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## **A Study on Capital Budgeting in Heritage Foods Ltd, Kasipentla Chitoor Dist.**

***M. Pavankumar<sup>1</sup>, Ch. Venkateswarlu<sup>2</sup>***

<sup>1</sup>Student, Roll number :20AK1E0033, MBA Department, AITS, Tirupati. E-Mail ID: pavantej918@gmail.com

<sup>2</sup>Associate professor, MBA Dept., AITS, Tirupati.

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### **ABSTRACT :**

A number of capital budgeting strategies locate area in primary in addition to superior text books on Financial Management and Corporate Finance.. The research paper investigates the decision making practices of unsung entrepreneur with appreciate to Capital Budgeting the techniques hired. The paper also examines the linkage among the strategies employed and different factors which includes, length of funding outlay, nature of funding.

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### **Introduction :**

Capital Budgeting May also be defined as “The selection making manner through which a firm evaluates the purchase of principal constant belongings. It involves firm’s choice to make investments its cutting-edge finances for addition, disposition, amendment and substitute of fixed assets. It offers solely with funding proposals, which an basically long time projects and is worried with the allocation of company’s scarce economic assets many of the available market opportunities.

In any growing challenge, capital budgeting is extra or less a non-stop technique and it’s miles done by using distinctive purposeful areas of anagement including manufacturing, marketing, engineering, monetary control and so on. All the applicable useful departments play a essential function inside the capital budgeting choice process of any corporation, yet at the moment, simplest the economic factors of capital budgeting selection are taken into consideration.

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### **Needs of the study:**

The project study is undertaken to analyze and understand the capital budgeting process in HERITAGE FOODS, LTD which gives main exposure to practical implication of theory & knowledge.

To know about the organization –operation of using various capital budgeting techniques.

To know how the organization gets funds from various resources

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### **Scope of the study :**

A brief details pertaining to HERITAGE FOODS, LTD with regards to its establishment and financial summary .

For the purpose of this study, a case study of a financed by the corporation has been analyzed and calculate

( cash flows, payback period, average rate of return, net present value, internal rate of return,PI)

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### **Objective of the study :**

- To study the various techniques Of capital budgeting of heritage company
- Determination of proposal and investment , inflows and outflows
- To evaluate the investment proposal by using the capital budgeting techniques
- To summarize and to suggest for the better investment proposal

**Limitations of the study :**

Time is a crucial factor for the study. It is not possible to analyze all the aspects in detail.

The data taken for analysis only a period of 5 years.

Study is concentrated only on financial aspects of the company.

Non-availability of congenital financial data

**Data Analysis And Interpretation :**

**PROJECT 1**  
(Estimated budget Rs. 5125 lacks)

YEARS	CFAT	CCFAT	PV@ 13%	PVCFAT	PV@ 17%	PVCFAT	PV@ 18%	PVCFAT
1	1275	1275	0.8849	1128	0.8547	1090	0.8474	1080.5
2	1183	2458	0.7831	926	0.7305	864	0.7181	849.5
3	1159	3617	0.6930	803	0.6243	723.5	0.6086	705.25
4	1205	4822	0.6133	739	0.5336	643	0.5157	621.50
5	1254	6076	0.5427	681	0.4561	572	0.4371	548
6	1105	7181	0.4803	531	0.3898	430.75	0.3704	409.25
7	1179	8360	0.4250	501	0.3331	392.75	0.3139	370
8	1081	9441	0.3761	407	0.2847	307.75	0.2660	287.50
9	864	10305	0.3328	288	0.2434	210.25	0.2254	194.75
10	923	11228	0.2945	272	0.2080	192	0.1910	176.25
<b>TOTAL</b>	<b>11228</b>			<b>6276</b>		<b>5426</b>		<b>5242.5</b>

**PAY BACK PERIOD**

Investment - CCFAT

PBP = Base period + -----

Next CFAT

= 4 years + 5125 - 4822 / 1254

= 4 years 2 months

**NET PRESENT VALUE**

NPV = present value of cash inflows - cash outflows (investment)

= 6276 - 5125

= 1151 lakhs

**INTERNAL RATE OF RETURN**

= 17 + (5426 - 5125) / (5426 - 5125) - (5242.5 - 5125)

= 17 + 1.64

= 18.64%

**RETURN ON INVESTMENT**

$$\text{ROI} = \frac{\text{Average cash flow}}{\text{Average Investment}} \times 100$$

$$= (11228 / 10) / (5125 / 2) \times 100$$

$$= 43.81\%$$

**PROFITABILITY INDEX**

$$\text{PI} = \frac{\text{Total present value of cash flows}}{\text{Total investment}}$$

$$= \frac{6275}{5125} = 1.22 \text{ times}$$

YEARS	PBDT	LESS DEPRECIATION AS PER INCOME TAX	PBT	(-) TAX 33%	PAT	ADD: DEP	CFAT	CCFAT
1	3060	3588	-528	-174	-354	3588	3234	3234
2	4560	999	3561	1175	2386	999	3385	6619
3	4560	850	3710	1224	2486	850	3336	9955
4	4860	707	4153	1370	2783	707	3490	13445
5	5160	601	4559	1504	3055	601	3656	17101
6	4560	511	4049	1336	2713	511	3224	20325
7	4950	434	4516	1490	3026	434	3460	23785
8	4560	369	4191	1383	2808	369	3177	26962
9	3630	314	3316	1094	2222	314	2536	29498
10	1310	267	3663	1209	2454	267	2721	32219
<b>TOTAL</b>	<b>43830</b>	<b>8640</b>	<b>35190</b>	<b>11611</b>			<b>32219</b>	

= 1.22 times

**Findings :**

The first project i.e. Generating unequal cash flows for 10 years. The initial investment is Rs. 5125 lakhs.

- ^ The payback period is 4 years and 2 months which means the investment will recover in 4.2 years.
- ^ Net Present Value and Internal Rate of Return are positive for the project.
- ^ The Profitability Index is 1.22 times > 1, a good sign.
- ^ Return on Investment is 43.81%

**Suggestions :**

- Sales should be increased to get more returns.
- In the financial senses acquiring the share capital will makes profitable than borrowing the loans thorough secured and unsecured.
- Trading activity should be operated effectively to generate more funds.
- The company should take and maintain some position the current assets by keeping move with liquidity.

**Conclusuon :**

An organisation may additionally face a state of affairs in which various funding proposals are recognized, but it has to select one or some of the proposals either for shortage of finances or for some different reasons, with the capital price range techniques the trouble can resolved and made the first-rate proposals with clean evaluation.

Capital budget control isn't a easy method on this quarter, the raised proposals are solved with strategies of capital budgeting. This made the buyers to consider the proposals with the aid of this analysis; they had been out of the catch 22 situation and in the direction of the great investment.

It may be summarized that maximum of the schemes selected for the evaluation have shown higher performance.

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