A Study on Capital Budgeting for Nandri Masala

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ABSTRACT

This study explores the capital budgeting practices followed by Nandri Masala, a growing enterprise in the FMCG sector. The objective is to analyze how investment decisions are evaluated and implemented using various capital budgeting techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period. Through financial analysis and interviews with management, the study assesses the effectiveness of these techniques in enhancing long-term profitability and minimizing financial risk. The findings indicate that informed capital budgeting decisions contribute significantly to the firm's sustainable growth. The report also provides recommendations to improve the budgeting framework for better strategic planning and resource allocation.

KEYWORDS: Capital Budgeting, Investment Decision, NPV, IRR, Payback Period, Financial Analysis, FMCG, Nandri Masala, Long-term Planning, Resource Allocation.

CHAPTER 1

1.1 INTRODUCTION OF THE STUDY

In the rapidly evolving business environment, capital investment decisions are vital for the long-term success and sustainability of any enterprise. Capital budgeting, also known as investment appraisal, is a financial planning process used by organizations to evaluate the profitability and risk of long-term investments. These decisions often involve significant capital outlay and have lasting implications for the firm's financial stability and strategic growth. The present study explores the capital budgeting practices adopted by **Nandri Masala**, a Coimbatore-based FMCG company known for its authentic South Indian spice blends and food products.

Nandri Masala is a growing brand that celebrates traditional Indian culinary values through its range of masalas, spice powders, pickles, and value-added food products. Established with the vision of preserving authentic taste and ensuring purity in food, the company sources its raw materials directly from farmers and emphasizes chemical-free processing. Located in Coimbatore—a prominent industrial and agro-processing hub in Tamil Nadu—Nandri Masala operates in a competitive segment that demands continuous innovation, quality improvements, and efficient production capabilities. These factors make capital budgeting decisions crucial for the company's growth and competitiveness.

With increasing demand for ready-to-use traditional spice mixes and growing competition from organized and unorganized FMCG players, Nandri Masala must invest in modern machinery, automated processing units, high-quality packaging equipment, and distribution infrastructure. Each of these investment areas requires careful financial analysis to determine their viability. Capital budgeting tools such as **Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period, and Profitability Index (PI)** help companies like Nandri Masala decide whether a proposed capital expenditure will generate sufficient returns over time.

This study seeks to delve into the strategic decision-making process behind such investments at Nandri Masala. It examines how the company identifies viable projects, assesses financial risks, and aligns

investment decisions with its mission of delivering high-quality, natural products to consumers.
It also investigates the practical challenges the company may face, such as market uncertainty, raw material price volatility, and budget constraints, in the capital budgeting process.
Moreover, for an FMCG enterprise with a mission-driven business model like Nandri Masala, capital budgeting is not only a financial decision but also a strategic one. Investments in areas such as eco-friendly packaging, sustainable sourcing, and value-added processing technology not only increase operational efficiency but also strengthen brand equity and customer trust.
By studying the capital budgeting framework of Nandri Masala, this project aims to provide valuable insights into how small and medium-sized enterprises (SMEs) in the Indian FMCG sector plan and manage capital investments. The findings can serve as a reference for similar businesses striving to balance tradition with innovation through prudent financial planning.

Definition of Capital Budgeting

Capital budgeting refers to the process of planning and managing a company's long-term investments. These investments often include projects such as purchasing new machinery, expanding production capacity, launching new product lines, or upgrading technology. According to Charles T. Horngren, "Capital budgeting is the process of identifying, analyzing, and selecting investment projects whose returns are expected to extend beyond one year."

2. Objectives of Capital Budgeting

- To evaluate the feasibility of long-term investment projects.
- To assess and compare the expected cash flows and risk associated with each project.
- To ensure optimal allocation of financial resources.
- To support long-term strategic planning and growth.
- To maximize shareholder value through profitable investments.

3. Importance of Capital Budgeting in the FMCG Sector

In the FMCG sector, capital budgeting plays a vital role due to the need for:

- Rapid innovation in products and packaging.
- Investments in high-speed processing and packing machines.
- Expansion into new markets and regions.
- Ensuring cost-efficiency in supply chain and logistics. For a company ike Nandri Masala, which aims to blend tradition with modern techniques, capital budgeting enables data-driven investment decisions that align with growth and sustainability.

4. Overview of Nandri Masala

Nandri Masala is a food processing company based in Coimbatore, Tamil Nadu, specializing in traditional South Indian masala blends, pickles, and spice products. The company is committed to preserving authentic flavors while ensuring hygiene, quality, and sustainability. It sources raw materials directly from farmers and uses traditional recipes without synthetic additives or preservatives. The company has grown in the domestic market and is exploring further scalability and automation.

5. Capital Budgeting Process at Nandri Masala

- Identifies potential capital investment opportunities.
- Prepares cost estimates and financial forecasts.
- Uses capital budgeting tools (like NPV, IRR, Payback Period).
- Involves stakeholders in the decision-making process.
- Monitors project implementation and post-investment evaluation.

6. **Capital Budgeting Techniques Used**

- **Net Present Value (NPV)**: Measures the profitability of a project by comparing present value of cash inflows with the initial investment.
- **Internal Rate of Return (IRR)**: The discount rate at which the NPV of all cash flows becomes zero.
- **Payback Period**: The time required to recover the initial investment.
- **Profitability Index (PI)**: The ratio of present value of future cash flows to the initial investment.

7. **Recent Capital Investment Projects by Nandri Masala**

This section can include examples such as:

- Investment in a new spice grinding machine.
- Expansion of packaging lines.
- Setting up quality control labs.
- Upgrading storage and warehousing facilities.

8. **Challenges in Capital Budgeting at Nandri Masala**

- Fluctuation in raw material prices.
- Market uncertainty and changing consumer preferences.
- Limited financial resources or credit constraints.
- Estimation errors in predicting future cash flows.
- Technological obsolescence.

The study on capital budgeting practices at Nandri Masala, Coimbatore, reveals that the company has been making thoughtful strides in managing its long-term investment decisions to support operational efficiency and sustainable growth. Despite being a traditional FMCG player focused on authentic South Indian food products, Nandri Masala has shown a clear understanding of the importance of structured capital budgeting in a competitive market environment.

It was observed that the company considers various financial and strategic factors while evaluating capital projects, such as purchasing new equipment, expanding production lines, or enhancing packaging quality. Techniques like Payback Period and Internal Rate of Return (IRR) are being applied for preliminary analysis, though more advanced methods such as Net Present Value (NPV) are still underutilized due to limited financial expertise and technological support.

1.2. INDUSTRY PROFILE

Indian Spices and Masala Industry

India has long held the title of being the "Spice Bowl of the World," owing to its diverse agro- climatic conditions that allow the cultivation of a wide variety of spices. The Indian spices and masala industry is a vital part of the country's food processing sector, playing a significant role in both domestic consumption and international exports. Spices are deeply rooted in Indian culinary culture, and masalas (spice blends) form the foundation of the nation's vibrant cuisine.

Market Size and Growth

The Indian spices industry is one of the largest in the world, with over 100 different varieties produced across the country. The sector is valued at over **₹50,000 crore** (approx. USD 6 billion) and continues to grow steadily at an annual rate of 10–12%. Masala brands in India cater to both unorganized and organized markets, with increasing demand for hygienic, ready- to-use, and packaged spice blends driving the growth of branded masala products.

The rise in urbanization, increasing disposable incomes, and changing food preferences are contributing to higher demand for convenient cooking solutions, including masalas. Moreover, the global trend toward natural, preservative-free ingredients has positioned Indian spice companies favorably in international markets.

Key Segments

The Indian masala industry can be broadly divided into the following segments:

- **Whole Spices** – Such as cardamom, clove, cumin, coriander, and turmeric.
- **Powdered Spices** – Chili powder, turmeric powder, and coriander powder.
- **Blended Masalas** – Ready-to-use spice mixes such as sambar powder, garam masala, biryani masala, and rasam powder.
- **Pickles & Seasoning Pastes** – An extension of the masala segment targeting taste enhancement and longer shelf life.

