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ANALYSIS OF ECONOMIC VIABILITY FOR LONG-TERM INVESTMENT

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Abstract:-The decision making to invests money in long term projects. A high-quality decision process requires that the choices are feasible and well-formulated, that consequences are understood and well explored, that the preferences are included when comparing the full array of costs and benefits of the proposed decision and the action taken are focused on getting result. In case of a new project, financial viability can be judged on the following parameters: Total estimated cost of the project. Financial viability study is one of the most important areas of financial management. Making investment decision, capital expenditure budget or capital budgeting, means that we must allocate substantial amount of major resources of people, time and technology, intellectual capital and of course money. Financial viability decision pertains to fixed/long-term assets which are in operation and yield a return over a period of time. They therefore involve current outlay in return for series of anticipated flow of future benefits. In particular this research focused on several techniques commonly used to evaluate financial viability of a project namely the Payback Period, Discounted Payback Period, Net Present Value and Internal Rate of Return and Profitability Index. Recent studies highlight that financial manager worldwide methods such as the Internal rate of return (IRR) or Non-discounted payback period (PP) models over the Net Present Value (NPV), which is the model academics consider superior.

Keywords: Economic Viability , Analysis , financial management , payback period .

INTRODUCTION

Financial viability (or investment appraisal) is the planning process used to determine whether an organization's long term investments such as new machinery, replacement machinery, new plants, new products and development projects are worth pursuing. It is budget for major , or investment, expenditures.

Financial Viability analysis is a vital activity in business. Vast sums of money can be easily wasted if the investment turns out to be wrong or uneconomic. The subject matter is difficult to grasp by nature of the topic covered and also because of the mathematical content involved. However, it seeks to build on the concept of the future value of money which may be spent now. It does this by examining the techniques of net present value, internal rate of return and annuities. The timing of cash flows are important in new investment decisions and so the chapter looks at this "payback" concept. One problem which plagues developing countries is "inflation rates". It ends by showing how marketers can take this in to account. Niels Hermes, Peter Smid and Lu Yao (Dec 2003), Faculty of Management and Organization, University of Groningen; Faculty of Economics, University of Groningen has undergone study on project financial viability. They said "The preparation of reports on the financial viability of a project is imperative for the soundness of the financial health of an organization. The financial analysis focuses on the financial viability, stability, and the profitability of the project". Moreover, regular financial analysis ensures timely changes in the strategies of business for betterment. D.L.Susewhewa, D.C.Wanaguru, R.T.Thotawatta, A.S. Wickramasinghe Department of Electrical Engineering, University of Moratuwa, and Supervised by: Mr. Sunith Fernando, Prof. Priyantha Wijayatunga conducted an Investigation of Technical and Financial Viability. The Social Housing foundation (Feb 2006) conducted a study on financial viability for property development. The topic of research was Project Financial Viability Studies for Property Development in the Social Housing Sector, Result of which they issued a guideline to conduct the financial viability of property development. Property development is sometimes defined as "taking the risk of sacrificing a known present value (of one's invested funds or equity) in return for an increased, but uncertain, future value". To minimize the inherent uncertainty and risk, an investigation into the likelihood of successfully executing a project should always be undertaken before actually embarking on the project. This investigation is called a feasibility study. Feasibility studies should

be done very early in the life of a project, before detailed designs and technical documentation are prepared, to ensure that time; energy and money spent on detailed project preparations are not wasted on the wrong concept, and to avoid irreversible commitments being made to unsuitable pieces of land. The International Fund for Agricultural Development (IFAD) (January 2008), have involved themselves in making the detail study on Financial and economic analysis for investment projects and study stated The design of rural development investments should include tests of financial viability and sustainability, as well as a demonstration of the value of the project to the economy in general. Financial and Economic Analyses provide the relevant ex-ante evidence within the frameworks of Discounted Cash Flows and Cost Benefit Analysis (CBA).

