A STUDY ON CAPITAL BUDGETING TECHNIQUES ARAVALI POWER COMPANY PRIVATE LTD. (APCPL) AT JHARLI, JHAJJAR, HARYANA

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ABSTRACT

Aravali Power Company Private Limited (APCPL) is a joint venture company with 50% share of NTPC Ltd, 25% of Haryana Power Generation Company Ltd (HPGCL, Haryana State company), and 25% of Indraprastha Power Generation Company Ltd (IPGCL, Delhi State company). The company was registered on 21st Dec 2006. APCPL has constructed a coal based power plant near Village Jharli, District- Jhajjar (Haryana) named Indira Gandhi Super Thermal Power Project (IGSTPP). Presently under Stage-I, power plant of $3 \times 500MW$ capacity is constructed, whose all 3 units are commissioned.

Key words: Capital Budgeting, Payback Period, NPV, PI.

INTRODUCTION

Capital budgeting refers to the financial assessment of the capital investment proposals of a company. 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 .Budgeting is considered as one of the most important decisions faced by the financial manager. The efficiency of the capital budgeting process of an organization and the respective financial analysis methods depend, ultimately, on how it influences the behaviour of the managers to allocate scarce resources across competing investment alternatives.

When making investment decisions, the managers make a series of subjective. Also, the profile of the managers is considered as a factor that may influence capital budgeting practices used by the companies. In addition, different organizations use different decision-makers to adopt the decisions related to the referred budgeting.

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. Assessing the capital budgeting proposals is part of the decision to make investment. Within that context, the financial management and the capital investment decision-making are fundamental for the survival and success of the company in the long term.

And every investor will select a project if its net present value (NPV) is positive. Because bricks constitute the foundation of a structure, NPV is used to maximize economic traditions. Many academics have shown that a shareholder's wealth increases solely to the extent that their NPV value increases. One unit of currency now is more valuable than one unit of money tomorrow, according to the concept of discounting. This research also looks at the different types of capital budgeting evolution methodologies employed by Aravali Power Company Private Limited. It also looks at the link between a company's size and the capital budgeting evolution methodologies employed. The size of a company is determined by the amount of money it makes and the value of its assets.

REVIEWES OF THE LITERATURE

Literature review: Akpabio and Akpan in their study at Nigeria found that the Government was incapable in providing adequate electricity to the public thereby leading to unhealthy climate in the state. It can cause adverse affect to economy, situation and general public 3 . D.P. Sharma et al. in their study in Indian power sector found that despite of the rapid

reformation practices which was started in 1991 could not bring about the overall effectiveness in the power sector in India. Power sector is still missing technological competence, be short of appropriate funding, high wastage, lack of enhanced buyer contentment etc. It has only ensured consistency, affordability and convenience to the public. Therefore there is a need of reformation in terms of purpose and tactic to bring in development 4 . Report on Power Sector in India describes the importance of power availability for development of nation. It emphasizes on the fact that requirement and delivery criteria must be for continuous economic growth. Mismatch in demand and supply leads to hindrance in economic progress. Country India must go with effective production, diffusion and supply of power in order to meet the future challenges and to achieve the planned targets.

Objectives of Capital Budgeting

- To find out the profitable capital expenditure.
- To decide whether a specified project is to be selected or not.
- To evaluate the merits of each proposal to decide which project is best.
- To assess the various sources of finance for capital expenditure.

SCOPE OF THE STUDY

The examination has been directed to comprehend the situation of the business on capital and different useful spaces of the organization and their tasks. The investigation fundamentally centers on capital planning choices of the organization.

Keep taking into account the openness and accessibility of the information sources 10% has been decided for reason for study. This examination causes 20 and is restricted distinctly to the view of the individual having a place with “MY COMPANY”.

Capital planning is a perplexing interaction as it includes choices identifying with the speculation of immense assets to support

accomplishment in future as it is consistently dubious. Understanding the significance of the capital planning NTPC restricted.

LIMITATIONS OF THE STUDY

- Inadequate investment makes it difficult for the company to increase it budget and the capital.
- Capital budgeting involves large number of funds so the decision has to be taken carefully.
- Decisions in capital budgeting are not modifiable as it is hard to locate the market for capital goods.
- The estimation can be in respect of cash outflow and the revenues/saving and costs attached which are with projects.