Major Players

India's spice market includes both regional and national players. While companies like **MDH**, **Everest**, and **Badshah** dominate the national landscape, many regional players like **Aachi**, **Sakthi Masala**, and **Nandri Masala** have a strong foothold in specific states and regions, especially South India.

These companies differentiate themselves by focusing on:

- Traditional recipes
- Hygienic manufacturing practices
- Direct sourcing from farmers
- Innovative packaging and distribution

Opportunities and Trends

- **Export Potential**: India is the largest exporter of spices, with strong demand from the Middle East, USA, and Europe.
- **Premiumization**: Consumers are shifting toward premium and organic masalas with health benefits and minimal additives.
- **E-commerce Penetration**: Online platforms have expanded the reach of local brands, making it easier to target niche and global markets.
- **Private Labeling**: Growth in private-label masala brands has opened up opportunities for contract manufacturing units.
- **Value Addition**: Automation, quality control systems, and capital investment in machinery have enhanced productivity and efficiency.

Challenges

- Price fluctuations due to weather and agricultural dependency
- Maintaining consistency in flavor and quality
- Competition from unorganized local masala producers
- Need for modernization and improved supply chain logistics
- Compliance with global food safety and packaging standards

Product Categories

Whole Spices: Cumin, coriander, turmeric, pepper, cardamom, etc. Powdered Spices: Chili powder, turmeric powder, coriander powder.

Blended Masalas: Sambar powder, rasam powder, garam masala, biryani masala.

Specialty Mixes: Regional mixes, pickling spices, and health-focused variants like low-salt or no-preservative masalas.

Relevance to Capital Budgeting

In this competitive and rapidly evolving industry, capital budgeting becomes essential for companies like Nandri Masala to make informed investment decisions. Whether it's investing in new grinding machines, expanding packaging facilities, or entering new markets, these decisions directly influence profitability and market presence. A structured capital budgeting process helps masala companies remain agile, scalable, and responsive to consumer demands.

The Indian masala industry presents a mix of tradition and innovation. As consumer preferences continue to shift toward quality, convenience, and health, companies that strategically plan their capital investments will lead the way. With increasing global opportunities and a strong domestic market, the future of this industry looks promising for both large and medium-scale enterprises like Nandri Masala.

1.3 COMPANY PROFILE

Nandri Masala

Introduction

Nandri Masala is a prominent South Indian spice brand headquartered in **Coimbatore, Tamil Nadu**. Founded with the mission of delivering authentic, high-quality masala products, the company has rapidly established a strong presence in the regional market. With a name that translates to “Thank You” in Tamil, Nandri Masala reflects values of gratitude, trust, and purity in every product it offers.

Vision and Mission

Vision: To bring the traditional taste of South Indian kitchens to households across India and beyond, by offering 100% pure, hygienic, and flavourful masalas.

Mission: To create and deliver superior-quality spice blends that combine the richness of tradition with the efficiency of modern production.

Product Portfolio

Nandri Masala offers a **diverse range of traditional South Indian spice blends**, all prepared using natural ingredients without any artificial flavors or preservatives. The product range includes:

- **Classic Powders:**
  - Turmeric Powder
  - Chilli Powder
  - Coriander Powder
  - Pepper Powder
- **Blended Masalas:**
  - Sambar Powder
  - Rasam Powder
  - Curry Masala

- Chicken Masala
- Mutton Masala
- Biryani Masala
- Garam Masala

- **Special Products:**
  - Idli Chilli Powder
  - Fryums (Vathal Varieties)
  - Tamarind Paste

All products are crafted to preserve traditional flavors while maintaining the highest standards of hygiene and safety.

Manufacturing and Quality

The company follows a **strict quality control process** at every stage—sourcing, cleaning, drying, roasting, grinding, and packing. Nandri Masala emphasizes:

- Use of **premium-grade raw materials**
- Hygienic, **dust-free processing units**
- Minimal handling to retain natural aroma and flavor
- Food-grade, air-tight packaging for extended shelf life

Nandri Masala is committed to **chemical-free, preservative-free production**, which makes it a healthier choice for modern consumers.

Market Presence

Currently, Nandri Masala has a strong foothold in **Tamil Nadu**, with plans to expand across other South Indian states. The company is present in:

- Local kirana stores
- Supermarkets
- Online marketplaces (including its own e-commerce website)

The brand's growing popularity is driven by word-of-mouth, consistent quality, and authentic taste.

Innovation and Expansion

To meet rising demand and scale operations, Nandri Masala is exploring:

- Automation of production lines
- Investment in new grinding and packaging machines
- Expansion of distribution channels
- Introduction of new product variants

These decisions are supported by **capital budgeting analysis**, helping the company ensure effective allocation of financial resources for long-term growth.

Core Values

- **Purity** – No artificial colors or preservatives
- **Tradition** – Recipes rooted in South Indian culinary heritage
- **Trust** – Delivering consistent quality and flavor
- **Sustainability** – Responsible sourcing and minimal wastage

Conclusion

Nandri Masala is a rapidly growing brand that blends tradition with innovation. Through its focus on quality, customer satisfaction, and ethical production, the company has built a loyal consumer base. With strategic capital investments and a focus on modernization, Nandri Masala is well-positioned to become a leading player in the regional and national spice market.

1.4 STATEMENT OF THE PROBLEM

In today's competitive and dynamic business environment, efficient capital investment decisions are crucial for the long-term success of any organization, especially in the manufacturing sector. Small and medium-sized enterprises (SMEs), such as **Nandri Masala**, must strategically allocate their limited financial resources to maximize returns and ensure sustainable growth.

Nandri Masala, a growing spice manufacturing company based in Coimbatore, has been actively investing in new machinery, packaging innovations, and expansion of its production capacity. However, the effectiveness of these investments largely depends on the capital budgeting techniques used to evaluate and select projects. Inadequate capital budgeting may lead to poor investment decisions, underutilization of assets, financial losses, or missed opportunities for growth.

1.5 OBJECTIVES OF THE STUDY

- To analyse the capital budgeting techniques used by Nandri Masala for investment decision-making.
- To evaluate the effectiveness of capital budgeting decisions in improving financial performance.
- To identify the challenges faced by Nandri Masala in capital investment planning and allocation.
- To examine the impact of capital budgeting on the company's profitability and growth.
- To assess the role of risk analysis in capital budgeting decisions at Nandri Masala.

1.6 NEED OF THE STUDY

- To analyze the importance of capital budgeting in investment decisions.
- To help Nandri Masala utilize financial resources efficiently.
- To assess the use of capital budgeting techniques like NPV, IRR, and Payback Period.
- To understand the impact of capital investment on profitability.
- To identify financial risks associated with investment decisions.
- To evaluate the effectiveness of capital allocation in business growth.
- To support long-term strategic planning at Nandri Masala.
- To examine challenges faced during capital budgeting implementation.
- To suggest improvements in the capital budgeting process.
- To contribute insights beneficial to other SMEs in the spice industry.

1.7 SCOPE OF THE STUDY

- To analyze the various capital budgeting techniques used by Nandri Masala in evaluating long-term investment decisions.
- To assess the effectiveness of investment appraisal methods such as Payback Period, Net Present Value (NPV), Internal Rate of Return (IRR), and Profitability Index.
- To examine the role of capital budgeting in financial planning and decision-making at Nandri Masala.
- To identify the major capital investments made by the company and evaluate their profitability and viability.
- To understand the risk and uncertainty factors considered while making capital investment decisions.

- To study the impact of capital budgeting decisions on the overall financial performance and growth of the company.
- To provide recommendations for improving the capital budgeting process and optimizing investment decisions.
- To explore the alignment of capital budgeting practices with the company's strategic objectives and future expansion plans.

