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Capital Budgeting

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Abstract

Capital budgeting could be a method of designing that's accustomed as certain the long-run investments of the firm. The long-run investment of a firm is also for brand spanking new machinery, new plants, replacement machinery, new merchandise and also the analysis and development comes. Judgment of the capital demand of a business is that the most significant step whereas raising the fund or capital for a business. A neighborhood, a region of the collected capital is mostly used for capital investment by the business whereas a considerable part is unbroken as capital. The key purpose of capital budgeting is to acknowledge and conjointly rank the capital investments on the idea of most returns to the business. Capital budgeting can even be thought about as a social control tool needed for managing the collected capital of the business. The core responsibility of the money managers is to settle on the investments during a manner therefore on generate sensible rates of come. Hence, this can be the duty of the money manager to choose whether or not a selected investment ought to be enclosed within the portfolio or not. This complete task is termed capital budgeting. The money manager must have sound information on evaluating, choosing and scrutiny projects.

Keywords: *Capital budgeting, Long-term investments, Business*

1. Introduction

Capital Budgeting is the process of making investment decisions in capital expenditures. Capital expenditure may be defined as an expenditure the benefits of which are expected to be received over the period exceeding one year. The main characteristic of a Capital expenditure is that the expenditure is incurred at one point in time whereas benefits of the expenditure are realized at different points of time in the future. In simple language, we may say that a Capital expenditure is an expenditure incurred for acquiring or improving, or improving the fixed assets, the benefits of which are expected to be received over several years in the future. This project presents two versions of the heuristic algorithm to solve a model of Capital Budgeting problems in a decentralized multidivisional firm involving no more than two exchanges of information between headquarters and divisions. Headquarters allocate funds to each division based upon its cash demand and its potential growth rate. Each division determines which

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projects to accept. Then, an additional iteration is performed to define the solution. To take up a new project involves a Capital investment decision and the top management has to make a situation and feasibility analysis of that particular project and means of financing and implementing its financing is a rapidly expanding field, which focuses not on the credit status of a company, but on cash flows that will be generated by a specific project.

The Capital Budgeting decisions procedure involves the evaluation of the desirability of an investment proposal. The firm must have a systematic procedure for making Capital Budgeting decisions. The procedure for making Capital Budgeting decisions must be consistent with the objective of wealth maximization. Because of the significance of Capital Budgeting decisions, the procedure must consist of step by step analysis of the data to bridging the gap in the organization. The Capital program is generally financed by borrowing money usually through the sales of bonds. This differs from the company's expenses budget, which covers day-to-day operating expenditures & is financed by the company's taxes and other revenues along with other companies in the industry.

The Capital Budgeting strategy presents the goals, policy constraints, assumptions the organization's capital needs over the next 10 years. The document also provides the anticipated sources of financing, and the implications of the strategy, including any possible economic, social and environmental effects. After a public hearing and a report by the organization planning commission or board of directors, the final version of the strategy is released with the executive budget every year. The strategy presents Capital projects in broad categories that reflect the organization's agency goals. There are various ways the organization records the progress of Capital projects. In general, they measure financial transactions, spending and obligation, rather than what most departments come about the status of work on a particular project. Although the information is publicly available on annual Capital spending by budget line, no information is currently made publicly available that provides detailed project level information on the status of Capital projects.

