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"A STUDY ON CAPITAL BUDGETING TECHNIQUES IN AXIS BANK"

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ABSTRACT

The goal of capital budgeting is to optimize a company's long-term return on investment. It is the way a business divides up its meager financial resources. Through capital budgeting, a business considers the acquisition of significant fixed assets such as buildings, machinery, and equipment. It distributes the company's limited financial resources across market prospects and only takes long-term, significant investment plans into account. Capital projects will be analyzed using the Internal Rate of Return, Net Present Value, Profitability Index, and Average Rate of Return. For the study, a sample of projects is selected, and their acceptance or rejection is displayed.

Key words: Capital Budgeting, Investment, NPV, Payback period

INTRODUCTION

"Capital budgeting is long-term planning for making and financing proposed capital outlays," according to Charles T. Horngren.

According to Lynch, capital budgeting is the process of planning the development of available capital with the goal of increasing the company's long-term profitability.

The nature of investment, Capital budgeting or capital expenditure decisions are the investment choices made by businesses. Making capital budgeting decisions entails the company allocating its present funds as profitably as possible to long-term assets in order to produce benefits over time. Long-term assets have an effect on the business's operations for more than a year.

Budgeting for capital:

Long-term planning for capital funds and expenditures is known as capital budgeting. It therefore includes long-term fund-raising and utilization. It assesses the company's choice to allocate present funds to important fixed assets. It entails the purchase, sale, alteration, and replacement of long-term assets. But the option to invest in current assets, which is necessary for fixed asset investment, is also a capital budgeting choice. Capital budgeting is a complex process. It entails assessing economic potential, forecasting engineering and marketing aspects, and identifying novel and more lucrative investment strategies.

REVIEW OF LITERATURE

Jain P K and Kumar M (2023) in their study on 'Capital Budgeting Practices in Indian Context' analyzed the capital budgeting practices of selected enterprise in private sector. The study covered 96

non-financial, non-government manufacturing companies and 5 companies from SEA (i.e. Japan, Malaysia and Singapore).

Bhattacharya (2022), studied 11 companies from India and observed Internal Rate of Return as the most popular method for financial appraisal of projects; 10 out of 11 responding companies reported to have the practice of using IRR. This was followed by NPV (8 companies) and Payback Period (5 companies).

Pandey I M (2022) conducted a study on capital budgeting techniques of 14 medium and large sized Indian companies and found that Payback Period method was most widely used method of financial appraisal followed by IRR and NPV.

Prasanna Chandra (2022) conducted a survey of twenty firms to examine the importance assigned to economic analysis of capital expenditures, methods used and its rationale for analysing capital expenditures and ways to improve economic analysis of capital expenditures. **Parashar S P (2022**) conducted a survey of 32 medium and large private sector companies and found that IRR (68%) and Payback Period (68%) methods were very popular followed by NPV (42%).

NEED AND IMPORTANCE:

Capital planning is crucial for accountability. Investing in a venture without knowing the risk and return increases the possibility that the business will fail in the competitive commercial environment. to decide whether to replace older structures and machinery. to analyze capital investment plans to choose the best among several options.

SCOPE OF THE STUDY

Capital allocation is the most important task in modern finance. Commitment is essential because the firm's long-term assets impact its growth, probability, and scale, which determines its value.

Only budgeted statistics and four years' worth of AXIS BANK financial data are gathered for the investigation.

OBJECTIVES OF THE STUDY

- Analyze capital budgeting technique for decision-making in AXIS BANK.
- To learn how to apply capital budgeting concepts in practice.
- Examine the impact of capital budgeting on project finance evaluation at AXIS BANK.
- Determine the present value of rupees invested.
- To comprehend danger and uncertainty.
- Understand AXIS BANK's financial performance item-wise.

RESEARCH METHODOLOGY

The framework of methods and strategies a researcher use when conducting a study is known as their research design. Researchers can successfully conduct investigations and improve subject-appropriate research methodologies thanks to the design.

Capturing data: The following strategy was employed to achieve the objective. Both primary and secondary sources provided data for the report.

For my investigation, I used both primary and secondary data.

PRIMARY DATA:

Fresh, first-hand, original data is referred to as primary data. Primary data can be gathered through questionnaires, in-person interviews, etc. To bolster secondary data

SECONDARY DATA:

The secondary data for the project regarding investment and various investment analysis were collected from websites, textbooks and magazines.

