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LEVERAGE ANALYSIS OF INDIAN I.T. GIANT: A CASE STUDY OF WIPRO

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ABSTRACT

The current study is carried out with the objective of analysing the degrees of financial, operating and combined leverages of Wipro (one of the leading I.T. companies in India). A company with efficient utilisation of its fixed cost funds and fixed cost assets can be successful in increasing the return to its owners and this practice is commonly known as "leverage" in business world. In this paper an attempt has been made to estimate the degrees of different kinds of leverages in Wipro from 2006-07 to 2015-16.

KEYWORDS: Wipro, Degree of Financial Leverage, Degree of Operating Leverage, Degree of Combined Leverage.

INTRODUCTION:

Wipro Limited is a USD 7.7 billion (FY 2015) company and global



leader in technology-enabled solutions. Wipro India & Middle East is a division of Wipro Limited. The company provides a wide range of IT services which incorporates technology infrastructure services, consulting, systems integration, application development & maintenance, package implementation, R&D services etc.

"The employment of an asset or source of funds for which the firm has to pay a fixed cost or fixed return"

-James Horne

In the arena of business leverage is described as a tool to augment owners return

with the help of employing fixed cost assets or fixed cost funds. There are three types of leverages namely:

1. Financial Leverage: Concerned with maximising owners return by successful utilisation of fixed cost funds.

Formula,
Financial Leverage =
 $\frac{\text{EBIT}}{\text{EBT}}$

Degree of Financial Leverage =
 $\frac{\% \text{ Change in EPS}}{\% \text{ Change in EBIT}}$

2. Operating Leverage:
Attempts to maximise owners return by increase in sales without

increasing the return in fixed cost assets.

Formula,
Operating Leverage =
 $\frac{\text{Contribution}}{\text{Operating Profit}}$

Where,
Contribution = Sales –
Variable Cost

Operating Profit =
Contribution – Fixed Cost

Degree of Operating Leverage =

$\frac{\% \text{ Change in EBIT}}{\% \text{ Change in Sales}}$

3. Combined Leverage:
As the name suggests combined leverage is the composite of financial leverage and operating leverage.

Formula,
Combined Leverage =
Financial Leverage X Operating Leverage

Degree of Combined Leverage = Degree of Financial Leverage X Degree of Operating Leverage

OBJECTIVES OF THE STUDY

- To calculate degree of financial leverage of Wipro from 2006-07 to 2015-16.
- To calculate degree of operating leverage of the company from 2006-07 to 2015-16.
- To calculate degree of combined leverage of the company from 2006-07 to 2015-16.

RESEARCH METHODOLOGY

With the objective of calculating the degrees of financial, operating and combined leverages of Wipro, secondary data has been utilized and the appropriate information in current scenario has been amassed from annual reports of Wipro, websites, journals, magazines etc. The collected data has been integrated in tables and figures with the aim of providing a significant inference to the study.

ANALYSIS AND INTERPRETATION

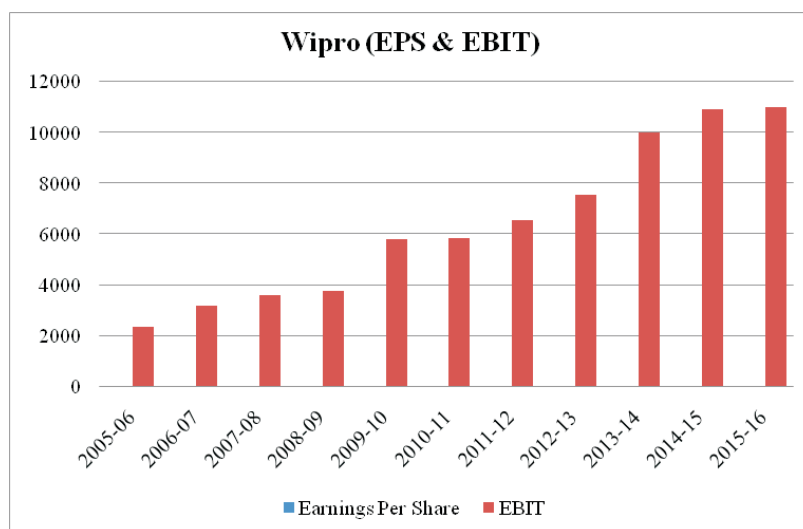
In order to exhibit degrees of financial, operating and combined leverages different tables and figures have been used which are made known as below:

