

“An Evaluating on Capital Budgeting Decision of Heritage Food PVT.,LTD.,”Chandragiri

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ABSTRACT :

This study focuses on evaluating the capital budgeting decisions of Heritage Foods Pvt. Ltd. Capital budgeting plays a key role in selecting profitable long-term investment projects. The study analyzes different techniques like NPV, IRR, Payback Period, ARR, and Profitability Index. It compares two projects, namely Milk and Milk Products, to identify the better investment option. The analysis shows that both projects are profitable, but the Milk Products project provides higher returns. The study helps in understanding how financial tools support effective decision-making. Overall, it highlights the importance of proper investment evaluation for maximizing profits.

KEYWORDS : Payback, Rate of Return, Net present value, Profitability index

INTRODUCTION :

Capital budgeting is an important financial process used by organizations to plan and evaluate long-term investments. It helps in selecting the best project that gives maximum returns. This study focuses on the capital budgeting decisions of Heritage Foods Pvt. Ltd. Various techniques like NPV, IRR, Payback Period, and ARR are used for analysis. The study compares different investment options to find out the most profitable project. It also highlights the role of financial decision-making in improving business growth.

REVIEW OF LITERATURES :

1. Singh & Chatterjee (2025)

A study on capital budgeting techniques emphasized the importance of Net Present Value (NPV) and Internal Rate of Return (IRR) in evaluating long-term investment decisions. The study concluded that these methods help organizations assess profitability and reduce the risk of poor investment choices.

2. Bhatnagar, Mishra & Jain (2025)

The researchers compared Real Options Valuation (ROV) with the traditional NPV method in capital budgeting decisions. Their findings suggested that real options provide greater flexibility in decision-making under uncertain business environments.

3. Amalia (2024)

This study examined capital budgeting techniques used in modern businesses and found that companies widely use NPV, IRR, and Payback Period to evaluate project feasibility and financial viability in uncertain economic conditions.

4. Bhargav & Reddy (2024)

The research on capital budgeting in the building materials industry highlighted that investment decisions require careful evaluation of cash flows, risk, and profitability using techniques such as NPV, IRR, and Payback Period.

5. Naveen Prakash et al. (2024)

The study found that large firms prefer discounted cash flow methods like NPV and IRR, while smaller firms often use traditional methods such as the Payback Period and Accounting Rate of Return for evaluating investment projects.

6. Sinaga et al. (2023)

This research concluded that capital budgeting is an important financial tool that helps organizations determine the feasibility of investment projects and improve strategic decision-making through systematic financial evaluation.

OBJECTIVES OF THE STUDY :

- To find out the profitable capital expenditure.
- To decide whether a specified project is to be selected or not.
- To evaluate the merits of each proposal to decide which project is best.
- To access the various sources of finance for capital expenditure

NEED OF THE STUDY

It is a significant to emphasize that expenditures and its benefits of an investment should be measured in cash. In the investment analysis it is cash flow which is important not the accounting profit. It may also be pointed out that investment decisions affect the firm's value. The firms value will increase if investments are profitable and to the shareholders wealth. That investment should be evaluated on the basis of criterion which is compatible with the objective of the shareholders wealth maximization. An investment will add to the shareholders wealth. If it yields benefits in a excess of the minimum benefits as for the opportunity part of capital

SCOPE OF THE STUDY

- Understanding the procedure of Heritage Foods India Ltd, Chandragiri
- Evaluating an investment proposal of setting up facility of Heritage Milk Dairy Pvt., Ltd.,
- Highlighting the necessity of current of assets and current liabilities.
- Explain the principles of the current assets, investment and financing.
- Suggest the need of establishing a sound credit policy

DATA COLLECTION :**DATA COLLECTION**

- The study depends upon secondary data from various sources.
- The information is collected directly from the experts, on the basis of which actual position was identified.

SECONDARY DATA:

- Secondary Data is collected from Annual reports, schedules, budgets, and other statements provided by the finance department Heritage Foods India Limited, Chandragiri.

