

Capital Budgeting

Pioneer Distilleries is in a major **expansion phase**. The capex has been on a constant increase for the past 2 years. For FY 2006, the Capex is Rs. 97, 713,577. This was a **34.6% increase** from the previous year's capex of Rs.63, 888,497.

A few of their major investments and related points are as follows:

- The Company is into the high growth sector of alcohol, ethanol, ethyl acetate manufacturing and power production from waste.
- Plant located in a backward area.
- Vertically integrated operations wherein most of the key ingredients such as alcohol, power and steam are generated internally rendering unique tax advantage for the manufacture of acetic acid and ethyl acetate compared to the units having a stand alone facility.
- The Company proposes to expand its operations by increasing the existing ENA capacity from 50KLPD to 100KLPD. The expansion will involve installation of additional fermentation and distillation sections, turbine, revamping of 10 TPH Boiler and installation of Bio-gas and Reverse Osmosis plant, additional storage for finished products. The project has been appraised by the State Bank of Mysore (SBM) and State Bank of Indore (SBIIn).
- The Company is setting up Carbob-di-oxide (Co₂) plant at the factory premises. Co₂, which emerges as a by-product in the fermentation process will be treated further at the plant to produce commercial grade Co₂.

The company activities would also result in production of power of 16 MW and is eligible for carbon credits which can yield substantial revenue. The process of registration for this is in an advanced stage. The gross revenue

- has not been factored into the capex working due to lack of market prices for the carbon credits and information.

TOTAL CAPITAL COST OF THE PROPOSED EXPANSION:

- Rs. 80 Cr . including working capital

Pioneer Distilliers Capex	2007	2008	2009	2010	2011
Pioneer Distilleries Additional Sales	13	30	52	180	203
Sales growth has been spaced out assuming the capex to taken time and company's sales also to take some time.					
Estimated operating margins	20%	20%	20%	20%	20%

All figures in Rs Lakhs

Financial Year	2006	2007	2008	2009	2010	2011
Initial Investment						
Fixed Asset Investment	-60					
Working Capital Investment	-20					
Periodic Cash Flows						
Depreciation		-12.0	-12.0	-12.0	-12.0	-12.0
Change in Operating Profit Before Tax Due to Capex		2.6	6.0	10.4	36.0	40.7
Tax		0.5	1.2	2.1	7.2	8.1
Profit After Tax		2.1	4.8	8.3	28.8	32.5
Operating Free Cash Flow		14.1	16.8	20.3	40.8	44.5
Terminval Value						20.0
Free Cash Flow	-80	14	17	20	41	65
NPV @ 15%	12					
IRR	20%					

The above estimates and computations are some broad logical assumptions using past financial ratio computations and information given above.

Information Source: Annual Reports of Pioneer Distilleries and company's own website.