



---

## AN EMPIRICAL INVESTIGATION ON CAPITAL BUDGETING PRACTICES IN INDIA CEMENTS LIMITED, ARIYALUR

**A. MariyaKirubakaran**

M.Com,

Annai Vailankanni Arts and  
Science College, Thanjavur.

**Dr. D. Dhanalakshmi,**

M.Com.,M.Phil.,M.Ed.,MBA.,Ph.D..

Assistant Professor, Department of Commerce,,  
Annai Vailankanni Arts and Science College,  
Thanjavur.

---

### ARTICLE DETAILS

**Research Paper**

**Keywords :**

*Payback period, Rate of  
return, Net present value,  
Internal rate of return.*

---

### ABSTRACT

Capital budgeting practices in Indian Cements Limited in **Dalavoi, Ariyalur** The goal of the study was to identify the capital budgeting strategies applied to investment assessment choices. Administrators can manage resources more effectively by using capital budgeting approaches. Records, reports, and the company profile provided information about the company's inventory practices, history, and finances. A list of the results of the data analysis is provided. A suitable recommendation has been made. An overview of the company's one -year financial situation is also provided by this study. Our analysis of the report revealed that the financial position. The decisions made by a company to invest its present finances most effectively in long-term assets are commonly referred to as capital budgeting decisions, or capital budgeting decisions. Expectation of a projected benefit flow over a number of years. The assets that have an impact on the company's operations for longer than a year are considered long-term assets. The company would typically decide which investments to make for

---

expansion, acquisition, modernization, and long-term asset replacement. Selling a division or company is a decision related to investing as well.

---

## **INTRODUCTION**

When making capital budgeting decisions, assets that are operational and generate a return over an extended period of time—typically more than a year—are considered. This is a for a long time financial choice, requiring significant capital investments. Capital expenditures are characterized primarily by the fact that they are incurred once, whereas the benefits of the investment are recognized across time at various intervals. The planning, availability, and control, allocation, and spending of long-term investment funds are all part of the capital budgeting process. Some instances of capital expenditures are as follows:

Expense associated with purchasing long-term assets like land, building equipment, machinery, goodwill, etc. Expense associated with expanding, improving, or changing fixed assets. The price of replacing assets that are permanent.

## **NEED OF THE STUDY**

To carry out a financial analysis for various long-term capital investment concepts to help to select the best option among a variety of options. Accountability and measurability are created through capital budgeting. Setting and achieving long-term objectives is crucial to every organization's development and success.

## **SCOPE OF THE STUDY**

The capital budgeting research encompasses many methodologies employed by India Cements Ltd 2019-2020 to 2023-2024.

## **OBJECTIVES OF STUDY**

- To examine the various approaches to capital budgeting that are being used by India Cements Ltd.
- To identify the value of the net profit at India Cements Ltd.
- For the purpose of to explore the profitability index at India Cements Ltd.

## RESEARCH METHODOLOGY

Secondary data served as the study's foundation.

### Secondary data

The company website and yearly reports are the sources of the data.

WEBSITE: ([indiacements.co.in](http://indiacements.co.in))

## MEASUREMENTS

- 1) Traditional method
- 2) Modern method

## TRADITIONAL METHOD

### PAYBACK PERIOD

Pay back period method is also known as unadjusted of return method. Pay back reciprocal method is employed to estimate rate of return of income generated by a project.

