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CAPITAL BUDGETING AT HEMADRI CEMENTS LIMITED.

J Mamtha[1], Dr. S. Deepthi[2]

1Department of Management Studies Aristotle PG College, Chilkur, Moinabad, Ranga Reddy District, Telangana, India.

[2]Associate Professor Aristotle PG College, Chilkur, Moinabad, Ranga Reddy District, Telangana, India.

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ABSTRACT

The term capital budgeting refers to long-term planning for proposed capital outlays and their financing. Thus, it includes both rising of long-term funds as well as their utilization. It may this be defined as "The firm's decision to invest its current funds most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years" (I.M. Pandey 2005, p141). It is the decision-making process where the firm evaluate the purchase of major fixed assets. It involves the firm's decision to invest its current funds for addition, disposition, modification and replacement of long-term or fixed asset. However, it should be noted that investment in current assets necessitated on account of investment in fixed assets, is also to be taken as a capital budgeting decision.

Keywords: Capital Budgeting, Proposed Tools.

1. INTRODUCTION

The significance of capital budgeting may be stated as follows.

INVESTMENTS OF HEAVY FUNDS: Capital budgeting decisions generally, involve large investment of funds. But the funds available with the firm are always limited and the demand for fund fax exceeds the resources. Hence it is very important for a firm to plan and control its capital expenditure.

- **LONG-TERM IMPLICATIONS**: The effect of capital budgeting decisions will be felt by the firm over a long period and therefore they have a decisive influence on the rate and direction of the growth of the firm.
- **IRREVERSIBLE DECISION**: In most cases, capital budgeting decisions are irreversible. This is because it is very difficult to find a market for the capital asset. The only alternative will be to scrap the capital assets so purchased or sell them at substantial loss in the event of the decision being proved wrong.
- **MOST DIFFICULT TO MAKE**: The capital budgeting decisions require an assessment of future events, which are uncertain. It is really a difficult task to estimate the probable future events, because of economic, political, social and technological factors.

2. REVIEW OF LITERATURE

Article:1

Title: A study on capital budgeting practices

Author: Md. Anhar Sharif Mollah and Md. Abdur Rouf

Source: Discover Journals

Abstract: The basic objective of financial management is the maximization of the shareholders' wealth by focusing on three decisions which are capital budgeting decisions, capital structure decision and dividend decision. Most of the scholar and practitioner opine that although three decisions are important, firm success and survival ultimately depend on a right investment decision because a good investment decision remains good business even though bad finance taken; on the contrary, a bad investment decision will be a wrong decision even with best finance policy (Brealey et al., 2015).

A sound capital budgeting decision is very critical for a firm because it is aligned with the firm's primary objective (wealth maximization), and it requires a substantial amount of resource and long-term commitment. Once the decision has been made, the process cannot be manipulated without incurring losses (Hall and Millard, 2010). Capital budgeting is a major terrain of the sphere of financial management. Capital budgeting is related activities, it is not a standalone single activity; rather it is defined as a process called "capital budgeting process." Capital budgeting is extremely important for capital investment decisions owing to its nature of capital budgeting process. Gitman et al. (2015) define capital budgeting as "the process of evaluating and selecting long term investment consistent with the firm owners' goal of wealth maximization" (p. 344). Universally accepted definition yet to exist, because it is involved with multifaceted activities and influenced by many changing factors in the organizational environment.

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Article:2

Title: A Review of the Literature on Capital Budgeting and Investment Appraisal

Author: Susan F Haka

Source: Research in International Business and Finance

Abstract: This chapter provides a historical appraisal of the development of current capital budgeting practices and reviews capital budgeting academic research. In the late eighteenth and early nineteenth centuries, the industrial revolution was instrumental in creating demand for capital budgeting processes and techniques. Academic research, beginning in the late 1940s and early 1950s, is categorized by its focus on appraisal techniques, individual decision-maker effects, organizational issues, and environmental factors. Experimental, analytical, agency-based, survey-based, and case-based research is reviewed. The chapter concludes with a compilation of issues identified by academic research and a set of questions that have not yet been addressed.

Article:3

Title: Capital budgeting: a systematic review of the literature

Author: Paula de Souza Michelon

Source: International Business and Finance

Abstract: This Capital budgeting refers to the financial assessment of the capital investment proposals of a company (Al-Mutairi et al., 2018). In other words, capital budgeting involves assessing whether the future cash flows resulting from a suggested investment justify whether it should be made, considering the risks and uncertainties (Leon et al., 2008).

