

**A STUDY ON LONG TERM CAPITAL INVESTMENT BUDGETING WITH REFERENCE
TO GOLDEN FIBERS**

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Abstract

A Study on long term capital investment budgeting with reference to golden fibers “The objective of the research is to study on the company's forecasting decision through long term capital investment budgeting technique through which the importance of long-term capital investment budgeting in an organization and to analyze the long-term capital investment budgeting process to be adopted by the company in order to take better investment decisions for various business projects. Further, it caters information about cash inflows and outflows of various years. Thus, the comparison provides clear idea about investments and return on the same which can be helpful for the years to come. The analyses have been done by the data collected from income and expenditure statements and separate investment report.

Key Words: Capital Investment, budget, profitability

Introduction

Long term capital investment budgeting, which is also called “investment appraisal,” is the planning process used to determine which of an organization's long-term investments. Long term capital investment budgeting involves choosing projects that add value to the firm. This can involve almost anything from acquiring a lot of land to purchasing a new truck or replacing old machinery. Businesses, specifically corporations, are typically required, or at least recommended, to undertake those projects which will increase profitability and thus enhance shareholders' wealth. Suppose a firm is considering the production of a new product. It must make a decision of whether or not to produce this new product. This capital project entails acquiring land, building facilities, and purchasing production equipment. And this project may also require the firm to increase its investment in its working capital -- inventory, cash, or accounts receivable. Working capital is the collection of assets needed for day-to-day operations that support a firm's long-term investments.

Statement of the problem

In this study the researcher has to analyze the future investment of the organization and to study various dimensions of investment problems and their future financial objectives in organization. It has been highlighted that the open market plays a greater role in capital investment budgeting and the companies costing analysis. This has let the organizations to invest capital in the production machineries for the future upcoming demands. It will return in long term growth and profits to the company which has plans in the estimated years.

Objectives of study:

- ❖ To study and ensure planning for future by setting up various budgets.
- ❖ To know the budgeting operation in the company.
- ❖ To analyze the elimination of wastages and increase in profitability.
- ❖ The analyze the correlation between Revenue and Sales.

Review of literature

Alles et al. (2020), both financial and nonfinancial considerations can have an impact on the choice of capital budgeting approaches. The decision-maker's demographic characteristics are among the nonfinancial elements. However, a study by Katabi and Dimoso (2016) that was conducted in Tanzania revealed that company-related variables such as the industry of the business, sales growth, business establishment, number of employees, and business form are crucial when choosing capital budgeting techniques.

Davina F. Jacobs (2019) is a senior economist in the Fiscal Affairs Department has done research on longterm capital investment budgeting practices. His study argues that the key challenge in government budgeting is to define an appropriate balance between current and capital expenditures. Budgeting for government capital investment also remains not well integrated into the formal budget preparation process in many countries. Hence, the research has been prepared with an aim to provide an overview of past and current budgeting practices for public investment. The study will also provide a comparison between the budget practices between low-income countries and developed countries and make a series of recommendations for how to ensure efficient integration of capital planning and budget management in low-income countries.

Stewardship Theory Psaros (2018) states that similar to stakeholder theory, the views of stewardship theory differ from agency theory. For example, stewardship theory does not support the view that individuals are utility maximisers and also does not support the assertion that all business decisions are based on economic considerations only. It asserts that some business decisions are based on non-economic returns such as those related to social status in the community

Psaros (2018) asserts that stewardship theory states that managers do not start out with the intention of maximizing their own utility at the expense of the interests of other stakeholders.

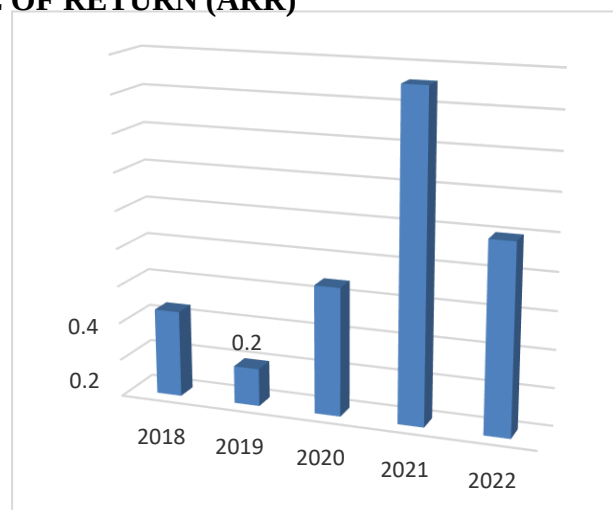
Kiel and Nicholson (2017) state that ‘underlying this rationale is the assertion that since managers are naturally trustworthy there will be no major agency costs. The acceptance of stewardship theory has adverse implications on one theory that has become widely accepted, that having the chair of the board independent of the CEO gives the organization legitimacy for claiming to have an efficient or sound financial management in place and hence improving the return on equity (ROE) to the shareholders.

Results and Discussion

Accounting rate of return (ARR)

Year	PAT	Initial investments	AverageRate of Return
2018	33324997	72368453	0.46
2019	35241131	175080399	0.20
2020	123526969	180236203	0.68
2021	79500394	46246000	1.72
2022	46222467	46246000	1.00

ACCOUNTING RATE OF RETURN (ARR)



Inference:

The chart shows that, in the year 2019 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 2021 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 2022 is reduced to 1 year.

1. Net Present Value Analysis

Year	PAT	Discounting present value Table (Present value of Re.1 @ 10 %)	Present Value of Net Cash Flows	Present value of Initial investment
2018	33324997	0.909	30292422.27	65782923.78
2019	35241131	0.826	29109174.21	144616409.6
2020	123526969	0.751	92768753.72	135357388.5
2021	79500394	0.683	54298769.1	31586018
2022	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 (2018-22) Inference: (17, 08, 88,234.5)

Above table clearly indicates that the Net Present Value for the five years from 2018 to 2022 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.