DATA ANALYSIS & INTERPRETATION :**Table No: 1.3.1****PAY BACK PERIOD**

Years	Cash inflows RS.	Cumulative cash inflows RS.
2020-21	243761	243761
2021-22	429661	673422
2022-23	290561	963983
2023-24	199561	1163544

2024-25	225561	1389105
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$$\begin{aligned}
 \text{Payback period} &= \text{current year} + \text{difference in cash flows} / \text{net year cash flows} \\
 &= 3 + 1003500 - 963983 / 199561 \\
 &= 3 + 39517 / 199561 \\
 &= 3 + 0.19 \\
 &= 3.19 \text{ Years}
 \end{aligned}$$

Payback period = 3.19 years

The cumulative cash inflows are Rs. 963983 in 3rd year and Rs. 1163544 in 4th year.

Hence, payback period between 3rd and 4th year

Table No: 1.4.1

PAY BACK PERIOD

Years	Cash flows RS.	Cumulative cash flows Rs.
2020-21	1101737	1101737
2021-22	1305837	2407574
2022-23	1135537	3543111
2023-24	1241487	4784898
2024-25	1500837	6285435

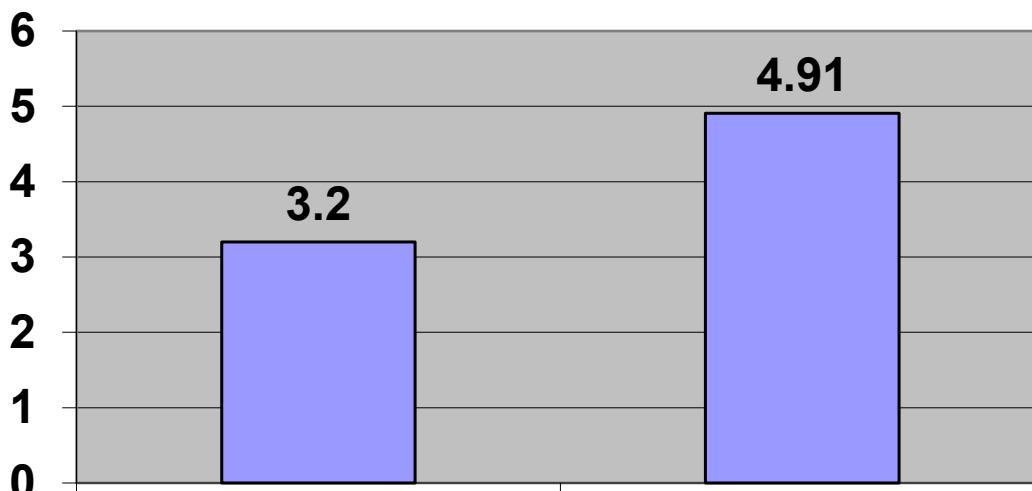
$$\begin{aligned}
 \text{Payback period} &= \text{current year} + \text{difference in cash flows} / \text{net year cash flows} \\
 &= 3 + 5921800 - 3543111 / 1241487 \\
 &= 3 + 2378689 / 1241487 \\
 &= 3 + 1.91 \\
 &= 4.91
 \end{aligned}$$

Payback period = 4.91 years

Graph No: 1.3.1&1.4.1

PAY BACK PERIOD

CASH FLOW	Values
MILK	3.19
MILK PRODUCT	4.91



INTERPRETATION:

From the above table no.1.3.1&1.4.1 it is clearly shows that Payback period method is a traditional method of evaluation of capital budgeting decision. The term pays back out or payoff refers to the period in which the project will generate the necessary cash and recoup the initial investment or the cash out flows

Table no: 1.3.2

AVERAGE RATE OF RETURN

Years	Cash flows RS.	Cumulative cash flows RS.
2020-21	1101737	1101737
2021-22	1305837	2407574
2022-23	1135537	3543111
2023-24	1241487	4784898
2024-25	1500837	6285435