Budgeting is considered as one of the most important decisions faced by the financial manager (Ryan & Ryan, 2002). The efficiency of the capital budgeting process of an organization and the respective financial analysis methods depend, ultimately, on how it influences the behavior of the managers to allocate scarce resources across competing investment alternatives (Pike, 1988; Pike & Ooi, 1988).

When making investment decisions, the managers make a series of subjective calls (Pike, 1983). Also, the profile of the managers is considered as a factor that may influence capital budgeting practices used by the companies (Andrés et al., 2015). In addition, different organizations use different decision-makers to adopt the decisions related to the referred budgeting (Brijlal & Quesada, 2009).

Firstly, the capital investment decision significantly influences the growth rate of an organization; making a wrong decision may ruin the company. Secondly, such decisions require large amounts of funds. Finally, they are amongst the most complex decisions in terms of uncertainties in relation to future cash flow estimations, as well as in relation to the social, technological, economic and political impacts on the estimations, which increases their complexity (Egbide et al., 2013).

SEARCH GAP:

The capital investment decision significantly influences the growth rate of an organization; making a wrong decision may ruin the company. Secondly, such decisions require large amounts of funds.

OBJECTIVES:

- ❖ To understand the need of the organizations to identify and invest in high quality capital projects.
- ❖ To prepare a list of the main financial variables required for a project appraisal.
- ❖ To evaluate capital projects using traditional methods of investment appraisal and discounted cash flow methods.
- ❖ To illustrate the important differences, which can arise in evaluating projects when using NPV and IRR.

3. RESEARCH METHODOLOGY

Need For The Study

In outcry the broker has to buy or sell securities for which he has received the orders .for this, the broker or his authorized representatives goes to the stock exchange. Basically the broker shouts while buying or selling the securities. The floor of the stock exchange is divided in to a number of market also ‘post pit’ or wing based on particular securities dealt there In the post pit or wing, the broker using ‘open outcry’ method makes an offer or bid price. For making the necessary bargain, he codes his purchase or sales price, also known as offer or bid price. The dealer, to whom the price is quoted, quotes his own price quotation of the dealer suits the broker, he may lose the bargain. If he is not satisfied with the quote price he may turn to some other dealer .On the close of the bargain, the dealer sell as well as the broker makes a brief

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notes of the particulars of the deal. Such notes are made on some pad and on it the number of shares, the price agreed upon, the name of the party, what membership number etc., are noted.

The disadvantages of outcry system are it lack transparency, the scope of manipulation, Inaudibility and also speculation and malpractice is more, in order to overcome the above problems, online trading came in to existence. Hence the need to study the advantages of online trading system and its importance in making the market operations and smooth while retaining the flexibility of conventional trading practices.

Scope Of The Study:

SEBI in September 1996 has issued guidelines to the stock exchanges to go for online trading procedure by the end of the year 1996. Following its directions ASIT C. MEHTA has installed the online trading system. The major need for this study is to know the effectiveness of the online system in comparison with the outcry or mock trading to study its advantages and recommend for beneficial and effective use of the system.

Data Collection

RESEARCH:

Research is process in which the researcher wishes to find out the end result for a given problem and thus the solution helps in the future course of action. Redman and Mary defines research as a "systematized effort to gain new knowledge".

RESEARCH DESIGN:

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with company in procedure. In fact, the research design is the conceptual structure with which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data.

4. RESEARCH DESIGN USED IN THE STUDY

Descriptive Research:

Investigations whose purpose is to provide precise descriptions of variables and their relationships; surveys are frequently used as designs for descriptive research.

SOURCES OF DATA:

There are two sources of data

- Primary data
- Secondary data

Primary Data:

This method includes the data collected from the personal discussions with the authorized dealers and members of the company.

Secondary Data:

The Secondary data is collected through annual reports and statements available with company records, journals and websites .

Sample Size: In the data can be used and divided into 5 weeks.

5 weeks PRICES OF ICICI BANK.

5 weeks PRICES OF RELIANCE COMMUNICATION.

