IMPACT OF CAPITAL BUDGETING DECISION ON PROFITABILITY OF SELECTED LEATHER COMPANIES IN TIRUPATTUR DISTRICT TAMIL NADU.

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ABSTRACT

Purpose: Profitability is a key component of corporate operations and establishes the benchmark for valuing a company. The goal of the study was to find out how capital budgeting choices affected leather companies' bottom lines. The study specifically focused on five areas where capital budgeting decisions the purchase of long-term assets, their replacement, investment appraisal methods, outsourcing expenses, and working capital decisions had the greatest and most notable impact on the profitability of the organizations.

Methodology: In essence, this study entailed a survey of Tirupattur district's leather businesses in Tamil Nadu. Shareholders would view as reckless any company that attempts to commit its resources to a project without fully appreciating the risks and rewards involved. Ten leather industries in Tirupattur, Tamil Nadu, were included in this study. The paired T test and correlation were applied.

Findings: In essence, this study entailed a survey of Tirupattur district's leather companies in Tamil Nadu. The results established a relationship between profitability and the independent factors of capital budgeting decisions. The study looked at how leather industries profitability was affected by capital budgeting. Profitability and capital budgeting were the study's independent factors.

Research implications: It is clear from the high t-values (12.37 and 11.26), p = 0.00, that Farida shoe and Farida shoes' created positive and statistically significant values for this study. The least significant but still low results were obtained for DELTA SSHOES Leather (t=2.11, p = 0.07).

Originality/Outcome: The study found that positive impact of capital budgeting on profitability of the firms under the study.

INTRODUCTION

Capital budgeting techniques encompass all of the steps a company takes to determine if the kind and type of long-term investments it makes are appropriate or worthy of being supported by its stakeholders. As the foundation for a company's valuation, profitability is essential to

corporate operations. For that reason, profitability plays a critical role in predicting whether a business will stay open or close for good. Unprofitable leather industries eventually close. Capital budgeting decisions, which deal with investments in tangible or intangible assets, have a significant influence on the company's future financial status. Numerous capital budgeting strategies based on cost-benefit analysis and net present value computations are offered by finance theory. Prior research has examined capital budgeting methods across several nations and business domains.

LITERATURE REVIEW

Apochi G James, Samuel Eniola Agbi, Lateef Olumide Mustapha and IsiakaOlalekanLasisi (2023) One of the study's recommendations was for the company to continue using its current long-term borrowing strategy, as it has been demonstrated to be a useful tool for showcasing the company's performance. The company should also avoid making unnecessary investments in areas where the return on investment is minimal compared to the initial investment.

Murtiadi Awaluddin(2023) Investing is one method people try to reduce the risk of uncertainty, and the capital market helps both private citizens and the business sector as a whole. Making stock market investments might be motivated by a number of factors, including excellent financial literacy, self-motivation, or environmental concerns. One's personal stock market investing interests, the outside world, or investment behavior are examples of additional elements.

Yuvaraj D (2023) One is in support of academic viewpoints that could influence investors' choices. An individual's inclination to invest in mutual funds is primarily determined by three factors: their mindset, financial literacy, and risk tolerance. It also emphasizes how important it is to provide readily available conditions that could facilitate and encourage investors to buy mutual funds.

Md. Anhar Sharif Mollah, Md. AbdurRouf and S.M. SohelRana (2022) The researcher's goal is to examine the capital budgeting procedures now used by listed Bangladeshi corporations and offer practitioners a normative framework (guidelines). They discover that by offering more trustworthy and thorough analysis using examples from developing economies, they may contribute to the body of knowledge already available in the area of capital budgeting techniques.

Dr. Jyoti Prasad Kalita (2021) examined the survey's results, which were assembled from the CEO, CFO, investment manager, corporate accountant, and other executives of the SMEs Company. Data was collected and analyzed to enhance comprehension of manufacturing enterprises' performance through the application of capital budgeting techniques.

Vikas and Dr. Swati Mishra (2020) When it comes to keeping financial records, the researcher has seen that certain behavioral patterns are being followed in the areas of cost accounting, price decisions, credit management, inventory management, and capital investment decisions. This behavior pattern is entirely inconsistent with the accepted norms of accounting and financial management.

BishirBalarabe (2020) The findings show that there is no statistically significant relationship between the independent variables—investment evaluation processes, outsourcing spending, and the acquisition of long-term assets—and the dependent variable, return on asset. After

analyzing the literature on previous studies, the research concluded that capital budgeting decisions have little effect on a firm's ability to prosper in Nigeria.