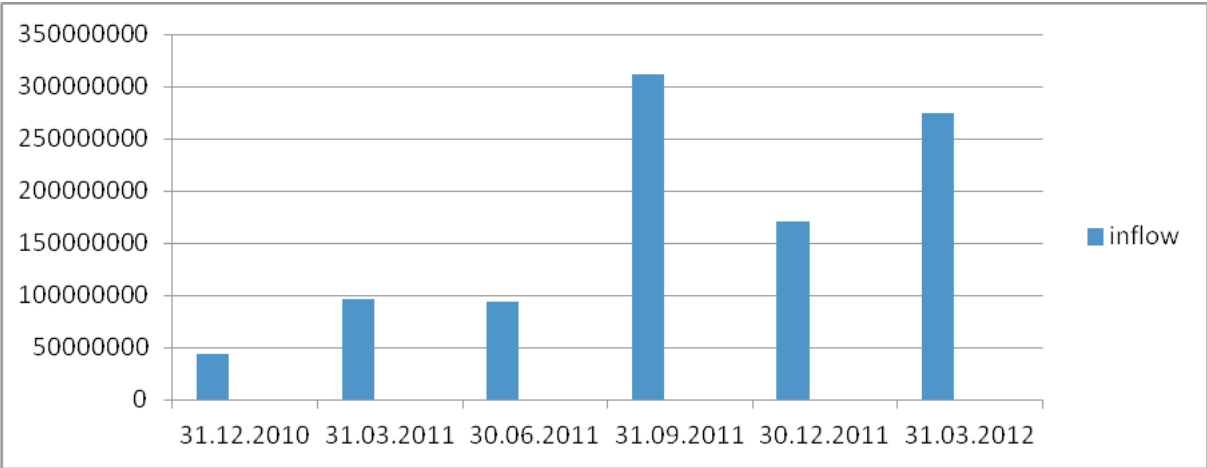
The focus is an empowering management with strategic information on the performance and profitability of your company. Some of the tools we employ to determine the project viability. Jawaharlal Nehru National urban renewal mission (2009) under the DETAILED PROJECT REPORT: Preparation Toolkit (SUB-MISSION FOR URBAN INFRASTRUCTURE AND GOVERNANCE) conducted a study on Project Financial Viability & Sustainability and the study focuses on multiple perspectives. Feasibility studies are not about uninformed speculation. It is vital in marketing decisions, Decisions on investment, which take time to mature, have to be based on the returns which that investment will make. Unless the project is for social reasons only, if the investment is unprofitable in the long run, it is unwise to invest in it now. Often, it would be good to know what the present value of the future investment is, or how long it will take to mature (give returns). It could be much more profitable putting the planned investment money in the bank and earning interest, or investing in an alternative project.

II DATA ANALYSIS AND INTERPRETATION
REVENUE GENERATION (INFLOW OF CASH)
TABLE NO: 1.1

	REVENUE
30.12.2010	4,36,21,370
31.03.2011	9,60,93,367
30.06.2011	9,42,19,953
31.09.2011	31,11,29,418
30.12.2011	17,13,16,400
31.03.2012	27,51,10,981
TOTAL	99,14,91,489

INFLOW OF CASH

CHART NO: 2.1



Inference:

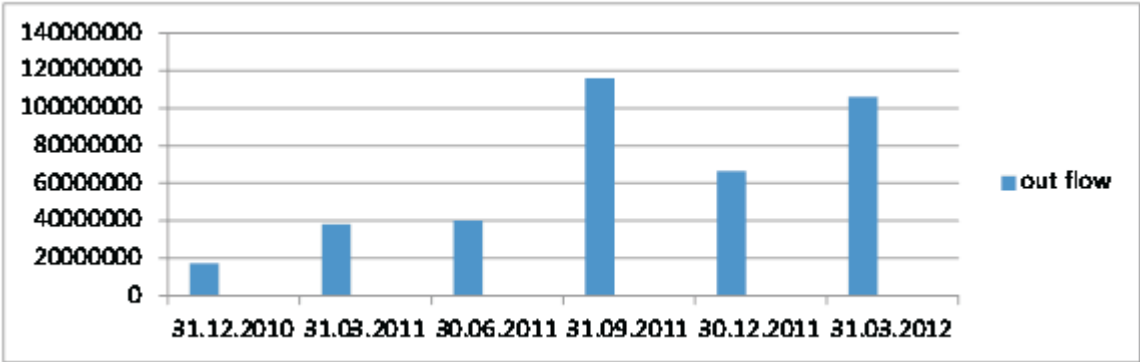
From the above chart march 2012 the inflow was maximum the lead to highest working capital

COST INCURRED (CASH OUTFLOW)

