

A Study on Capital Budgeting Techniques And Its Impact on Profitability of Hidesign India Private Limited

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Abstract- *The study examines in how capital budgeting helps businesses make smart investment decisions in today's competitive world. It plays a vital role in selecting profitable long-term projects and improving financial growth. It ensures that investment decisions are based on data-driven predictions rather than assumptions. This makes the decision-making process more reliable and aligned with organizational goals. However, many firms struggle to apply techniques like NPV and Payback Period effectively due to changing market conditions. The research design is descriptive approach with ratio and regression analysis to study how these methods affect profitability. This approach helps identify financial patterns that may not be visible through basic evaluation methods. It also assists in understanding how internal and external business factors influence investment outcomes. Such insights guide firms in improving their financial planning and strategic budgeting decisions. Findings show that capital budgeting improves operational performance and profitability, though rising costs highlight the need for better cost control. The study also finds a strong positive link between trade receivables and profitability, proving that efficient receivable management boosts performance. Overall, using capital budgeting strategically helps companies increase profits, manage resources better, and achieve sustainable growth.*

Keywords- Capital Budgeting, Growth, Investment and Profitability.

I. INTRODUCTION

In today's rapidly evolving business landscape organizations constantly face the challenge of making sound investment decisions that ensure long-term growth and sustainability. Capital budgeting serves as a vital financial management tool that helps firms evaluate and select the most profitable investment opportunities among several alternatives. It involves systematic planning and analysis of potential expenditures on assets or projects expected to yield benefits over multiple years. In a competitive environment, the

accuracy and reliability of these decisions become even more critical, as poor investment choices can hinder financial stability and slow down organizational progress. This makes capital budgeting an essential mechanism for minimizing uncertainty and enhancing financial discipline.

II. OBJECTIVE OF THE STUDY

- To Study the effectiveness of different capital budgeting tools.
- To Evaluate the Profitability Position.
- To Analyze the relationship between capital budgeting practices and Profitability.

III. REVIEW OF LITERATURE

Md. Anhar Sharif Mollah and Md. Abdur Rouf (2015):

The basic objective of financial Management is the maximization of the shareholders' wealth by focusing on three decisions Which are capital budgeting decisions, capital structure decision and dividend decision. Most Of the scholar and practitioner opine that although three decisions are important, firm success And survival ultimately depend on a right investment decision because a good investment Decision remains good business even though bad finance taken; on the contrary, a bad Investment decision will be a wrong decision even with best finance policy (Brealey et al.,2015).

(Batra & Verma, 2014):

Capital budgeting is one of the most important decisions faced by the Financial Management of any organization (Batra & Verma, 2014). It is a planning mechanism Used by an organization to make evaluation decisions on how to allocate resources among Investment projects (Al-Mutairi et al., 2018) and assessing the investment projects that will Create benefits for periods of over one year

and that will assist the company to obtain revenues Or reduce future costs (Khamees et al., 2010).

Egbide et al., 2013):

Firstly, the capital investment decision significantly influences the Growth rate of an organization; making a wrong decision may ruin the company. Secondly, Such decisions require large amounts of funds. Finally, they are amongst the most complex Decisions in terms of uncertainties in relation to future cash flow estimations, as well as in Relation to the social, Technological, economic and political impacts on the estimations, which Increases their complexity.

(Leon et al., 2008):

Capital budgeting is a tool that can be used for very simple operational Decisions such as equipment replacement or more complex strategies such as the construction Of a new plant (Leon et al., 2008). In any case, when considering the importance of capital Investment decisions, it is imperative that managers use the appropriate practice to ensure a Sound decision (Toit & Pienaar,2005).

Peterson and Fabozzi (2002):

The capital budgeting process consists of Investment screening And selection, Capital budget proposal, Budgeting approval and authorization. Capital Budgeting is vital, because if it is not properly planned, these investments could have disastrous Financial and cash-flow implications (Du tout & Pienaar, 2005; Johnson, 1999).

IV. RESEARCH METHODOLOGY

Research design: This research uses the descriptive research design.

Data Collection:

Secondary Data: The research detailed about on Secondary Data, collected from the balance sheet and profit and loss account of Hidesign for the five-year period of 2020-2025.

Statistical Tools:

The collected data was analysed using the following financial tools such as follows they are,

- Capital Budgeting Techniques
- Profitability Ratio
- Regression

V. DATA ANALYSIS AND INTERPRETATION

1. Capital Budgeting Techniques

Net Present Value:

- To used to evaluate the profitability of an investment by comparing the present value of expected future cash flows with the initial investment.
- The following table: Net Present Value of Key Indicators of the year of (2020-2025)

$$\text{PRESENT VALUE OF CASH INFLOW} = \text{AMOUNT 1} \times \frac{1}{(1+R)^n}$$

YEAR	SAVINGS	PRESENT VALUE FACTOR (10%)	PRESENT VALUE
2020-2021	30000	0.909	27,270
2021-2022	32000	0.826	26,432
2022-2023	34000	0.751	25,534
2023-2024	36000	0.683	24,588
2024-2025	38000	0.621	23,598
	TOTAL PV		1,27,422
	INITIAL INVESTMENT		1,00,000

INTERPRETATION:

The data shows a Net Present Value (NPV) analysis of cost savings from adopting capital budgeting over five years, using a 10% discount rate. The total present value of savings is ₹1,27,422, while the initial investment is ₹1,00,000. Since the NPV is positive (₹27,422), it means the capital budgeting techniques is financially beneficial. The cost savings exceed the investment, showing that the project improves cost efficiency and is a good decision for the business. Therefore, the project is financially viable and reflects a sound investment decision that enhances the firm's profitability and efficiency.

