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A STUDY ON FINANCIAL FORECASTING AND PLANNING - ULTRATECH

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ABSTRACT

A **financial forecasting & planning** (or **financial report**) is a formal record of the financial activities of a business, person, or other entity. In British English—including United Kingdom company law—a financial forecasting & planning is often referred to as an **account**, although the term financial forecasting & planning is also used, particularly by accountants.

For a business enterprise, all the relevant financial information, presented in a structured manner and in a form easy to understand, are called the financial forecasting & planning. They typically include four basic financial forecasting & planning:

For large corporations, these managements are often complex and may include an extensive set of notes to the financial forecasting & planning and management discussion and analysis. The notes typically describe each item on the balance sheet, income management and cash flow management in further detail. Notes to financial forecasting & planning are considered an integral part of the financial forecasting & planning.

I. INTRODUCTION

Purpose of financial forecasting & planning by business entities

"The objective of financial forecasting & planning is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions." Financial forecasting & planning should be understandable, relevant, reliable and comparable. Reported assets, liabilities and equity are directly related to an organization's financial position. Reported income and expenses are directly related to an organization's financial performance.

Financial forecasting & planning are intended to be understandable by readers who have "a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently." Financial forecasting & planning may be used by users for different purposes.

Financial Forecasting

The lack of planning and control of cash resources is the reason often given for the failure of many small businesses in Australia. However, good forecasting can help reduce your business risk.

Much like a map helps you plan a long road trip, a financial forecast (often called a cash budget, cash flow, or financial plan) helps you achieve your goals and get your business to where you want it to be.

A financial forecast is a tool that allows you to use your resources where they're most needed, so you can control the cash flow of your business, instead of it controlling you. It allows you to control your money so you are more likely to achieve your desired net profit.

A **financial plan** is a series of steps or goals used by an individual or business, the progressive and cumulative attainment of which is designed to accomplish a financial goal or set of circumstances, e.g. elimination of debt, retirement preparedness, etc. This often includes a budget which organizes an individual's finances and sometimes includes a series of steps or specific goals for spending and **saving** future. This plan allocates future income to various types of expenses, such as rent or utilities, and also reserves some income for short-term and long-term savings. A financial plan is sometimes referred to as an investment plan, but in personal finance a financial plan can focus on other specific areas such as risk management, estates, college, or retirement.

People enlist the help of a financial planner because of the complexity of performing the following:

- Providing financial security and ensuring that all goals of personal finance are met
- Finding direction and meaning in one's financial decisions;
- Understanding how each financial decision affects other areas of finance; and
- Adapting to life changes to feel more financially secure.

The best results of working with a comprehensive financial planner, from an individual client or family's perspective are:

- To create the greatest probability that all financial goals (anything requiring both money and planning to achieve) are accomplished by the target date, and
- To have a frequently-updated sensible plan that is proactive enough to accommodate any major unexpected financial event that could negatively affect the plan, and
- To make intelligent financial choices along the way (whether to "buy or lease" whether to "refinance or pay-off" etc.).

Before working with a comprehensive financial planner, a client should establish that the planner is competent and worthy of trust, and will act in the client's interests rather than being primarily interested in selling the client financial products for his own benefit. As the relationship unfolds, an individual financial planning client's objective in working with a comprehensive financial planner is to clearly understand what needs to be done to implement the financial plan created for them. So, in many ways, a financial planner's step-by-step written implementation plan of action items, created after the plan is completed, has more value to many clients than the plan itself. The comprehensive written lifetime financial plan is a technical document utilized by the financial planner, the written implementation plan of action is just a few pages of action items required to implement the plan; a much more "usable" document to the client.

NEED AND IMPORTANCE OF CAPITAL STRUCTURE:

The value of the firm depends upon its expected Financial Forecasting. The rate used to discount earnings stream it’s the firm’s required rate of return or the cost of capital. Thus, the capital structure and Financial Forecasting decision can affect the value of the firm either by changing the expected earnings of the firm, but it can affect the reside earnings of the shareholders. The effect of leverage on the cost of capital is not very clear. Conflicting opinions have been expressed on this issue. In fact, this issue is one of the most continuous areas in the theory of finance, and perhaps more theoretical and empirical work has been done on this subject than any other.

If leverage affects the cost of capital and the value of the firm, an optimum capital structure would be obtained at that combination of debt and equity that maximizes the total value of the firm or minimizes the weighted average cost of capital. The question of the existence of optimum use of leverage has been put very succinctly by Ezra Solomon in the following words.

Given that a firm has certain structure of assets, which offers net operating earnings of given size and quality, and given a certain structure of rates in the capital markets, is there some specific degree of financial leverage at which the market value of the firm's securities will be higher than at other degrees of leverage?

The existence of an optimum Financial Forecasting is not accepted by all. These exist two extreme views and middle position. David Durand identified the two extreme views the net income and net operating approaches.

SCOPE OF THE STUDY:

A study of the Financial Forecasting and planning involves an examination of long term as well as short term sources that a company taps in order to meet its requirements of finance.

