

## A Study on Capital Budgeting Techniques in Ultra Tech Cement Pvt Ltd

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**Abstract:** This investigation analyzes the kind of capital budgeting strategies utilized by material firms in Pakistan and effect of firm estimate on these techniques. This examination additionally explores the connection between the aggregate resources of the firm and yearly turnover of the firm as per essential capital planning method utilized. Survey strategy is utilized as a wellspring of get-together essential information. SPSS is utilized as apparatus for examination of information. Cross organization is connected on every variable. Chi square test is additionally connected to research the connection between add up to resources of firm and aggregate turnover of the firm as per essential capital budgeting strategy utilized. Discoveries of this investigation uncover that net introduce esteem strategy and inner rate of return are two generally utilized strategies. Discoveries likewise demonstrate that there is no connection between the aggregate resources of the organizations and turnover of the firm as indicated by capital budgeting procedure utilized by firms. These outcomes are all around upheld by the writing.

**Index Terms:** capital budgeting, Investments, Sales, Profit, Depreciation.

### 1. Introduction

In the present aggressive business condition long haul capital ventures have turned into a noteworthy basic issue. Also, associations are in a procedure to comprehend which capital budgeting strategy is appropriate for them for survival. This is reason which offers significance to capital venture choice in light of the fact that the formation of shareholders riches is the point of an association. Because of these reasons, it is essential to explore the capital budgeting rehearses that are generally utilized by association for settling on capital speculation choices. Capital budgeting is profoundly imperative on the grounds that the choices that are made include the bearing and opportunity and furthermore for future development

of the association. In conventional techniques that were utilized for capital venture choices by various associations, net exhibit esteem technique is one, in spite of the fact that this strategy has its own particular constraints. For instance, when the loan fees are indeterminate it is not clear to what markdown rate can be utilized. This is troublesome in light of the fact that with increment and lessening of markdown rates NPV can likewise be diminished and expanded. In a considerable measure of participate fund books hypothetically NPV is viewed as sound and recommended apparatus. What's more, every speculator picks the venture if the NPV of that venture is sure. For boosting monetary conventions NPV is considered as block in light of the fact that in a building blocks are base for it. It is demonstrated by numerous researchers that the shareholders riches increment to just that degree at which there comes increment in NPV esteem. With marking down, one unit of money today is more important than one unit of cash tomorrow. This paper examines sort of capital planning assessment systems that were utilized by material firms in Pakistan. Paper likewise examines the connection between size of the firm and the sort of capital planning assessment strategies utilized. The measure of the firm decides by the greatness of turnover and resources of the firm. Segment 2 manages the writing and past examinations done on this range. It additionally manages the strategies utilized as a part of past investigations. Segment 3 manages look into plan and philosophy. Next segment manages the outcomes and exchanges. In segment 5 manages conclusion and region for future research.

### 2. OBJECTIVES OF THE STUDY

This study has the following objectives:

1. To know the fixed investment and financing trend of the company
2. To assess the growth rate in the fixed investment pattern of the company

3. To trace out the influencing factors on fixed investment and financing trend of the company

### 3. REVIEW OF LITERATURE

Effective research cannot be accomplished without studying critically what already exists in the form of general literature and specific studies. Therefore, it is considered as an important prerequisite for actual planning and execution of research projects. The review of existing literature helps to formulate the hypothesis, identify research gaps and formulate a framework for further investigation.

**Klammer, Thomas P. (1972)** overviewed an example of 369 firms from the 1969 posting of assembling firms that showed up in critical industry gatherings and made in any event \$1 million of capital consumptions in each of the five years 1963-1967. Respondents were made a request to recognize the capital planning methods being used in 1959, 1964, and 1970. The outcomes showed an expanded utilization of methods that joined the present esteem (Klammer, 1984).

**Petty J William, Scott David P., and Bird Monroe M. (1975)** inspected reactions from 109 controllers of 1971 Fortune 500 (by offers dollars) firms concerning the methods their organizations used to assess new and existing product offerings. They found that Internal Rate of Return was the technique favored for assessing all activities. Additionally, they found that present esteem procedures were utilized more much of the time to assess new product offerings than existing product offerings.

**Marc Ross (1986)** in a top to bottom investigation of the capital planning activities of 12 substantial assembling firms, he found that despite the fact that systems that joined marked down income were utilized to some degree, firms depended rather vigorously on the oversimplified payback show, particularly for littler ventures. Moreover, when marked down income systems were utilized, they were frequently rearranged. For instance, a few firms' streamlining suspicions incorporate the utilization of the same monetary life for all tasks despite the fact that the real lives may be distinctive. Advance, firms frequently did not alter their examination for hazard. Studies comes about additionally show that venture endorsement at many firms (in eight out of twelve firms examined) take after various criteria relying upon the locus of the decision.