METHODOLOGY

The importance of **literature review in research methodology** gains relevance in terms of making the right selection of the research process. The **review of literature** in the chapter for research methodology follows the trend of revealing knowledge. However, it is significant to note that the **literature review in research methodology** concentrates on finding knowledge about the research method rather than the research topic.

Auxiliary DATA

The Secondary information incorporate the data from the organization yearly reports, which incorporate budget summary like Balance sheet and pay proclamations and such other data uncovered through plans in the yearly reports, data from course readings of monetary administration, diaries and magazine has additionally been gathered.

Essential DATA

Essential information incorporate the data gathered from the authorities and the current organization through conversations.

Quickly it is gathered with no reference. The information was predominantly affirmed or enhanced by private perception through contacts with the authorities and representatives included, either independently or by and large. These sources are incorporated.

- Interactions between the different representatives of the office.
- The division heads, the staff, the spending area and the F and A being referred to give direction.

DATA ANALYSIS TOOLS

The information show instruments are principally numerical apparatuses, tables and outlines are utilized for this examination. The significant pieces of instruments include:

Tables

- Payback period
- Net present worth
- Accounting Rate of Return
- Profitability index
- Internal Rate of Return

DATA INTREPRETATION

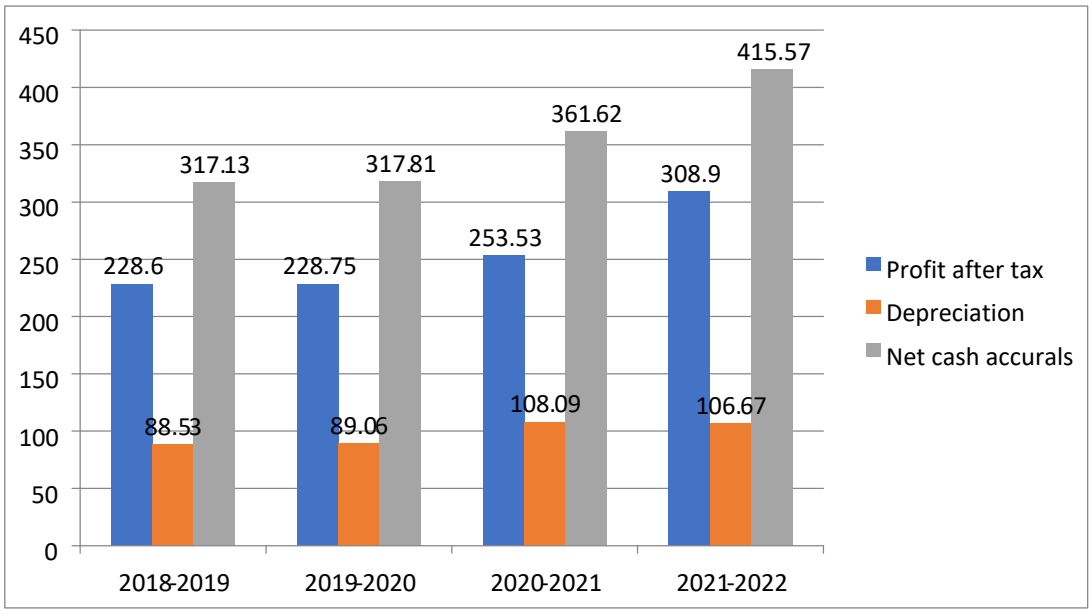
TABLE.NO. 1

PAYBACK PERIOD (in lakhs)

Year of Operation	Profit After Tax	Depreciation	Net cash accruals	Cumulative cash accruals
2018-2019	228.6	88.53	317.13	317.13
2019-2020	228.75	89.06	317.81	634.94
2020-2021	253.53	108.09	361.62	996.56
2021-2022	308.9	106.67	415.57	1412.13

Payback period = Initial investment / Net yearly incomes = 3 + 1 .

= 3.4 years



INTERPRETATION

It is expected that the benefit procuring of the venture will begin from 2017-18. Taken thought of (gradual changed income) for example extension Base year, for computation PAY BACK PERIOD. So the project Payback period is calculated as 3.4 years .We should build this period with same special case as there might be any extra factor and other reason so adjusting of 4 will be correct, so it will give more help to the estimation.

