

# A study on capital budgeting in Neelakanteshwara masala & spices

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**Abstract:** *This paper examines about capital budgeting in Neelakanteshwara masala spices. The food sector's potential for value addition, particularly in food processing, has led to increased profitability and expansion. The payback period over the first five years from 2019 to 2023, showing a decreasing trend in payback duration, with the fifth year (2023) demonstrating a shorter payback period compared to 2019. The study highlights the importance of effectively analyzing the rate of return on investment, which can help companies anticipate potential losses and ensure the efficient use of resources, a crucial aspect of modern finance.*

**Index Terms:** *Food processing sector, Payback period, Rate of return, Resource allocation & Indian food industry growth*

## I. INTRODUCTION

Every year, the Indian food industry is predicted to grow rapidly and contribute more to the global food trade. India has witnessed a surge in growth and profitability in the food industry, particularly in the food processing sector, owing to the vast potential for value addition in this sector. With approximately 32% of the country's total food market, the Indian government has played a significant role in the expansion and advancement of the food processing industry. The government, through the Ministry of Food Processing Industries (MoFPI), is aggressively promoting investments in the business. Export-only units, international partnerships, industrial licenses, and joint ventures (JVs) have all been permitted. According to research conducted by the Bureau of Indian Standards, over 63 different species and varieties of spices are grown extensively. India is the only nation in the market that can produce all types of spices. About 6% of the agricultural sector's annual output comes from spices. High resources are needed for the production, but the results are substantial.

## II. LITERATURE REVIEW

1.Capital budgeting practices by large Brazilian companies(2016):The article by Paula de Souza and

Rogério João Lunkes examines capital budgeting practices in large Brazilian companies. It finds that these companies predominantly use methods like Payback Period, Net Present Value (NPV), and Internal Rate of Return (IRR) for investment evaluation. The study concludes that while there's a trend towards sophistication in capital budgeting practices, no clear cause-effect relationship explains the adoption of more advanced methods among these companies.

2.Hospital Global Budgeting(2016): Robert Dredge's paper provides a practical guide for implementing global budgets in hospital settings, drawing on World Bank projects in emerging economies, former Soviet countries, and the UK NHS. It outlines the transition from centrally allocated, line-item budgets to ones based on predetermined, measurable factors aligned with the health needs of the population served.

3.The determination and use of investment hurdle rates in capital budgeting: a survey of Australian practice (2016 ):The paper summarizes a survey on Australian practices in determining and using investment hurdle rates and other aspects of capital budgeting. It suggests progress aligning theoretical and practical approaches in discounted cash flow techniques and finance tools like the weighted average cost of capital. However, advancements in setting investment hurdle rates have been slower, potentially requiring adjustments to enhance practices.

4.The determination and use of investment hurdle rates in capital budgeting: a survey of Australian practice (2017):Richard G.P. McMahon's paper summarizes a 1979 survey on Australian practices in investment hurdle rates and capital budgeting. It highlights progress aligning theory with practice in discounted cash flow techniques and financial tools like weighted average cost of capital. However, advancements in determining and using investment hurdle rates have been slower, possibly requiring reevaluation to enhance practices.

5.Capital budgeting practices in Indian companies (2017):The study by Roopali Batra and Satish Verma in IIMB Management Review examines Indian corporate capital budgeting practices amidst global economic volatility and evolving business trends. Based on analysis of 77 firms listed on the Bombay Stock Exchange, the research finds that discounted cash flow methods such as internal rate of return and net present value, alongside risk-adjusted sensitivity analysis, are widely adopted. The study also considers non-financial factors in capital budgeting decisions.

6.Does national culture impact capital budgeting systems. (2017):Peter J. Graham and Milind Sathye's paper in the Australian Accounting, Business and Finance Journal explores how national culture influences capital budgeting systems. The study aims to enhance multinational firms' strategies when engaging with Indonesian enterprises by understanding these cultural impacts on organizational decisions. This research contributes to bridging the gap between national culture and capital budgeting practices, enriching current literature in the field.

7.Capital Budgeting Techniques in SMEs: This paper provides a systematic literature review of research in the field of capital budgeting techniques (CBT) among small- and medium- sized firms. In total, 26 studies published between 1964 and 2017 were reviewed. It covers three areas; determinants associated with the choice of CBT; and the methods and analysis techniques used in previous studies.

8.Capital Prioritization in a Large City(2018):William B. Gilmore This report presents an asset prioritization methodology implemented by the New York City Department of Environmental Protection (NYCDEP) when it began planning for an upgrade of its aging water and sewer infrastructure assets. The report discusses the step-by-step risk mitigation program.

9.Measuring the capital shortfall of large u.s. banks(2018):Jondeau and Khalilzadeh introduce the stressed expected loss (SEL) methodology to gauge capital shortfalls in commercial banks during market downturns.Their study estimates default probabilities and SEL for the top 31 U.S. banks from 1996 to 2016, highlighting a peak 25% default probability during 2008-2012, dropping to 5% by 2016. During the subprime crisis, SEL reached \$250-350 billion, later stabilizing near \$200 billion by 2016.

10.Capital budgeting: A systematic review of the literature(2020):Antonio Cezar Bornia & Production, Rogério João Lunkes, Paula de Souza Michelin The

goal of this paper is to list the areas of capital budgeting research potential. Originality: This study advances engineering management practice by highlighting the challenges encountered by engineering managers that impede the capital budgeting process and advances the literature by offering a technique that may be used by researchers to identify gaps in budgeting based on the body of current scientific literature. Research approach.

