Abstract

The successful working and sustainability of cooperative spinning mills largely depend on provision of effective services to their members which in turn hinges on the efficient financial management. Management of finance is very much pertinent in larger cooperatives as it has perceptible impact on all the functional and managerial aspects of the cooperatives. Financial management comprises four functions viz., capital budgeting decision, capital structure decision, working capital decision and dividend policy decision.

Capital budgeting decision is a crucial decision especially in larger cooperatives like spinning mills, because all the other decisions revolve around it. Capital budgeting decisions like establishment of a new mill, expansion of existing capacity, modernizing the machinery, and diversification of business need huge capital. The returns are expected to spread over a long period of time. Such decisions are also associated with a high degree of risk and uncertainty. They are also irreversible in nature. Hence, capital budgeting decision should aim at trade-off between the risk and the return. In other words, it should aim at minimizing the risk and maximising the return.

Capital budgeting decision in cooperatives which emphasise cooperative characters in business assumes a greater significance, for it help in realising the objectives of financial management in cooperatives viz., minimising the cost of capital which includes cost of administration. It is against this background, this study has been undertaken.

The primary objective of the study is to have an insight into the practices relating to capital budgeting decisions in cooperative spinning mills in Tamilnadu. The study is descriptive in nature. Case study method has been adopted. Three cooperative spinning mills have been selected for the study. Three different capital budgeting decisions viz., establishment, expansion and modernization have been studied.
The findings of the study revealed that the source of proposal origination was centralised. Motivation for generation of investment idea was lacking. The project was formulated by external experts in the case of establishment, and the officials of the mills concerned in other cases. Financial projections were based on certain assumptions which were latter proved to be unrealistic.

The ultimate authority to decide the capital budgeting was the Director of Handlooms and Textiles, who is the controlling authority of cooperative spinning mills in the state. For appraising the proposal, crude form of pay back period was adopted. However, it is not based on cash flow but on term loan repayment. Discounted cash flow techniques were not employed for appraisal though there was adequate scope for using such techniques.

Delay in clearing off the file and sanctioning of the term loan was a common feature which resulted in cost and time overrun. This was invariably noticed in all the three investment decision.

Fourteen key variables were considered for assessing the post investment performance. The actual performance against the projected in all the three types of investment decisions presented a dismal picture. The actuals indicated a negative variation.

The study offered certain suggestions towards better capital budgeting practices which include involvement of managerial and supervisory staff at different stages of capital budgeting decision, scientific assessment of future prospects, risk and return, adoption of time-adjusted methods in capital budgeting decisions, close monitoring of the implementation of the proposal, introduction of post-performance audit and so on. The study has also suggested a few area for further research.