AVERAGE RATE OF RETURN

$$ARR = \frac{\text{AVERAGE PAT}}{\text{AVERAGE INVESTMENT}} \times 100$$

$$ARR = \frac{1138230/5}{1003500/2} \times 100$$

$$ARR = 227646/501750 \times 100$$

$$ARR = 45.37$$

Table no: 1.4.2

AVERAGE RATE OF RETURN

Years	Cash flows RS.	Cumulative cash flows Rs.
2019-20	1101737	1101737
2020-21	1305837	2407574
2021-22	1135537	3543111
2022-23	1241487	4784898
2023-24	1500837	6285435

AVERAGE RATE OF RETURN

$$ARR = \frac{\text{AVERAGE PAT}}{\text{AVERAGE INVESTMENT}} \times 100$$

$$ARR = \frac{3620625/5}{5921800/2} \times 100$$

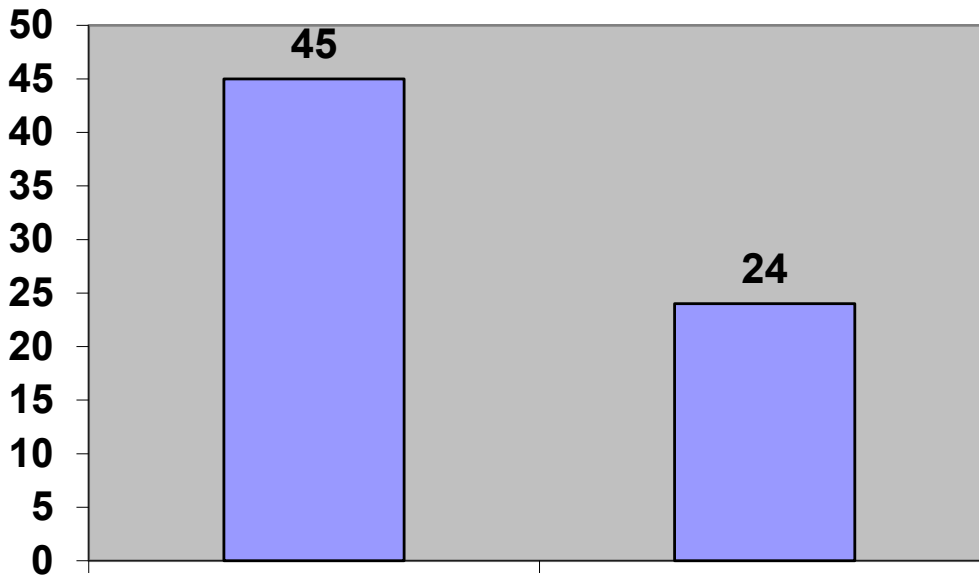
$$ARR = 724125/2960900 \times 100$$

$$ARR = 24.45$$

GRAPH no: 1.3.2&1.4.2

AVERAGE RATE OF RETURN

CASH FLOWS	Values
MILK	45.37
MILK PRODUCT	24.45



INTERPRETATION:

From the above table 1.3.2 & 1.4.2 it is clearly shows that ARR is another traditional method of capital budgeting evaluation. According to this method the capital investment proposals are judged on the basis of their relative profitability. The capital employed and related incomes are determined according to the commonly accepted accounting principles and practices over the certain life of project and the average yield is calculated

Table no: 1.3.3
CALCULATION OF NPV

	MILK			Milk Product		
YEARS	CAHS FLOWS	NPV P.V@10%	P.V. OF NET CAHS FLOWS	CAHS FLOWS	NPV P.V@6%	P.V.OF NET CAHS FLOWS
2020-21	1003500	1.00	1003500	5921800	1.00	5921800
2021-22	243761	0.909	221579	1101737	0.9434	1039379
2022-23	429661	0.826	354900	1305837	0.8896	1161673
2023-24	290561	0.751	218211	1135537	0.8392	952943
2024-25	199561	0.682	136101	1241487	0.7916	982761
	TOTAL PV		19,34,291	TOTAL PV		1,00,60,042

MILK:

