International Journal of Science, Strategic Management and Technology
Volume **02** Issue **06** June-**2026** | ISSN: **3108-1762 (Online)** | Impact Factor: 3.8
An International, Peer-Reviewed, Open Access Scholarly Journal Indexed in recognized academic databases

Impact of Capital Budgeting Decisions on Financial Performance of Tech Mahindra

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https://doi.org/10.55041/ijsmt.v2i6.173

Cite this Article: Gouthami, T. S. (2026). Impact of Capital Budgeting Decisions on Financial Performance of Tech Mahindra. International Journal of Science, Strategic Management and Technology, *02*(6). https://doi.org/10.55041/ijsmt.v2i6.173

Abstract:
Capital budgeting decisions play a crucial role in determining the long-term growth, profitability, and financial stability of organizations. This study examines the impact of capital budgeting decisions on the financial performance of Tech Mahindra. The research is based on secondary data collected from the annual reports and financial statements of Tech Mahindra for the period 2021–2025. Various capital budgeting techniques, including Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period, are utilized to evaluate investment decisions. In addition, financial performance is assessed using key financial ratios such as Return on Assets (ROA), Return on Equity (ROE), Current Ratio, and Quick Ratio. Statistical tools such as correlation and regression analysis are employed to examine the relationship between capital budgeting decisions and financial performance indicators. The findings of the study indicate that effective capital budgeting decisions contribute significantly to improved financial performance by enhancing profitability, optimizing resource allocation, and supporting sustainable growth. The study concludes that sound investment appraisal practices enable Tech Mahindra to maximize shareholder value and maintain a competitive position in the information technology industry. The research provides useful insights for managers, investors, and policymakers regarding the importance of strategic capital investment decisions in achieving long-term organizational success.

Keywords: Capital Budgeting, Financial Performance, Tech Mahindra, Investment Decisions, Profitability, ROI, ROA, NPV, IRR, Payback period.

Introduction:

Capital budgeting is an important financial decision-making process that helps organizations allocate funds for long-term investments to maximize profitability, efficiency, and growth. In the highly competitive IT industry, continuous investment is necessary to maintain a competitive advantage. Techniques such as Payback Period, Net Present Value (NPV), Internal Rate of Return (IRR), and Profitability Index are used to evaluate investment projects and minimize risks. Tech Mahindra, one of India's leading IT service providers and a part of the Mahindra Group, relies on effective capital budgeting decisions to support its IT consulting, digital transformation, business process outsourcing, and telecommunication services in a rapidly changing technological environment.

Review of literature:

A. K. Gupta (2025) in the International Journal of Advanced Financial Research studied the impact of strategic capital budgeting decisions on innovation and scalability in technology firms. The findings indicated that companies investing in advanced technologies through proper capital allocation achieved improved financial performance and sustainable growth.

R. Srinivasan (2024) in the International Journal of Research in Finance and Marketing studied the effect of capital budgeting decisions on profitability and sustainability in IT companies. The research concluded that effective investment planning improves liquidity, operational efficiency, and long-term financial performance. The study also emphasized the growing importance of technology investments in the IT sector.

S. Ravi Kumar (2023) in the Journal of Contemporary Financial Management analysed the relationship between capital budgeting and financial growth in technology firms. The study explained that proper investment planning helps organizations select profitable projects and improve business performance. The findings revealed that firms adopting modern capital budgeting practices achieve higher profitability and financial stability.

M. Y. Khan and P. K. Jain (2022) in the International Journal of Commerce and Management Research studied the role of capital allocation in financial management. Their research found that efficient allocation of investment funds improves project management, profitability, and organizational performance. The study emphasized that proper investment planning reduces financial risk and enhances decision-making efficiency.

Research Gap:

Although numerous studies have examined capital budgeting techniques and their role in organizational decision-making, there is limited research specifically focused on the impact of capital budgeting decisions on the financial performance of Tech Mahindra. Most existing studies concentrate on manufacturing, banking, and other industrial sectors, while the information technology sector has received comparatively less attention.

Furthermore, previous research has largely focused on the adoption and effectiveness of capital budgeting techniques such as NPV, IRR, and Payback Period rather than analysing their direct impact on financial performance indicators. There is also a lack of studies that integrate capital budgeting analysis with financial ratios such as ROA, ROE and to assess organizational performance.

Need of the study:

The need for this study arises from the importance of capital budgeting decisions in determining the financial success of an organization. Capital investments involve huge funds and affect the long-term growth and stability of a company. Therefore, it is necessary to understand how these decisions influence financial performance.

- Understand the importance of capital budgeting in financial management.
- Analyse how investment decisions affect profitability and growth.

