

**"Capital Budgeting Practices: A study of companies
listed on
Karachi Stock Exchange (KSE), Pakistan."**



By:

Haseeb ur Rehman

(01-120112-025)

MBA

Supervisor:

Ms. Rabia Sharif

Department of Management Sciences

**Bahria University Islamabad
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ABSTRACT

This research study focuses on the capital budgeting practices that are prevailing in the companies which are actively traded on Karachi Stock Exchange (KSE), Pakistan. The purpose of the study was to develop an insight into utilization of formal models developed by financial experts for decision making related to an investment opportunity ranging over a time horizon of more than a year, in this part of the world.

The study used a survey questionnaire; which was developed after a detail study of different textbooks concerning various aspects of capital budgeting process, as a research instrument to gather a data necessary for the research study. Which is then analyzed using a very popular statistical software package known as SPSS in the market and meaning of the data collected was discussed accordingly.

It was examined through this research study whether the knowledge imparted into the students regarding formal models of decision making especially related to capital budgeting decision is being practically applied by finance professionals who are working for the companies which are targeted in this study or they try to figure out rational decision informally.

The findings of the study revealed that companies operating in this part of the world acknowledges the effectiveness of capital budgeting process in generating and successfully executing the investment opportunities which can help companies increase their value ultimately benefiting the shareholders and various other stakeholders. The use of capital budgeting techniques as decision making tools by all the companies who participated in this study is evident to this.

Further, the study discovered that the most preferred capital budgeting technique here among the finance professionals is Net Present Value (NPV). Along with this, other practices include; the preference to the use of Cost of Debt as a discount rate, reviewing their discount rate estimates on annual basis, use of probability distribution of projected cash flows as a basis for measuring riskiness associated with the opportunity, using a very popular software package known as Microsoft excel to perform all the calculations related to capital budgeting.

Despite of great emphasis on the use of after-tax cash flows in capital budgeting analysis by financial authors in their books, companies operating here choose to use before-tax cash flows. Companies are also reluctant to delegate the authority of the final decision regarding the execution of the investment opportunity to a person who performs actual calculations.

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Table of Contents

CHAPTER 1: INTRODUCTION	- 1 -
1.1 BACKGROUND	- 1 -
1.2 RATIONALE OF THE STUDY	- 3 -
1.3 SIGNIFICANCE OF THE STUDY	- 4 -
1.4 RESEARCH QUESTION	- 5 -
1.5 RESEARCH OBJECTIVES	- 5 -
CHAPTER 2: LITERATURE REVIEW	- 7 -
2.1 CAPITAL BUDGETING	- 8 -
2.2 CAPITAL BUDGETING PROCESS	- 9 -
2.2.1 Categories of Projects	- 11 -
2.2.2 Basic Principles of Capital Budgeting Process	- 11 -
2.2.3 Some Important Concepts Associated With Capital Budgeting Process	- 12 -
2.3 CAPITAL BUDGETING TECHNIQUES	- 13 -
2.3.1 Sophisticated Capital Budgeting Evaluation Techniques	- 13 -
2.3.2 Unsophisticated Capital Budgeting Evaluation Techniques	- 35 -
CHAPTER 3: THEORETICAL FRAMEWORK	- 41 -
3.1 HYPOTHESIS	- 41 -
3.2 CONCEPTUAL THEORETICAL FRAMEWORK	- 42 -
3.3 VARIABLES	- 42 -
CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY	- 43 -
4.1 METHODOLOGY	- 43 -
4.2 SAMPLE	- 43 -
4.3 METHOD FOR DATA ANALYSIS	- 44 -
CHAPTER 5: RESULTS AND DISCUSSIONS	- 45 -
5.1 FREQUENCY ANALYSIS OF THE DATA	- 45 -
5.2 CROSS TABULATION AND CHI-SQUARE TEST ANALYSIS	- 58 -
CHAPTER 6: CONCLUSION AND RECOMMENDATION	- 60 -

References	- 63 -
Appendices	- 65 -
Appendix – A	- 65 -
Appendix –B	- 66 -