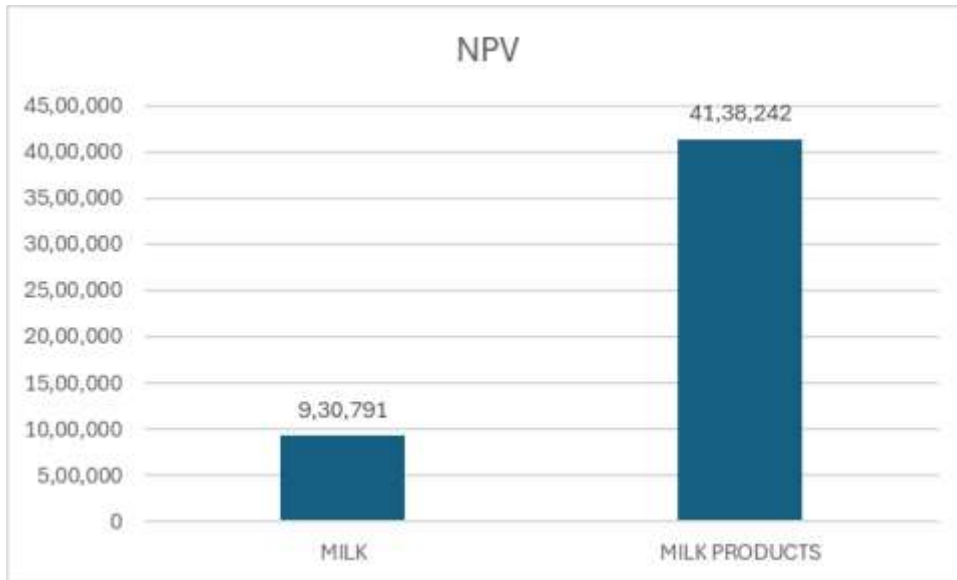
Total present value = 19,34,291
Initial Investment = 10,03,500
Net Present Value (NPV) = 9,30,791

MILK PRODUCT:

Total Present Value = 1,00,60,042

Initial Investment = 59,21,800

Net Present Value (NPV) = 41,38,242



INTERPRETATION:

The graph compares the NPV of Milk and Milk Products projects.

Both projects have positive NPV, indicating profitability.

The Milk Products project has a higher NPV (₹41,38,242) than the Milk project (₹9,30,791).

This shows that Milk Products generate higher returns.

Therefore, the Milk Products project is the better investment option.

Table no: 1.3.4

INTERNAL RATE OF RETURN

CALCULATION OF IRR @ 10% & 15%

YEARS	CAHS FLOWS	P.V.%10%	P.V.OF NET CASH FLOWS	P.V.%15%	P.V.OF NET CASH FLOWS
2020-21	1003500	1.00	1003500	1.00	1003500
2021-22	243761	0.909	221579	0.870	212072
2022-23	429661	0.826	354900	0.756	324824
2023-24	290561	0.751	218211	0.658	191189
2024-25	199561	0.682	136101	0.572	114149

As the NPV is above table is positive, we calculate at a higher rate of discount that is 15% as given

The correct IRR calculated as follows:

$$IRR = \frac{P.V.FACTOR+NPV}{TOTAL PV FACTOR} \times DIFFERENCE IN PV FACTOR$$

$$IRR = 10 + \frac{930791}{930791-841634} \times (15 - 10)$$

$$IRR = 10 + \frac{930791}{89157} \times (5)$$

$$IRR = 10+(10.44 \times 5)$$

$$IRR = 10+52.2$$

$$IRR = 62.2\%$$

Table no: 1.4.3

CALCULATION OF IRR @ 6% & 10%

YEARS	CAHS FLOWS	NPV P.V.@6%	P.V.OF NET CASH FLOWS	IRR P.V.@10%	P.V.OF NET CASH FLOWS
2020-21	5921800	1.00	5921800	1.00	5921800
2021-22	1101737	0.9434	1039379	0.909	1001479
2022-23	1305837	0.8896	1161673	0.826	1078621
2023-24	1135537	0.8392	952943	0.751	852788
2024-25	1241487	0.7916	982761	0.682	846694

