A Study On Capital Budgeting And Investment Decision Making In Lenovo

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Abstract- *This study examines the capital budgeting and investment decision-making practices at Lenovo's Puducherry manufacturing plant. The analysis focuses on evaluating three proposed investment projects using financial tools such as Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period, Accounting Rate of Return (ARR), and Profitability Index (PI). The findings reveal that all three projects are financially viable, with Project A demonstrating the highest profitability and strategic suitability based on its superior NPV, IRR, ARR, PI, and shortest payback period. The study concludes that effective capital budgeting is essential for Lenovo to optimize resources, support technological advancements, and ensure sustainable long-term growth.*

Keywords- Capital Budgeting, Lenovo, NPV, IRR, Payback Period, Investment Decisions.

I. INTRODUCTION

Capital budgeting is a key financial tool that helps organizations evaluate and select long-term investment projects based on expected returns, risks, and strategic relevance. For Lenovo's Puducherry manufacturing plant, effective capital budgeting is essential due to rapid technological changes, intense competition, and the continuous need for operational upgrades. As the plant invests in capacity expansion and technology enhancement, selecting financially viable projects becomes crucial for sustaining growth and improving efficiency. This study evaluates three proposed investment projects using techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period, Accounting Rate of Return (ARR), and Profitability Index (PI) to identify the most profitable and strategically suitable option for Lenovo.

II. OBJECTIVES OF THE STUDY

- To understand the capital budgeting process followed by Lenovo.
- To identify capital budgeting evaluation tools used at the Puducherry plant.
- To analyze financial viability of the proposed investment projects.
- To assess the strategic impact of Lenovo's investment decisions.

III. REVIEWOFLITERATURE

Shin and Soenen (1998): Highlighted the importance of effective investment decisions in improving a company's long-term financial performance and established that systematic evaluation methods enhance profitability and operational stability.

Brealey, Myers & Allen (2018): Explained that capital budgeting tools like NPV, IRR, and Payback Period are essential in determining the financial desirability of long-term projects, emphasizing that NPV is the most reliable criterion for value maximization.

Ross, Westerfeld & Jaffe (2019): Stated that investment decisions must incorporate both risk assessment and financial forecasting to ensure accurate evaluation of future cash flows and project viability.

Damodaran (2020): Emphasized that discounted cash flow (DCF)based techniques provide the most accurate assessment of investment performance, especially for large-scale manufacturing and technology-related projects.

Ramesh & Kulkarni (2023): Concluded that firms using structured capital budgeting tools experience better resource allocation and improved project success rates compared to firms with informal evaluation practices.

IV. RESEARCH METHODOLOGY

Research Design: The study adopts a Descriptive and Analytical Research Design to evaluate the financial feasibility of investment projects at Lenovo's Puducherry plant. This design facilitates systematic assessment of project cash flows and comparison of financial indicators to determine the most viable investment option.

Data Collection: The study relies entirely on Secondary Data, collected from Lenovo's financial reports, published

documents, journals, textbooks, and relevant online resources related to capital budgeting and investment analysis.

Scope of the Study:

- **Company:** The study is restricted to Lenovo's Puducherry Manufacturing Plant.
- **Nature of Study:** Focuses on financial evaluation using standard capital budgeting techniques.

Tools for Analysis:

The following financial tools were used to analyze the investment proposals:

- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- Payback Period
- Accounting Rate of Return (ARR)
- Profitability Index (PI)

V. DATA ANALYSIS AND INTERPRETATION

1. Payback Period Analysis:

Project	Initial Investment (₹)	Annual Cash Inflows (₹)	Payback Period (Years)
Project A	1,00,00,000	32,50,000	**3.08**
Project B	1,20,00,000	30,00,000	**4.00**
Project C	90,00,000	25,00,000	**3.60**

Interpretation:

Project A has the shortest payback period (3.08 years), indicating the fastest recovery of investment. Therefore, based on liquidity and risk minimization, Project A is the most favourable project.

2. Net Present Value (NPV) Analysis:

Project	Initial Investment (₹)	Present Value of Cash Inflows (₹)	NPV (₹ Lakhs)
Project A	1,00,00,000	1,30,81,000	**30.81**
Project B	1,20,00,000	1,38,00,000	**18.00**
Project C	90,00,000	1,05,00,000	**15.00**

Interpretation:

All three projects show positive NPV values, meaning they are financially feasible. However, Project A has the highest NPV (₹30.81 lakhs), indicating that it will generate the maximum wealth for Lenovo. Therefore, Project A is the most profitable investment option based on NPV.

3. Internal Rate of Return (IRR):

Project	**nitial Investment (₹)**	**RR (%)**
Project A	,00,00,000	**0.81%**
Project B	,20,00,000	**7.50%**
Project C	0,00,000	**6.20%**

Interpretation:

The Internal Rate of Return (IRR) analysis indicates that Project A has the highest IRR of 20.81%, which exceeds Lenovo's expected rate of return, making it the most financially attractive option among the three projects. Project B shows a moderate IRR of 17.50%, while Project C has the lowest IRR of 16.20%. Although all three projects present acceptable rates of return, Project A offers the strongest potential for profitability and value creation, and therefore stands out as the most favourable investment choice based on IRR.