Statement of the problem:

Capital budgeting decisions are essential for a firm's growth and competitiveness, especially in the IT industry. Tech Mahindra makes significant investments in technology and digital transformation to improve its operations and financial performance. However, measuring the impact of these investments, particularly in areas like artificial intelligence and cloud computing, is challenging. Therefore, it is important to evaluate whether these investment decisions effectively enhance the company's profitability, liquidity, and overall financial performance.

Objectives of the study:

- To study the impact of long-term investment decision on revenue growth
- To examine financial performance using indicators like ROE, ROA, and profit margins
- To Analyse the impact of capital budgeting decisions on the financial performance of Tech Mahindra

Scope of the study:

The present study focuses on analysing the role of capital budgeting decisions and their impact on the financial performance of Tech Mahindra. The study is limited to examining the company's investment decisions related to long-term assets and how these decisions influence profitability and financial stability.

The study also covers the evaluation of important capital budgeting techniques such as Payback Period, Net Present Value (NPV), and Internal Rate of Return (IRR) to understand how the company makes investment decisions. Further, the study is confined to secondary data collected from annual reports, company publications, financial websites, and other available sources.

Limitations of the Study:

Every research study has certain limitations which may affect the scope and findings of the research. The following are the limitations of this study on the impact of capital budgeting decisions on the financial performance of Tech Mahindra:

- The study is based only on secondary data collected from annual reports, financial statements, and published sources of Tech Mahindra.
- The study covers a limited period of years, so the findings may not represent the long-term performance of the company.
- The study does not include primary data such as interviews with company officials or employees.
- Financial performance is influenced by many external factors such as market conditions, government policies, and economic changes which are not fully considered in this study.

Research Design:

Research Type: Descriptive and Analytical Research.

- Descriptive research is applied for the purpose of describing the financial position of the company.
- analytical research is applied to determine the effects of capital budgeting decisions through financial data and ratios.

Data Collection: The present study is mainly based on secondary data**.**

Secondary Data:

Data is collected from:

- Annual reports of Tech Mahindra
- Published financial statements (Balance Sheet & Profit and Loss Account)
- Company website
- Academic journals, books, and internet sources

Data Analysis Techniques:

Statistical Tools:

- Correlation analysis
- Regression analysis

Analytical Tools:

- Financial Ratio Analysis (Liquidity, Profitability)
- Capital Budgeting Techniques (NPV, IRR, Payback Period)

Hypothesis:

- **H0 (Null Hypothesis):** Capital budgeting decisions have no significant impact on financial performance.
- **H1 (Alternative Hypothesis):** Capital budgeting decisions have a significant impact on financial performance.

Data Analysis:

Correlation:

Year	X (Investing ₹ Cr)	Y (OCF ₹ Cr)
2021	5620.8	6851.9
2022	1672.2	2969.4
2023	676.8	4102.1
2024	47.2	5005.3
2025	504.3	4293.1

Table:1

Calculation of mean:

Mean of X:

$$\frac{5620.8 + 1672.2 + 676.8 + 47.2 + 504.3}{5}$$

$$\bar{X} = 1704.26$$

Mean of Y:

$$\frac{6851.9 + 2969.4 + 4102.1 + 5005.3 + 4293.1}{5}$$

$$\bar{Y} = 4644.36$$

Year	X	Y	X–X̄	Y–Ȳ	(X–X̄) (Y–Ȳ)	(X–X̄) ²	(Y–Ȳ) ²
2021	5620.8	6851.9	3916.54	2207.54	8648064	15339286	4873233
2022	1672.2	2969.4	-32.06	-1674.96	53694.22	1027.84	2805487
2023	676.8	4102.1	-1027.46	-542.26	557152	1055661	294046.9
2024	47.2	5005.3	-1657.06	360.94	-597997	2745848	130277.7
2025	504.3	4293.1	-1199.96	-351.26	421253.9	1439906	123383.6

Table:2 Correlation

$$r = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum(X - \bar{X})^2 \cdot \sum(Y - \bar{Y})^2}}$$

$$\sum(X - \bar{X})^2 = 20581729.31$$

$$\sum(Y - \bar{Y})^2 = 8226428.03$$

$$9082167$$

$$\sqrt{20581729.31 \times 8226428.03}$$

$$9082167.1$$

$$\sqrt{169340241316807.34}$$

$$= r = \frac{9082167.10}{13013080.35}$$

r=0.698

Interpretation:

The value of the correlation coefficient (r = 0.698) denotes a fairly strong positive relationship between the two variables being analysed. The fact that the two variables have a positive correlation means that there is a direct relationship between the changes taking place in the two variables, meaning an increase in one of the variables is followed by an increase in the other. This therefore shows that there is a significant level of correlation between the two variables although it is not perfect. This implies that there is a favourable relationship between the variables.