As the NPV is 10% is negative, Hence IRR fall in between 6% and 10%

The correct IRR calculated as follows:

$$IRR = \frac{P.V.FACTOR+NPV}{TOTAL PV FACTOR} \times DIFFERENCE IN NPV FACTOR$$

$$IRR = 6 + \frac{4136756}{4136756-3779582} \times (10 - 6)$$

$$IRR = 6 + \frac{4136756}{4136756-3779582} \times (4)$$

$$IRR = 6 + \frac{4136756}{357174} \times (4)$$

$$IRR = 6+ (11.58 \times 4)$$

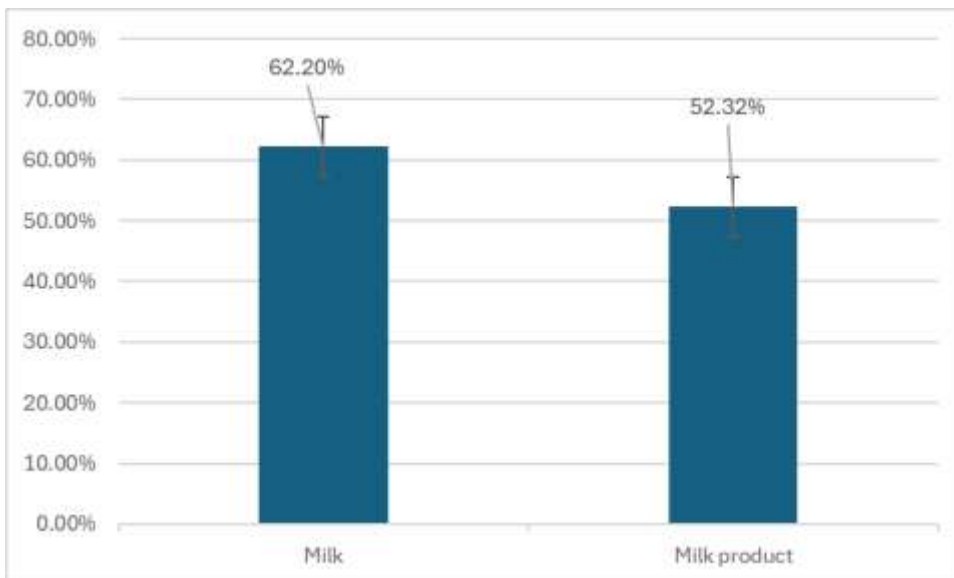
$$IRR = 6+46.32$$

$$IRR = 52.32\%$$

Graph no: 1.3.4 & 1.4.3

INTERNAL RATE OF RETURN

Cash flows	Value
Milk	62.2%
Milk product	52.32%



INTERPRETATION:

From the above table no.1.3.4 & 1.4.3 inferred from the above table that the internal rate of return method is also a modern technique of capital budgeting that takes into account the time value of money.

Table no: 1.3.5

PROFITABLEINDEX (PI)

YEARS	CASH FLOWS	P.V.%10%	P.V. OF NET CAHS FLOWS
2020-21	1003500	1.00	1003500
2021-22	243761	0.909	221579
2022-23	429661	0.826	354900
2023-24	290561	0.751	218211
2024-25	199561	0.682	136101

TOTAL CAHS FLOWS : 1070639
 LESS: INITIAL INVESTMENT : 1003500
NPV : 67139

Decision making: NPV is positive, hence the project can be accepted.

PROFITABLE INDEX (PI)

$$PI = \frac{\text{Total Present Value of Cash Flows}}{\text{Total Investments}}$$

PI = 1070639/1003500

PI = 1.07 times

Decision making: The profitability index is greater than 1, so the project is accepted.

TABLE NO: 1.4.4

PROFITABLE INDEX (PI)

YEARS	CASH FLOWS	<u>P.V.@6%</u>	P.V. OF NET CASH FLWOS
2020-21	5921800	1.00	5921800
2021-22	1101737	0.9434	1039379
2022-23	1305837	0.8896	1161673
2023-24	1135537	0.8392	952943
2024-25	1241487	0.7916	982761

TOTAL CASH FLOWS : 5257431
 LESS: INITIAL INVESTMENT : 5921800
NPV : -66439

Decision aking: NPV is negative, hence the project can be rejected

PROFITABLE INDEX (PI)

$$PI = \frac{\text{Total Present Value of Cash Flows}}{\text{Total Investments}}$$