OBJECTIVES OF THE STUDY:

The project is an attempt to seek an insight into the aspects that are involved in the capital structuring and financial decisions of the company. This project endeavors to achieve the following objectives.

1. To Study the Financial Forecasting and planning of **Ultra tech cements.**
2. Study effectiveness of financing decision on EPS and EBIT of the firm.
3. Examining leverage analysis of **Ultra tech cements**.
4. To evaluate the Financial Forecasting and planning practices relating to various projects of **Ultra Tech Cements Limited** Hyderabad
5. To Assets the long term requirements of funds and plan for application of internal resources and debt servicing.
6. To Assess the effectiveness of long term investment decisions of **Ultra Tech Cements Limited**
7. To offer conclusion derived from the study and give suitable suggestions for the efficient utilization of capital expenditure decisions.

II. RESEARCH METHODOLOGY AND DATA ANALYSIS

Data relating to Ultra tech cements. Has been collected through

SECONDARY SOURCES:
IMARY SOURCES:

- Detailed discussions with Vice-President (Works).
- Discussions with the Finance manager and other members of the Finance department.

DATA ANALYSIS
At each point of time a business firm has a number of proposals regarding various projects in which, it can invest funds. But the funds available with the firm are always limited and are not possible to invest trend in the entire proposal at a time. Hence it is very essential to select from amongst the various competing proposals, those that gives the highest benefits. The crux of capital budgeting is the allocation of available resources to various proposals. There are many considerations, economic as well as non-economic, which influence the capital budgeting decision in the profitability of the prospective investment.

Yet the right involved in the proposals cannot be ignored, profitability and risk are directly related, i.e. higher profitability the greater the risk and vice versa there are several methods for evaluating and ranking the capital investment proposals.

These tools access in the interpretation and understanding of the Existing scenario of the Capital Structure.

LIMITATION OF STUDY

1. The study is limited to **Ultra Tech Cements Limited** only.
2. The study is limited to certain projects of **Ultra Tech Cements Limited**.
3. Period of the study is restricted to five years only.
4. The present study cannot be used for

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inter firm comparison.

5. Limited span of time is a major limitation for this project.
6. The act and figures of the study is limited to the period of FIVE years.
7. The data used in reports are taken from the annual reports, published at the end of the years.
8. The result does not reflect the day-to-day transactions.
9. It is also impossible to the study of day-to-day transactions in cash management.
10. The analysis of the capital is taken FIVE years.

What is a financial forecast?

A financial forecast is simply a financial plan or budget for your business. It is an estimate of two essential future financial outcomes for a business – your projected income and expenses. Create a cashflow forecast by adding income and expenses as they are due. You will then know exactly how much you need to make every month for a profitable business.

A financial forecast is the best guess of what will happen to your business financially over a period of time. Usually, financial forecasts are an estimate of future income and expenses for a business over the next year and are used to develop the projections of profit and loss statements, balance sheets and, most critically, the cash flow forecast.

Predicting the financial future of your business is not easy, especially if you are starting a business and do not have a trading history. Initially, your financial forecasts will be inexact and inaccurate. However, frequent forecasting with adjustments as required will promote more accurate forecasting.

Why prepare a financial forecast?

The financial forecast is critical to your business plan, especially if it is for the purpose of getting a bank loan. More importantly, you are an investor in your own business and you must have confidence in the validity of your business concept. Use a financial forecast to prove to yourself that your business will generate your desired profit and when it will start to make that profit.

A financial forecast is a vital tool in the financial management of your business and, like your business plan, requires regular review and amendment to be effective. Once the period for which you prepared the budget is over, be sure to compare the actual results against your budget forecasts. Examine why variations have occurred, take any remedial action necessary to correct the problem, or plan for them accordingly in your next budget.

Advantages of an effective financial forecast:

Demonstrates the financial viability of a new business venture. Allows you to construct a model of how your business might perform financially if certain strategies, events and plans are carried out.

Allows you to measure the actual financial operation of the business against the forecast financial plan and make adjustments where necessary.

Allows you to guide your business in the right direction and take control of your cash flow.

Provides a benchmark against which to measure future performance.

Identifies potential risks and cash shortfalls to keep the business out of financial trouble.

Provides an estimate of future cash needs and whether additional private equity or borrowing is necessary.

Assists you to secure a bank loan or other funding. Lenders and investors require financial forecasts to show your capacity to repay the loan.

How often should I prepare a financial forecast?

How often you forecast will depend on the circumstances of your business and where it is positioned in the business life cycle. If you are planning to start a business, you will develop an

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annual financial forecast as part of your feasibility study to prove that the business is viable.

Monthly or weekly forecasts may be necessary when the business is just starting or if the business is experiencing difficulties or rapid growth. Frequent forecasts allow you to closely monitor your figures and develop strategies to rectify any problems before they become a major issue. Rolling monthly or quarterly forecasts may be more appropriate for a stable, mature business.

You should regularly measure and monitor the performance of your business, and compare your financial forecasts with the actual figures as they become available. If necessary, adjust your forecasts to reflect the changes.

Monitoring the differences between your forecasts and the actual figures will help you to:

Identify the cause of the variation so you can take corrective action before it becomes a major problem.