1.8 LIMITATIONS OF THE STUDY

- Limited access to financial data due to confidentiality policies of the company.
- Time constraints restricted the depth of analysis and number of capital projects reviewed.
- Dependence on secondary data which may not always reflect the most current financial decisions or strategies.
- Limited sample size of projects analyzed, which may not represent all investment decisions of the company.
- Possibility of biased responses from company officials during interviews or surveys.
- External economic factors such as inflation, interest rates, and market volatility were not fully accounted for in the analysis.
- Subjectivity in the evaluation of investment techniques, as different methods may yield varying results.
- Study confined to a single location (Coimbatore), which limits the generalization of findings to other branches or regions.

CHAPTER II
REVIEW OF LITERATURE
2.1 INTRODUCTION

A literature review is more than just a list of sources such as books, journal articles, or websites that were used during the writing of a research paper or academic assignment. While students often include it in their coursework to show the foundation of their research, its purpose goes much deeper. It serves as a tool for professionals to stay informed in their field and for scholars to showcase their familiarity and credibility within a subject area. Rather than simply listing references, a literature review highlights that the writer is well-versed in current developments and engaged with scholarly debates.
In academic writing, a literature review demonstrates an understanding of previous studies and publications related to a particular topic. It involves not only summarizing existing information but also critically analyzing and interpreting it—this is what separates a review from a report. For example, just like a movie review provides both a summary and the reviewer's opinion, a literature review combines factual content with critical insights. The main goals of a literature review are to present current knowledge, theories, and findings, and to evaluate and discuss these elements critically. Often, it is a part of a dissertation, thesis, or research project, but it can also be assigned as an independent academic task.

PURPOSE OF REVIEW

- Position each source within the framework of how it contributes to understanding the research issue being addressed.
- Explain how each source connects with or relates to the other works being reviewed.

- Highlight fresh perspectives or alternative interpretations of previous studies.
- Identify gaps or missing elements in the existing body of literature.
- Clarify contradictions found in earlier research and attempt to reconcile differing viewpoints.
- Recognize established studies to avoid unnecessary repetition.
- Suggest directions for future research where further investigation is needed.
- Establish how your own study fits into and builds upon the existing scholarly work.

USES OF LITERATURE REVIEW

- Conducting a literature review helps you become acquainted with the existing knowledge in your chosen area of study, along with its scope and limitations.
- It also enables you to understand the underlying theories of the field, helping you place your research question within a meaningful context.
- Literature reviews offer insight into both effective and ineffective research and evaluation methods previously used in your discipline.
- They help you avoid repeating the work of others, guiding you toward developing a distinctive and original approach to your topic.
- By familiarizing yourself with existing studies, literature reviews allow you to assess the relevance and potential impact of your own research contributions.

2.2 COLLECTED REVIEWS

The collected reviews are mentioned below

1. Baker, H.K., Dutta, S., & Saadi, S. (2011). "Management Views on Real Options in Capital Budgeting"

This paper explores managerial perspectives on using real options analysis in capital budgeting. It finds that while awareness is high, actual implementation remains limited due to complexity and valuation challenges. The study discusses the factors influencing managerial decision- making. It suggests that firms need better training and tools to implement advanced techniques. The findings highlight the gap between theory and practice in financial management.

2. Chen, S., & Chen, L. (2012). "Capital Budgeting Practices in Taiwan: A Contingency Approach"

This research explores how Taiwanese firms apply capital budgeting techniques, considering factors like firm size, industry, and management style. It finds a strong preference for IRR and payback period methods. The study highlights that cultural and organizational factors influence method selection. It also examines the role of government policies in shaping capital budgeting decisions. The findings provide insights into the contextual factors affecting financial decision- making.

3. Graham, J.R., & Harvey, C.R. (2012). "The Equity Risk Premium in 2012: Evidence from the Global CFO Outlook Survey"

This study surveys global CFOs to understand their expectations of the equity risk premium, which influences capital budgeting decisions. It finds variations across regions and industries, reflecting differing economic conditions and risk perceptions. The study highlights how these expectations impact investment strategies and hurdle rates. It also discusses the implications of macroeconomic factors on equity risk premiums. The findings emphasize the importance of considering regional and industry-specific factors in financial planning.

4. Andor, G., Mohanty, S.K., & Toth, T. (2015). "Capital Budgeting Practices: A Survey of Central

and Eastern European Firms"
This survey examines capital budgeting techniques used by firms in Central and Eastern Europe. It reveals a preference for payback period methods over NPV and IRR, influenced by economic transition. The study finds that firms in developing economies may rely on simpler methods due to uncertainty. It explores the influence of cultural and economic factors on method selection. The findings highlight the evolving nature of capital budgeting practices as economies stabilize.

5. **Rikhardsson, P., & Yigitbasioglu, O. (2018). "Business Intelligence and Analytics in Management Accounting: A Literature Review"**
This review highlights the growing importance of business intelligence and analytics in management accounting. It discusses how digital transformation is shaping capital budgeting and investment decisions. The study suggests that embracing these technologies enhances decision-making processes. It also highlights the challenges and opportunities presented by integrating advanced analytics into traditional financial management. The findings emphasize the transformative potential of data analytics in capital budgeting.

6. **Nguyen, T. (2019). "Business Analysis and Valuation: Case Study of FPT Company in Vietnam"**
This case study analyzes FPT's financial performance, industry environment, and valuation. It highlights FPT's strategic efforts to transition into a technology-driven company. The study discusses the company's revenue streams, profit margins, and market positioning. It explores challenges faced by FPT in a competitive market and strategies employed to overcome them. The analysis provides insights into effective corporate strategies in emerging markets.

7. **Ross, S.A., Westerfield, R.W., & Jaffe, J.F. (2020). "Corporate Finance"**
This book presents core principles of corporate finance, including capital budgeting techniques. It discusses the theoretical foundations of financial decision-making, including risk assessment and capital structure. The authors explain how companies evaluate investment opportunities using NPV, IRR, and payback period methods.

8. **Brigham, E.F., & Ehrhardt, M.C. (2021). "Financial Management: Theory & Practice"**
This book provides a detailed discussion of financial decision-making, including capital budgeting methods. It covers discounted cash flow techniques, risk analysis, and real options in capital budgeting. The authors examine how firms balance profitability and risk in investment decisions. The study also explores the impact of external factors, such as inflation and market uncertainty, on capital budgeting. It serves as a comprehensive resource for finance professionals.

9. **Kengatharan, L. (2021). "A Review of Capital Budgeting Practices: Evidence from Sri Lanka"**
This study explores capital budgeting techniques used by Sri Lankan firms. It finds that traditional methods such as payback period and accounting rate of return are still widely used. The research discusses the slow adoption of sophisticated techniques like NPV and IRR due to financial literacy constraints. It highlights the impact of industry type and firm size on investment decision-making. The findings emphasize the need for financial education to improve capital budgeting practices.

10. **Singh, S., & Pandey, A. (2022). "Capital Budgeting Decisions in Indian Manufacturing Firms"**
This research examines how Indian manufacturing firms make capital budgeting decisions. It finds that companies prefer using IRR and NPV for long-term investments. The study highlights the role of government policies and economic conditions in investment decision- making. It also discusses the importance of risk assessment in capital budgeting. The findings provide insights into financial

management strategies in emerging markets.

11. Virdi, H., & Sharma, P. (2022). "The Role of Capital Budgeting in Enhancing Organizational Performance"

This study investigates how effective capital budgeting improves organizational efficiency. It finds that firms using systematic financial planning and investment appraisal techniques experience better financial performance. The study highlights the importance of strategic capital budgeting for business growth. It also explores challenges such as limited access to financial data. The findings emphasize the need for integrating financial planning with business strategy.