Regression:

Year	**X**	**Y**
2021	5620.8	6851.9
2022	1672.2	2969.4
2023	676.8	4102.1
2024	47.2	5005.3
2025	504.3	4293.1

Table:3

Year	**X**	**Y**	**X–X̄**	**Y–Ȳ**	**(X–X̄) (Y–Ȳ)**	**(X–X̄) ²**
2021	5620.8	6851.9	3916.54	2207.54	8648064	15339286.37
2022	1672.2	2969.4	-32.06	-1674.96	53694.2	1027.84
2023	676.8	4102.1	-1027.46	-542.26	557152	1055661.03
2024	47.2	5005.3	-1657.06	360.94	-597997	2745847.84
2025	504.3	4293.1	-1199.96	-351.26	421254	1439906.23

Table:4

Y= a + b X

$$\sum(X - \bar{X})^2 = 20{,}581{,}739.31$$

$\sum(X-X^{-})2=20{,}581{,}739.31$

Calculate Regression Coefficient (b)

$$b = \frac{\sum(X - \bar{X})(Y - \bar{Y})}{\sum(X - \bar{X})^2}$$

$$b = \frac{9{,}080{,}167.10}{20{,}581{,}739.31}$$

b=0.4412

Calculate Intercept (a)

$$a = \bar{Y} - b\bar{X}$$

a=4644.36-(0.4412) (1704.26)

a=4644.36-751.88

a=3892.48

y=3893.48+0.4412x

NPV:

$$NPV = \sum \frac{C_t}{(1+r)^t} - I_0$$

Total present value of inflows:

ΣPV =2699.45+3390.17+3760.56+2932.72

ΣPV =12782.90

NPV=12782.90-5620.8

= ₹7162.10 Cr

Year	Cash Flow (₹ Cr)	Discount Factor @10%	Present Value (₹ Cr)
0	-5620.8	1	-5620.8
1	2969.4	0.9091	2699.45
2	4102.1	0.8264	3390.17
3	5005.3	0.7513	3760.56
4	4293.1	0.683	2932.72
	Total PV of inflows=		12782.9
	NPV=		₹7162.10 Cr

Interpretation:

As per the given figures, the net present value (NPV) of ₹7162.10 crore is positive, which mea that the present value of future cash flows is more than the total investment amount invested the project by tech Mahindra. thus, this is an indicator that the investment decision of the compa is financially viable and can earn a return more than the minimum required rate of return. positi NPV shows that the projects taken by the organization create value for the business and help maximizing shareholders' wealth. moreover, this figure reveals the efficient and effective capit budgeting process followed by tech Mahindra as well as the generation of good cash flows fro the investments made by the company.

Return on Assets (ROA):

ROA tells us how well a company is using its assets to make money. In simple terms, it shows ho much profit is being earned for every rupee of assets owned. A higher ROA means the company managing its resources efficiently. A lower ROA suggests there's room to improve how tho resources are being used to generate profit.

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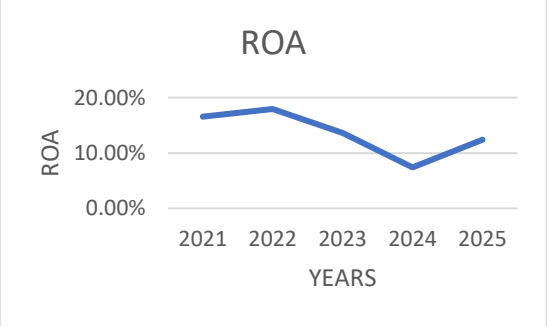
Formula:
ROA= Net Profit /Total Assets *10

Year	Net Profit (₹ Cr)	Total Assets (₹ Cr)	ROA (%)
2021	5526.6	33374.7	16.56%
2022	6284.6	35004.8	17.95%
2023	4904.1	36035.2	13.61%
2024	2564.7	34663.7	7.40%
2025	4497.2	36181.3	12.43%

Table:7 ROA



Graph:7 ROA

Interpretation:

- In 2021, the company recorded an ROA of 16.56%, indicating efficient utilization of asse for generating profits.
- In 2022, ROA increased to 17.95%, which was the highest during the study period. Th reflects improved operational efficiency and better profitability.
- In 2023, the ROA declined to 13.61%, showing a decrease in the company's ability generate returns from its assets compared to the previous year.
- In 2024, ROA dropped significantly to 7.40%. This indicates lower profitability ar reduced efficiency in asset utilization, possibly due to increased expenses or lower earnings.
- In 2025, ROA improved to 12.43%, showing recovery in financial performance and bett utilization of company assets.
- Overall, the graph indicates fluctuations in ROA over the five-year period. The decli during 2023 and 2024 suggests challenges in profitability, while the improvement in 2025 reflec positive recovery and improved financial management.