TABLE .NO.2

AVARAGE RATE OF RETURN (in lakhs)

SL No	Years	Income	Depreciation	Cash Inflows (Before depreciation)
1	2018-19	717	88.53	238.17
2	2019-20	844	89.06	317.36
3	2020-21	959	108.09	224.43
4	2021-22	968	106.67	508.76

$$ARR = \frac{Average\ Profit}{Average\ Investment} \times 100$$

$$Average\ Profit = \frac{Total\ Cash\ Inflow}{No.of\ Years}$$

Here the extra working capital is likewise taken the thought while computing the ARR.

$$\text{AVERAGE INVESTMENT} = \frac{\text{INVESTMENT}}{} + \text{AD.WC}$$

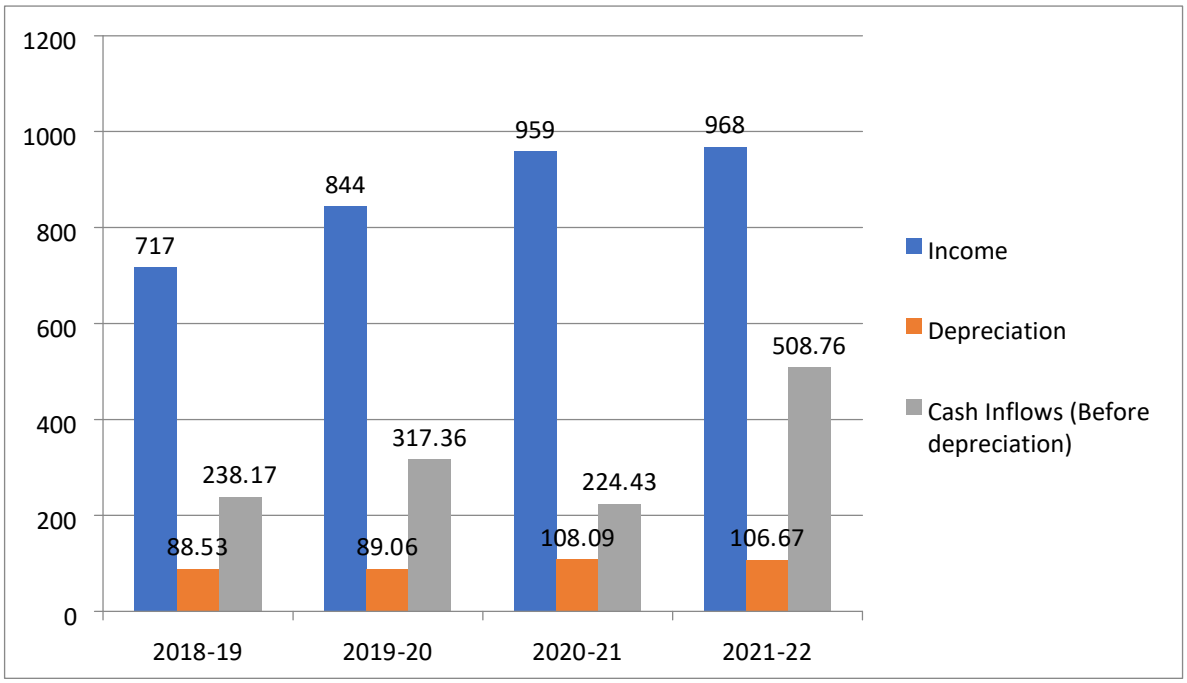
$$= \frac{1056}{796} + 68$$

AVERAGE PROFIT = 322.18

$$ARR = \frac{322.18}{6} \times 100$$

= 0.4047*100

= 40.47%



INTERPRETATION

It is more computation taking complete benefit and taking normal of it. It show the profit from a normal as what a normal pay of the firm on Long run premise with certain presumption 40.47% for any firm at since a long time ago run is Good however there should be some diminishing as future isn't sure.

