

A Case Study on Investment Decisions of Madhur Oil Company

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Abstract

Modern managers are doing such financial and investment planning in a different way. In their concept, it does not mean capitalisation and capital structure of the organisation, but also it includes the determination of the organisation's investment decisions, investment policies and investment procedures. The purpose of research is to survey and analyse some different behaviour in the process of an organisation or a different aspect which can benefit the mass in future. Hence, the present paper makes a case study on investment decisions of Madhur Oil Company. Madhur Oil Company has earned 139% ROI and got reduced cost of production. There is also a saving in manpower and saving of oil which reduces overall cost of production which shows favourable situation to undertake the project..

Keywords : Investment Decisions, Capital, Finance, Rate of Return

JEL Classification : G 31, G 32.

1. INTRODUCTION

The success of an organisation depends on its effective and well formulated financial plan. Business operations are ever unexpected and sometimes need huge investments. Most of the investment decisions fail due to the surplus or deficit financing. Therefore, elimination of such malpractices are necessarily to balance.


Modern managers are doing such financial and investment planning in a different way. In their concept of investment decisions, it

does not mean capitalisation and capital structure of the organisation, but also it includes the determination of the organisation's investment decisions, investment policies and investment procedures. Therefore, the financial and investment planning and decision making includes :

- a) the measuring and determining the quantum of investment.
- b) the measuring and determining the nature and timings of the investment required for a particular activity.
- c) the measuring and determining of sources for raising the funds for planned investment.

2. RESEARCH METHODOLOGY

The purpose of research is to survey and analyse some different behaviour in the process

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of an organisation or a different aspect which can benefit the mass in future. Hence, the present paper makes a case study on investment decisions of Madhur Oil Company. Madhur Oil Company has earned 139 per cent ROI and got reduced cost of production.

Objective : To analyse the investment decisions of Madhur Oil company and to register the policies which reduced the payback period and increased the ROI.

Time Period : Balance Sheet of 2016-2017.

Data Type : Secondary Data

Area : Madhur Oil Company

3. REVIEW OF LITERATURE

Saini et., al. (2011) analyzed investor's behavior, investors' opinion and perception relating to various issues like type of mutual fund scheme, its objective, role of financial advisors/brokers, sources of information, deficiencies in the provision of services, investors' opinion relating to factors that attract them to invest in mutual and challenges before the Indian mutual fund industry etc. The study found that investors seek for liquidity, simplicity in offer documents, online trading, regular updates through SMS and stringent follow up of provisions laid by AMFI.

Kousalya P R and Gurusamy P (2012) observed in their study on "Women Investors". Perception towards Investments' that there is no significant relationship between age of the women investors and level of awareness on investment. They have also concluded that the educational level of women investors does not influence the level of awareness.

Binod Kumar Singh (2012) in his study observed that most of respondents are still confused about the mutual funds and have not formed any attitude towards the mutual fund for investment purpose. It has been observed that most of the respondents having lack of awareness about the various function of mutual

funds. Moreover, as far as the demographic factors are concerned, gender, income and level of education have significantly influence the investors "attitude towards mutual funds. On the other hand the other two demographic factors like age and occupation have not been found influencing the attitude of investors" towards mutual funds.

Meenakshi Chaturvedi, Shruti Khare (2012) proclaimed that the age of investor cannot be taken to influence their level of awareness and it is very clear from the results that the gender of the investor has no effect or influence on his or level of awareness about any investment channel.

Singh (2012) conducted an empirical study of Indian investors and observed that most of the respondents do not have much awareness about the various function of mutual funds and they are bit confused regarding investment in mutual funds. The study found that some demographic factors like gender, income and level of education have their significant impact over the attitude towards mutual funds. On the contrary age and occupation have not been found influencing the investor's attitude. The study noticed that return potential and liquidity have been perceived to be most lucrative benefits of investment in mutual funds and the same are followed by flexibility, transparency and affordability.

Jothi Baskara Mohan, Ramji P.R. (2013) conducted a study on "Women Investors Recital at Rajapalayam City - A Study". The results of the study shows that 92 per cent of respondents are aware of Investment and remaining 8 per cent are unaware of Investment avenues.