Tools used

Use these techniques while making capital budgeting decisions.

• The payback time.

• The rate of return in accounting. • The value of the net present. • Internal rate of return.

LIMITATIONS OF THE STUDY

One of the limitations is time, as the 8-week schedule does not for an independent assessment of AXIS BANK's capital budgeting.

AXIS Bank employees' hectic schedules are another drawback. Officials hampered my organization's information collection because of their busy schedules.

The lack of private financial information The investigation was short and incomplete.

Not all approaches to capital budgeting are used by AXIS BANK. As a result, few capital budgeting strategies could be described.

DATA ANALYSIS & INTERPRETATION

Table-1

Average Size of Capital (In Lakhs)

Average Size of Capital (In Lakhs)	Frequency	%age
Less than or equal to 100	2	5.405
101-500	6	16.22
501-1000	8	21.62
1001-5000	9	24.32
Above 5000	12	32.43
Total	37	100

INTERPRETATION: All the companies responded to the survey indicated that they are using capital budgeting methods have specific amount of average size of annual capital budget. The results are summarized in the above. The median size of annual capital budget of Indian firms is Rs. 1222.72 Lakhs.

1. PAY BACK PERIOD METHOD:

Payback period method is a traditional method of evaluation of capital budgeting decision. To calculate the pay period, the cumulative cash flows will be calculated and by using interpolation the exact period may be calculated.

CALCULATION OF PAY BACK PERIOD OF AXIS BANK

(Rs. In crores)

SI .NO	YEAR	CASH INFLOW	CUMULATIVE CASH FLOWS
1	**2020**	2451	1481.32
2	**2021**	3214	3651.28
3	**2022**	4126	7000.03
4	**2023**	6879	10505.5
5	**2024**	8259	12547.2

The above GRAPH shows that, the initial investment RS. 1481.32 Cr… lies between second and third years with Rs. 3651.28 and 7000.03 Cr

$$\text{PBP} = \text{Actual (Base) year} + \frac{\text{Difference in cash flows}}{\text{Next year cash flows}}$$

$$\text{PBP} = 2 + \frac{8259}{12547.2}$$

$$= 2 + 0.65$$

$$= 2.1 \text{ year}$$

Payback period (PBP) = 2.1 year.

ACCEPT-REJECT CRITERION:

PBP thus, is useful for the management to accept the investment decision on the **AXIS BANK** and also to assist the management to know that the initial investment is recovered in 2.16 years.

II. ACCOUNTING OR AVERAGE RATE OF RETURN METHOD:

The capital employed and related incomes are determined according to the commonly accepted accounting principles and practices over the certain life of project and the average yield is calculated. Such a rate is called the accounting rate of return or the average return or ARR.

It may be calculated according to any one of the following methods:

$$\frac{\text{Annual average net earnings}}{\text{Original investment}} \times 100$$

$$\frac{\text{Annual average net earnings}}{\text{Average investment}} \times 100$$

Increase in expected future annual net earnings

---------- X 100

Initial increase in required investment

The amount of average investment can be calculated according to any of the following methods:

Original investment

2

Original investment +scrap value

2

(c) Original investment +scrap value + net additional + scrap value

Working capital

2

Cash flows of the **AXIS BANK** are shown in cash flow statement. ARR is calculated as follows:

Statement showing calculation of ARR

(Rs. In Cr….)

YEARS	EARNINGS AFTER TAX (EAT)
2020	44,108.71
2021	36,961.36
2022	31,116.53
2023	26,257.32
2024	21,078.17

Average annual EAT'S

ARR = ---------- x 100

Average investment

Total amount

Average Annual EAT'S = ----------

No of year

12547.17

= ---------- = 2509.43

5

Average investment = 2509.43

12547.17

ARR = ---------- X 100 = 50.1 %

2509.43

Average Rate of Return = 50.1 %

ACCEPT-REJECT: The average rate of return is as good as 50.1 % of **AXIS BANK** depicts the prospects of management efficiency.