2. Representation of capital budgeting

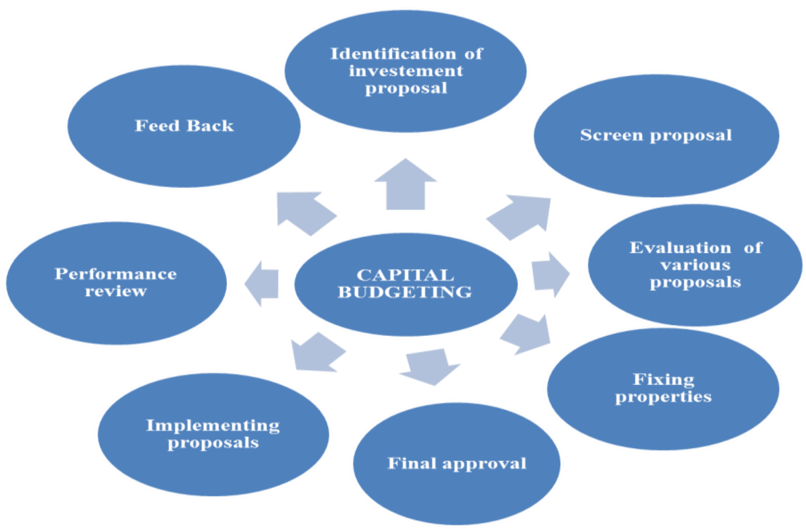

Figure 1. Representation of capital budgeting

3. Need of study

The significance of Capital Budgeting can be surely known from the way that unsound speculation choice may end up being lethal to the very presence of the worry. The need, essentialness, or significance of Capital Budgeting emerges for the most part because of the accompanying

1. Large Investments
2. Long-term duty of Funds
3. Irreversible Nature
4. Long-term impact on Profitability
5. Difficulties of Investment Decisions
6. National Importance
7. Expansion of business by Investing Plant and Machinery
8. Replacing and Modernizing
9. Mechanization of process

4. Methodology

The data used for preparing this report is through 2 sources.

1. Primary data.
2. Secondary data

Primary data:

Primary data was collected based on personal observations discussions and interviews.

Secondary data:

Secondary data has been collected by referring to various annual reports and records/documents of the company.

a) Annual reports:

These are some of the important sources of information in collecting secondary data. By referring to the previous annual reports, the financial position of the company and its requirement of funds for ratio analysis has been arrived at.

b) Record and documents:

These consist of Balance sheet and Profit / Loss account and Analyze data

5. Limitations of the study

The limitations of the study are:

1. The study is conducted in a short period for a limited time. The study may not be detailed in all aspects.
2. There was no scope of gathering current information, as the auditing has not been done by the time of project work.

3. The study is carried based on the information and documents provided by the organization and based on the interaction with the various employees of the respective departments.
4. It is the study of what has happened in the firm during the period.
5. Traditional methods are not followed the Time Value of Money.
6. It is difficult to understand when compared with other techniques.
7. The finance manager exercises his functions through his two subordinates known as Treasurer and Controller.
8. It’s a long time process in that decision-making process.

6. Factors for capital budgeting

1. Cost of acquisition of permanent asset as Land and Building, Plant and Machinery, Goodwill, etc.
2. Cost of addition, expansion, Improvement, or alteration in the fixed assets.
3. Cost of replacement of permanent assets.
4. Research and development project cost,
5. Time value of money can be considered at the project period,
6. It should be maintained the assets in the organization's value and value of the firm,
7. Cost decisions can be taken as finance manager as soon as early, etc.,

7. Need for capital budgeting

The significance of capital planning can be surely known from the way that unsound speculation choice may end up being lethal to the very presence of the worry. The need, criticalness, or significance of capital planning emerges essentially because of the accompanying

1. Large ventures
2. Long-term duty of assets
3. Irreversible nature
4. Long-term impact on productivity
5. Difficulties of venture choices National significance.

8. Objectives for capital budgeting

1. It decides the capital activities on which work can be begun amid the spending time frame in the wake of considering their earnestness and the normal rate of profit for each venture.
2. It gauges the consumption that would need to be caused on capital tasks affirmed by the administration together with the sources from which the required assets would be acquired.

9. Guideline for capital budgeting

There are many guidelines for the capital budgeting process either it is a long-term or short-term plan. The major points are:

1. Size of the market in terms of existing & proposed product lines and anticipated growth of the market share

2. Size of existing plants & plans for new plant sites and plant
3. Economic conditions which may affect the firm's operations and
4. Business and financial risk associated with the replacement & existing assets of the purchases of new assets.