4. PROFILE OF THE COMPANY

Madhur is the company that manufacture refined oil. The company has installed small refined oil unit in Punjab. With the expansion and modernisation plans undertaken by the company from time to time, the unit has been established as an integrated

refined oil complex comprising of oil crushing unit, solvent extraction unit, refinery and Vanaspati.

a) Business Objectives

- i) To make the arrangements for processing, manufacturing of oil as well as by products to their best advantage with in the country.
- ii) To find out and adopt latest technology and supply of goods on co-operative basis.
- iii) To raise funds for its own business
- iv) To provide financial assistance to its members in the form of advance loans and grants.
- v) To make arrangements for procurement in bulk the requirement of its members in respect of both producer and consumer goods.
- vi) To undertake processing, manufacturing, grading and packing activities and establish industrial units.
- vii) To carry out publicity and propaganda in respect of co-operative marketing and arrangements of demonstration by organising marketing.
- viii) To run warehouses.
- ix) To collect commercial information particularly relating to conditions in principal markets, general trends of prices and circulate those amongst its members.
- x) To produce and sell goods and services to achieve the higher return on sales in the industry to the total satisfaction of consumer, employees and shareholders in that order.

b) Current Situation

The company is producing refined oil and the tins are filled with manual filling machine under the supervision of manager. The manual filling machine leads to inaccuracy in the

amount of filling. If less oil is filled due to the negligence of labour, the company can be fined heavily under the Weight and Measurement act and if the excess oil is filled then it leads to financial loss. In order to overcome this situation, the safety committee has recommended to introduce automatic oil filling machine. The total investment in project is estimated as Rs. 3700000.

c) Critical Assumptions

- i) The cost can be recovered in one year only if the demand and supply of the product remain constant.
- ii) Taste and preferences of the customer remain constant
- iii) Prices of by products remain constant

5. ANALYSIS OF OPTION

The recommendation stresses several bottom line benefits from the corrective action i.e.

Reduction in Manpower: There are 30 workers in operation at present. With the installation of automatic oil filling machine number of workers reduced to 15. The workers are paid for 8 hours a shift at the rate of Rs. 400 per day. So 15 workers are paid at the Rs. 400 per day is

$$15 * 400 = \text{Rs. } 6000$$

In a year assuming 340 days are working days. Rest 25 days are not considered as there are may be no requirement of stock or due to maintenance program or due to a public holiday. So the total annual amount of saving due to reduction of manpower is :

$$6000 * 340 \text{ days} = \text{Rs. } 2040000$$

Saving of Oil: The rate of refined oil is Rs. 65 per Kg. with the installation of automatic oil filling machine 20 gms of oil is saved for per pack. The company is producing 5000 tins manually in one shift which of 8 hours. If the automatic machine is installed the number of units produced in one shift is 8000 tins. So

If one tin is produced 20 gms are saved.
 If 8000 tin are produced then
 $8000 * 20/1000 = \text{Rs. } 160 \text{ Kg are saved}$
 In one day total amount is saved
 $= 160 * 65 = \text{Rs. } 10400$
 In 340 days total amount saved
 $= 10400 * 340 = \text{Rs. } 3536000$

6. ANALYSIS

Return on Investment : Based on the estimates above, the annual ROI realized from an effective recommendation of committee will be approximately:

Savings from investment* 100
 Total Investment
 $(2040000 + 3536000) * 100 = 139.4\%$
 4000000

This is due to

Yearly saving through reduction of manpower Rs. 2040000

Yearly savings due to saving of extra oil packed in tins ie Rs. 3536000

Pay back Period : The pay back period will be approximately,

Annual Investment/ Annual Cash Inflow
 $4000000/ (2040000 + 3536000)$
 $= 0.72 \text{ years} = 8.6 \text{ months}$

Preliminary Project Requirement : In order to install the machine, there is requirement of civil foundation .For the working of machinery there is requirement of electric installation. Out of the total expenditure, 75% is to be raised through bank loan and 25% is to be raised through retained earnings.

Budget estimates : The total investment is of Rs. 4000000, out which

Machine Cost	Rs. 3700000
Civil Foundation cost	Rs. 200000
Electric installation	Rs. 100000

Schedule estimate : The time period for placing an order till installation of machine is total 3 monrhs. As after placing an order, time taken for delivering machine is approx. 1 month and set up time is approx. 1 month.

7. CONCLUSION

As the project can be undertaken because the pay back period is less than 1 year and the return of investment is also 139 per cent. There is also a saving in manpower and saving of oil which reduces overall cost of production which shows favourable situation to undertake the project. ●

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