TABLE NO: 1.2

	Observed Expenditure	%	Actual Total Cost Incurred	Actual Cost Incurred
	3,28,03,985.00	0.04523	384206894.00	1,73,77,67,781
30.03.2011	7,21,57,317.00	0.087895	384206894.00	3,82,28,585.99
31.06.2011	7,56,79,418.00	0.092185	384206894.00	4,00,91,989.78
30.09.2011	21,89,88,738.00	0.266751	384206894.00	11,60,18,955.77
31.012.2011	12,53,98,102.00	0.152748	384206894.00	6,64,33,21,404.79
30.03.2012	20,01,62,556.00	0.243819	384206894.00	10,60,44,944.17
Total	72,51,90,116			38,42,06,894

OUTFLOW OF CASHCHART NO: 2.2



Inference:

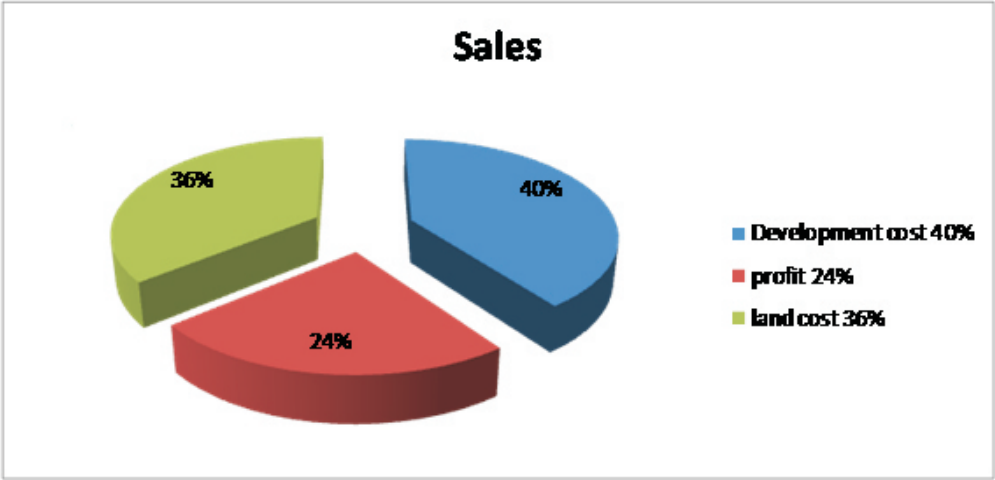
From the above march 2012 the outflow was maximum and it lead to utilization of working capital.

STATEMENT OF COST & REVENUE

TABLE NO: 1.3

PARTICULAR	In Rupees
1.Revenue	99,14,91,489
Less: Balance as per Work in Progress	
2. Land Cost	38,60,08,304
3. Development Cost (completion = 91.23%)	38,42,06,894
Profit	2,21,21,691

REVENUE CHART NO: 2.3



Inference:

From the above the chart shows the company makes profit 24%till March 2012 where as construction is completed only 91.23%the total cost including cost & development is 76%.

ESTIMATED STATEMENT OF COST & REVENUE AS ON 30 SEP 2012

TABLE NO: 1.4

PARTICULAR	In Rupees	In Rupees
1. Revenue		1,09,50,07,281
(i) Actual Received	99,14,91,489	
(ii) Revenue Yet to Receive	10,35,15,792	
Less: Balance as per Work in Progress		
2. Land Cost		38,60,08,304
3. Development Cost		41,70,21,596
(i) Actual Cost Incurred (91.23%)	38,42,06,894	
(ii) Expense Yet to Incurre	3,28,14,702	
Profit		28,29,19,105

CONCLUSION

The company has mobilized the fund in the manner the funds are invested productivity in long term investment but it has been observed that the time value factor as made investment in long term as inappropriate. Due to the borrowing fund from bank and Net present value, it has influenced the constant cash outflow and inflow decision over a period of time which made the return on investment inappropriate compare to alternative option The company should make a deep study on time value of money by considering the return in future date by evaluating the present value factor. Funds are obtained by company at a certain cost. Even internally generated funds have an implicit cost. Hence, there is a need to obtain a surplus over and above the cost of fund. Only then the investment is justifiable. From the above research it has been indentified that financial viability of long term investment by p &c pvt ltd in Central Park – South Project is not justifiable.

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