Table 1: Wipro (EPS & EBIT)

Years	Earnings Per Share (Rs. in Crores)	EBIT (Rs. in Crores)
2005-06	14.17	2343.56
2006-07	19.48	3183.40
2007-08	20.96	3586.50
2008-09	20.30	3744.70
2009-10	33.37	5788.60
2010-11	19.88	5841.50
2011-12	19.13	6524.30
2012-13	23.03	7557.50
2013-14	30.09	9982.90
2014-15	33.00	10919.90
2015-16	32.97	11009.90

Source: moneycontrol.com

Figure 1: Wipro (EPS & EBIT)



X Axis: Years

Y Axis: Rs. in Crores

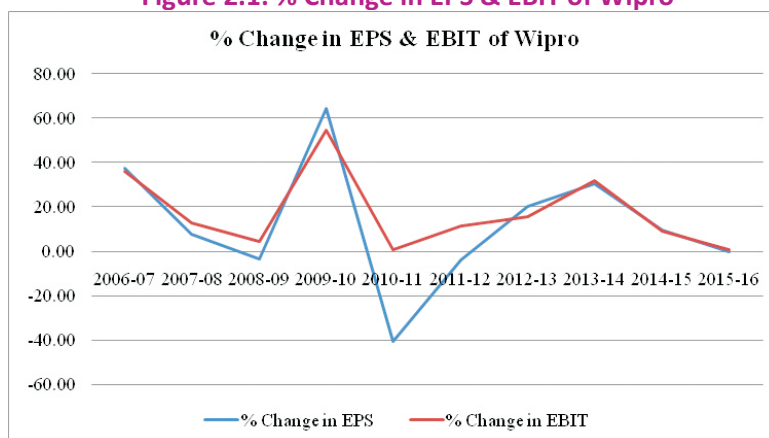
Table 1 and Figure 1 exhibits EPS and EBIT of Wipro from 2005-06 to 2015-16. EPS of Wipro was highest in 2009-10 and lowest figures of EPS were observed in 2005-06. EBIT stood at its highest figures in 2015-16 and lowest figures in EBIT was observed in 2005-06.

Table 2: Wipro (Degree of Financial Leverage)

Years	% Change in EPS	% Change in EBIT	Degree of Financial Leverage
2006-07	37.47	35.84	1.05
2007-08	7.60	12.66	0.60
2008-09	-3.15	4.41	-0.71
2009-10	64.38	54.58	1.18
2010-11	-40.43	0.91	-44.24
2011-12	-3.77	11.69	-0.32
2012-13	20.39	15.84	1.29
2013-14	30.66	32.09	0.96
2014-15	9.67	9.39	1.03
2015-16	-0.09	0.82	-0.11

Source: moneycontrol.com

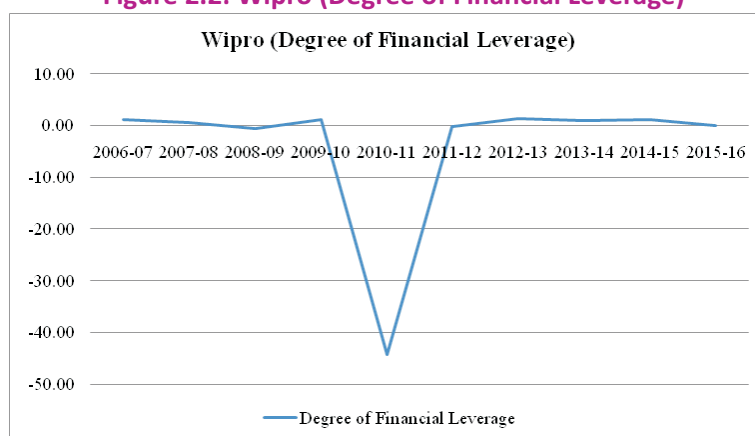
Figure 2.1: % Change in EPS & EBIT of Wipro



X Axis: Years

Y Axis: % Change in EPS & % Change in EBIT

Figure 2.2: Wipro (Degree of Financial Leverage)



X Axis: Years

Y Axis: Degree of Financial Leverage

Table 2 figure 2.1 and figure 2.2 reveals percentage change in EPS and percentage change in EBIT along with degree of financial leverage of Wipro from 2006-07 to 2015-16. Highest percentage change in EPS and EBIT was observed in 2009-10 where an increase of 64.38% and 54.58% were recorded in EPS and EBIT respectively.

