A Study of Capital Budget Analysis and its Impact on Sustanibility w.r.t. Maruti Suzuki

Sonali Barve and Prof. Ishwari Ukunde
Jhulelal Institute of Technology, Nagpur, India

Abstract: *Capital structure is one of the most complex areas of financial decision making due to inter relationship with other financial decision variables. In finance, the capital structure is the most debatable topic and continues to keep researchers pondering. A good capital structure helps to gain attractive profit, and the absence of a proper capital structure affect the debt position as well as the leverage which leads to great financial risk. The decision becomes even more difficult, in times when the economic environment in which the company operates presents a high degree of instability. Therefore, the choice among the ideal proportion of debt and equity can affect the value of the company, as much as the return rates can. This study analyses how far the capital structure affects the Profitability of corporate firms in India.*

Keywords: Capital structure.

I. INTRODUCTION

Maruti Suzuki is India's number one leading automobile manufacturer and the market leader in the car segment both in terms of volume of vehicle and revenue earned. Until recently 18.28% of the company was owned by the Indian government and 54.2% by the Suzuki of Japan The Indian Govt. held an initial public offering of 25% of the company in June 2003. As of 10 May 2007 government of India sold its complete share to Indian financial Institution. With this govt. Of India has no longer stake in Maruti UdyogMaruti Udyog Limited (MUL) was established in February 1981, though the actual production was started in 1983 with the Maruti 800 based on the Suzuki Alto Kei Car which at that time was the only modern car available in India. Its only competitor was Hindustan Motor's Ambassador and the Premier Padmini were both around 25 years out of date at that point. Through 2004. Maruti Suzuki had produced over 5 Million vehicles, Maruti Suzuki are sold in India and various several other countries depending upon export orders. Models similar to Maruti Suzuki (but not manufactured by Marutiudyog) are sold by Suzuki Motors corporation and manufactured in Pakistan and other south Asian countries The company anually exports more than 50,000 cars and has an extremely large domestic market in India selling over 7,30,000 cars anually. Maruti 800 till 2004 was the India's largest selling compact car ever since it was launched in 1983. More than a Million unit of this car have been sold worldwide so far. Currently Maruti Suzuki Alto tops the sales chart and Maruti Suzuki Swift is the largest selling car in A2 segment. Due to large number of Maruti 800's sold in the Indian market the term "Maruti" is commonly used to refer to this compact car model. Till recently the term " Maruti" in popular Indian culture in India, Hindu's lord Hanuman is known as "Maruti" was associated with Maruti 800 model.

II. LITERATURE REVIEW

- Jog and Srivastava (1991) surveyed the large Canadian corporations and provide direct empirical evidence on the capital budget process.
- They found many critical issues viz., cash flow forecasting methods, methods used to estimate the cost of capital and the cost of equity and the use of capital budgeting techniques risk analysis techniques. He concluded that most of the firms used multiple capital budgeting methods to evaluate capital investments however DCF methods were employed by more than 80% of our respondents to evaluate projects such as foreign operations and leasing, expansion-new operations .and expansion-existing operations.
- Block Stanley (2000) has surveyed the capital budgeting policies and procedures of 150 multinational companies in light of current financial theory. He had examined that some of the policies that MNCs used for the capital budgeting decisions are the logical extensions of domestic practices into the international area,

while others appear to be misguided changes to normal capital budgeting procedures. According to his study, there are a number of misapplications such as applying corporate wide weighted average cost of capital to foreign affiliate cash flows rather thanto cash flows actually remitted to the corporations. Also, risk is frequently measured on a local project basis (in a foreign country) rather than considering the multiple effect on the total corporations. Of the 150 survey respondents in this study, 69.7% believe that international investments increase the risk exposure of the firm and establish policies on that premise. Finally, he has shown that the survey respondents hedge against the uncertainty of the procedures by adding an importance to the weighted average cost of capital as computed by financial analysts given the inconsistent procedures that are often utilized in going from domestic to international capital budgeting.

III. RESEARCH METHODOLOGY

RESEARCH DESIGN:
METHODOLOGY:
Methodology is an intensive and purposeful search for knowledge and for the understanding of social and physical phenomenon. It is the method for the discovery of true values in a scientific way. There are two sources of data,
1. Primary Sources and
2. Secondary Sources

Primary Data
The data which is collected at first hand for the purpose of the study is known as primary data, Primary data which is collected through interaction with the assistant financial manager of 3F company.

Primary sources
It is also called as first handed information; the data is collected through the observation in the organization and interview with officials. By asking question with the accounts and other persons in the financial department. Apart from these some information is collected through the seminars, which were held by 3F Company

Secondary Data
The data which is corrected by some one previously is called by secondary Data. It is already available in the form of internal records of the company and other publications.

Secondary sources
The secondary data have been collected through the various books, magazines, brouchers & websites

Objective
1. To examine the consistency and growth rate of selected financial parameters of the particular maruti Suzuki company
2. To study the growth and development of Maruthi Suzuki India limited Company.
3. To analyze profitability and liquidity status of the Maruthi Suzuki Company Limited.

HYPOTHESIS
H0: Correlation between fixed investments and the selected financial factors (i.e. total revenue, net profits, market capitalization price etc.) is not significant.
H1: There is no risk and uncertainty in the future estimates in investment projects.

IV. FINDINGS OF THE STUDY

It is observed that the payback period has given time for their company is 6 years and but the present payback period is 3.11 years for the company.
- It is observed that the required rate of ARR (Accounting Rate Of Return) is 20% and the present ARR of the company is 50%.

- It is observed that the required rate of IRR (Internal Rate Of Return) is 9% And the present IRR of the company is 25.22%.
- It is observed that the NPV (Net Present Value) is 7,84,947 it is positive value.
- It is observed that the PI(Profitability Index) is 1 and the present PI of the company is 1.0049.
- It is observed that the company should not use the risk adjusted techniques.

V. CONCLUSION

The planning process which is used to determine whether the long term investments of an organization such as replacement machinery, products that are new, new plants and research development projects are worth seeking is the Investment appraisal or capital budgeting.

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