4. Accounting Rate of Return (ARR):

Project	Initial Investment (₹)	Average Annual Profit (₹)	ARR (%)
Project A	1,00,00,000	10,50,000	**10.5%**
Project B	1,20,00,000	9,00,000	**7.5%**

Project C	90,00,000	8,00,000	**8.8%**

Interpretation

The ARR analysis shows that Project A has the highest ARR of 10.5%, indicating superior profitability based on accounting income. Project C follows with 8.8%, while Project B has the lowest ARR of 7.5%. Since higher ARR values indicate better profitability, Project A is the most favourable project according to the ARR method.

5. Profitability Index (PI):

Project	**Initial Investment (₹)**	**Present Value of Cash Inflows (₹)**	**Profitability Index (PI)**
Project A	,00,00,000	,30,81,000	**.31**
Project B	,20,00,000	,38,00,000	**.15**
Project C	0,00,000	,05,00,000	**.16**

Interpretation:

The Profitability Index (PI) values indicate that all three projects are financially acceptable as their PI values exceed 1. However, Project A has the highest PI of 1.31, meaning it generates the greatest return per rupee invested. Project C follows with a PI of 1.16, and Project B shows a PI of 1.15. Therefore, Project A is the most attractive investment option based on PI.

VI. FINDINGS

- The Payback Period analysis shows that Project A has the shortest recovery period of 3.08 years, making it the least risky and most liquidity-friendly option compared to Projects B and C.
- Net Present Value (NPV) results indicate that all three projects are financially feasible, but Project A has the highest NPV (₹30.81 lakhs), showing maximum value creation.
- The Internal Rate of Return (IRR) analysis reveals that Project A has the highest IRR of 20.81%, proving it offers the greatest return relative to the cost of capital.
- The Accounting Rate of Return (ARR) is highest for Project A (10.5%), demonstrating better profitability in terms of accounting earnings.
- The Profitability Index (PI) values for all projects are above 1, indicating financial viability; however, Project A has the highest PI of 1.31, confirming superior investment efficiency.
- Overall analysis across all capital budgeting tools consistently shows that Project A outperforms Project B and Project C in liquidity, profitability, value creation, and return generation.
- Therefore, Project A is the most suitable and financially attractive investment option for Lenovo's Puducherry plant.

VII. SUGGESTION

- The company should give priority to Project A, as it demonstrates superior financial performance in terms of NPV, IRR, ARR, Payback Period, and PI. Implementing this project will help Lenovo maximize returns and strengthen its long-term financial position.
- Lenovo should enhance its capital budgeting system by adopting data-driven forecasting models, including scenario analysis and sensitivity analysis, to assess the impact of market fluctuations, cost variations, and technological changes on investment outcomes.
- The organization should conduct regular post-audit evaluations for all completed projects to compare actual results with projected estimates. This step will help identify deviations, improve forecasting accuracy, and strengthen future investment decision-making processes.
- Lenovo should invest in cost control and process improvement initiatives to increase operational efficiency. Reducing production and administrative costs will improve profitability and allow the company to undertake more strategic investments.
- Training programs should be provided for finance and operations personnel to enhance their skills in capital budgeting techniques, financial modelling, and risk assessment, enabling more informed and accurate project evaluation.
- The company must integrate risk management practices into its investment decisions by considering inflation, demand uncertainty, technological obsolescence, and supply chain disruptions. This will help mitigate financial risks and enhance project stability.

VIII. CONCLUSION

The study clearly establishes that capital budgeting is an essential component of Lenovo's long-term strategic and financial planning, especially at its Puducherry manufacturing plant where continuous technological upgrades and capacity

expansion are required to remain competitive. By applying financial evaluation tools such as NPV, IRR, Payback Period, ARR, and Profitability Index, the study provides a comprehensive analysis of the three proposed investment projects and highlights the importance of selecting the most financially viable and strategically aligned option.

The results consistently show that Project A is the superior investment choice, offering the highest Net Present Value, the strongest Internal Rate of Return, the best Accounting Rate of Return, the most favourable Profitability Index, and the shortest Payback Period. These indicators confirm that Project A not only maximizes financial returns but also minimizes investment risk and enhances Lenovo's ability to recover capital quickly. Projects B and C also demonstrate financial feasibility, but their lower returns make them less attractive in comparison.

The study further emphasizes the need for Lenovo to adopt advanced capital budgeting practices that incorporate risk analysis, scenario planning, and post-investment evaluations. In an industry characterized by rapid innovation, volatility in component prices, and evolving consumer preferences, relying solely on traditional financial indicators may not provide a complete picture. Strengthening forecasting accuracy, improving inter-departmental coordination, and integrating strategic considerations into investment decisions will significantly enhance the quality of Lenovo's capital budgeting process.

Overall, the findings reinforce that effective capital budgeting not only supports financial growth but also contributes to operational excellence, technological advancement, and long-term sustainability. By selecting the right investment projects and continuously improving evaluation techniques, Lenovo can maintain its competitive edge and ensure future expansion in the global electronics and hardware industry.

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