Year	Income (PAT) (₹ in cr)	Depreciation (₹ in cr)	Cash Inflows (₹ in cr)	Cumulative Cash Inflows
2019-2020	69.44	251.31	279.88	279.88
2020-2021	-35.51	246.85	386.55	666.43
2021-2022	222.04	241.90	1046.35	1712.78
2022-2023	38.98	219.79	438.99	2151.77
2023-2024	-188.5	212.99	-19.46	2132.31

Payback period = initial year + initial outlay / annual cash inflow

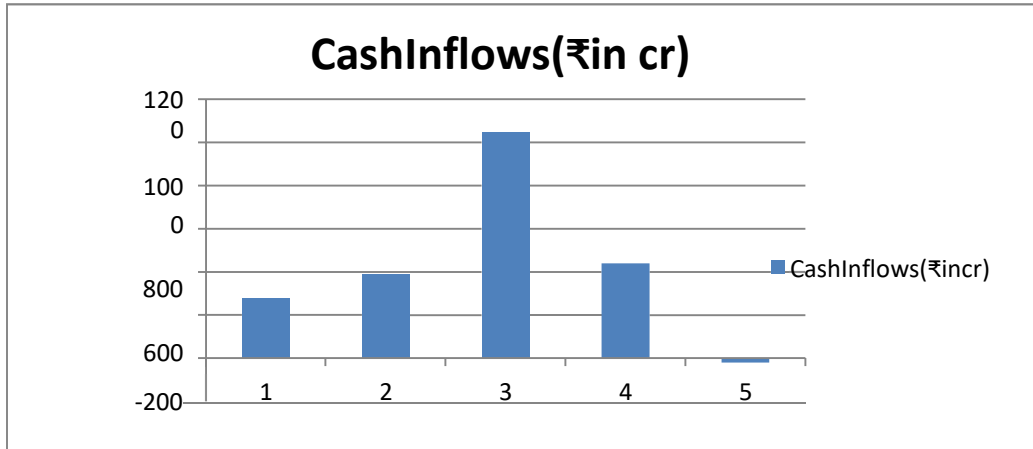
$$= 3 + 182.12 (\text{in lakhs}) / 1046.35$$

$$= 3 + 0.174$$

$$= 3.174 \text{ (3 years and 2 months)}$$

**INTERPRETATION**

The cumulative cash inflows years 2019-2020 is 279.88, 2020-2021 is 386.55,2021-2022 is 1046.35,2022-2023 is 438.99,2023-2024 is 19.46. The project investment is returned in the year2022. Itcan bedoneso in3.174 years.



**AVERAGE RATE OF RETURN**

ARR method is also known as ACCOUNTING RATE OF RETURN. This method takesintoaccountthetotalearnings expectedfromthe investmentproposalover itsfulllifetime

Year	Income(PAT) (₹incr)	Depreciations (₹in cr)	CashInflows (₹incr)
2019-2020	69.44	251.31	279.88
2020-2021	-35.51	246.85	386.55
2021-2022	222.04	241.90	1046.35
2022-2023	38.98	219.79	438.99
2023-2024	-188.5	212.99	-19.46

**ARR=Averageannualprofitaftertax/ Averageinvestment\*100**

**AverageAnnualProfit=AverageInvestment/No. ofYearsTotalInvestment**

**AverageInvestment= Total Investment/2**

Averageprofit=106.45/5 =21.29

$$\text{Average investment} = 182.12 / 2 = 91.06$$

$$\text{ARR} = 21.29 / 91.06 * 100 = 23\%$$

**INTERPRETATION**

The cumulative cash inflows years 2019-2020 is 279.88, 2020-2021 is 386.55, 2021-2022 is 1046.35, 2022-2023 is 438.99, 2023-2024 is -19.46. ACCOUNTING RATE OF RETURN 23%.

**MODERN METHOD**

**Net Present Value Method (NPV)**

Net present value method is one of the discounted cash flow methods of capital budgeting. It recognises time value of money and that cash flows arising at different periods.

Year	Cash Inflows (₹incr)	DCF(10%)	PRESENT VALUE
2019-2020	279.88	0.909	254.4109
2020-2021	386.55	0.826	319.2903
2021-2022	1046.35	0.751	785.8089
2022-2023	438.99	0.683	299.8302
2023-2024	-19.46	0.621	-12.0847
		TOTAL	1647.256

**Net Present value = present value of cash inflows - Present value of cash outflows**

$$= 1647.256 + 182.12$$

$$= 1829.376$$

**INTERPRETATION**

The present value of cash inflows 10% discount factor for the year 2019-2020 is 254.109, 2020-2021 is 319.2903, 2021-2022 is 785.8089, 2022-2023 is 299.8302 and 2023-2024 is -12.0847.