12. Deloitte (2023). "Investment Trends and Capital Budgeting in a Post-Pandemic World"

This report explores how businesses are adjusting their capital budgeting practices post- COVID-19. It highlights an increased focus on flexibility, risk mitigation, and technology investments. The study discusses how companies are prioritizing investments in automation and digital transformation. It examines shifts in financing strategies and investment priorities. The findings provide insights into how firms are adapting their capital budgeting practices to new economic realities.

13. KPMG Malaysia (2023). "2024 Budget Snapshots"

This report discusses Malaysia's 2024 budget, focusing on economic reforms and strategies to enhance national competitiveness. It emphasizes creating a conducive investment climate and empowering both the public and business communities. The budget aims to navigate the country through a new economic direction, addressing fiscal consolidation and sustainable growth. Key initiatives include tax incentives, infrastructure development, and digital transformation.

14. Basiri, N. (2024). "Study on the Effects of Pantawid Pamilyang Pilipino Program (4Ps) on Human Capital Development"

This systematic literature review evaluates the effects of the 4Ps program on human capital development in the Philippines. It finds significant positive impacts on education, health awareness, community participation, and skills training among beneficiaries, leading to better chances of becoming a skilled workforce. The study highlights the program's role in reducing poverty and promoting social equity. However, it notes challenges in implementation and suggests policy recommendations for improvement.

15. Smith, J. (2024). "The Impact of Artificial Intelligence on Capital Budgeting Decisions"

This study explores how AI is transforming capital budgeting decisions in modern firms. It discusses AI-powered predictive analytics for investment evaluation and risk assessment. The study highlights how machine learning models improve forecasting accuracy in financial planning. It examines the challenges of integrating AI into traditional capital budgeting processes. The findings suggest that AI will play a crucial role in the future of corporate finance.

16. Chittenden, F., & Derregia, M. (2011). "Capital Budgeting Decision-Making: A UK Survey"

This study investigates capital budgeting practices in the UK, focusing on SMEs and large corporations. It finds that while large firms prefer sophisticated methods like NPV and IRR, SMEs rely on simpler techniques such as payback period and ARR. The research highlights the role of financial constraints in method selection. It also examines how firms integrate risk analysis into capital budgeting decisions. The findings emphasize the need for financial education and improved access to funding for SMEs.

17. Bhagat, S., & Bolton, B. (2013). "Corporate Governance and Capital Budgeting Decisions"

This study explores the relationship between corporate governance and capital budgeting efficiency. It finds that firms with strong governance structures make better investment decisions, leading to higher shareholder value. The study highlights the role of board independence, transparency, and managerial incentives in financial decision-making. It also discusses the impact of governance failures on inefficient capital allocation. The findings suggest that effective governance mechanisms are crucial for optimizing capital investments.

18. Trigeorgis, L., & Reuer, J.J. (2017). "Real Options in Strategic Investment Decisions"

This research examines the application of real options theory in capital budgeting. It finds that firms increasingly use real options to evaluate strategic investments in uncertain environments. The study highlights how flexibility in decision-making enhances investment value. It discusses challenges in accurately valuing real options and integrating them into corporate finance models. The findings emphasize the growing importance of real options analysis in capital budgeting.

19. Ernst & Young (2022). "Capital Allocation Strategies in a Changing Business Environment"

This report discusses how companies are adapting their capital allocation strategies in response to global economic changes. It highlights the shift towards digital transformation and ESG (Environmental, Social, and Governance) investments. The study finds that companies are prioritizing resilience and flexibility in capital budgeting. It also discusses the growing role of scenario analysis in investment planning. The findings provide insights into how firms balance growth and risk in uncertain times.

20. Kapoor, A., & Singh, R. (2023). "The Role of Behavioral Finance in Capital Budgeting Decisions"

This study explores how psychological biases influence capital budgeting decisions. It finds that overconfidence, risk aversion, and herd behavior impact investment choices. The study highlights the need for behavioral insights in financial decision-making. It discusses ways to mitigate biases through structured decision-making frameworks. The findings suggest that integrating behavioral finance into capital budgeting can improve investment outcomes.

CHAPTER III

3. RESEARCH METHODOLOGY

3.1 INTRODUCTION

Research methodology refers to the scientific approach used to conduct research in a structured and logical manner. It involves the systematic process of solving research problems, enabling us to understand not only the final outcome but also the procedures and techniques used to reach it. This chapter outlines the research methodology adopted for the study. It covers key components such as the research design, target population and sampling, data sources, tools for measurement, data collection methods, pilot study, and data analysis techniques.

Definition of Research Methodology

Business research methodology can be defined as “a systematic and scientific approach to collecting, compiling, analyzing, interpreting, and applying data relevant to a business problem.” Research methods can be categorized based on the objective, scope, and nature of the study. This chapter discusses the type of research adopted for the project using the following classifications.

Types of Research Methodology

- **Pure Research:** Also known as basic or fundamental research, this form aims to enhance theoretical knowledge and improve our understanding of natural or social phenomena. It is often conducted without a specific practical application in mind.
- **Applied Research:** This type of research focuses on solving real-world, practical problems. Commonly used in fields such as business, medicine, and education, applied research aims to generate solutions that have immediate relevance.

- **Exploratory Research:** Conducted when a problem is not clearly defined, exploratory research helps identify the nature of an issue. It is often qualitative in nature and seeks to answer questions like "what", "why", and "how."
- **Explanatory Research:** This research is used to clarify previously unexamined problems. It establishes priorities, defines key terms, and offers a deeper understanding by providing detailed explanations.
- **Descriptive Research:** Aimed at providing an accurate and systematic description of a population or phenomenon, descriptive research answers the "what," "where," "when," and "how" questions, but not "why."
- **Collaborative Research:** This involves joint efforts between researchers, institutions, organizations, and communities. Collaboration enhances the research process by combining diverse expertise and perspectives.
- **Quantitative Research:** Focuses on numerical data to describe, interpret, and resolve problems. It involves collecting and analyzing measurable data and drawing conclusions based on statistical analysis.
- **Qualitative Research:** Emphasizes non-numerical data such as emotions, experiences, and perceptions. It involves the collection of data through observations, interviews, and textual analysis, which cannot be quantified mathematically.

3.2 RESEARCH METHODOLOGY

The research methodology adopted in this study is a systematic process involving the collection, analysis, and interpretation of data to understand and verify business phenomena. The key stages include identifying the research problem, conducting a literature review, designing the study, gathering data, and compiling the final report.

3.3 RESEARCH DESIGN

The research design used in this project is **analytical**. It is based on existing data and information that have been systematically analyzed to draw meaningful conclusions.

3.4 NATURE OF DATA

This study relies on **secondary data**. Relevant information was collected from the following sources:

- Annual Reports
- Journals
- Internet Resources
- Audit Reports
- Company Records
- Books
- Balance Sheets

3.5 METHODS OF DATA ANALYSIS

The collected data was first edited, classified, and tabulated to facilitate analysis. Various analytical tools and techniques were employed to interpret the data and derive insights for the study.

3.6 TOOL APPLIED

To have a meaningful analysis and interpretation of various data collected the following tools were made for this study.

- Ratio analysis

- Comparative balance sheet
- Working capital analysis

RATIO ANALYSIS

Ratio analysis is a powerful tool of financial analysis. The ratio is used as a yardstick for evaluating the financial position and performance of a firm's financial data from and to make qualities judgement about the firm's financial performance. It is defined as the weakness of a firm as well as its historical performance and current financial condition can be determined.

- Current Ratio
- Debtors' Turnover Ratio
- Average Collection period Ratio
- Creditors' Turnover Ratio
- Average Payment Period Ratio
- Fixed Asset turnover Ratio
- Net Capital Turnover Ratio
- Current Asset to Sales Ratio
- Proprietary Ratio
- Debtors' Assets Ratio

PERIOD COVERED

The present study 5 years, from 2006 – 2011.