10. Committee in capital budgeting

The committee in capital budgeting is very important to decide on the project. Decision making is very important for the committee is formed .members involved in this are

1. Chief executive
2. Budget officer
3. Budget committee
4. Production manager
5. Sales manager
6. Finance manager
7. Accounts manager
8. Personnel manager
9. Research &development manager

11. Concerns in export competitiveness

Quality: Significant speculation must be made in drain acquirement, supplies, chilling and refrigeration offices. Additionally, preparation must be granted to enhance the quality to convey it up to worldwide measures.

Profitability: To have an exportable surplus in the long haul and to keep up cost competitiveness, it is basic to enhance the efficiency of Indian Cattle. There is a vest showcase for the fare of customary drain items such as ghee, Shrikhand, rasgoals and other ethnic desserts to the huge number of Indian Scattered everywhere throughout the world.

World's top milk producers

Table 1. World's top milk producers

Countries	2010	2011	2012
India	80	74	70
United States	78	78	74
Russian Fed eration	36	40	38
Pakistan	26	25	23
Ukraine	16	17	18
Poland	16	15	13
New Zealand	12	11	10
Australia	10	9	9
EC	130	128	125
World(includes others)	56	552	542

12. Process of capital budgeting

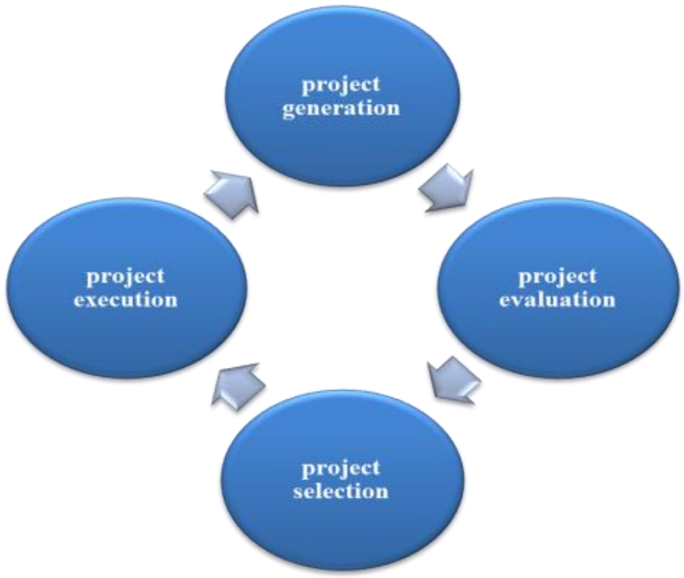

Figure 2. Process of capital budgeting

12.1. Project generation

The generation of capital expenditure proposals likes proposals expanding. The revenues and proposal reducing the cost are highly essential to make efficient and full use of funds of the concern.

12.2. Project evaluation

It deals with judging the suitability and desirability of a project by applying various criteria

12.3. Project selection

It deals with screening the selecting the projects

12.4. Project execution

After the project selected .the funds are to be allocated them .the allocation of funds is known as capital budgeting

13. SWOT analysis

13.1. Strengths

1. High Level of production and global standings in most of the agro products.
2. High level of employment generations both direct and indirect.
3. High level of skill development through various institutes for agriculture
4. Production and technology management Lower level of production coasts even with poor productivity and yields due

5. To lower overheads.
6. Indian dairy farmers are very cost effective even after working in a very
7. Low subsidized environment irrespective of their European counter counterparts.
8. Cheap labor force
9. Higher customer base.

13.2. Weaknesses

1. Poor productivity and yield
2. Poor quality management at the production levels.
3. Not much technology penetration in the rural hinterland.
4. Existence of any processing facilities at the farm level like food parks etc.
5. Poor quality orientation and consciousness at the farm level.
6. Higher costs for food processing and thus costlier processed food.
7. Quality standard management execution more obligatory than mandatory
8. And enforcement not too stringent for both domestic as well as export markets.
9. Poor per capita income thus restricting most of the consumers to live life.
10. Happily with unprocessed food products only as processed food is very
11. Costly due to cost inefficiencies arising out of poor scales and lack of Horizontal integration.