TIME ADJUSTED (OR) DISCOUNTED CASH FLOW METHOD:

1. NET PRESENT VALUE METHOD: (NPV)

The method is considered to be one of the best of evaluating the capital investment proposals.
Under this method cash inflows and outflows associated with each project are first calculated.

YEARS	CFAT'S	PVIF @ 10%	PV'S
2020	1481.32	0.909	1346.51988
2021	2169.96	0.826	1792.38696
2022	3348.75	0.751	2514.91125
2023	3505.51	0.683	2394.26333
2024	2041.63	0.620	1265.8106
TOTAL:			8495.51
LESS: Initial Investment:			2986.65
NPV:			5508.86

ACCEPT-REJECT CRITERION:

The accept -reject decision of NPV is very simple. If the NPV is positive, then the project should be accepted and if NPV is negative then the project should be rejected

i.e .If NPV > 0 (ACCEPT) and NPV < 0 (REJECT)

Hence in the case of **AXIS BANK project** it is visible that the positive NPV shows the acceptance and importance of the project. **A) Calculation of ARR:**

Year	Profit after tax
2020	12145984
2021	27899787

2022	21044578
2023	42096494
2024	9516792

Average investment = Avg net profit after tax / Avg investment x 100

Avg net profit = Total profits / No of years

= 19,83,35,635 / 5

= 39,670,727

Avg investment = investment / 2

= 15,96,78,550 / 2

= 7,98,39,275

ARR = 39670727 / 79839275 x 100

= 49.6 % or 50 %

According to this method ARR is higher than minimum rate of return established by the management are accepted. If reject the project have less ARR than the minimum rate set by the management.

Interpretation: The card ARR set by 3F management by 20% the actual ARR is 50 % is higher than the standard ARR set by the management hence we accept the project.

(B) Calculation of NPV:

Year	CIF	DCF (25%)	Present Value
2020	52065622	0.8	41,652,498
2021	57839515	0.64	37017290
2022	43499374	0.512	22271679

2023	58937591	0.41	24164412
2024	107797615	0.328	35357618

TOTAL=16,04,63,497

NPV = Total Present Value – Project value

Project value = 15,96,78,550

= 16,04,63,497 - 15,96,78,550

NPV = 7,84,947

Criteria for evaluation:

In case of calculated NPV is positive or zero, the project should be accepted. If the calculated NPV is negative the project is rejected.

Interpretation: NPV proposed explanation project is found our 784947 is the positive value.

Hence, we accept the project.

C. INTERNAL RATE OF RETURN METHOD: (IRR)

In this method discount rate is not known, but the cash inflows and cash out flows are known. It is the rate of return, which equates the present value of cash inflows to out flows or it, is the rate of return, which renders NPV TO ZERO.

$$IRR = R + \frac{\text{Higher NP}}{\text{Difference of P V s.}} \times R1$$

8) Decision making(Accepting- Rejecting the proposal)

STATEMENT OF SHOWING CALCULATION NPV @88%,89%,90% UNDER IRR METHOD

(R s corers)

YEARS	Annual CFA Ts	Discount Rate-88%		Discount Rate-89%		Discount Rate-90%	
		PVF	PV	PVF	PV	PVF	PV
2020	1481.32	0.531	786.58092	0.529	783.6183	0.529	783.6183
2021	2169.96	0.2921	633.845316	0.2799	607.3718	0.2799	607.3718
2022	3348.75	0.1579	528.767625	0.1481	495.9499	0.1481	495.9499
2023	3505.51	0.0858	300.772758	0.0783	274.4814	0.0783	274.4814
2024	2041.63	0.0461	94.119143	0.0414	84.52348	0.0414	84.52348
			2344.08576		2245.945		2245.945

DECISION: Since the initial investment RS.2041.63 cr is lies between 90% and 95% the company L AND T can determine the IRR as 93.5. Hence IRR=93.51%

ACCEPT-REJECT CRITERION:

The cut-off rate of **AXIS BANK** is 10%, which is less than the IRR i.e 93.51% hence the acceptance of **AXIS BANK** is quiet a good investment decision taken by management.