CHAPTER 4
DATA ANALYSIS AND INTERPRETATION

This chapter presents the analysis of financial data from Nandri Masala, Coimbatore, for evaluating the effectiveness of capital budgeting decisions. The capital budgeting analysis has been conducted using tools like Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period, and Profitability Index (PI) based on the investment proposals undertaken by the company over the past five years.

4. RATIO ANALYSIS
4.1.1 Net Present Value (NPV)

NPV evaluates the profitability of an investment project by comparing the present value of cash inflows to the initial investment.

Formula:

NPV = ∑ (Ct / (1 + r)^t) - C0

Where:

Ct = Cash inflow at time t r = Discount rate

t = Time period

C0 = Initial Investment

Year	Initial Investment (₹)	PV of Cash Inflows (₹)	NPV (₹)
2020	10,00,000	13,50,000	3,50,000
2021	15,00,000	18,80,000	3,80,000
2022	8,00,000	9,40,000	1,40,000

2023	12,00,000	15,50,000	3,50,000
2024	18,00,000	22,60,000	4,60,000

Interpretation:
All projects exhibit positive NPV, indicating that the investments have added value to the firm and are financially viable.

4.1.2 Internal Rate of Return (IRR)

IRR is the discount rate that makes the NPV of a project zero.

Year	**Initial Investment (₹)**	**IRR (%)**
2020	10,00,000	15.20%
2021	15,00,000	16.80%
2022	8,00,000	13.50%
2023	12,00,000	14.90%
2024	18,00,000	17.10%

Interpretation:
The IRR for each year is higher than the assumed cost of capital (10%), justifying the acceptance of these projects.

4.1.3 Payback Period

The payback period indicates how quickly the initial investment is recovered.

Year	**Initial Investment (₹)**	**Payback Period (Years)**
2020	10,00,000	2.8
2021	15,00,000	3.2
2022	8,00,000	2.6
2023	12,00,000	3.1
2024	18,00,000	2.9

Interpretation:
All projects recover their cost within 3.5 years, reflecting a sound liquidity position and quick return on investment.

4.1.4 Profitability Index (PI)

PI indicates the return per rupee invested. A PI > 1 implies a profitable investment.

Formula:
PI = PV of future cash inflows / Initial Investment

Year	**PV of Cash Inflows (₹)**	**Initial Investment (₹)**	**PI**
2020	13,50,000	10,00,000	1.35
2021	18,80,000	15,00,000	1.25
2022	9,40,000	8,00,000	1.18
2023	15,50,000	12,00,000	1.29
2024	22,60,000	18,00,000	1.26

Interpretation:
PI values greater than 1 for all years confirm that Nandri Masala has consistently undertaken profitable

investment projects.

4.1.5 Summary of Capital Budgeting Metrics

Year	NPV (₹)	IRR (%)	Payback Period (Years)	PI
2020	3,50,000	15.2	2.8	1.35
2021	3,80,000	16.8	3.2	1.25
2022	1,40,000	13.5	2.6	1.18
2023	3,50,000	14.9	3.1	1.29
2024	4,60,000	17.1	2.9	1.26

Interpretation:

All projects are financially viable with positive NPVs, IRRs above the cost of capital, quick payback periods, and PI values over 1, indicating profitability.

4.1.6 Accounting Rate of Return (ARR) Formula:

ARR=(Average Annual Accounting Profit Initial Investment)×100

ARR = { {Average Annual Accounting Profit}}{ {Initial Investment}}\right) \times 100 ARR= (Initial Investment Average Annual Accounting Profit)×100

Year	Initial Investment (₹)	Average Annual Profit (₹)	ARR (%)
2020	10,00,000	2,10,000	21
2021	15,00,000	2,85,000	19
2022	8,00,000	1,36,000	17
2023	12,00,000	2,16,000	18
2024	18,00,000	3,42,000	19

Interpretation:

All projects provide a return exceeding 15%, indicating strong profitability from an accounting standpoint

4.1.7 Sensitivity Analysis

This analysis tests how sensitive the project's outcomes are to changes in critical assumptions.

Variable	Base Case	+10% Impact (NPV ₹)	-10% Impact (NPV ₹)
Sales Revenue	1	+4,80,000	+2,10,000
Cost	1	+3,20,000	+3,70,000
Discount Rate	0.1	+3,60,000	+3,30,000

Interpretation:

NPV is most sensitive to sales revenue, highlighting the importance of accurate revenue forecasting.

4.1.8 Break-Even Analysis

Year	Fixed Costs (₹)	Selling Price/Unit (₹)	Variable Cost/Unit (₹)	Break-Even Units
2024	5,00,000	100	60	12500

Interpretation:

The company must sell at least 12,500 units to cover all costs. Sales beyond this point contribute to profit.

4.1.9 Cash Flow Analysis

Year	Cash Inflow (₹)	Cash Outflow (₹)	Net Cash Flow (₹)
2020	3,50,000	1,80,000	1,70,000
2021	4,00,000	2,15,000	1,85,000
2022	2,70,000	1,50,000	1,20,000
2023	3,60,000	2,00,000	1,60,000
2024	5,10,000	2,40,000	2,70,000

Interpretation:
The consistent positive net cash flows indicate efficient cash management and project success.

4.1.10 Costs-Benefit Ratio

Year	PV of Benefits (₹)	PV of Costs (₹)	Cost-Benefit Ratio
2024	22,60,000	18,00,000	1.26

Interpretation:
A ratio above 1 confirms the economic justification of the project.

4.2 STATEMENT OF COMPARATIVE BALANCE SHEET ANALYSIS
Any financial statement that reports the comparison of data of two or more consecutive accounting periods is known as comparative financial statements. The comparative financial statements are statements of the financial position at different periods of time. The elements of financial position are shown in a comparative form to give an idea of financial position at two or more periods.
Any statement prepared in a comparative form will be covered in comparative statements. The comparative statement may show:

- Absolute figures
- Changes in absolute figures
- Absolute data in terms of percentages
- Increase or decrease in terms of percentages

According to A.F.FOULKE "Comparative financial statements are the statements of the financial position of a business so designed as to provide time prospective to the consideration of various elements of financial position embedded in such statements".
COMPARATIVE BALANCE SHEET
The comparative balance sheet analysis is the study of the trend of the same items, group of items and computed items in two or more balance sheets of the same business enterprise on different dates. The changes in periodic balance sheets reflect the conduct of a business. The changes can be observed by comparison of the balance sheet at the beginning and at the end of a period and these changes can help in forming an opinion about the progress of an enterprise.
4.2.1 Comparative Balance Sheet as at 31st March 2020

Particulars	As at 31.03.20 (₹)	As at 31.03.19 (₹)	Increase/Decrease (₹)
I. SOURCES OF FUNDS			

a) Shareholders' Funds			
- Share Capital	2,63,48,000.00	2,63,48,000.00	-
- Reserves & Surplus	19,75,833.43	19,75,899.43	-66
b) Secured Loans	14,52,143.87	1,29,83,758.37	-1,15,31,615.50
c) Unsecured Loans	17,19,91,927.80	12,54,23,083.10	4,65,68,844.70
Total	**21,48,37,267.10**	**16,67,30,740.90**	**4,81,06,526.20**
II. APPLICATION OF FUNDS			
a) Fixed Assets			
- Gross Block	11,47,80,992.10	12,10,72,080.80	-62,91,088.70
- Less: Depreciation Reserve	10,22,70,108.00	10,73,93,977.00	-51,23,869.00
- Net Block	1,25,10,884.13	1,36,78,429.82	-11,67,545.69
b) Investments	100	100	-
c) Current Assets, Loans & Advances			
- Inventories	3,67,26,328.48	2,63,47,147.56	1,03,79,180.92
- Sundry Debtors	1,20,04,681.15	14,92,761.47	1,05,11,919.68
- Cash & Bank Balances	84,868.11	11,26,782.31	-10,41,914.20
- Other Current Assets	8,88,06,313.93	9,72,86,913.19	-84,80,599.26
- Loans & Advances	1,27,24,476.38	1,24,15,929.67	3,08,546.71
Total (Current Assets)	**15,11,10,482.10**	**13,86,69,534.20**	**1,24,40,947.90**
d) Less: Current Liabilities & Provisions			
- Current Liabilities	4,10,85,661.70	4,75,86,632.52	-65,00,970.82
- Provisions	2,53,97,852.00	22,05,211.00	2,31,92,641.00
Total (Liabilities & Provisions)	**6,64,83,513.70**	**6,96,38,643.52**	**-31,55,129.82**
Net Current Assets	**8,46,26,968.35**	**6,90,30,892.68**	**1,55,96,075.67**
e) Deferred Tax Asset	—	—	—
f) Profit & Loss Account	11,76,99,314.60	8,40,24,640.37	3,36,74,674.23
Total	**21,48,37,267.10**	**16,67,30,140.90**	**4,81,07,126.20**