Profitability index

Year	PAT (Rs. InCrore)	Discounting present value Table (Present value of Re.1 @ 10 %)	Present Value of Net Cash Flows	Present value of Initial investment
2018	33324997	0.909	30292422.27	65782923.78
2019	35241131	0.826	29109174.21	144616409.6
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		Total	235173271.3	406061505.8

Profitability index = PV of cash inflows ÷ initial investment

PI = 235173271.3 ÷ 406061505.8

PI = 0.579

Decision rule:

Accept: PI > 1 Reject: PI < 1

Inference:

PI is lesser than 1 so Reject the proposal

It indicates that for every one-rupee investment there will be 0.579 loss

Trend analysis -PAT

Year	PAT(y)	x	x ²	xy	Y= a + b (x)
2018	0.3332	-2	4	- 0.6664	0.4955
2019	0.3524	-1	1	-0.3524	0.56556
2020	1.2353	0	0	0	0.63562
2021	0.7950	1	1	0.795	0.70568
2022	0.4622	2	4	0.9244	0.77574
	$\Sigma y = 31.781$		$\Sigma x^2 = 10$	0.7006	

Y=a +b (x)

$a = \Sigma y / n$

$b = \Sigma xy / \Sigma x^2 a = 0.63562$

$b = 0.07006$

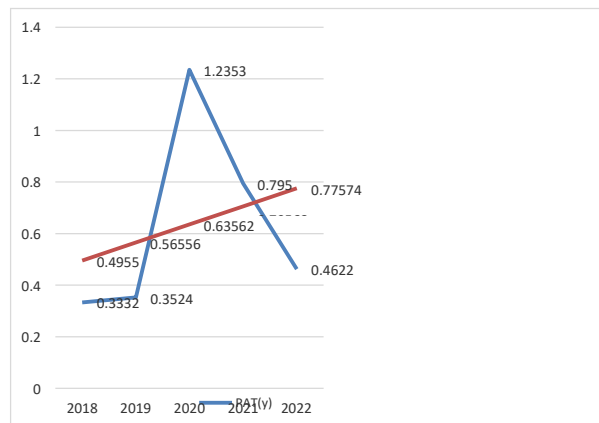
For: 2022

Let us assume $x=3 Y=a + b(x)$

$Y = 6.3562 + 0.0368737 * 3$

$Y = 0.7462411$

Trend analysis -PAT



Inference

- The PAT is increasing at an increasing rate for the all the five years. The company has the highest PAT on 2020 with 1.2535
- The PAT trend is found to be increasing rate this is due to the gradual decrease of expenses for the first 3 years. In the year 2022 the PAT is tend to decrease this is due to the increase in the interest and expenses of the company.
- The PAT trend is decreasing so the company should take necessary steps to increase the profit of the company by decreasing the expenses and debtors

Trend analysis – EBIT

Year	EBIT(y)	x	x ²	xy	Y=a+b(x)
2018	0.504	-2	4	-1.008	0.8776
2019	1.360	-1	1	-1.36	0.9403
2020	1.012	0	0	0	1.003
2021	1.283	1	1	1.283	1.0657
2022	0.856	2	4	1.712	1.1284
	5.015		$\Sigma x^2 = 10$	0.627	

Y=a +b (x)

$a = \Sigma y / n$

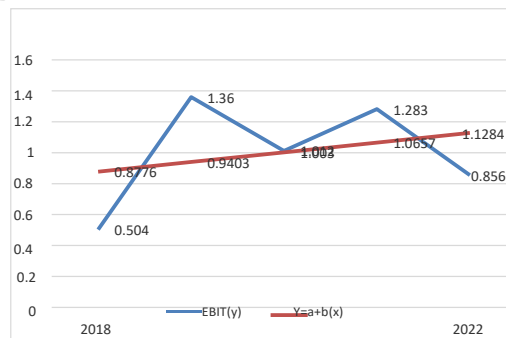
$b = \Sigma xy / \Sigma x^2 a = 1.003 b = 0.0627$ **For: 2022**

Let us assume $x=3$ $Y=a + b(x)$

$$Y= 1.003 +0.033*3$$

$$Y= 1.102$$

Trend analysis - EBIT



Inference

- The EBIT is fluctuating for the all the five years. The company has the highest EBIT on 2019 with 13.60
- The EBIT trend is found to be increasing rate this is due to the gradual Increase of Sales
- The EBIT trend is decreasing in 2022 this may due to increase in the expenses and high interest.

Suggestions

- 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. Higher rate of return indicates that investment made in the particular year has higher cash inflow in the future.
- 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.
- The PAT trend is decreasing so the company should take necessary steps to increase the profit of the company by decreasing the expenses and debtors
- The EBIT trend is decreasing in 2022 this may due to increase in the expenses and high interest. So, the company should take necessary actions to decrease the expenses.

Conclusion

Long term capital investment budgeting or investment appraisal is the planning process used to determine whether an organization's long term investments such as new machinery, replacement machinery, new plants, new products, and research development projects are worth pursuing. The process of allocating budget for fixed investment opportunities is crucial because they are generally long lived and not easily reversed once they are made. The study emphasizes that efficient allocation of capital is the most important finance function in the modern times. Thus, long term capital investment budgeting or investment decisions are of considerable importance to the firm, since they tend to determine its value by influencing its growth, profitability and risk. The analysis of payback period and Average Rate of Returns conclude that management should take efforts to perform the capital budget in efficient manner.

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