### Internal Rate of Return(IRR)

Internal rate of return is the rate of return at which total present value of future cash inflows is equal to initial investment

#### Internal rate of return 8%

Year	Cash Inflows(₹incr)	DCF(8%)	Presentvalue
2019-2020	279.88	1.000	279.88
2020-2021	386.55	2.080	804.024
2021-2022	1046.35	3.246	3396.452
2022-2023	438.99	4.506	1978.089
2023-2024	-19.46	5.867	-114.172
	TOTAL		6344.273

#### Internal rate of 10%

Year	Cash Inflows(₹incr)	DCF(10%)	PRESENTVALUE
2019-2020	279.88	0.909	254.4109
2020-2021	386.55	0.826	319.2903
2021-2022	1046.35	0.751	785.8089
2022-2023	438.99	0.683	299.8302
2023-2024	-19.46	0.621	-12.0847
		TOTAL	1647.256

$$IRR=L+P1-C/P1-P2*D$$

L=lower discount factor.P1=present value of lower rate.P2=present value of highest rate.C=cash inflow

D=differencerate

$$=8+6344.273-1046.35/6344.273-1647.256*2$$

$$=8+2.2551$$

$$=10.2551\%$$

## INTERPRETATION

Net present value cash inflow at 8% discounted factor for the year 2019-2020 is 279.88, 2020-2021 is 804.024, 2021-2022 is 3396.452

2022-2023 is 1978.089, 2023-2024 is -114.172. the net present value Cash flow at 10% discounted factor for the year 2019-2020 is 254.4109, 2020-2021 is 319.2903, 2021-2022 is 785.8089, 2022-2023 is 299.8302,

2023-2024 is -12.0847. The internal rate of return is 10.2551%. It shows weak condition of the financial position.

## FINDINGS

- The payback period is 3.174, indicating that investors receive their returns within the anticipated time frame, which boosts the company's cash inflows.
- The project's accounting rate of return is 23%. It is possible to approve the project.
- At a 15% discount rate, the project's net present value, or Rs. 1829.376 lakhs, is positive. The project is approved.
- The Internal Rate of Return of the project is 10.2551%. So the project can be accepted.

## SUGGESTION

If India Cements Limited use good techniques, it can definitely make a high level profit.

## CONCLUSION

Any expanding company must continuously engage in capital budgeting. A few choices could have an immediate impact on the companies' profits. All decisions, nevertheless, have a lasting effect on the organization's success.

**REFERENCE**

1. Lazaridis, I. T. (2004). Capital budgeting practices: a survey in the firms in Cyprus. *Journal of small business management*, 42(4), 427-433.
2. Ahmed, I.E. (2013), Factors determining the selection of capital budgeting techniques. *Journal of Finance and Investment Analysis*, 2(2), 77-88.
3. Rossi, M. (2014). Capital budgeting in Europe: confronting theory with practice. *International Journal of managerial and financial accounting*, 6(4), 341-356.
4. Cooper, W. D., Morgan, R. G., Redman, A., & Smith, M. (2002). Capital budgeting models: theory vs. practice. In *Business Forum* (Vol. 26, No. 1/2, p. 15). California State University, Los Angeles, School of Business and Economics.

**BOOKS:**

- Financial Management, Dr. R. RAMACHANDRAN & Dr. R. SRINIVASAN (SRIRAM PUBLICATIONS)
- Management Accounting, Prof. T.S. Reddy & Dr. Y. Hariprasad Reddy. (MARGHAM PUBLICATIONS)

**WEBSITE:**

Indiacements.co.in