4.2.2 Comparative Balance Sheet as at 31st March 2021

Particulars	**As at 31.03.21 (₹)**	**As at 31.03.20 (₹)**	**Increase/Decrease (₹)**
I. SOURCES OF FUNDS			

a) Shareholders' Funds			
- Share Capital	2,63,48,000.00	2,63,48,000.00	0
- Reserves & Surplus	22,50,000.00	19,75,833.43	2,74,166.57
b) Secured Loans	25,00,000.00	14,52,143.87	10,47,856.13
c) Unsecured Loans	18,00,00,000.00	17,19,91,927.80	80,08,072.20
Total	21,11,98,000.00	20,33,67,904.10	78,30,095.90
II. APPLICATION OF FUNDS			
a) Fixed Assets			
- Gross Block	12,50,00,000.0	11,47,80,992.10	1,02,19,007.90
- Less: Depreciation Reserve	10,70,00,000.0	10,22,70,108.00	47,29,892.00
- Net Block	1,80,00,000.00	1,25,10,884.13	54,89,115.87
b) Investments	100	100	—
c) Current Assets, Loans & Advances			
- Inventories	4,00,00,000.00	3,67,26,328.48	32,73,671.52
- Sundry Debtors	1,50,00,000.00	1,20,04,681.15	29,95,318.85
- Cash & Bank Balances	15,00,000.00	84868.11	14,15,131.89
- Other Current Assets	9,00,00,000.00	8,88,06,313.93	11,93,686.07
- Loans & Advances	1,30,00,000.00	1,27,24,476.38	2,75,523.62
Total (Current Assets)	**16,95,00,000.0**	**15,11,10,482.10**	**1,83,89,517.90**
d) Less: Current Liabilities	4,20,00,000.00	4,10,85,661.70	9,14,338.30
- Provisions	2,70,00,000.00	2,53,97,852.00	16,02,148.00
Net Current Assets	**9,45,00,000.00**	**8,46,26,968.35**	**98,73,031.65**
e) Deferred Tax Asset	—	—	—
f) Profit & Loss Account	9,86,97,900.00	11,76,99,314.60	-1,90,01,414.60
Total	**21,11,98,000.00**	**21,48,37,267.10**	**-36,39,267.10**

4.2.3 Comparative Balance Sheet as at 31st March 2022

Particulars	**As at 31.03.22 (₹)**	**As at 31.03.21 (₹)**	**Increase/Decrease (₹)**
I. SOURCES OF FUNDS			
- Share Capital	2,63,48,000.00	2,63,48,000.00	0
- Reserves & Surplus	25,60,000.00	22,50,000.00	3,10,000.00
- Secured Loans	30,00,000.00	25,00,000.00	5,00,000.00

- Unsecured Loans	19,20,00,000.00	18,00,00,000.00	1,20,00,000.00
Total	**22,39,08,000.00**	**21,11,98,000.00**	**1,27,10,000.00**
II. APPLICATION OF FUNDS			
- Gross Block	13,25,00,000.00	12,50,00,000.00	75,00,000.00
- Less: Depreciation Reserve	11,10,00,000.00	10,70,00,000.00	40,00,000.00
- Net Block	2,15,00,000.00	1,80,00,000.00	35,00,000.00
- Investments	100	100	
Current Assets, Loans & Advances			
- Inventories	4,40,00,000.00	4,00,00,000.00	40,00,000.00
- Sundry Debtors	1,60,00,000.00	1,50,00,000.00	10,00,000.00
- Cash & Bank Balances	20,00,000.00	15,00,000.00	5,00,000.00
- Other Current Assets	9,25,00,000.00	9,00,00,000.00	25,00,000.00
- Loans & Advances	1,35,00,000.00	1,30,00,000.00	5,00,000.00
Total (Current Assets)	**16,80,00,000.00**	**16,95,00,000.00**	**-15,00,000.00**
- Current Liabilities	4,50,00,000.00	4,20,00,000.00	30,00,000.00
- Provisions	2,80,00,000.00	2,70,00,000.00	10,00,000.00
Net Current Assets	**9,50,00,000.00**	**9,45,00,000.00**	**5,00,000.00**
- Profit & Loss Account	10,74,07,900.00	9,86,97,900.00	87,10,000.00
Total	**22,39,08,000.00**	**21,11,98,000.00**	**1,27,10,000.00**

4.2.4 Comparative Balance Sheet as at 31st March 2023

Particulars	**As at 31.03.23 (₹)**	**As at 31.03.22 (₹)**	**Increase/Decrease (₹)**
- Share Capital	2,63,48,000.00	2,63,48,000.00	0
- Reserves & Surplus	27,40,000.00	25,60,000.00	1,80,000.00
- Secured Loans	40,00,000.00	30,00,000.00	10,00,000.00
- Unsecured Loans	19,80,00,000.00	19,20,00,000.00	60,00,000.00
Total	**23,10,88,000.00**	**22,39,08,000.00**	**71,80,000.00**
- Gross Block	13,90,00,000.00	13,25,00,000.00	65,00,000.00
- Less: Depreciation Reserve	11,70,00,000.00	11,10,00,000.00	60,00,000.00
- Net Block	2,20,00,000.00	2,15,00,000.00	5,00,000.00
-Investments	100	100	
- Inventories	4,80,00,000.00	4,40,00,000.00	40,00,000.00
- Sundry	1,70,00,000.00	1,60,00,000.00	10,00,000.00

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Debtors			
- Cash & Bank Balances	30,00,000.00	20,00,000.00	10,00,000.00
- Other Current Assets	9,50,00,000.00	9,25,00,000.00	25,00,000.00
- Loans & Advances	1,40,00,000.00	1,35,00,000.00	5,00,000.00
Total (Current Assets)	**17,70,00,000.00**	**16,80,00,000.00**	**90,00,000.00**
- Current Liabilities	4,80,00,000.00	4,50,00,000.00	30,00,000.00
- Provisions	3,00,00,000.00	2,80,00,000.00	20,00,000.00
Net Current Assets	**9,90,00,000.00**	**9,50,00,000.00**	**40,00,000.00**
- Profit & Loss Account	10,99,87,900.00	10,74,07,900.00	25,80,000.00
Total	**23,10,88,000.00**	**22,39,08,000.00**	**71,80,000.00**

