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Investment Decision and Portfolio Management : A study of HDFC Bank and SBI Bank

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Abstract

The mechanics and the concept behind the rules of NPV and MRR are similar. Under the NPV rule, we discount the cash flows at a given rate, which is normally the cost of capital, and arrive at NPV. Under the IRR method, we find a discount rate that makes NPV zero and compare this rate with the cost of capital.

The data requirements under both the methods are identical. However, for calculating the IRR one does not need the cost of capital but for NPV we need it. For making the decision under both the methods, cost of capital would be required

Key words:- Normally, Mechanics, Requirements, However

Introduction

Capital budgeting decisions relate to acquisition of asset and generally have long-term strategic implications for the firm. Capital budgeting decision is perhaps the single most important corporate decision that consumes a major part of the management's time and money. Capital budgeting deals with the question of what assets should a firm acquire. It refers to the desirability of acceptance or rejection of a project based on systematic evaluation of project parameters that are translated in financial terms and weighed against a decision making rule.

It is a strategic decision, which determines the growth and survival of a firm in this competitive world. The lack of capital budgeting proposals in any enterprise is a signal that the firm is languishing over a period of time. The firms' management must always be on the look out for fresh business opportunities and its evaluation as to how these opportunities fit into the overall scheme of business to relate HDFC bank and SBI Bank.

Since the business opportunities available in the environment are always huge as compared to the resources, financial or otherwise, available with the firm, capital budgeting decisions becomes fairly intricate as it impacts other areas of corporate finance like capital structure, dividends and cost of pital, Capital budgeting decision is often referred to as an investment decision of the firm where the allocation of capital among the different projects is decided HDFC bank and SBI Banks.

The Capital budgeting decisions generally involve large cutleys, are difficult to reverse, nisky propositions offering no scope of adjustment based on leaming.1

Since the capital budgeting decisions concern the acquisition of asset, they should encompass broader strategic aspects like launching of new products, renovations of existing plants, replacement of machines, buying a technology, initiating R & D programmes, etc. A run-of-the-mill evaluation of capital budgeting proposals is least desired. It is an intricate decision posing several issues that are difficult to resolve.

Objectives of the Study

- Identifying investment opportunities.
- Short-listing of identified opportunities that match certain erequisites.
- Collecting of relevant data of revenue, costs, cash flows, etc
- Selecting proper evaluation criteria.
- Make a decision of acceptance or rejection based on the evaluation criteria.

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Methodology

The method by which decided HDFC and SBI Bank make decision is by figuring out when it will get its initial investment back. The rule operates on the basis of projected cash flows expected from a project. The cash inflows from the project are compared with the initial outflow of cash and determine. The Payback period of the project is the time required to recover the investment. When done on discounted cash flow basis it is called discounted payback period.

The merit of the payback method of evaluating the capital budgeting projects is the simplicity of the rule. As firms take a large number of decisions they need simple but effective rules that eliminate detailed analysis and yet reduce the chances of making a wrong decision. From the management's perspective, the payback rule effectively addresses some of the concerns as decided HDFC and SBI Bank.2

Data Analysis and Interpretation

There are many techniques available to evaluate capital expenditure proposals. All these techniques may not be useful in evaluation of all kinds of projects. One has to choose an appropriate criterion for acceptance or rejection. The selection may be basedon the simplicity of criteria, data requirement, criticality of decision and effectiveness it is related HDFC and SBI Bank.

Do know cash flows of a HDFC Bank?

Table-1.1

Respondents	Project	illustration of banking
Male	65	70
Female	35	30
Total	100	100

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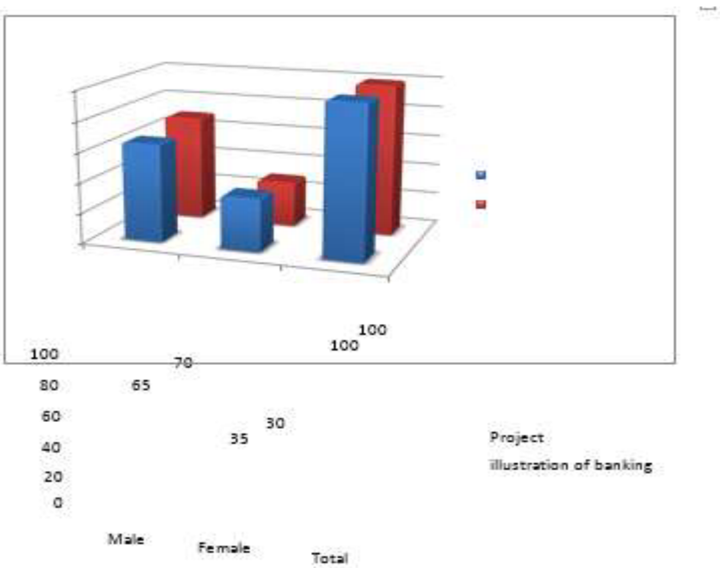

Table 1.1 Has displayed two respondents Male and Female Male has replied Project 65 and illustration of banking 70, Female Project 35 and illustration of banking 30 show it applied percentage method.

Do know cash flows of a HDFC Bank?

Table-1.2

Respondents	Revenue	Depreciation of banking
Male	55	75
Female	45	25
Total	100	100

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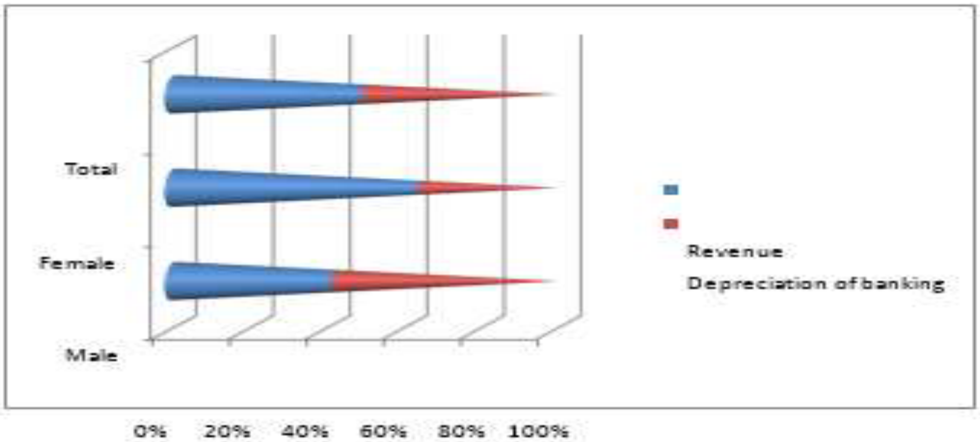

Table 1.2 Has displayed two respondents Male and Female Male has replied Revenue 55 and Depreciation of banking 75, Female Revenue 45 and Depreciation of banking 25 show it applied percentage method.

Findings of the Research

The exercise of projecting cash flows starts from the items of expenditure and revenues that are visible and impact the cash flows directly. However, there can be certain cost/benefits that may not be visible. We need to include them into our analysis even though the cash flows actually do not occur. The rationale for including these notional cash flows is to account for the value of opportunity foregone.3

Comparison HDFC and SBI Bank

The mechanics and the concept behind the rules of NPV and MRR are similar. Under the NPV rule, we discount the cash flows at a given rate, which is normally the cost of capital, and arrive at NPV. Under the IRR method, we find a discount rate that makes NPV zero and compare this rate with the cost of capital. The data requirements under both the methods are identical. However, for calculating the IRR one does not need the cost of capital but for NPV we need it. For making the decision under both the methods, cost of capital would be required.

Portfolio of Management

- Non-reversible The strategic decisions are often irreversible; implying that the utmost caution must be exercised while making a decision. Though there are possibilities of abandoning a decision if wrongly made, the cost of such abandonment will be huge. Consider a situation where a firm has acquired a plant only to learn subsequently that the wrong acquisition was made. In case it wants to reverse this decision the cost of doing so would be enormous in most cases.

- Large initial outlays followed by small periodic inflows In a typical capital budgeting exercise, the initial outflow of capital is rather large, making it mandatory for the firm to evaluate the financing options, unlike many routine decisions where the capital outlay is not huge. This initial one-time cash outflow is normally followed by regular cash inflows over extended periods spanning the life of the project.4

Review of Literature

- Gupta R.K. 2020- Capital budgeting decisions are either completely or somewhat new to the managers and the management of the firm. Although in some cases, the managers may be experienced about the project being evaluated, the gaps in the knowledge about technology, markets, and processes may impede decision making.

Fuurther, more often than not, the managers do not have sufficient and reliable data on which to base judgments and make well-informed decisions. This forces the managers to rely on their intuition, skills, and past experiences on similar projects and situations.

- Sinha D.K. 2019- Capital budgeting decisions are long lasting and have long-term implications on the value of the firm. The analytical framework for making such decisions, therefore, includes broader objectives, which may extend well beyond the foreseeable future. To that extent, the uncertainties with the data used in the framework for decision making increase as we go farther into the future, making them highly risky.5
- Kumar Ashok 2017- Since the decisions are one time, they offer little scope for adjustment for learning with the experience. Unlike working capital decisions, which are repetitive in nature and offer scope of correction based

on learning, the capital budgeting decisions have little scope of adjustment with learning. More often than not, one has to live with the decision taken once. Therefore, the evaluation of all courses of action must be reviewed and decided in the beginning itself.

Conclusion

The method by which firms make decision is by figuring out when it will get its initial investment back. The rule operates on the basis of projected cash flows expected from a project. The cash inflows from the project are compared with the initial outflow of cash and determine the time (typically, in number of years) it takes to recover the initial cash outflow.

Payback period of the project is the time required to recover the investment. When done on discounted cash flow basis it is called discounted payback period.

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