CASE STUDY ON CAPITAL BUDGETING WITH SPECIAL REFERENCE TO A.S. HOTEL

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Capital Budgeting

-Capital investment refers to the investment in projects whose results would be available after year for the maximization profit of the company, the company should take right investment decision or accept right investment proposal which will help in achieving expected flow of benefits at the right time. Secondary data was collected through various media like fact sheets, internet, business magazines, newspapers, books of various authors etc.
This research paper is based on "Capital Budgeting with special reference to A.S Hotel Vemula Wada.
The owners of the hotel has decide to renovate its rooms during the lockdown of the covid-19. This research paper is an attempt to analyze the viability of the new proposal by using different capital budgeting techniques

Key words : capital , decision making , investment proposals .

INTRODUCTION:
Capital Budgeting is the planning of long-term financial projects relating to investments funded through long term sources of capital. Capital budgeting is a decision-making process that facilitates managers to evaluate and identify projects that are beneficial to the company. It is the most important task for managers.

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capital budgeting helps the company to take its strategic decisions and directs the company undertaking new product, new service, new technology. Second, capital budgeting decisions are less flexible and have long lasting effect on the company. Third, serious consequences may arise from poor capital budgeting
decisions. For example, if a company devoted too much capital to one project, the company's capital would be unnecessarily spent on excess production capacity. On the other hand, investment of inadequate capital by the company results in low productivity and would suffer by the simple fact that its equipment, computer hardware and
software might not be cutting-edge to improve production. These poor capital budgeting decisions may provide the rival companies an opportunity to steal market share by taking advantage of a lower cost structure or production capabilities matching demand.The goal with capital budgeting is to select the projects that bring the most value to the firm. Ideally, one would like to select all of the projects that add value, and avoid those that lose value. Making optimal capital budgeting decisions requires recognizing and correctly accounting the flexibilities associated with the project.
The Capital Budget reflects the continuing need to replace existing infrastructure along with making investments to achieve efficient, effective and sustainable utilization of available resources.

Case study:

Ajay and Sunil aged 50 years are friends from their childhood. They have set up A.S hotel/ lodge 25 years ago in Vemula Wada (a pilgrim) place in Karimnagar. They are running their business as a joint owner. They had three types of the rooms and one conference hall with a capacity of 50 members.

The details of the rooms and the other details are as follows.

S No	Room Type	No of rooms	Tariffs (per day)
1	Non a/c	5	Rs 500
2	A/c	10	Rs 1000
3	Executive suit	10	Rs 2000
4	Convention hall	1	8000(8 hrs)

Both owners used to take active participation in the business, right from the inception of their business they never had any bad remarks. with their services and maintenance, they have earned a goodwill in the market. They have never renovated their rooms from the starting of the business.

From the year 2015 the occupancy rate of their rooms has gradually decreased. They have observed that 20% of the customers are not willing to stay after looking at the condition of the rooms. they have decided to renovate their rooms and the building in the year 2017. But they couldn't find the best alternative place to shift their business at least for few months. On an average the rooms used to be occupied for 20 days in a month, and the hall for 12 days.

Staff and the maintenance expenses including depreciation and interest used to be Rs 3,20,000 per month.

In April 2020, during lockdown they have decided to renovate the building and utilise the time at the best.

The details of the expenses to renovate the building are as follows.

S No	Room Type	Estimated expenses per room
1	Non A/c	Rs 35,000
2	A/c	Rs 65000
3	Executive suit	Rs 75000
4	Convention hall	Rs 1,00,000
5	Office room	Rs 1,50,000

To arrange the finance required they have decided to sell the joint property ar Rs 12,00,000and the balance they have decide to get a bank loan @ 9% per annum. They are expecting the full occupancy after the renovation.

Staff and the maintenance expenses are expected to increase to Rs 4,20,000 per month. Depreciation is estimated to be 5% p.m. on the amount invested for the renovation.

Questions for discussion :

1. How long it will take for them to get back their invested money?
2. Should they renovate the building by incurring a huge additional investment or run the business in the same condition?
3. Evaluate all the capital budgeting techniques?

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