PI = 5257431 / 5921800

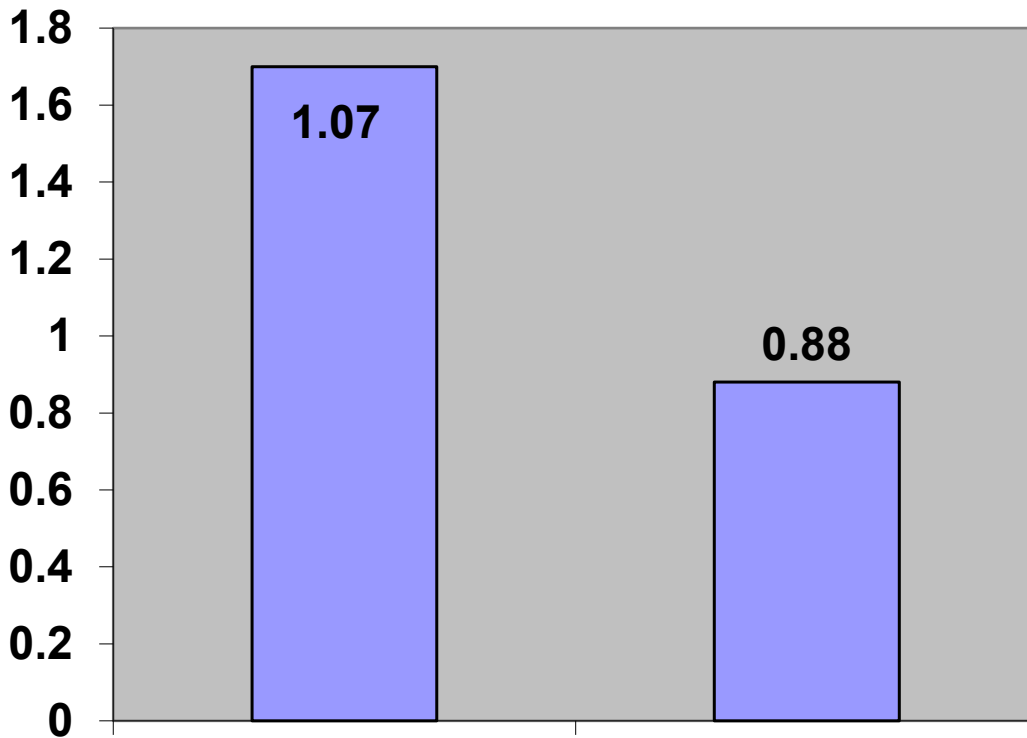
PI = 0.88

Decision Making: The profitability index is less than 1, so the project is rejected

Graph no: 1.3.4 & 1.4.4

PROFITABILITY INDEX

Cash flows	Values
Milk	1.07
Milk product	0.88



INTERPRETATION:

From the above table 1.3.4 & 1.4.4 it is clearly shows Profitability index method is also known as time adjusted method of evaluating the investment proposals. Profitability also called as benefit cost ratio in relationship between present value of cash inflows and the present value of cash outflows.

FINDINGS :

- The net present value of Heritage is satisfactory.
- The internal rate of return of Heritage is considerably high.
- The heritage will take long period to recover the initial investment.
- The profitability index is to meet company objectives.
- The average rate of return is very less because the motto is not to earn profits. This is compensated by good benefits to the society.

SUGGESTIONS :

1. Company should go for the improvement in the technology to improve efficiency and to decrease the cost of production per unit
2. For society with lower income levels or below poverty line company should go for subscribed rates and for industries it should increase its rate marginally to cover the losses.

3. The subscribed cost in future should be reduced.
4. To offer suggestions to Heritage foods limited to improve its financial performance

CONCLUSION :

In Heritage Foods Limited, capital budgeting includes long-term planning for investment, internal resource utilization, as part of the corporate plan. Investment projects are evaluated using techniques such as NPV at the specified cost of capital. The company analyzes expected benefits, risks, and financial feasibility before approving projects. Feasibility reports are prepared based on cost estimates and projected returns.

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