**Wong, Farragher and Leung (1987)** reviewed an example of substantial partnerships in Hong Kong, Malaysia and Singapore in 1985. They found that

PBP was the most prevalent essential method for assessing and positioning tasks in Malaysia. In Hong Kong, they observed PBP and ARR to be similarly the most famous. They presumed that, as opposed to US organizations where DCF procedures are essentially more famous than on-DCF strategies as essential assessment measures, organizations in Hong Kong, Malaysia and Singapore like to utilize a few techniques as essential measures in assessing and positioning proposed venture ventures. It is likewise watched that organizations in Hong Kong, Malaysia and Singapore don't embrace much hazard examination, neither endeavoring to survey chance nor alter assessment criteria to reflect chance. The most prevalent hazard evaluation procedures were affectability examination and situation investigation (high-medium-low forecasts).

**Bierman Harold (1993)** surveyed Fortune 500 industrial companies regarding the capital budgeting methods used by these firms in 1993. He found that every responding firm used some type of DCF method. The payback period was used by 84 percent of his surveyed companies. However, no company used it as the primary method, and most companies gave the greatest weight to a DCF method. 99 percent of the Fortune 500 companies used IRR, while 85 percent used NPV. Thus, most firms actually used both methods. 93 percent of companies calculated a weighted average cost of capital as part of their capital budgeting process. A few companies apparently used the same WACC for all projects, but 73 per cent adjusted the corporate WACC to account for project risk, and 23 per cent made adjustments to reflect divisional risk.

**Joe Walker, Richard Burns, and Chad Denson (1993)** focused on small companies. They noted that 21 percent of small companies used DCF. They also observed that within their sample, the smaller the firm, the smaller the likelihood that DCF would be used. The focal point of their study was why small companies use DCF so much less frequently than large firms. The three most frequently cited reasons, according to the survey, were (1) small firms' preoccupation with liquidity, which is best indicated by payback, (2) a lack of familiarity with DCF methods, and (3) a belief that small project sizes make DCF not worth the effort.

**Kester and Chang (1999)** survey 226 CEOs from Australia, Hongkong, Indonesia, Malaysia, Philipppines, and Singapore and find that DCF techniques such as NPV/IRR are the most important techniques for project appraisal except in Hong Kong

and Singapore. Sensitivity analysis and scenario analysis are found to be the most important tool for project risk assessment in all the countries. Nearly 72 per cent of the respondents in Australia use CAPM to calculate the cost of equity. The risk premium method (cost of debt plus risk premium) is most popular in Indonesia (53.4%) and Philippines (58.6%). The dividend yield plus growth rate method is the most popular method in Hong Kong (53.8%)

**Lord Beverley R. and Boyd Jennifer R. (2004)** surveyed half of the New Zealand local authorities to find out how they undertook capital budgeting. This study was later extended to all New Zealand local authorities. Results of the two surveys show that 75% of local authorities use cost-benefit analysis and NPV in financially evaluating capital investments. However, compared to studies of the private sector, there is a greater focus on qualitative aspects of decision-making. Post-audits were also highly used, but with a focus on quantitative information

**4. HYPOTHESIS FORMULATION**

Having identified the objectives of this study, the following hypotheses have been formulated and tested during the period of study:

**H<sub>0</sub>**\_ There is no significance difference between fixed investments and the selected internal factors (sales, profits, depreciation) is not significant.

**H<sub>1</sub>**\_ There is significance difference between fixed investments and the selected internal factors (sales, profits, depreciation) is not significant.

**Research Methodology:**

The research design of this study is descriptive in nature. This study is based on secondary data which was obtained from financial statements published by this company from 2013-2017 through their website and this study was also used the director’s reports pertaining to fixed investment decisions made during the study period. The data collected are analysed with the help of different accounting and statistical tools. The analysed data are presented in the form of funds flow statement, fixed investment analysis statement, fixed investment growth statement, and statement of correlation.

**5. DATA ANALYSIS AND HYPOTHESIS TESTING**

1. Fixed investment Analysis Statement: During the study period, the purpose of investments of this company is for capacity expansion/up-gradation and R&D. We observe that out of 5 years, investments have been financed by internal sources for 5 years. Besides the internal sources, this company have also raised funds from external sources to finance their additional fixed investments during 2013-2017
2. Trends in Fixed Investment: In order to discover the fixed investment trend of this company, the rate of increase in fixed assets during the year has been computed. In the process of classification, these rates are classified into two categories by taking normal business practices into consideration and the findings of empirical analysis.

**A. Regular/routine Investments:**

Company invests less than 10 per cent of investments as regular/routine investments for maintenance and replacements and

**B. Growth / expansion oriented Investments:**

Company invests more than 10 percent consider as growth and expansion.