Fine tune your skills so you prepare more accurate forecasts next year.

What are the components of a financial forecast?

Creating a financial forecast shows you the financial requirements to start the business, convince you and your bank of the viability of your business or your business growth, and what resources you need to keep the business profitable.

Your financial forecast will be based on information gathered from industry and market research. Since you will be responsible for achieving the predetermined financial objectives, make sure your estimates and assumptions are realistic. Be consistent and make sure that your financial forecast reflects the rest of the business plan. For example, your sales forecast should reflect the capacity of production equipment mentioned in the operational section.

Combine the components of your financial forecasts to generate projected financial statements, (balance sheet, profit and loss statement). You may need help from your accountant to assemble the figures in the conventional format, but the research and operational assumptions should be your own.

You can develop your own financial forecast by using the spreadsheets to complete the individual components. Then add the timing dimension (when you expect to receive payment and the amount) over 12 months to generate an annual cash flow forecast.

Use the components listed below to develop a cash flow forecast for your own small business.

Cash flow forecast

Establishment costs

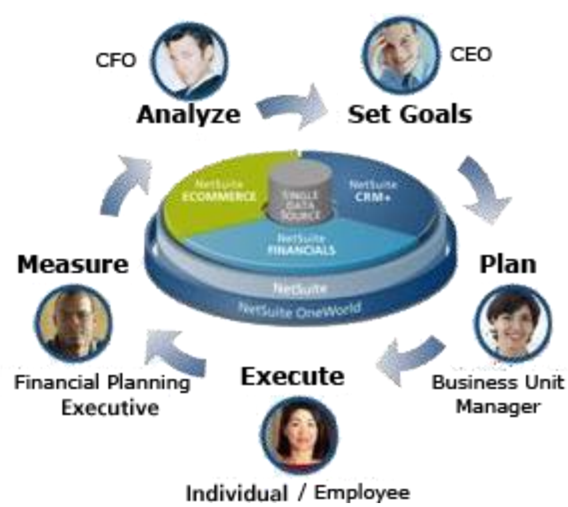
Sales forecast

Cost of goods sold forecast

Expenses forecast

III. Financial Planning

Gain Control Over Your Budgeting and Planning Processes



Tired of error-prone, labor-intensive spreadsheet-based approaches to financial planning? Want more visibility into your business so you can accurately plan and forecast? The NetSuite Financial Planning Module is an add-on solution for NetSuite that gives you cost-effective, highly sophisticated planning and "what-if" financial modeling capabilities. And it's delivered over the same Software-as-a-Service (SaaS) infrastructure as NetSuite's industry-leading accounting/ERP, CRM and ecommerce capabilities.

Together, NetSuite and the NetSuite Financial Planning Module give you a real-time, end-to-end business management solution for strategy, planning and execution—a solution that previously cost large corporations millions of dollars and months, if not years, implementing on-premise enterprise software. You'll streamline business processes, improve financial agility, strengthen collaboration and drive better-informed, more strategic decision-making.

Financial Forecasting

Forecasting is a key component in determining future operations, problems, and opportunities. Good financial forecasts benefit governments by enabling decision-makers to:

- Develop an understanding of available funding
- Evaluate financial risk
- Assess the likelihood that services can be sustained
- Assess the level at which capital investment can be made
- Identify future commitments and resource demands
- Identify the key variables that cause changes in the level of revenue and expenditures

Governments at all levels find forecasting beneficial in determining available resources and developing budgeted expenditure amounts. Most public entities use forecasts that extend three to five years beyond the current budget period, although some entities use 10-year forecasts. In any case, the forecast should be monitored and updated on a regular basis.

Quantitative or qualitative methods, or a combination of both, can be used to develop forecasts. Qualitative methods are more intuitive and are based on the following types of information:

- **Judgmental**
  Based on “good sense” or a decision made through discerning and evaluating. For example, a city auditor uses prior experience to project the impact of an increase in income tax revenue.
- **Consensus**
  Based on collective opinion or general accord. For example, a management discussion is used to determine the service level and corresponding cost impact of a policy to limit garbage collection.
- **Expert**
  Based on the advice of an expert. For example, a township clerk uses a State Employee Relations Board report on benefit costs to project future cost increases.

IV. CONCLUSIONS

- The budgeting also covers the long term capital budgets, including annual planning and provides long term plan for application of internal resources and debt servicing translated in to the corporate plan.
- The scope of capital budgeting also includes expenditure on plant betterment, and renovation, balancing equipment, capital additions and commissioning expenses on trial runs generating units.
- To establish a close link between physical progress and monitory outlay and to provide the basis for plan allocation and budgetary support by the government.

- The manual recommends the computation of NPV at a cost of capital / discount rate specified from time to time.
- A single discount rate should not be used for all the capacity budgeting projects.
- The analysis of relevant facts and quantifications of anticipated results and benefits, risk factors if any, must be clearly brought out.
- Inducting at least three non -official directors the mechanism of the Search Committee should restructure the Boards of these PSUs.
- Feasibility report of the project is prepared on the cost estimates and the cost of generation.

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