Onuorah A C (2019) The size of a company, its level of present risk, and an efficient capital budgeting strategy will all significantly improve the chosen performance indicator, the study found. Moreover, a clear relationship was seen between capital intensity and the assigned performance measure of Nigeria's manufacturing industry.

John C and Gladys A (2015) The study suggested that typical capital budgeting methods for determining a project's profitability be replaced with certainty equivalent and risk-adjusted discount rate procedures, given the current state of risk and uncertainty.

Francis Nyarombe, DrkiruiKipyegon, Isaac kamar and Samwel Gwaro (2015) To assist the business in reducing the risk of project failure, both traditional and modern project capital budgeting techniques are used. deciding which projects to invest in first and locating funding sources for them When estimating the financing costs related to each source for a particular project and comparing them with each project's projected future revenues, providing enough money for all businesses to carry out capital decisions, and forming an oversight committee to oversee the execution of staff training.

Gupta Divya (2013) she noted that the companies' primary objective was to increase market share, which was followed by an increase in market value per share. Regarding methodology, her results varied. She observed that there was a strong correlation between the firm's size and the frequency with which discounted cash flow techniques were applied in capital budgeting. Her research revealed that small businesses preferred the standard payback period, whereas large businesses relied more on DCF.

Arora, Preeti (2012) conducted a study on the capital budgeting practices of the top 500 Indian enterprises, which are indexed by market capitalization. Using a standardized questionnaire, she gathered information from 125 businesses in 9 different industries.She noted that the companies' primary objective was to increase market share, which was followed by an increase in market value per share. Regarding methodology, her results varied. She mentioned that the most essential appraisal technique, favoured by 92% of the organizations, was the Discounted Payback Period. Simple Payback Period, Internal Rate of Return, and NPV were the other widely used techniques. These strategies were noted to be 82.4%, 70.4%, and 66.4% popular, respectively. Sensitivity analysis was the method of risk adjustment utilized by the greatest number of organizations, followed by payback period. Using a 75-company sample,

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Objectives of the study

1)   To analyze the Impact of Capital Budgeting on Profitability of the Company.
2)   To find out the profitable capital expenditure.

3)   To know whether the replacement of any existing fixed assets gives more return than earlier.

4)   To decide whether a specified project is to be selected or not.

THEORETICAL FRAMEWORK

The Capital Budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in long-term activities in anticipation of an expects flow of futurebenefits over a series of years. Such decisions may consist of addition, disposition, modification, mechanization or replacement of any fixed asset.

Process of Capital Budgeting: Capital budgeting decisions of a firm have a pervasive influence on the entire spectrum of entrepreneurial activities. Hence, they require a complex combination and knowledge of various disciplines for their effective administration, such as, Economics, Finance, Mathematics, and Economic Forecasting, projection Techniques and Techniques of Financial Engineering and Control. In order to combine all these elements, a finance manager must keep in mind the three dimensions of a capital budgeting programme: Policy, Plan and Programme. These three P's constitute a sound capital budgeting programme.However, the important steps involved in the capital budgeting process are:

(i)   project generation;

(ii)   project evaluation,

(iii)   project selection; and

(iv)   Project execution. These stepsare necessary, but more may be added to make the process more effective.

Depending on the choice of appropriate funding sources, proper capital budgeting is crucial for long-term decisions on investment activities. The many variables and decisions madewith capital budgeting continue to be essential to a company's performance. First, planning a capital budget is important for wise money management. Second, firms need to determine howmuch will be paid out in contributions and refunded. Thirdly, the majority of capital long-term responsibility requires budgeting for decisions. Making decisions about capital purchases is also essential. 107 top level managers, departmental managers, and CEOs of selected Organizations were the focus of the research, which used an overview plan. A sample size of 90 people, or 84% of the target population, was tested using a pre determined examining procedure. In addition to the meeting schedule, a survey was used to acquire data regarding thedefendants. A preliminary examination tested legitimacy in addition to dependability. Information was examined using a unique insight. Net present value (NPV), emolument pack time (EPT), and interior rate of return (IRR) were found to be the common capital budgeting strategies used by selected organizations to create capital procedures. The principles of profit budgeting in capital budgeting systems include: increasing net present value (NPV), quick recovery times, and lower risks of disappointment due to high normal wage. The effects of NPV, compensation period, as well as internal pace of profit and gainfulness file for benefit levels include lowering capital expense, increasing measure of profits as of the extent, and lowering level of task risk the fundamental.