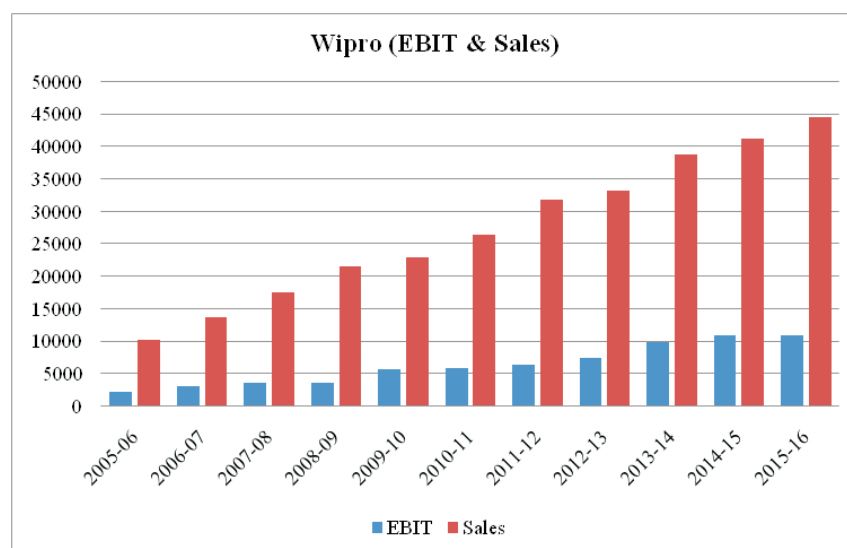
Table 3: Wipro (EBIT & Sales)

Years	EBIT (Rs. in Crores)	Sales (Rs. in Crores)
2005-06	2343.56	10264.10
2006-07	3183.40	13758.50
2007-08	3586.50	17658.10
2008-09	3744.70	21612.80
2009-10	5788.60	23006.30
2010-11	5841.50	26401.20
2011-12	6524.30	31803.40
2012-13	7557.50	33229.60
2013-14	9982.90	38765.10
2014-15	10919.90	41210.00
2015-16	11009.90	44684.60

Source: moneycontrol.com

Sales = Gross Sales

Figure 3: Wipro (EBIT & Sales)



X Axis: Years

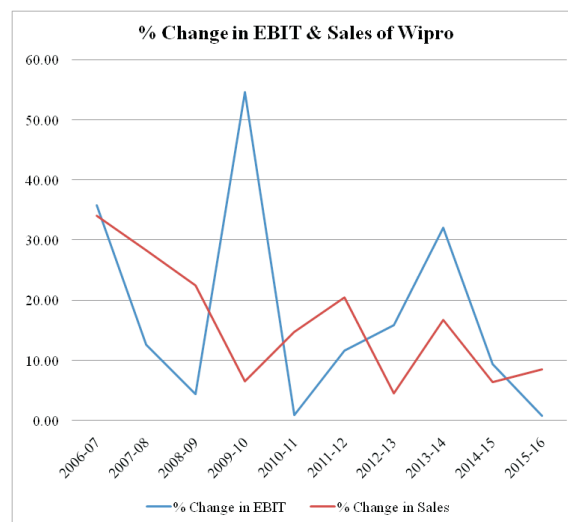
Y Axis: Rs. in Crores

Table 3 and Figure 3 exhibits EBIT and sales figures of Wipro from 2005-06 to 2015-16. Maximum sales of Wipro were observed in 2015-16 and minimum sales were observed in 2005-06. In 2015-16 sales figure of Wipro stood at Rs. 44684.60 crores and in 2005-06 sales figure of the company stood at Rs. 10264.10 crores

Table 4: % Wipro (Degree of Operating Leverage)