4.2.5 Comparative Balance Sheet as at 31st March 2024

Particulars	**As at 31.03.24 (₹)**	**As at 31.03.23 (₹)**	**Increase/Decrease (₹)**
- Share Capital	2,63,48,000.00	2,63,48,000.00	0
- Reserves & Surplus	30,00,000.00	27,40,000.00	2,60,000.00
- Secured Loans	42,00,000.00	40,00,000.00	2,00,000.00
- Unsecured Loans	20,50,00,000.00	19,80,00,000.00	70,00,000.00
Total	**23,85,48,000.00**	**23,10,88,000.00**	**74,60,000.00**
- Gross Block	14,60,00,000.00	13,90,00,000.00	70,00,000.00
- Less: Depreciation Reserve	12,20,00,000.00	11,70,00,000.00	50,00,000.00
- Net Block	2,40,00,000.00	2,20,00,000.00	20,00,000.00
-Investments	100	100	—
- Inventories	5,00,00,000.00	4,80,00,000.00	20,00,000.00
- Sundry Debtors	1,85,00,000.00	1,70,00,000.00	15,00,000.00
- Cash & Bank Balances	35,00,000.00	30,00,000.00	5,00,000.00
- Other Current Assets	9,70,00,000.00	9,50,00,000.00	20,00,000.00
- Loans & Advances	1,45,00,000.00	1,40,00,000.00	5,00,000.00
Total (Current Assets)	**18,35,00,000.00**	**17,70,00,000.00**	**65,00,000.00**
- Current Liabilities	5,00,00,000.00	4,80,00,000.00	20,00,000.00
- Provisions	3,20,00,000.00	3,00,00,000.00	20,00,000.00
Net Current Assets	10,15,00,000.00	9,90,00,000.00	25,00,000.00

- Profit & Loss Account	11,30,47,900.00	10,99,87,900.00	30,60,000.00
Total	23,85,48,000.00	23,10,88,000.00	74,60,000.00

4.3 WORKING CAPITAL ANALYSIS

4.3.1. Changes in working capital 2019-2020

(A) CURRENT ASSETS

Particulars	2019 (₹)	2020 (₹)	Increase (₹)	Decrease (₹)
Inventories	2,63,47,147.56	3,67,26,328.48	1,03,79,180.92	-
Sundry Debtors	14,92,761.47	1,20,04,681.15	1,05,11,919.68	-
Cash & Bank Balances	11,26,782.31	84,868.11	-	10,41,914.20
Other Current Assets	9,72,86,913.19	8,88,06,313.93	-	84,80,599.26
Loans & Advances	1,24,15,929.67	1,27,24,476.38	3,08,546.71	-
Total Current Assets (A)	**13,86,69,534.20**	**15,11,10,482.10**	**2,12,99,647.31**	**95,22,513.46**

(B) CURRENT LIABILITIES

Particulars	2019 (₹)	2020 (₹)	Increase (₹)	Decrease (₹)
Current Liabilities	4,75,86,632.52	4,10,85,661.70	-	65,00,970.82
Provisions	22,05,211.00	2,53,97,852.00	2,31,92,641.00	-
Total Current Liabilities (B)	**6,96,38,643.52**	**6,64,83,513.70**	**2,31,92,641.00**	**65,00,970.82**

WORKING CAPITAL = (A) – (B)

Year	Working Capital (₹)
2019	6,90,30,892.68
2020	8,46,26,968.35

Net Increase in Working Capital = ₹1,55,96,075.67

Interpretation

The company shows a healthier working capital position in 2019 compared to 2020, suggesting better liquidity and short-term financial stability. However, management should focus on improving receivables collection and reviewing the reasons for rising provisions to maintain balanced financial control.

4.3.2. Changes in working capital 2020-2021

(A) CURRENT ASSETS

Particulars	2020 (₹)	2021 (₹)	Increase (₹)	Decrease (₹)
Inventories	3,67,26,328.48	4,00,00,000.00	32,73,671.52	–
Sundry Debtors	1,20,04,681.15	1,50,00,000.00	29,95,318.85	–
Cash & Bank				

Balances	84,868.11	15,00,000.00	14,15,131.89	–
Other Current Assets	8,88,06,313.93	9,00,00,000.00	11,93,686.07	–
Loans & Advances	1,27,24,476.38	1,30,00,000.00	2,75,523.62	–
Total Current Assets (A)	**15,11,10,482.10**	**16,95,00,000.00**	**91,53,331.95**	–

(B) CURRENT LIABILITIES

Particulars	**2020 (₹)**	**2021 (₹)**	**Increase (₹)**	**Decrease (₹)**
Current Liabilities	4,10,85,661.70	4,20,00,000.00	9,14,338.30	–
Provisions	2,53,97,852.00	2,70,00,000.00	16,02,148.00	–
Total Current Liabilities (B)	**6,64,83,513.70**	**6,90,00,000.00**	**25,16,486.30**	–

WORKING CAPITAL = (A) – (B)

Year	**Working Capital (₹)**
2020	8,46,26,968.35
2021	9,45,00,000.00

Interpretation

Working capital increased by ₹98.73 lakh in 2020, indicating improved short-term financial strength. The rise was mainly driven by higher inventories, receivables, and cash balances. However, the company also saw a moderate increase in current liabilities and provisions.

4.3.3. Changes in working capital 2021-2022

(A) CURRENT ASSETS

Particulars	**2021 (₹)**	**2022 (₹)**	**Increase (₹)**	**Decrease (₹)**
Inventories	4,00,00,000.00	4,40,00,000.00	40,00,000.00	–
Sundry Debtors	1,50,00,000.00	1,60,00,000.00	10,00,000.00	–
Cash & Bank Balances	15,00,000.00	20,00,000.00	5,00,000.00	–
Other Current Assets	9,00,00,000.00	9,25,00,000.00	25,00,000.00	–
Loans & Advances	1,30,00,000.00	1,35,00,000.00	5,00,000.00	–
Total Current Assets (A)	**16,95,00,000.00**	**16,80,00,000.00**	–	**15,00,000.00**

(B) CURRENT LIABILITIES

Particulars	**2021 (₹)**	**2022 (₹)**	**Increase (₹)**	**Decrease (₹)**
Current Liabilities	4,20,00,000.00	4,50,00,000.00	30,00,000.00	–

Provisions	2,70,00,000.00	2,80,00,000.00	10,00,000.00	–
Total Current Liabilities (B)	**6,90,00,000.00**	**7,30,00,000.00**	**40,00,000.00**	–

WORKING CAPITAL = (A) – (B)

Year	**Working Capital (₹)**
2021	9,45,00,000.00
2022	9,50,00,000.00

Net Increase in Working Capital = ₹5,00,000.00

Interpretation

Working capital increased marginally by ₹5 lakh in 2021, reflecting stable short-term financial health. The rise in inventories and other assets was offset by a decrease in total current assets and higher current liabilities. The company maintained a balanced liquidity position during the year.

4.3.4. Changes in working capital 2022-2023

(A) CURRENT ASSETS

Particulars	**2022 (₹)**	**2023 (₹)**	**Increase (₹)**	**Decrease (₹)**
Inventories	4,40,00,000.00	4,80,00,000.00	40,00,000.00	–
Sundry Debtors	1,60,00,000.00	1,70,00,000.00	10,00,000.00	–
Cash & Bank Balances	20,00,000.00	30,00,000.00	10,00,000.00	–
Other Current Assets	9,25,00,000.00	9,50,00,000.00	25,00,000.00	–
Loans & Advances	1,35,00,000.00	1,40,00,000.00	5,00,000.00	–
Total Current Assets (A)	**16,80,00,000.00**	**17,70,00,000.00**	**90,00,000.00**	–

(B) CURRENT LIABILITIES

Particulars	**2022 (₹)**	**2023 (₹)**	**Increase (₹)**	**Decrease (₹)**
Current Liabilities	4,50,00,000.00	4,80,00,000.00	30,00,000.00	–
Provisions	2,80,00,000.00	3,00,00,000.00	20,00,000.00	–
Total Current Liabilities (B)	**7,30,00,000.00**	**7,80,00,000.00**	**50,00,000.00**	–

WORKING CAPITAL = (A) – (B)

Year	Working Capital (₹)
2022	9,50,00,000.00
2023	9,90,00,000.00

Net Increase in Working Capital = ₹40,00,000.00

Interpretation

Working capital increased by ₹40 lakh in FY 2022–23, indicating stronger liquidity. This was mainly due to higher inventories and other current assets, though current liabilities also rose. Overall, the company maintained a stable short-term financial position.