METHODOLOGY

a.   Research Method: Descriptive Method

b.   Sampling Method: Random Sampling

c.   Sampling Technique: Convenience Random Sampling

d.   Sample size: study considered 10 companies are taken from Leather companies ,which is Tirupattur district ,Tamil Nadu

Table – 1 Selected Sample companies

LEATEHER COMPANIES	
1.MOHIB SHOES	6.NMH SHOES
2.DELTA SHOES	7.ITARAS SHOES
3.SHALIMAR SHOES	8.FUZAIL SHOES
4.NMZ SHOES	9.FARIDA SHOES
5.ALTHAF SHOES	10. TATA INTERNATIONAL

Source: www.moneycontol.com

e.   **Source of Data- Secondary Data -** Reference books and journals are among the various sources used to gather historical data on the chosen company. Official websites like Money Control, Investing, Yahoo Finance, and others are consulted for this purpose.

f.   **Tools for the Study**

•   **Correlation:** A correlation is a statistical measure of the relationship between two variables. The measure is best used in variables that demonstrate a linear relationship between each other.

•   **Paired T- test:** To compare the mean of the two paired sets of data, the differentbetween all pair must be calculated

$$t = \frac{m}{s/\sqrt{n}}$$

g.   **Hypothesis of the Study**

H_0 -There is no significant impact of Capital Budgeting on Profitability of selectedFirms.

RESULTS AND DISCUSSION

Capital budgeting is important because it creates accountability and measurability. Anybusiness that seeks to invest its resources in a project without understanding the risks and returns involved would be held as irresponsible by its owners or shareholders. This study considered

10 companies are taken from Leather companies sectors, in Tirupattur District.

Chart - 1 Analysis of Fixed Assets
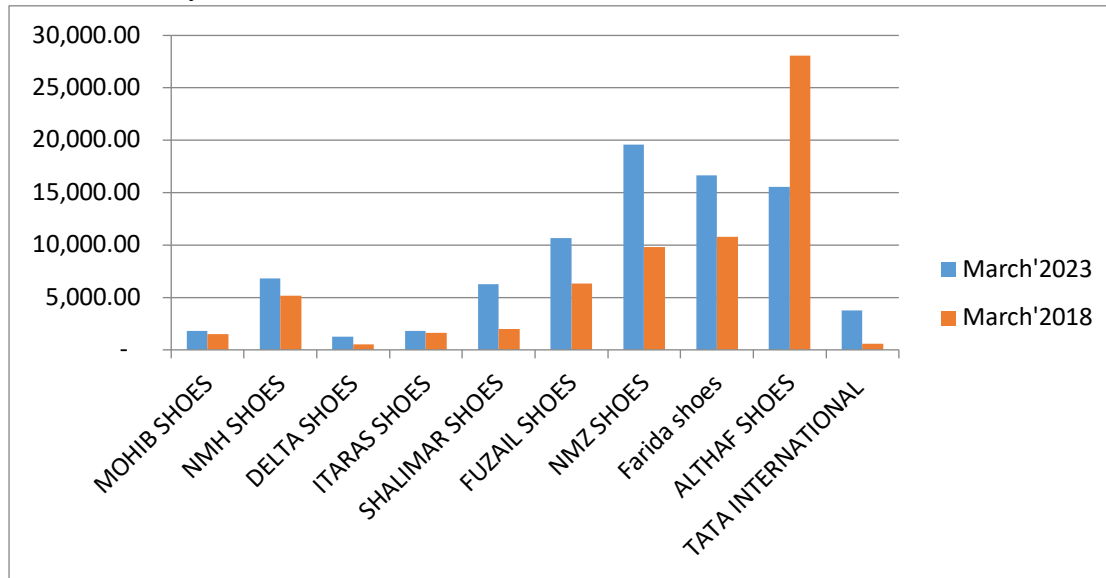
Source: Authors Calculation-SPSS Database

It can be seen in the Table -1 that Fixed capital Increased between 6 years from 2018 to2023. All selected firms Capital are increased expect Althaf shoes s, they invested more in the time of 2018 but it decreased in the year 2023. When considered the average ITARAS SHOES are increased the investment in 2023 when consider to 2018