11.Capital bugeting practices in large u.s. cities(2019):Engineering Economist Aman Khan,One crucial component of government decision-making is capital budgeting. The use of capital budgeting approaches has advanced significantly in recent years, from straightforward cost-benefit analyses to more intricate decision-making models.

12. Capital budgeting (2020):Bornia, Michelin, and Lunkes focus on identifying research gaps in capital budgeting by proposing a methodology to pinpoint areas where existing literature falls short.References such as Andrés et al. (2017), Lazaridis (2004), Brijlal & Quesada (2009), and Hall & Millard (2020) underscore the challenge of translating theoretical recommendations into actionable decisions within organizations.

13.Capital budgeting practices by non-financial companies listed on Kuwait Stock Exchange (KSE) (2021):Area of research Utilizing a questionnaire similar to that used in previous research is important since it facilitates comparison.

14..An investigation of the usage of capital budgeting techniques by small and medium enterprises(2021):Ruwan Jayathilaka, Selvaraj Sharmila, and Lakshman Alles The Quantity and Quality .The scope of capital budgeting practices used by Small and Medium-Sized Enterprises (SMEs) and the impact of non-financial factors on the capital budgeting procedures selected by SMEs are the subjects of this article. Several divisional councils in the Colombo district of Sri Lanka have participated in the study.

15. Capital budgeting practices and political risk: evidence from Lebanon(2022):Ahmed Bakri, Suzanne G.M. field David M. Power. Qualitative Research in Financial Markets whether the risk is incorporated into this process by Lebanese firms and the influence of political risk on the capital budgeting process.This paper uses a questionnaire survey to investigate the

capital budgeting practices of companies located in Lebanon, which is a country characterized by a high level of political risk.

16. Capital budgeting and managerial empire building (2022): Accounting and Business Research / Katrin Weiskirchner-Merter. I look at how the corporate office uses a report from an empire-building manager concerning private information that is significant to choices about capital budgeting moreover, how the manager is paid. I determine the ideal investment levels and compensation payments.

17. Five decades of research on capital budgeting – A systematic review and future research agenda (2022): Sureka R, Kumar S & Colombages. Studies in Global Business and Finance 60. This study synthesizes and reviews the existing literature on capital budgeting (CB) practices and their application to theories, contexts, characteristics and methodology, this review encompasses 185 articles. Additionally, a conceptual framework is developed that shows the antecedents, moderators and outcomes of research on capital budgeting.

18. Business Process Improvement and Capital Budgeting Analysis to Develop the Digitalization Process of Loan / Financing in Bank Sumsel Babel (2023): Oktofa Yudha Sudrajad, International Journal of Current Science Research and Review PT The Development Bank of Southeast Asia and the Bank of Southeast Asia (brand name: Bank Sumsel Babel) is among the regional state-owned enterprises (SOEs) engaged in the banking sector. As a local company with a great purpose, Bank Sumsel Babel has a big responsibility to support all industries in the region province of South Sumatera and the Bangka Belitung Islands.

19. Feasibility Study for Tugboat Expansion Project Using Capital Budgeting And Sensitivity Analysis (Case Study: PT.ABC) (2023) 16(02): Dwibastyantoro B. International Journal of Current Science Research and Review The Covid-19 pandemic and the unstable geopolitical environment has highly disrupted the global economy. The turn of events affected businesses sectors differently, due the disruption of the chain of supplies many industries have to suffer.

20. Capital Budgeting Practices: A Survey of Two Industries Journal of Risk and Financial Management (2023) 16(3) 191: This research examines the capital budgeting practices used by small and medium-sized firms (SMEs) in two Portuguese industries, footwear

and metalworking, aiming at answering the following research questions: How much knowledge do managers have about capital budgeting practices? What are the most used practices? How much importance do they attribute to applying them? The research was conducted through an online survey with a response rate of 14.9%.

### III. RESEARCH METHODOLOGY

Current study is done using Analytical research where 5-year data was analyzed using capital budgeting assessing tools and formulas.

### IV. OBJECTIVE OF THE STUDY

- To study and ensure planning for the future by setting up various budgets.
- To know the Sales budget of the Neelakanteshwara Masala and Spices.

### V. DATA ANALYSIS

#### A. PAYBACK PERIOD

Year	Cost of the Asset (Rs. In Crore)	Annual cash Inflow (Rs in Crore)	Payback period
2019	3.347	.82	4.1
2020	3.255	.89	3.7
2021	2.962	.88	3.4
2022	2.899	.88	3.9
2023	2.91	.89	3.3

The table above makes it quite evident that the payback period differs according to the amount invested in particular years. The 'X' axis denotes first 5 years from 2019 to 2023. The 'Y' axis denotes time period. In the first year 2019, annual cash inflow is 4.1 and the payback period for fifth year 2023 are 3.3. Comparatively payback period for the year 2023 is less. With a positive net present value, result only if the project generates cash inflow saturate higher than the opportunity cost of capital. Based on the chart, it is possible to cut the investment for the specific project since the company's estimated return rate was lower in 2020 in the minimal rate. The project's rate of return exceeds as opposed to that the minimal rate in the years 2020, 2020, 2022, and 2023.

### VII. CONCLUSION

This study makes it abundantly evident that the core component of capital budgeting is the estimation of

cash inflows and outflows to determine the value of proposed capital investments. The paper emphasizes that the most crucial aspect of modern finance is the effective deployment of resources. Consequently, capital planning and investment choices are critical to the organization since they often impact growth, profitability, and risk, all of which define the firm's worth. The management should make an attempt to carry out the capital budget in an efficient manner, according to the study of the payback time and average rate of return.

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