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A study on liquidity and sustainability growth of Wipro Ltd

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Abstract
Liquidity is the ability to source cash at a reasonable cost to meet current commitments. Sustainability is the ability to balance receipts against expenditures over time – forms an overriding goal for fiscal strategy. Liquidity is the ability to source cash at a reasonable cost in order to meet current commitments. The objective of the present project is to analyze the liquidity position and the sustainability growth rate of Wipro ltd for a period of five years from 2011 to 2016. For this purpose, financial ratio analysis has been used. To fulfil the objectives of this study, the ratios such as current ratio, liquid ratio and absolute liquid ratio is calculated. The sustainable growth model as designed by Robert. C. Higgins is manufactured in this study to calculate the growth rate of the company. Finally, the suggestions are offered to improve the financial performance of the company.

Keywords: liquidity, sustainability, Growth rate, retention, efficiency

Introduction
Liquidity is the ability of a company to meet the short term obligations. It is the ability of the company to convert its assets into cash. Short term, generally, signifies obligations which mature within one accounting year. Short term also reflects the operating cycle: buying, manufacturing, selling, and collecting. Sustainable growth analysis is important because it provides a guideline as to how much funds should be obtained and on what terms. The present study aims to assess the liquidity and sustainability growth of "WIPRO LIMITED". Wipro started in 1945 with the setting up of an oil factory in Amalner a small town in Maharashtra in Jalgaon District. The company was named aptly named Western India Products Limited. Wipro limited, together with its subsidiaries and associates is a leading India based provider of IT Services and Products, including Business Process Outsourcing (BPO) Services, globally. Wipro is headquartered in Bangalore, India. Wipro Technologies is a global services provider delivering technology-driven business solutions that meet the strategic objectives clients. Wipro is present across 29 countries, 36 Development centers, Investors across 24 countries. Wipro is globally recognized for its innovative approach towards delivering business value and sustainability. The study to provide an in-depth analysis on financial statements for five years from April 2011-March 2016.

Statement of Problem
One of the major reasons that may cause liquidation is illiquidity and inability to make adequate profit. These are some basic ingredient for measuring the going concern of an establishment. Companies are developing various strategies to improve the liquidity position. In this study of Wipro ltd., the financial statements of last five years show that the profit of the company has been increasing drastically. To maintain the same position and to increase the profit to the maximum possible extent this study has been undertaken. The problem to be addressed by this study are to evaluate the liquidity management of Wipro ltd.

Objectives of the Study
- To study the liquidity position of the company.
- To examine the sustainable growth of the company.

Tools Used For the Study
The analysis and interpretation of financial statements is used to determine the financial position of the company. The tool adopted for this study is Ratio analysis.

Current Ratio
Current ratio may be defined as the relationship between current assets and current liabilities. This ratio is also known as working capital ratio

Current Ratio = Current Assets / Current Liabilities
Liquid Ratio
The quick ratio can be calculated by dividing the total of the quick assets by total current liabilities.**Quick or Liquid or**

Acid Test Ratio = Quick or Liquid Asset / Current Liabilities.

Table 1: Current Ratio (Rs.in. Crores)

Year	Current Assets (Rs)	Current Liabilities (Rs)	Current Ratio (in times)
2011-12	23,889.20	11,740.60	2.03
2012-13	28,384.80	16,124.60	1.76
2013-14	32,604.20	14,885.20	2.19
2014-15	39,855.50	17,365.30	2.30
2015-16	45,028.70	16,607.10	2.71

Source: Secondary Data

As a rule, the current ratio with 2:1 or more is considered satisfactory position of the firm. The current ratio of Wipro Ltd has revealed that during 2011-12 the company is having a relatively high liquidity so that it could pay the current obligations in time as and when they become due. There is an increasing trend from 2013-16. But during 2012-13, the current ratio is relatively low which indicates that there is a deterioration in the liquidity position of the company. To conclude, the overall liquidity position of the company as per current ratio was good.

Table 2: Liquid Ratio (Rs.in. Crores)

Year	Current Assets (Rs)	Inventory (Rs)	Current Liabilities (Rs)	Quick Ratio (in times)
2011-12	23,889.20	785.10	11,740.60	1.97
2012-13	28,384.80	320.50	16,124.60	1.74
2013-14	32,604.20	228.30	14,885.20	2.17
2014-15	39,855.50	479.40	17,365.30	2.27
2015-16	45,028.70	526.20	16,607.10	2.68

Source: Secondary Data

As per the rule of thumb, Quick ratio of 1:1 is satisfactory. In the year 2015-16, the liquid ratio of the company is highest 2.68 and in the year 2012-13, the liquid ratio is lowest 1.74. The liquid ratio shows an increasing trend. The quick ratio of the company indicates that the liquidity position is not satisfactory because the ratios are relatively high. The high quick ratio has slow-paying debtors. Hence, the company does not have a good liquidity position.

Objective 2: To examine the sustainable growth of the company.