TABLE.NO. 3

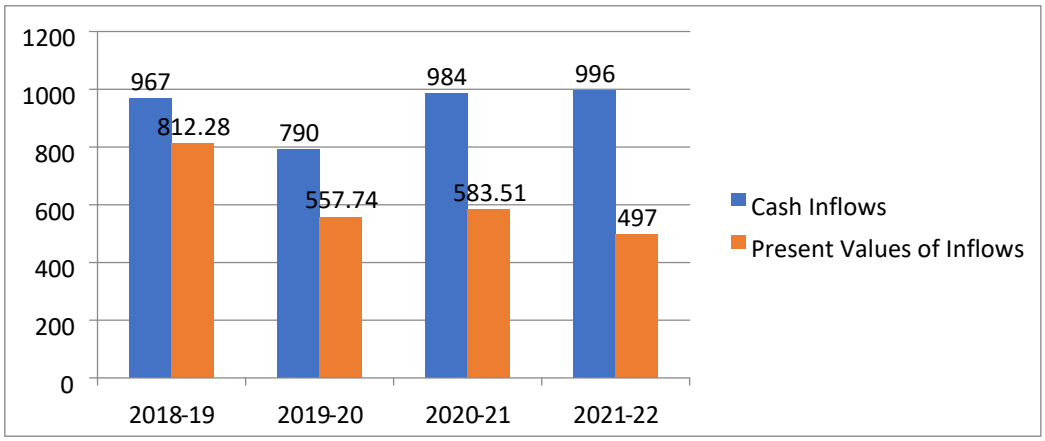
NET PRESENT VALUE(In lakhs)

SL No	Years	Cash Inflows	DCF (19%)	Present Values of Inflows
1	2018-19	967	0.840	812.28
2	2019-20	790	0.706	557.74
3	2020-21	984	0.593	583.51
4	2021-22	996	0.499	497
Total Present Values of Inflows				2450.53

N P V= Total Present Value of Cash – inflows Total Outlay

= 2450.53 – 2143

= 307.53



INTERPRETATION

It is the factor of Re.1 estimation toward the year's end. It will be Value of Re.1 toward the year's end which is based loan fee, cost of Capital and market state which is called as limited rate to get a Discounted rate to get an estimated choice. It ought to be taken in each estimation of undertaking so that a surmised. Choice can be taken. As it is more solid the basic money inflows (benefits).

Findings

- The profit of the company increases at every year.
- The depreciation increases upto 2021 and then it decreases in the year 2022.
- Income of the company increases at every year.
- The cash inflow of the company fluctuates and it increases by 284.33 (in 2022) as compared to previous year (2021).
- The Pay Back Period of the project in the CB Resort. Unit: Jhajjar. Artistic unit is 3.4 years. The payback period is less than the target period so the project may be accepted.
- The NPV of the task is positive than the worth of the capital.
- The Internal rate of return is 25.50% it is more prominent than the expense of capital i.e., 19% so the venture acknowledged.
- The assessed incomes of the undertaking incorporate revenue and expense.

SUGGESSIONS

- The venture finishing cost is assessed to be Rs. 295 cr.
- The restitution time of the undertaking in VSP is 3.4 years if there might be any extra factor and other reasons adjusting of 4 will be correct, so it will give more help to the estimation.
- The NPV of the venture is positive than the worth of the capital.
- The Internal rate of return is 25.50 % it is more prominent than the expense of capital i.e., 19% so the undertaking acknowledged.
- The organization needs to keep up with at 7: 3 (obligation: value), that is better for organization.
- It is recommended that NPV is the best measure for accepting and rejecting the projects. High NPV will give high profitability to the organization.
- It is advised that the company has to plan and manage its capital expenditures.

CONCLUSION

When a company is setting up a capital budgeting for the business, they are planning for the outcome of the year. However it will rely upon their investment decisions.

As the speculation choice is exceptionally urgent, essential and significant deciding, affecting the exercises of the association it ought to be very much perceived and checked on for the motivations behind ideal ventures and the executives and furthermore produce greatest profit from venture. The Net present worth shows a positive pattern for all the bookkeeping long stretches of the organization that kept a consistent monetary approaches and speculation systems. The ARR, PBP and PI are showing an expansion in the profits of the organization. Accordingly the organization's capital planning apparatuses are best venture alternatives for a possible financial backer and work on the drawn out supportability.