

Capital Project Appraisal Presentation

Power Loom Project

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Introduction

Project

Replace a loom which is failing, impacting sales, income, productivity, and manufacturing costs.

Options

Option A: new loom

Option B: second-hand loom

Aims

Determine the best option for the company

Consider financial factors, e.g. profitability; cost and benefit; funding options

Consider wider benefits and impacts, e.g. practical implications; technological advancement; environmental impact



Anticipated outcomes

Commercial

Continuation of product supply

Increased sales opportunities

Better customer service

Economic

Improving efficiency and productivity

Reducing manufacturing costs

Increased sales

Enhanced profits

Technological, Social, and Organisational

Potential technological advancement and team skills expansion

Ecological

Reduced impact on environment



Timeline and challenges for implementation

Option A: New Loom

Option B: Second-hand Loom

Delivery	6-9 Months	4-6 Weeks
Installation	2 days	Included in delivery time
Training	3 days	1.5 days

Considerations and Impacts:

Availability of second-hand loom

Coordination of logistics for seamless implementation

Balance of current operational risks and financial factors/wider considerations

Impacts of skills development required

Cost of project

	Option A: New Loom	Option B: Second-hand Loom
Machine Cost	£90,000	£26,000
Delivery	Included in machine cost	£1,300
Commissioning	Included in machine cost	£2,300
Training	£518	£260
Additional Parts	£3,500	£1,200
Works for installation	£216	£216
Total Investment cost	£94,234	£31,276
Scrap value of old loom	(£250)	(£250)
Total Investment Outlay	£93,984	£31,026

Project funding options

Classification of sources of finance

Internal: using the company's liquid assets, e.g. retained earnings; management of working capital

External: obtaining funds from outside the company, e.g. borrowings; issuing of shares; bank overdraft; debt factoring

Long-term: generally one-year period and beyond

Short-term: generally within one-year period

Considerations

Level of financial risk to the business

Relationships with shareholders, suppliers, and customers

Business needs and project requirements

Repayment terms and interest rates regarding borrowing

Government aid, e.g. grants and tax relief schemes

Full lifespan of the project

Option A: New Loom

Option B: Second-hand Loom

Project	5 years	5 years
Use of machine	20 years minimum	10 years minimum
Residual asset value	£55,496.85	£18,320.54

Considerations and Impacts:

Benefits beyond the project lifespan

Comparable maintenance required for a new loom and a second-hand loom

Reduction of performance/efficiency over time

Impacts and challenges concerning advanced technology

Business rationale

Financial Factors

Payback period of 5 years or less

Profitable return i.e. positive NPV calculated from WACC of 7%

Additional Factors

Speed of implementation to safeguard continued production

Technological advancement/innovation: secondary benefits

Deciding Factor

The best financial return balanced by speed of implementation



Model of the projects

	Option A: New Loom	Option B: Second-hand Loom
Payback Period (PP)	1 year 3.5 months	5 months
Accounting Rate of Return (ARR)	87.6%	286.7%
Net Present Value (NPV)	£205,970	£269,370
Internal Rate of Return (IRR)	72.6%	235.22%
Profitability Index (PI)	3.19	9.68
Benefits-Cost Ratio (BCR)	2.19	8.68

Conclusion and recommendation

	Option A: New Loom	Option B: Second-hand Loom
Satisfies business rationale	✓	✓
Technological advancement	✓	✓
Environmental considerations	✓	✓
Highest return on investment		✓
Shortest payback period		✓
Fastest implementation timeline		✓
Expected longevity of asset	✓	
Lower financial commitment		✓
Lesser financial risk		✓

References

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