Sustainable Growth Rate
Sustainable Growth Rate (SGR) is the maximum annual percentage increase in the issue of loans that can be achieved based on target operating, debt and dividend ratio.

SGR = P✖R✖A✖T

Where SGR = Sustainable Growth Rate, P = Profit Margin after tax, R = Retention Ratio or Re-investment rate, A = Asset to Equity or Leverage, T = Sales to asset ratio or Asset Turnover Ratio.

Profit After Tax Margin (P)
Profit after tax margin is a financial performance ratio, calculated by dividing the net profit after taxes by revenue. Profit after tax margin = Profit after tax / Net Sales ✖100

Table 3: Profit After Tax Margin (Rs. In. Crores)

Year	Profit after tax (Rs)	Net Sales (Rs)	Ratio (%)
2011-12	46,851	3,17,085	14.78
2012-13	56,502	3,32,420	17.00
2013-14	73,874	3,87,927	19.04
2014-15	81,931	4,12,872	19.84
2015-16	80,990	4,47,397	18.10

Source: Secondary Data

Retention Ratio (R)
The retention ratio is the proportion of earnings kept back in the business as retained earnings. The retention ratio refers to the percentage of net income that is retained to grow the business, rather than being paid out as dividends.Retention ratio = 100% - Dividend payout ratio

Table 4: Retention Ratio (Rs.in. Crores)

Year	Dividend payout ratio	Retention ratio (%)
2011-12	31.48	68.52
2012-13	30.51	69.49
2013-14	26.71	73.29
2014-15	36.17	63.83
2015-16	18.30	81.70

Source: Secondary Data

Asset to Equity (A)
The asset/equity ratio shows the relationship of the total assets of the firm to the portion owned by shareholders. Asset to Equity = Total assets / Equity capital

Table 5: Asset to Equity (Rs. in. Crores)

Year	Total assets (Rs)	Equity capital (Rs)	Ratio (%)
2011-12	38,563.30	4,917	7.84
2012-13	40,591.50	4,926	8.24
2013-14	45,588.20	4,932	9.24
2014-15	53,242.60	4,937	10.78
2015-16	58,886.10	4,941	11.92

Source: Secondary Data

Sales to Asset Ratio (T)

The asset turnover ratio is an efficiency ratio that measures a company's ability to generate sales from its assets by comparing net sales with average total assets. In other words, this ratio shows how efficiently a company can use its assets to generate sales.

Sales to asset ratio = Sales / Total Assets

Table 6: Sales to Asset Ratio (Rs. in. Crores)

Year	Sales (Rs)	Total Assets (Rs)	Ratio (%)
2011-12	3,17,085	38,563.30	8.22
2012-13	3,32,420	40,591.50	8.19
2013-14	3,87,927	45,588.20	8.51
2014-15	4,12,872	53,242.60	7.75
2015-16	4,47,397	58,886.10	7.60

Source: Secondary Data

Calculation of Sustainable Growth Rate

Table 7: Sustainable Growth Rate

Year	P (%)	R (%)	A (%)	T (%)	SGR
2011-12	14.78	68.52	7.84	8.22	65,265
2012-13	17.00	69.49	8.24	8.19	79,723
2013-14	19.04	73.29	9.24	8.51	1,09,727
2014-15	19.84	63.83	10.78	7.75	1,05,800
2015-16	18.10	81.70	11.92	7.60	1,33,964

Source: Secondary Data

The sustainable growth represents the maximum sales or asset growth of a firm. In the above table, the sustainable growth rate is lowest in the year 2011-12, that is 65,265 and highest in the year 2015-16, that is 1,33,964. The firm’s operating efficiency, asset use efficiency, financial policy and dividend policy are in an increasing trend from 2011-12 to 2015-16. So, the Sustainable Growth Rate is also in an increasing trend. This trend is due to subsequent increase in the value of net profit, sales, total assets and the equity share capital. Hence, the growth rate of Wipro Ltd is satisfactory.

Findings

- Current ratio is in increasing trend and it fulfills the standard norm of 2:1 for the study period except the year 2012-13.
- In the study period, the quick ratio shows an increasing trend but it does not satisfy the standard norm of 1:1. The ratio is nearer to the rule of thumb in the year 2012-13.
- The absolute liquid ratio is fluctuating in this five years’ study period. The acceptable norm of 0.5:1 is satisfied in the year 2012-13 and the liquidity position of the company is good.
- The sustainable growth rate represents that there is an increasing trend for five years and it ensures that the growth rate of Wipro ltd is satisfactory.

Suggestions

- The company should go for purchase of new assets to improve its sales. This leads to earn more profit and further it improves the sustainable growth.
- For raising funds the company should go for issue of equity shares. It is the better way to finance their assets.

Conclusion

The study reveals that the liquidity and sustainability performance of the company is fair. The company is maintaining good liquidity position during the study period. The sustainability growth rate says that the company’s operating efficiency, asset use efficiency, financial policy and dividend policy are in a satisfactory position. The company could meet its short-term obligations and entire requirements immediately without any interruption in cash flows.

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