**TABLE-1**

1	Fixed Assets	Assets Increase	Percentage Of Increase	Classification
2013	3510.4	209.71	5.974014	R
2014	3926.9	319.17	8.127827	R
2015	4168.5	547.45	13.1329	R
2016	6076.2	505.29	8.315916	R
2017	5718.9	571.39	9.991257	R

**Fixed Investment Classification Statements**

As we can see form the table-I, the annual rate of growth in fixed Investment statements and their classification. In the period of 2013-17, for all the years the investments represents routine investments category for normal maintenance and replacements

No investment year represent reliable to growth and expansion. The amount of incremental investments increased its height in 2016 with Rs 6076.18crs and a

**TABLE -2**  
**Statement of Descriptive Statistics & Selected variables**

Year	INVESTMENTS	SALES	PROFIT	DEPRICIATION
2013	5108.7	20180	2655.43	945
2014	5391.7	20279.8	2144.47	1052
2015	5208.8	22936.2	2014.73	1133
2016	5108.1	24107.4	2174.65	1289
2017	7408.7	23891.4	2627.72	1268
TOTAL	28226	111395	11617	5688
MEAN	5645.2	22278.9	2323.4	1138
SD	992.58	1922.07	296.763	145

**TABLE-3**  
**Simple Correlation Analysis**

Variables between	correlation®	t value for r	table value @5%	D.F	RESULTS
Investments &Sales	0.42	-21	2.776	4	Ho rejected
Investments &Profit	0.525	8.5	2.776	4	Ho accepted
Investments & Dep	0.478	10.8	2.77	4	Ho Accepted

Slight decrease in the year 2017 to 5718.90 cr. The highest rate of growth is found in the year 2015 with 13.133 per cent. Overall trend of fixed investments during the study period is found to be increasing with an annual average investment of Rs. 674.57 crores and standard deviations of Rs 992.58cr .However there are deviations for some years.

**Accountable Factors for Fixed Investment:** The purpose of Investments differs one to another firm. For example, the purpose of expansion is to meet the growing demand for products; the purpose of modernisation helps to reduce the cost through new production processes; and diversification helps to additions to existing product line. All these forms help to increase the sales, in turn to increase profits of the company's overall. In this study, we have tried to

Correlate each internal factors such as sales, profit and depreciation charges with fixed investments.

**A. Fixed Investments and sales**

Trends of fixed investments and the sales show the same trend but the per cent of changes vary during the study period. The coefficient of correlation between sales and fixed investments is found to be 0.420 (see table 3) which is statistically significant at 5 per cent level of significance, suggesting that the relationship between the variables is moderate. Capital budgeting Decisions may increase the sales through increased production, and promotion programmes provides the demand for the product goes up in the market. This has been proved by this company as it occupies the good Position in the market. From the analysis, the fixed investments and sales have the close and direct relationship between

each other.

**b. Fixed investments and profit:** As we mentioned above, increase in fixed investment is to enhance the earning capacity of the company. It is clear from the table 3 where we can find a shift from loss into profit. There are number of fluctuations with substantially high and low levels of the fixed investments and profits during the study period. The coefficient of correlation between profits and fixed investments is found to be 0.420(see table 3) which is statistically significant at 5 per cent level of significance, indicating poor association between the variables. This is mainly due to inefficient utilisation of fixed investments. Hence the management has to improve its utilisation of fixed assets.

**c. Fixed investments and depreciation charges:** This is another important internal factor considered to be associated with fixed investments. In our study, we found that very poor relationship between the variables (0.478) and this coefficient is statistically insignificant at 5 per cent level of significance. Normally, more the investments in fixed assets, the higher will be the depreciation charges which help the company for additional investments in fixed assets. An appropriate method of depreciation on fixed assets not only helps the company to retain the profits and for a proper tax planning. But this company's utilisation is very poor.

## 6. Finding

The incremental investments in fixed investments show an increasing trend during the study period with an average of Rs. **5645.19 crs** and standard deviations of Rs. **992.579**. However the investments are not uniform throughout the study period. In this study, we found that the coefficient of correlation between incremental fixed assets and sales to be positive and significant. Similarly, the coefficient of correlation between fixed investments and profit have the moderate relationship and statistically significant. Be that as it may, the connection between the settled speculations and devaluation have the poor relationship and factually immaterial. About, the wellsprings of assets towards the settled ventures for this organization are inside sources. So as to keep up the market position with its items, each organization must deliver item in the same class as, or superior to its rivals. This prompts settled ventures choices which can be grouped into two: routine and extension. Each

organization needs to make routine ventures persistently while development speculations are made discontinuously uperscripts. Do not put footnotes in the reference list. Use letters for table footnotes.

## 7. CONCLUSION

The fundamental testing assignment of settled speculation choices lies in the look for lucrative open doors and to infer the advantages in the instability condition in quantitative terms. From the experimental examination, this current organization's settled ventures choices are insightful and demonstrates better reserve administration The budgeting exercise in ULTRATECH also covers the long term capital budgets, including annual planning and provides long term plan for application of internal resources and debt servicing translated in to the corporate plan.

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