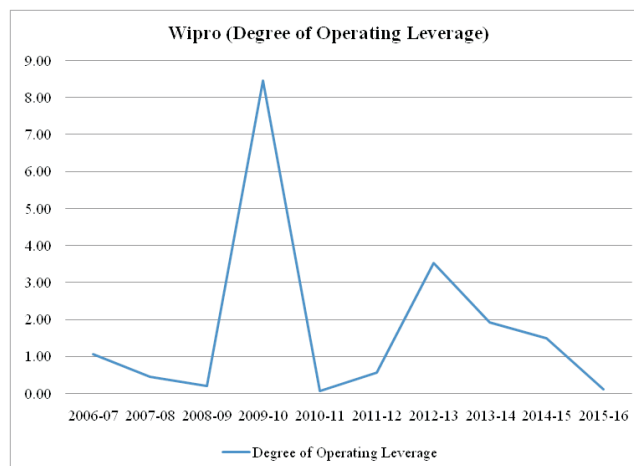
Years	% Change in EBIT	% Change in Sales	Degree of Operating Leverage
2006-07	35.84	34.05	1.05
2007-08	12.66	28.34	0.45
2008-09	4.41	22.40	0.20
2009-10	54.58	6.45	8.47
2010-11	0.91	14.76	0.06
2011-12	11.69	20.46	0.57
2012-13	15.84	4.48	3.53
2013-14	32.09	16.66	1.93
2014-15	9.39	6.31	1.49
2015-16	0.82	8.43	0.10

Source: moneycontrol.com

Figure 4.1: % Change in EBIT & Sales of Wipro

X Axis: Years

Y Axis: % Change in EBIT & % Change in Sales

Figure 4.2: Wipro (Degree of Operating Leverage)

X Axis: Years

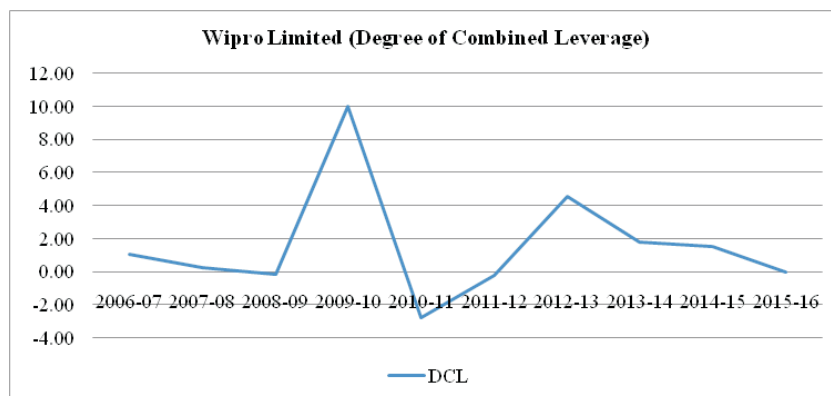
Y Axis: Degree of Operating Leverage

Table 4, figure 4.1 and figure 4.2 demonstrates percentage change in EBIT and sales along with degree of operating leverage of Wipro from 2006-07 to 2015-16. Highest percentage change in sales figures was observed in 2006-07 and lowest percentage change in sales figures was observed in 2012-13.

Table 5: Degree of Combined Leverage

Years	Degree of Financial Leverage (DFL)	Degree of Operating Leverage (DOL)	Degree of Combined Leverage (DCL)
2006-07	1.05	1.05	1.10
2007-08	0.60	0.45	0.27
2008-09	-0.71	0.20	-0.14
2009-10	1.18	8.47	9.99
2010-11	-44.24	0.06	-2.74
2011-12	-0.32	0.57	-0.18
2012-13	1.29	3.53	4.55
2013-14	0.96	1.93	1.84
2014-15	1.03	1.49	1.53
2015-16	-0.11	0.10	-0.01

Figure 5: Degree of Combined Leverage



X Axis: Years

Y Axis: Degree of Combined Leverage

Table 5 and figure 5 reveal degree of combined leverage of Wipro from 2006-07 to 2015-16. Degree of combined leverage of the company was negative in 2008-09, 2010-11, 2011-12 and 2015-16.

CONCLUSION

From the above study following conclusions can be drawn:

- Degree of financial leverage of the Wipro stood highest in 2012-13 and lowest in 2010-11.
- Degree of operating leverage of the company stood highest in 2009-10 and lowest in 2010-11.
- Degree of combined leverage of Wipro stood highest in 2009-10 and lowest in 2010-11.

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