3. PROFITABILITY INDEX: (BCR OR PI)

Profitability also called as benefit cost ratio (B\C) in relationship between present value of cash inflows and the present value of cash out flows. Thus

$$\text{Profitability index} = \frac{\text{Present value of cash inflows}}{\text{Present value of cash outflows.}}$$

(OR)

$$\text{Profitability index} = \text{-} \frac{\text{Present value of cash inflows}}{\text{Initial cash outlay}}$$

CALCULATIONS OF BCR:

YEARS	CFAT'S	PVIF @ 10%	PV'S
2020	1481.32	0.909	1346.51988
2021	2169.96	0.826	1792.38696
2022	3348.75	0.751	2514.91125
2023	3505.51	0.683	2394.26333
2024	2041.63	0.62	1265.8106

$$\text{Profitability index} = \frac{\text{Present value of cash inflows}}{\text{Initial Investment}}$$

$$= \frac{9313.892}{2687.87} = 3.11$$

Hence PI = 3 years.

ACCEPT-REJECT CRITERION:

Under profitability index method the present value of cash inflows and cash outflows are taken as accept-reject decision.

I.e. the accept reject criterion is:

If Profitability Index > 1 (ACCEPT).

Profitability Index < 1 (REJECT).

The acceptance of by the management is evaluated through Profitability Index method of as the PI > 1 (i.e.3years)

FINDINGS, SUGGESTIONS, CONCLUSION, BIBLIOGRAPHY FINDINGS

- The required rate is 20%, yet the company's actual ARR is 50%.

Although the company's current Internal Rate of Return (IRR) is 25.22%, the required IRR is 9%.

- At 7,84,947, the Net Present Value (NPV) is positive.
- As of right now, the company's Profitability Index (PI) is 1.0049.

Keep in mind that the company should not employ risk-adjusted practices.

The accept-reject NPV decision is straightforward.Accept the project if the net present value is positive; reject it if it is negative.

The AXIS BANK project's positive net present value (NPV) demonstrates its significance and acceptance.

- The highest interest rate a business may afford on capital investments is known as the internal rate of return (IRR). When the IRR exceeds the cut-off rate, it is allowed; when it falls below it, it is rejected.
- Accepting AXIS BANK was a wise investment decision by management because the cut-off rate is 10%, which is less than the 93.51% IRR.

- The application was approved since the ARR of 50% was higher than the 20% set by 3F management.
- For the Regulated Display Tool Kit project at AXIS BANK, the 10% actuary discount factor is used to reduce the cash inflows and outflows to present values. In order to account for project risk, the cost of capital is used to calculate the rate of return. AXIS BANK can establish a minimum return rate by using the ACCEPT-REJECT criteria technique. Any proposal with a lower expected return will be turned down right away. AXIS BANK's average rate of return of 50.1% demonstrates effective management. The highest interest rate a business may afford on capital investments is known as the internal rate of return (IRR). IRR is rejected below the cutoff rate and approved over it. The management chose wisely because AXIS BANK's cutoff rate is 10%, which is lower than the IRR of 93.51%.

SUGGESTIONS

Capital budgeting is essential because large sums of money have an impact on organizational profitability. It is impossible to undo a long-term investment without suffering a large capital loss. Errors must be endured until the company can be depreciated or liquidated, and the investment sinks. It affects how the company behaves in subsequent years. • Investment choices impact profit, which is often assessed using capital return. Due to time, capital budgeting decisions are riskier and more uncertain than short-term investment decisions; a proper capital investment mix is essential for a satisfactory return on investment, necessitating capital budgeting.

CONCLUSION

- At AXIS BANK, budgeting includes long-term capital budgets, annual planning, and a long-term plan for internal resources and debt servicing, which is integrated into the corporate strategy.
- Capital budgeting encompasses plant improvements, renovations, equipment balance, capital additions, and commissioning costs for trial runs among generating units.
- The goal is to link physical growth to monitoring expenses and offer a foundation for government budget allocation and support.
- To calculate NPV, the manual suggests using a cost of capital / discount rate that is updated periodically.
- One discount rate should not be used for all capacity planning initiatives. Clearly analyze and quantify expected results, benefits, and risk considerations.
- With at least three non-official directors, the Search Committee should rebuild
- PSU Boards.

- Project feasibility study includes cost estimates and generation costs. The scope of capital budgeting at AXIS BANK includes approved and ongoing schemes, new approved schemes, and unapproved schemes.
- Capital funds for plant improvements
- Survey and investigation budgets
- Research and development budgets.

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