

A Study on Investment Appraisal Techniques and Capital Budgeting Practices in Wipro Ltd.

Medicharla Prasad Rao¹, Vadthya Ranjitha²,

1.Mr. Medicharla Prasad Rao, Assistant Professor, Department of MBA CMR Institute of Technology, Hyderabad, Telangana, India.

2.Student of MBA, CMR Institute of Technology, Hyderabad, