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## A STUDY ON CAPITAL BUDGETING DECISION AT HDFC BANK

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### ABSTRACT

Capital budgeting is a critical financial decision-making process that determines the long-term investment strategies of a firm. This study focuses on evaluating the capital budgeting practices and decision-making framework employed by HDFC Bank. As one of India's leading private sector banks, HDFC Bank regularly undertakes investments in technology, infrastructure, and branch expansion, making capital budgeting an essential component of its financial planning.

**Keywords:** Capital Budgeting, Investment Decision, Net Present Value (NPV), Internal Rate of Return (IRR).

### INTRODUCTION

Capital budgeting is one of the most critical and strategic financial management functions in any organization, especially in the banking and financial services sector. It involves the planning and control of a firm's long-term investments in areas such as infrastructure, technology, branch expansions, and other major projects. These decisions have a profound impact on a company's future financial health, operational capabilities, and market competitiveness. Therefore, understanding the capital budgeting process is essential for evaluating how well a company allocates its scarce resources for maximum returns.

HDFC Bank, one of India's leading private sector banks, plays a pivotal role in the country's banking and financial ecosystem. Known for its technological advancement, strong customer base, and consistent financial performance, the bank continues to invest in growth opportunities through calculated capital expenditure. In such a scenario, capital budgeting serves as a foundational tool to

determine whether proposed investments align with strategic objectives, regulatory requirements, and shareholder expectations.

### REVIEW OF LITERATURE

**1. Dr. S. Ramesh (2025)** examined capital budgeting practices in Indian private sector banks and found that strategic planning, NPV, and IRR are widely used for evaluating long-term investments. The study highlighted the growing relevance of risk-adjusted returns and suggested that capital budgeting has evolved to include sustainability and regulatory considerations.

**2. Ananya Gupta (2025)** analyzed how capital budgeting impacts shareholder value in large private banks, including HDFC Bank. The study concluded that consistent application of financial appraisal methods like discounted cash flow ensures optimal investment returns and enhances investor confidence.

**3. Rajeev Kumar & Priya Das (2024)** focused on the integration of digital transformation investments into the capital budgeting processes of Indian banks. Their study emphasized the importance of non-financial indicators, such as customer experience and IT adaptability, in evaluating the success of technology-related capital expenditures.

**4. Dr. Meena Iyer (2024)** studied the role of strategic alignment in capital budgeting decisions and concluded that banks like HDFC prioritize projects that align with long-term strategic goals, regulatory compliance, and digital innovation, rather than merely focusing on profitability.

### NEED FOR THE STUDY

Capital budgeting decisions are crucial for any organization, particularly in the banking

sector, where efficient allocation of capital plays a vital role in ensuring profitability, sustainability, and compliance with regulatory frameworks. HDFC Bank, as one of India's leading private sector banks, continuously undertakes long-term investments in infrastructure, technology, and branch expansion. These decisions require precise financial evaluation and risk assessment to achieve optimal returns and maintain shareholder confidence.

### SCOPE OF THE STUDY

The scope of this study is confined to understanding the capital budgeting practices followed by HDFC Bank, one of India's premier private sector banks. It aims to evaluate the financial tools, decision-making procedures, and strategic approaches adopted by the bank in assessing long-term investment projects such as infrastructure development, technology upgrades, and branch expansion.

### OBJECTIVES OF THE STUDY

- To examine the capital budgeting techniques used by HDFC Bank
- To analyse the decision-making process involved in capital investment projects at HDFC Bank.
- To assess the impact of capital budgeting decisions on the financial performance of HDFC Bank
- To identify the risks and challenges associated with capital budgeting in the banking sector.

### METHODOLOGY

The methodology outlines the systematic approach adopted to conduct the study on capital budgeting decisions at HDFC Bank. It describes the sources of data, the tools used for analysis, and the overall research design to ensure that the study meets its stated objectives.

#### 1. Research Design:

This study follows a **descriptive and analytical research design**. It aims to

describe the existing capital budgeting practices at HDFC Bank and analyse the effectiveness and impact of those practices on the bank's performance and strategic objectives.

#### 2. Data Collection:

- **Primary:**

Primary data has been collected through structured questionnaires and informal interviews with finance professionals, investment analysts, and decision-makers at HDFC Bank. The questionnaire was designed to gather insights into the techniques, processes, and challenges involved in capital budgeting at the bank.

- **Secondary**

Secondary data has been obtained from:

- Annual reports and financial statements of HDFC Bank
- Research articles, financial journals, and white papers
- Publications from RBI and SEBI
- Industry databases, websites, and banking sector reports
- Capital budgeting case studies in Indian banks

#### LIMITATIONS OF THE STUDY

- The study relies largely on publicly available financial statements and secondary sources, as access to confidential internal capital budgeting reports and sensitive project evaluations of HDFC Bank was restricted.
- The primary data collection was limited to a small group of finance professionals due to time constraints and availability, which may not fully represent the views of the entire organization

**DATA ANALYSIS AND INTERPRETATION**

**PAYBACK PERIOD (PBP):**

The payback measures the length of time it takes a company to recover in cash its initial investment. This concept can also be explained as the length of time it takes the project to generate cash equal to the investment and pay the company back. It is calculated by dividing the capital investment by the net annual cash flow. If the net annual cash flow is not expected to be the same, the average of the net annual cash flows may be used.

Payback Period =	Initial Investment
	Cash Inflow per Period

**CALCULATION OF ANNUAL CASH INFLOW**

Year	2020	2021	2022	2023	2024
Total Sales	1606310970	1952574983	2062496269	2177381956	2371633523
Less: Costs	1555885007	1815614157	1961324252	2068196415	2286017710
<b>EBDT</b>	<b>50425963</b>	<b>136960826</b>	<b>101172022</b>	<b>128327364</b>	<b>85615818</b>
<b>LESS:</b> Depreciation n or other exceptional items	-	967090	-	10393113	12541810

<b>EBT</b>	<b>50425963</b>	<b>135993136</b>	<b>101172022</b>	<b>117934251</b>	<b>73074008</b>
LESS: Tax	17100966	100752605	(22354952)	38433857	26851541
<b>PAT (Annual Cash Inflow)</b>	<b>33324997</b>	<b>35241131</b>	<b>123526969</b>	<b>79500394</b>	<b>46222467</b>

**Payback Period Analysis**

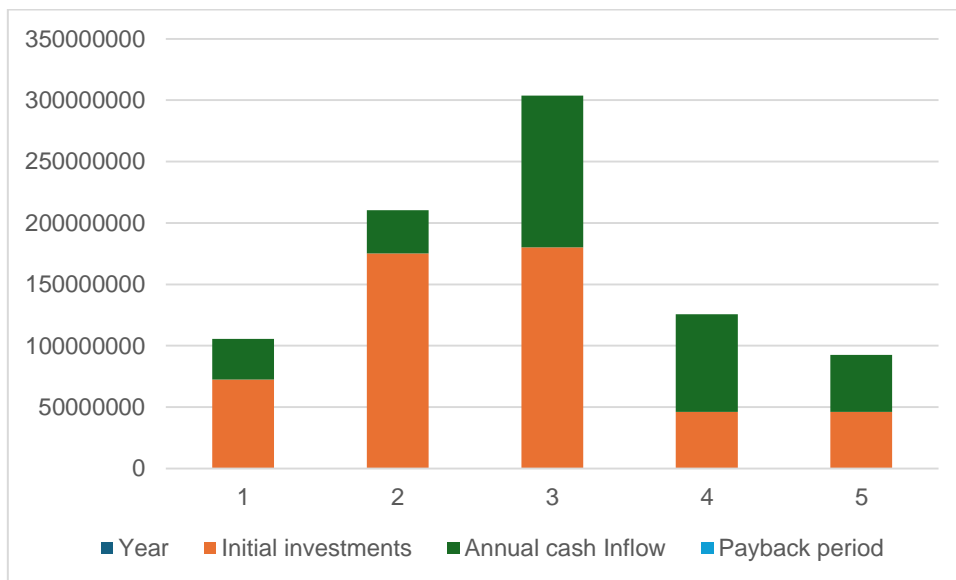
Year	Initial investments	Annual cash Inflow	Payback period
2020	72368453	33324997	2.17

2021	175080399	35241131	4.97
2022	180236203	123526969	1.46
2023	46246000	79500394	0.58
2024	46246000	46222467	1.00

**INTERPRETATION**

The shorter the payback period, the sooner the company recovers its cash investment. Whether a cash payback period is good or poor depends on the company's criteria for evaluating projects. From the above, it is inferred that the company have its highest payback in 2021 with 4.97 or 5 years. The current year (2024) PBP is found to be 1 year. This shows that the company recovers its investment in 1 year.

**Payback Period Analysis**



**ACCOUNTING RATE OF RETURN (ARR):**

ARR method uses accounting information as revealed by financial statements, to measure the profitability of the investment proposals. It is also known as the return on investment. Sometimes it is called the Average rate of return. (ARR)

PAT

$$\text{Accounting Rate of Return (ARR)} = \frac{\text{PAT}}{\text{Original Investment}} \times 100$$

100

Original Investment

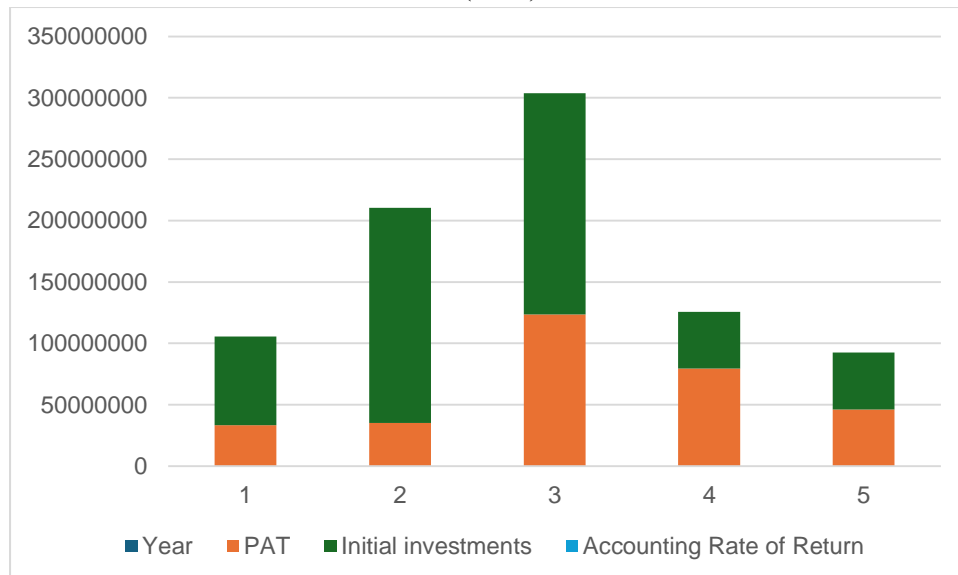
Year	PAT	Initial investments	Accounting Rate of Return
2020	33324997	72368453	0.46
2021	35241131	175080399	0.20

2022	123526969	180236203	0.68
2023	79500394	46246000	1.72
2024	46222467	46246000	1.00

**Inference:**

The chart shows that in the year 2021, the company had a lower expected rate of return than the minimum rate so the investment in the particular project can be reduced. In the year 2023, the project has a higher rate of return than the minimum rate. A higher rate of return indicates that investment made in the particular year has a higher cash inflow in the future. The accounting rate of return for the year 2024 is reduced to 1 year.

**ACCOUNTING RATE OF RETURN (ARR)**



**NET PRESENT VALUE (NPV):**

Considering the time value of money is important when evaluating projects with different costs, different cash flows, and different service lives. Discounted cash flow techniques, such as the net present value method, consider the timing and amount of cash flows. To use the net present value method, you will need to know the cash inflows, the cash outflows, and the company's required rate of return on its investments. The required rate of return becomes the discount rate used in the net present value calculation.

**Formula**

**Present value** = Cash flows \* Present value of Re. 1 @ 10% discount using present value table

**Net present value** = Present value of all cash inflows – present value of initial investment.

Decision Rule:

Accept: NPV > Zero Reject: NPV < Zero

**Net Present Value Analysis:**

Year	PAT	Discounting present value Table (Present value of Re.1 @ 10 %)	Present Value of Net Cash Flows	Present value of Initial investment
2020	33324997	0.909	30292422.27	65782923.78
2021	35241131	0.826	29109174.21	144616409.6
2022	123526969	0.751	92768753.72	135357388.5
2023	79500394	0.683	54298769.1	31586018
2024	46222467	0.621	28704152.01	28718766
		<b>TOTAL =</b>	<b>235173271.3</b>	<b>406061505.8</b>

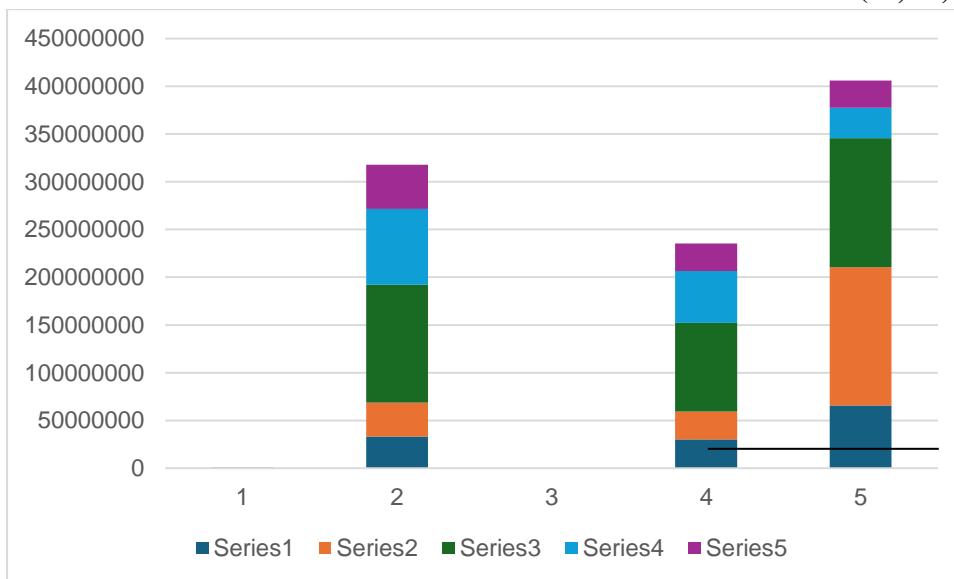
**Calculation:**

Present value of all cash flows 23, 51, 73, 271.3

**Less:** Present value of all Initial Investment 40, 60, 61,505.8

**Net Present Value (2020-21)**

**(17, 08, 88,234.5)**



**Interpretation:**

The above table clearly indicates that the Net Present Value for the five years from 2018 to 2022 is **(17, 08, 88,234.5)**

A negative NPV indicates that the project will probably be unprofitable and therefore should be adjusted, if not abandoned altogether.

NPV enables a manager to consider the time value of money it will invest. This concept holds that the value of money increases with time because it can always earn interest in a savings account.

Therefore, any other investment of that money must be weighed against how the funds would

perform if simply deposited and saved.

### FINDINGS

- The current year (2024) PBP is found to be 1 year. This shows that the company recovers its investment in 1 year.
- From the above, it is inferred that the company have its highest payback Period in 2021 with 4.97 or 5 years.
- The value of the Payback Period (2020: 2.17), (2021: 4.97), (2022: 1.46), (2023: 0.58), (2024: 1.00).
- A negative NPV indicates that the project will probably be unprofitable and therefore should be adjusted, if not abandoned altogether.
- The average rate of return for the year 2024 is reduced to 1 year the Net Present Value for the five years from 2020 to 2024 is **(17, 08, 88,234.5)**.
- A negative NPV indicates that the project will probably be unprofitable and therefore should be adjusted, if not abandoned altogether.
- The Accounting rate of return for the year 2024 is reduced to 1 year.

### SUGGESTIONS

1. The shorter the payback period, the sooner the company recovers its cash investment. Whether a cash payback period is good or poor depends on the company's criteria for evaluating projects.
2. A higher rate of return indicates that investment made in the particular year has a higher cash inflow in the future.
3. A negative NPV indicates that the project will probably be unprofitable and therefore should be adjusted, if not abandoned altogether.
4. NPV enables a manager to consider the time value of money it will invest. This concept holds that the value of money increases with time because it can always earn interest in a savings account.
5. Therefore, any other investment of that money

must be weighed against how the funds would perform if simply deposited and saved.

### CONCLUSION

Capital budgeting or investment evaluation is the planning process used to determine the organization's long, term investments such as new machinery, replacement machinery, new factories, new products, and research and development will be worth following.

Capital or investment finance, expenditure. It is a process used to determine whether a company's investment or project is worth making. The process of allocating funds to fixed assets is important because they are usually long lived and cannot be easily recovered all at once. So we can say that this is an asset allocation process where management has to use the financial resources to determine which activity will generate more profits over time.

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