STATISTICAL TOOLS:

- MS-excel and pie and bar diagrams are used to analyze the data.
- Break Even Point is also used to analyze the data

5. DATA ANALYSIS & INTERPRETATION

PROPOSED INVESTMENT: 216 Lakhs

RM cost Rs./ kg	485
Fixed Costs for New Drug 30 Per Month	Rs/ month
Labour	100,833
Utilities	595,620
Repairs & Maintenance	41,667

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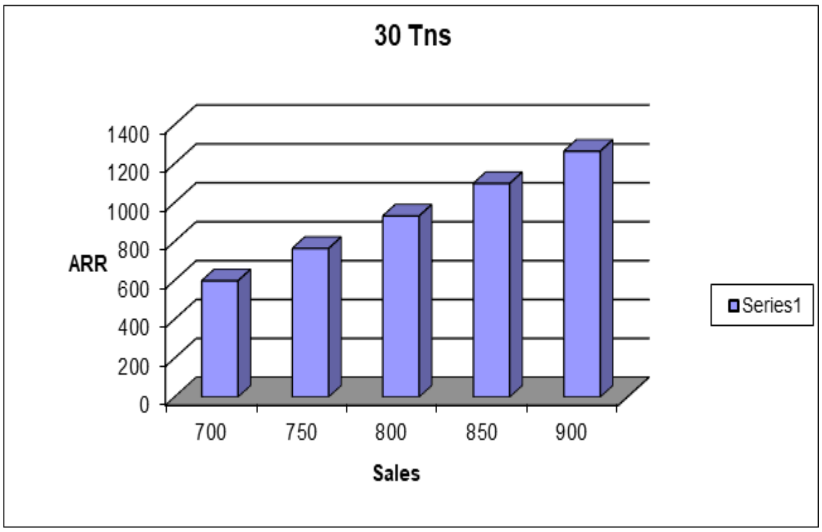
Depreciation	166,667
Interest	162,000
	1,066,787

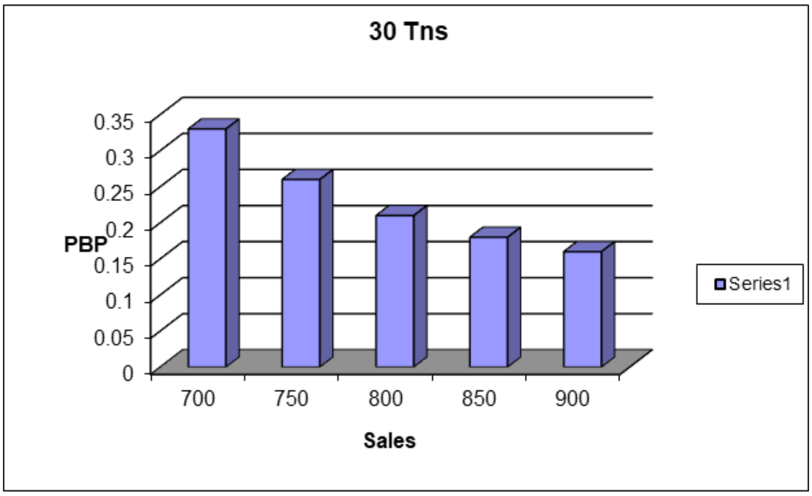


Interpretations:

The ARR more than the pre-specified rate of return is accepted. The company requires a rate of return of 20%. Therefore, ARR of the project, which is greater than 20% as specified by management, is accepted but most viable is at a price of Rs.900 with respect to quantity of 30 Tns per month or 360 Tns per annum.

PROPOSED INVESTMENT: 216 Lakhs

RM cost Rs./ kg	485
Sale price Rs per kg	900
Investment	21.6
Net Income	136.56
Payback Period [(1)/ (2)]	0.16



Interpretations:

The Payback Period calculated for a project is to be compared with some predetermined target period and Payback Period less than the target period is accepted. Therefore, target period is 3 years and project less than that is accepted but the viable is at Rs.900 with respect to the quantity of 30 Tns per month or 360 Tns per annum.

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6. CONCLUSION

Budgeting in Hemadri Cements Limited is mainly a performance based i.e., based on the performance, where as zero-based budgeting is ideal for the company like Hemadri Cements Limited.

- There should be an effective coordination between the different departments like Production, sales, Purchase, Finance, Marketing etc., this will enhance the efficiency of the organization.
- There should be a proper budgeting control system.
- A thorough review of operations on frequent intervals is required. These reviews should be made with the request to changing environment.
- Orders received should be dispatched at proper time.
- Job sequencing should be pre-determined & should follow up the sequential process, until the end of the job. Thus the lead-time can be reduced.
- There should be proper communication between various departments and responsibility centers.
- There should be well-organized manpower planning, especially with regard to production.
- Education about the importance of budgeting should be communicated to all concerned authorities those who will be involved directly or indirectly and to work according, for the growth of the company.

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