2. Profitability Ratio

Profitability ratios are critical financial metrics used to evaluate a company's ability to generate income relative to its revenue, assets, equity, or invested capital.

- Net Profit Margin
- Gross Profit Margin
- Return On Total Assets (ROA)
- Return On Equity (ROE)

GROSS PROFIT RATIO:

Year	Net Sales	Gross Profit	Gross Profit Ratio
2020-2021	85912	72379	84.25%
2021-2022	103940	81982	78.87%
2022-2023	124014	96739	78.01%
2023-2024	128933	100484	77.94%
2024-2025	136592	104462	76.48%

INTERPRETATION:

It shows a steady increase in net sales and gross profit from 2020 to 2025, indicating overall growth in business performance. However, the gross profit ratio has declined from 84.25 % to 76.48%, suggesting that costs are rising faster than sales. This indicates reduced profit margins due to higher production or operating expenses. The company should focus on cost control and efficiency improvement to maintain profitability.

NET PROFIT RATIO:

Year	Net Sales	Net Profit	Net Profit Ratio
2020-2021	85912	18048	21.01%
2021-2022	103940	21235	20.43%
2022-2023	124014	23268	18.76%
2023-2024	128933	27234	21.12%
2024-2025	136592	25568	18.72%

INTERPRETATION:

The net sales have steadily increased from in 2020 to ₹1,36,592 in 2025, showing strong revenue growth. However, the net profit ratio fluctuated slightly, falling from 21.01% in 2020 to 18.72% in 2025, suggesting that the growth in expenses has outpaced sales growth. This decline implies narrowing profit margins, possibly due to higher operational

or administrative costs. Despite this, the overall increase in profit figures reflects a stable financial position. The company should aim to control indirect expenses and enhance efficiency to maintain or improve its net profit ratio in the coming years.

3. REGRESSION

Regression is defined as a statistical method that helps us to analysis and understand the relationship between two or more variables of interest. There gression analysis equation is the same as the equation for a line which is

$$Y=MX+b$$

VI. FINDINGS

- The total present value of savings (1,27,422) exceeds the initial investment (1,00,000), resulting in a positive NPV of 27,422. This indicates that the project is financially viable and enhances cost efficiency.
- The cumulative savings reach ₹1,10,000 within five years, showing that the investment can be recovered within this period. This reflects that the project has a reasonable payback duration and improves financial stability over time.
- Annual savings rise steadily from ₹22,000 to ₹30,000, reflecting increasing profitability over time due to improved operational efficiency and cost reduction achieved through digital payments.
- Although both sales and gross profit increased from 2020 to 2025, the gross profit ratio decreased from 84.25% to 76.48%. This shows that costs are rising faster than sales, reducing profit margins.
- Net sales and net profit increased each year, but the net profit ratio fell slightly from 21.01% to 18.72%, suggesting growing expenses despite revenue growth.
- ROA improved from 19.21% in 2020-2021 to 23.69% in 2023-2024, indicating efficient use of assets to generate profits. The slight fall to 20.46% in 2024-2025 implies a minor decline in asset efficiency.
- ROE increased significantly from 25.23% in 2020-2021 to 34.34% in 2022-2023, showing effective utilization of shareholders' funds. However, a small drop to 29.28% in 2024-2025 suggests reduced profitability efficiency.
- The regression model ($R = 0.942$, $R^2 = 0.887$) reveals a strong and significant relationship between trade receivables and profitability. The t-value (4.91) confirms that receivables have a positive and meaningful impact on profit levels, leading to the rejection of the null hypothesis.

VII. SUGGESTIONS

- **Strengthen cost control:** The company should focus on reducing production and operating costs to improve gross profit margins and overall profitability.
- **Optimize Receivables Management:** Since receivables significantly impact profitability, effective credit policies and faster collection processes should be implemented to maintain healthy cash flow.
- **Enhance Asset Utilization:** The company can improve asset turnover by investing in productive assets and ensuring existing assets are used efficiently to generate higher returns.
- **Review Pricing Strategies:** To counter rising costs and declining gross profit ratios, the firm should regularly review pricing structures to ensure they align with market trends and cost fluctuations.
- **Monitor Equity Performance:** Even though ROE is strong, maintaining consistent returns to shareholders requires balancing reinvestment and dividend payout policies strategically.
- **Focus on Long-term Investments:** Since the NPV and ARR are favorable, the company should continue investing in projects with similar financial profiles to sustain profitability growth.
- **Operational Efficiency Improvement:** Adopting technology-driven processes can reduce manual work, streamline operations, and minimize errors, leading to further cost savings and better financial results.

VIII. CONCLUSION

The study of Hi design India Private Limited reveals that capital budgeting techniques have been effectively applied to support informed long term investment decisions, aligning projects with the company's strategic goals. The overall analysis reveals that the implementation has a positive and significant impact on the company's profitability. The positive NPV, reasonable payback period, and growing returns demonstrate that the project is financially beneficial and sustainable. These results indicate that the company is selecting projects that not only recover their initial investment but also generate surplus value over time.

Although there is a slight decline in profit ratios due to increased costs, the company's overall performance remains strong, with consistent revenue and profit growth. Regression results further confirm that trade receivables play a crucial role in profitability, emphasizing the importance of efficient working capital management. This highlights the need for continuous monitoring of credit terms and tighter control over outstanding dues to strengthen cash flow. This suggests that

timely collection of receivables and proper credit policies directly support liquidity and earnings. Therefore, continued focus on cost control, receivables management, and asset efficiency will help the company maintain profitability and achieve long-term financial stability.

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