ROE:

Year	Net Profit (₹ Cr)	Shareholders' Equity Cr)	ROE (%)
2021	5526.6	25010.7	22.09%
2022	6284.6	25845.6	24.31%
2023	4904.1	24821.3	19.76%
2024	2564.7	23168.9	11.07%
2025	4497.2	22420.7	20.06%

Table:8 ROE

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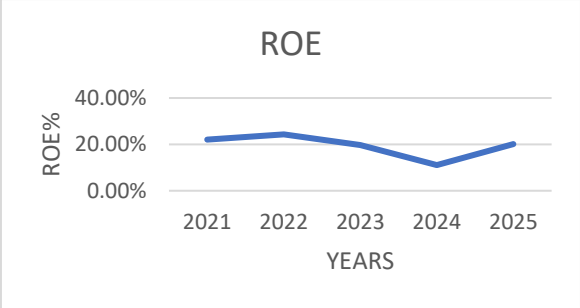

Graph:4.8 ROE

Interpretation: ROE reflects returns to shareholders. The company shows strong returns overa with a peak in 2022 and a decline in 2024, indicating temporary pressure on profitability.

Chi-square test:

Investment activities:

$$\bar{X} = \frac{5620.8 + 1672.2 + 676.8 + 47.2 + 504.3}{5}$$

$$\bar{X} = \frac{8521.3}{5} = 1704.26$$

Net Profit (₹ Cr):

$$\bar{Y} = \frac{5526.6 + 6284.6 + 4904.1 + 2564.7 + 4497.2}{5}$$

$$\bar{Y} = \frac{23777.2}{5} = 4755.44$$

Year	**Investment Activities (₹ Cr)**	**Category**	**Net Profit Cr)**	**Category**
2021	5620.8	High	5526.6	High
2022	1672.2	Low	6284.6	High
2023	676.8	Low	4904.1	High
2024	47.2	Low	2564.7	Low
2025	504.3	Low	4497.2	Low

Observed Frequencies (O):

Capital Budgeting Decision	**High Financi Performance**	**Low Financi Performance**	**Total**
High Investment	1	0	1
Low Investment	2	2	4
Total	**3**	**2**	**5**

Expected Frequencies (E):

Formula: $E = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$

Capital Budgeti Decisions	**High Financi Performance**	**Low Financial Performance**
High Investment	1*3/5=0.6	1*2/5=0.4
Low Investment	4*3/5=2.4	4*2/5=1.6

Chi-Square Calculation:

$$\chi 2 = \sum E(O-E)2$$

Cell	**O**	**E**	**$(O-E)^2/E$**
High Investment–High Performance	1	0.6	0.267
High Investment–Low Performance	0	0.4	0.4
Low Investment–High Performance	2	2.4	0.067
Low Investment–Low Performance	2	1.6	0.1
Total χ^2			**0.834**

Degree of Freedom:

df=(r-1) (c-1)

df= (2-1) (2-1) =1

At 5% level of significance, the table value is:

$$\chi^2_{0.05,1} = 3.84$$

0.834<3.84

Accept H_0 and reject H_1.

Findings:

- The study found that capital budgeting decisions play an important role in influencing tl financial performance of Tech Mahindra.
- The company's investments in digital transformation, cloud computing, artifici intelligence, and technological innovation contributed to business growth and operation efficiency.
- The Return on Assets (ROA) ratio increased from 16.56% in 2021 to 17.95% in 202 indicating effective utilization of company assets during the initial years.

- The ROA ratio declined significantly in 2023 and 2024, showing reduced profitability ar lower efficiency in asset utilization during those years.
- In 2025, the ROA ratio improved to 12.43%, indicating recovery in financial performan and better management efficiency.
- The Net Profit Ratio showed a positive trend in 2021 and 2022, reflecting stro profitability and efficient operational management.
- A sharp decline in the Net Profit Ratio was observed in 2024, which indicates reduced n earnings due to higher expenses or lower operational performance.

Suggestions:

- The company should strengthen the use of advanced capital budgeting techniques lil NPV, IRR, and Profitability Index for more accurate evaluation.
- It is recommended to adopt risk analysis tools such as sensitivity analysis, scenar analysis, and simulation techniques.
- Greater emphasis should be placed on long-term strategic investments rather than sho term profitability.
- The company should integrate ESG (Environmental, Social, Governance) factors in capital budgeting decisions.
- Continuous monitoring and post-audit of investment projects should be implemented improve future decisions.

Conclusion:

The study concludes that capital budgeting decisions have a significant positive impact on tl financial performance of Tech Mahindra. The analysis of five years of financial data shows th effective investment appraisal techniques, such as NPV, IRR, and Payback Period, have enhanc profitability and supported long-term growth. Improvements in key financial ratios and tl positive results of correlation and regression analysis indicate a strong relationship betwe capital budgeting decisions and financial performance. Therefore, efficient capital budgeti practices play a vital role in strengthening Tech Mahindra's financial position, maximizi shareholder value, and ensuring sustainable growth in the competitive IT industry.

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