13.3. Opportunities

1. More orientation towards mechanized, organic and large scale farming due to intervention of multinationals of better exposure of select Indian farmers. To the international environment. The growth of so-called rural Crorepathi is found to be more than their urban counterparts in most of the regions in the Country.
2. Few large conglomerates (ITC, Reliance) shifting towards farming as Backward integration to provide better forward linkages to their domestic FMCG and exports arms.
3. Better accountability consciousness in various research institutor related to Agriculture for developing better varieties, breeds with higher productivity and yields and also major industrial houses(Nicholas Primal) providing
4. Support these institutes for sustainable growth by investing heavily in new frontiers of technology like biotechnology.
5. The increasing share of Indian food products in the international markets due to increasing Indians population outside the country as well as large exports By Indian companies in last few years with the benefits extended by the Indian Government to exports income.

13.4. Threats

1. Neighboring countries are trying to become more competitive in Labor and more productive with their land use.
2. More penetration and branding in the international markets by Comparatively very small nations both in size and production but with very high levels of food processing more than 60-70% against that of our Country at around 2% for fruits and vegetables and 18% for milk.

3. Lack of infrastructure at the rural level makes it a curse to be a part of rural India. Till now out of around 6.5 lacks villages only 20% can be considered as the one with amenities to provide a satisfactory lifestyle.

Major milk dairy products and their brands

Table 2. Major milk dairy products and their brands

Company	BRANDS	MAJOR PRODUCTS
Nestle	Milk-Maid, Cerelac, Lactogen, Milk Everyday	Sweetened condensed Milk Powder, malted Food, Milk powder & Dairy Whitener, Ghee & ice Cream.
Mild Foods Limited	Milk food	Ghee & Icecream
Smith Line Beaches Ltd.,	Malted food	Malted Milk Food, Ghee Butter & Other Baby foods
Gujarat co-operative Market federation	Milk product	Butter, Ghee and other milk products
Cadbury	Bourn vita	Infant Milk Food, Malted Milk Food.
Britannia	Milkman	Flavor Milk, Ghee, Milk powder, Biscuits& Ghee

Milk distribution centers

Table 3. Milk distribution centers

Town Sales (in Lts.)	No. of selling booths	Dairy
Vijayawada	400	70,000
Machilipatnam	25	3000
Gudivada	15	2500
Total	440	75500

14. Sales centers

Vijayawada; R.T.C Bus Stand, Super Bazaar, Railway Station, milk products factory, vastralatha, Vijaya dairy parlor(near Alankar Theatre), Benz circle, Satyanarayanapuram, Machavaram, Patamata, etc.

Capacities

Table 4. Capacities

Milk	1,70,000 liters per day
Ghee	5 tones per day
Butter	7 tones per day
Milk powder	4 tones per day
Refrigeration capacity	1.5 tones per day
Stream generation	13 tones per 1 prt
Milk packing	1,25000 packets per day
Chilling	1,50,000 liters per day
Processing	1,50,000 liters per day

15. Conclusion

The separation principle says that the cash flows associated with these sides should be separated. While estimating the cash inflowing on the investment side do not consider the financing changes like interest or dividend. Forecasting the project cash flows involves numerous estimates & many individuals & departments participate in this exercise. The role of the finance manager is to coordinate the efforts of various departments and obtains information from them, ensures that the exercise focused on relevant variables, and minimizes the biases inherent in cash flow forecasting. In the study, I know that the company is following a payback period. Based on the analysis of data shows that the company can adopt any criteria to get the return on investment in time. It also reveals that cash flows having ups & downs due to the expansion of assets simultaneously in depreciation.

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