plan may not be esteemed - augmenting the choice utilized when contrasted with one another's individual tasks.

XI. SUGGESTIONS

- The exhortation made for the organization is that the accompanying counsel ought to be embraced in the organization's every day exercises.
- This is a valid justification to receive the NPV strategy in settling on a budgetary choice since it depends on the present esteem. Supplanted PBP

- The organization must have a decent match between various offices.
- It is important to keep up an arrangement of book books that can enable you to settle on a superior choice.
- The organization must have a similar procedure to compute the venture choice, generally befuddling it.
- Cost components ought to be viewed as when choosing what is ideal, for example, work costs, bookkeeping costs, and so forth.

XII. CONCLUSION

The spending plan is one of the key procedures for budgetary administration to assess the proficiency of the undertaking. So, purchasing new hardware, beginning business, extending, changing the oldness of old apparatus. The cutting-edge approach is more successful than the customary technique on the grounds that the advanced strategy is thinking about the time estimation of cash. The Capital Budget has its own impediment however its favorable circumstances spread its unfriendly impacts with its utilization. In any case, in India, the capital spending procedure cannot be utilized legitimately at the dimension of institutional and administrative administration. Subsequent to considering this theme, I comprehend the hugeness of the spending plan. I figure capital aptitudes can be used in government organization ventures like corporate and open organization administrations, open transportation administrations. I for one figure the open dislikes to utilize this strategy later on because of absence of information. Capital spending plans can be utilized from local dimensions to MNCs and this sentence can express the significance of the capital spending plan.

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