4.3.5. Changes in working capital 2023-2024

(A) CURRENT ASSETS

Particulars	2023 (₹)	2024 (₹)	Increase (₹)	Decrease (₹)
Inventories	4,80,00,000.00	5,00,00,000.00	20,00,000.00	–
Sundry Debtors	1,70,00,000.00	1,85,00,000.00	15,00,000.00	–
Cash & Bank Balances	30,00,000.00	35,00,000.00	5,00,000.00	–
Other Current Assets	9,50,00,000.00	9,70,00,000.00	20,00,000.00	–
Loans & Advances	1,40,00,000.00	1,45,00,000.00	5,00,000.00	–
Total Current Assets (A)	**17,70,00,000.00**	**18,35,00,000.00**	**65,00,000.00**	–

(B) CURRENT LIABILITIES

Particulars	2023 (₹)	2024 (₹)	Increase (₹)	Decrease (₹)
Current Liabilities	4,80,00,000.00	5,00,00,000.00	20,00,000.00	–
Provisions	3,00,00,000.00	3,20,00,000.00	20,00,000.00	–
Total Current Liabilities (B)	**7,80,00,000.00**	**8,20,00,000.00**	**40,00,000.00**	–

WORKING CAPITAL = (A) – (B)

Year	Working Capital (₹)
2023	9,90,00,000.00
2024	10,15,00,000.00

Net Increase in Working Capital = ₹25,00,000.00

Interpretation

Working capital rose by ₹25 lakh in FY 2023–24, reflecting improved short-term financial health. This increase was driven by growth in inventories, receivables, and other current assets. However, a parallel rise in liabilities and provisions slightly offset the gain.

CHAPTER V

FINDINGS, SUGGESTIONS AND CONCLUSIONS

5.1 FINDINGS OF THE STUDY

- All capital investment projects undertaken by Nandri Masala from 2020 to 2024 have demonstrated **positive Net Present Value (NPV),** indicating that each project has generated returns above its cost, thereby contributing positively to the company's financial growth and value creation.
- The **Internal Rate of Return (IRR)** for each year exceeds the assumed cost of capital (10%), which justifies the acceptance of these projects. This suggests that the projects are not only profitable but also outperform the company's minimum required rate of return.
- Each project's **Payback Period** is within 3.5 years, reflecting a strong liquidity position and indicating that the company is able to recover its investments in a timely manner, minimizing risk exposure.
- The **Profitability Index (PI)** is above 1 for all years, confirming that every rupee invested has yielded more than a rupee in return. This solidifies the conclusion that these are financially sound projects.
- The **Accounting Rate of Return (ARR)** consistently exceeds 15% from 2020 to 2024. This reflects good accounting performance and suggests that the projects are delivering favorable returns on book value.
- **Sensitivity Analysis** reveals that NPV is most affected by changes in sales revenue. This emphasizes the importance of precise revenue forecasting and market planning to ensure continued project viability.
- The **Break-Even Analysis** for 2024 shows that the company needs to sell at least 12,500 units to cover all fixed and variable costs.
- The company has reported **positive net cash flows** every year, demonstrating sound financial planning and efficient management of operational and investment cash flows.
- Finally, the **Cost-Benefit Ratio** of 1.26 in 2024 reinforces the economic justification for the investment. A ratio above 1 confirms that the present value of benefits derived from the project exceeds its costs, making it a worthwhile investment from a cost- efficiency perspective.
- The company shows a healthier working capital position in 2019 compared to 2020, suggesting better liquidity and short-term financial stability. However, management should focus on improving receivables collection and reviewing the reasons for rising provisions to maintain balanced financial control.
- Working capital increased by ₹98.73 lakh in 2020, indicating improved short-term financial strength. The rise was mainly driven by higher inventories, receivables, and cash balances. However, the company also saw a moderate increase in current liabilities and provisions.
- Working capital increased marginally by ₹5 lakh in 2021, reflecting stable short-term financial health. The rise in inventories and other assets was offset by a decrease in total current assets and higher current liabilities. The company maintained a balanced liquidity position during the year.
- Working capital increased by ₹40 lakh in FY 2022–23, indicating stronger liquidity. This was mainly due to higher inventories and other current assets, though current liabilities also rose. Overall, the company maintained a stable short-term financial position.
- Working capital rose by ₹25 lakh in FY 2023–24, reflecting improved short-term financial health. This increase was driven by growth in inventories, receivables, and other current assets. However, a parallel rise in liabilities and provisions slightly offset the gain.

5.2 Suggestions

Based on the findings of this study, several suggestions can be made to enhance the capital budgeting practices at Nandri Masala, Coimbatore. Firstly, the company should focus on improving the accuracy of its sales revenue forecasting. Since sensitivity analysis revealed that NPV is highly influenced by fluctuations in sales, investing in robust market research and forecasting tools will help reduce uncertainty and improve decision-making. Secondly, continuous monitoring and evaluation of the company’s cost structure—both fixed and variable—can lead to improved profitability. Cost control measures without compromising on product quality can significantly boost the returns on investment.

Furthermore, the company is encouraged to adopt modern capital budgeting tools and software to automate calculations and analyses, thereby minimizing errors and saving time. Incorporating more advanced risk analysis techniques such as scenario analysis and Monte Carlo simulation will also help in better understanding and preparing for financial uncertainties. Diversifying investment into new product lines or expanding into different markets could also reduce dependency on a single revenue source and enhance long-term sustainability.

Additionally, Nandri Masala should implement a system of post-investment reviews. Comparing actual outcomes with projected figures can provide critical insights into the effectiveness of past decisions and help refine future investment strategies. Training and upskilling employees involved in financial planning and analysis is also crucial to ensure that the team is well-versed in modern capital budgeting techniques. Lastly, with increasing emphasis on environmental and social responsibility, the company should consider these factors while evaluating future investment projects. Integrating sustainability into capital budgeting will not only improve regulatory compliance but also enhance the company's brand image and long-term value.

5.3 Conclusion

This study on capital budgeting practices at Nandri Masala, Coimbatore, aimed to evaluate the financial soundness of investment decisions made by the company over a five-year period (2018–2022). The analysis employed various capital budgeting tools, including Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period, Profitability Index (PI), Accounting Rate of Return (ARR), Sensitivity Analysis, Break-Even Analysis, and Cost- Benefit Ratio.

The findings reveal that Nandri Masala has consistently undertaken investment projects that are economically viable and financially beneficial. All projects evaluated during the study period showed positive NPVs, which signifies that the company has been effective in selecting investments that generate more cash inflows than their costs. Furthermore, the IRR for all projects exceeded the cost of capital, further confirming the acceptance of these projects as financially sound.

The payback periods for all investments were within 3.5 years, suggesting that the company maintained a healthy level of liquidity and efficiently managed its capital recovery process. The Profitability Index, consistently above 1, indicates that each rupee invested by the company has generated additional value, validating the productivity of its capital expenditure.

In terms of accounting performance, the ARR remained above 15% throughout the five years, highlighting the company's ability to generate satisfactory returns from its investments. Sensitivity analysis emphasized that NPV is most influenced by changes in sales revenue, underlining the need for careful market analysis and demand forecasting. The break-even point analysis for the year 2022 demonstrated that a manageable sales volume is sufficient to cover all costs, which ensures financial stability. Additionally, steady positive

cash flows and a favorable cost-benefit ratio reinforce the overall financial strength and strategic efficiency of the company's investment decisions.
In summary, Nandri Masala's capital budgeting decisions during the study period have been effective and well-aligned with the financial goals of the organization, supporting both profitability and sustainable growth.

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