Chart- 2 Analysis of Profit of the Firms
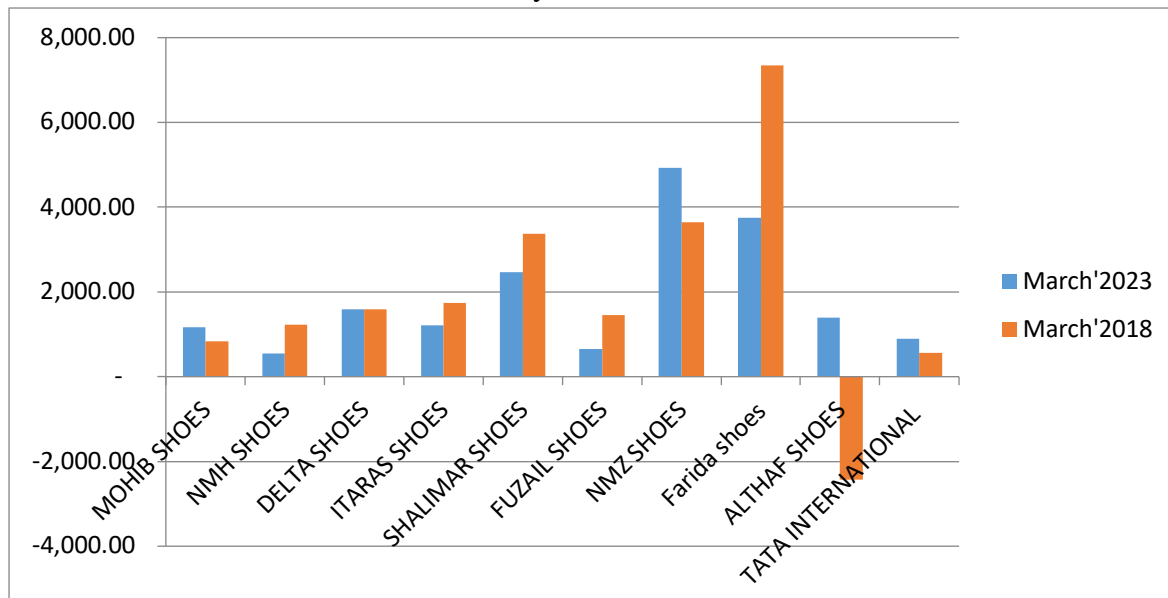
It can be seen in the Table that Profit Varied between 6 years from 2018 to 2023. All selected firms Profit are Decreased expect ITARAS SHOES, they invested more in the time of 2023 when compare to 2018. And also Althaf shoe has decreased profit in 2018 when considered 2023.

Table-2 Descriptive Statistics of Fixed Assets

Descriptive Statistics	MOHINB SHOES	NMH SHOES	DELTA SHOES	ITARAS SHOES	SHALIMAR SHOES	FUZAIL SHOES	NMZ SHOES	FARIDA SHOE	ALTHAF SHOES	TATA INTERNATIONAL
Mean	1774.8	6505.8	2285.7	1744.6	5690.3	8887.9	13713.9	16208.3	26348.8	2931.9
SE	75.4	357.2	260.4	37.3	313.2	783.9	1420.6	408.5	2202.5	245.5
Median	1804.6	6533.7	2500.7	1772.7	5712.6	9281.4	13452.8	16546.8	28308.7	3011.0
SD	184.7	874.8	637.8	91.3	767.2	1920.1	3479.8	1000.7	5395.0	601.3
Kurtosis	-0.2	-0.8	-0.2	-2.3	-3.1	-2.3	0.7	0.1	5.2	-0.5
Skewness	-0.4	-0.5	-1.0	-0.4	0.0	-0.3	0.9	-1.1	-2.3	-0.3
Range	523.0	2245.6	1661.0	198.3	1597.7	4357.5	9755.4	2573.6	14159.8	1685.0
Minimum	1495.5	5176.7	1243.8	1630.7	4860.6	6334.5	9811.4	14545.0	15543.0	2046.2
Maximum	2018.5	7422.2	2904.8	1829.0	6458.4	10692.1	19566.8	17118.6	29702.8	3731.1
Sum	106489	390345	137141	10467.6	34142.0	533274	822835	97249.9	158093.0	17591.2
Count	6	6	6	6	6	6	6	6	6	6

Source: Authors Calculation-SPSS Database

Furthermore, the Table -2 shows that ALTHAF SHOES has the highest mean value of 26348.8and the lowest mean value is that of ITARAS SHOES are 1744.6. ALTHAF SHOES

has the highest median value which is 28308.7and ITARAS SHOES has the lowest value of median whichis 1772.7. The **ALTHAF SHOES** has the highest value of standard deviation which is 5395.0and**ITARAS SHOES** has the lowest value of standard deviation which is 91.3. The highest value of skewness is seen in NMZ SHOES which is 0.9 while Althaf shoes has the lowest value of -2.3. When considering the kurtosis, Althaf SHOES S has the highest value of 5.2whereas **SHALIMAR SHOES** has lowest value which is -3.1.

Table – 3 Descriptive Statistics of Profit

Descriptive Statistics	MOHI SHOES	NMH SHOES	DELTA SHOES	ITARAS SHOES	SHALIMAR SHOES	FUZAIL SHOES	NMZ SHOES	FARIDA SHOE	ALTHAF SHOES	TATA INTERNATIONAL
Mean	850.6	898.6	1691.2	1176.6	3255.0	1155.3	3221.6	6036.5	-2086.6	664.8
SE	84.1	364.4	105.9	207.8	188.6	118.2	799.5	713.6	1234.8	48.9
Median	853.2	882.5	1649.6	1294.0	3381.0	1173.0	3999.7	6500.4	-1893.2	637.3
SD	205.9	892.6	259.4	508.9	461.9	289.5	1958.4	1748.0	3024.7	119.8
Kurtosis	2.1	-1.6	-0.5	-1.6	0.5	1.5	1.2	-2.3	2.3	3.6
Skewness	-0.2	-0.1	0.1	-0.5	-1.1	-1.1	-0.9	-0.4	-0.8	1.8
Range	643.1	2296.9	724.7	1258.6	1224.3	803.7	4666.6	3955.5	9310.2	335.5
Minimum	520.7	-313.7	1329.7	482.5	2473.0	647.3	268.7	3766.3	-7289.6	558.1
Maximum	1163.8	1983.2	2054.4	1741.1	3697.4	1451.1	4935.2	7721.8	2020.6	893.6
Sum	5103.5	5391.7	10147.1	7059.4	19529.8	6931.6	19329.9	36219.2	-12519.8	3988.7
Count	6	6	6	6	6	6	6	6	6	6

Source: Authors Calculation-SPSS Data bas

Furthermore, the Table – 3 shows that **SHALIMAR SHOES** has the highest mean value of 3255.0and the lowest mean value is that of **ALTHAF SHOES** which is -2086.6. FARIDA

SHOE has the highest median value which is 6500.4 and ALTAF SHOES has the lowest value of median which is -1893.2. The **ALTHAF SHOES** has the highest value of standard deviation which is 3024.7and TATA INTERNATIONAL has the lowest value of standard deviation which is 119.8. The highest value of Skewness is seen in TATA INTERNATIONAL which is 1.8 while SHALIMAR SHOES and FUZAIL SHOES have the lowest value of -1.1. When considering the kurtosis, TATA INTERNATIONAL has the highest value of 3.6 where as FARIDA SHOE has lowest value which is -2.3.

Table – 4 Paired t-Test

t-Test	df	t Stat	P(T<=t) two-tail
MOHIB SHOES	10	8.18	0.00
NMH SHOES	10	10.99	0.00
DELTA SHOES	10	2.11	0.07
ITARAS SHOES	10	2.69	0.04
SHALIMAR SHOES	10	6.66	0.00
FUZAIL SHOES	10	9.75	0.00
NMZ SHOES	10	6.44	0.00
Farida shoes	10	12.37	0.00
ALTHAF SHOES	10	11.26	0.00
TATA INTERNATIONAL	10	9.06	0.00

t-Test: Two-Sample Assuming Unequal Variances

Source: Authors Calculation-SPSS Database

From the above findings, it is evident that Farida shoe and ALTHAF shoes s produced positive andstatistically significant values for this study (high t-values (12.37 and 11.26), p =0.00) respectively. DELTA SHOES Leather resulted a Lowest but insignificant values (t= 2.11, p= 0.07).

DISCUSSION OF RESEARCH FINDINGS

The study wanted to examine the outcome of capital budgeting Impact on profitability of leather company Tirupattur district Tamil Nadu. The independent variables for the study were Capital Budgeting and Profitability.

- ALTHAF SHOES has the highest mean value of 26348.8 and the lowest mean value is that of MOHIB SHOES are 1744.6.

- All selected firms Profit are Decreased expect Althaf, they invested more in the time of 2023 when compare to 2018.

- ALTAF SHOES has the highest mean value of 3255.0and the lowest mean value is that

of FARIDA SHOES S which is -2086.6. FARIDA SHOE has the highest median value which is 6500.4.

•   It is evident that Farida shoe and Althaf shoes produced positive and statistically significant values for this study (high t-values (12.37 and 11.26), p =0.00) respectively.DELTA SHOES Leather produced a Lowest but statistically important values for this study (t= 2.11, p = 0.07).

•   From the results of T- Test analysis, a positive impact exists between capital budgeting and profitability.

CONCLUSION

Based on the research findings, the study draws the conclusion that the capital expenditure and revenue of the enterprises have a major impact on the profitability of the leather companies in the Tirupattur district of Tamil Nadu, India. The study discovered that capital budgeting improved the businesses' profitability. According to the study's findings, businesses that capital budget have higher profitability. It is argued that higher levels of revenue result in higher levels of productivity because the study indicated that revenue had a positive and significant impact on productivity.

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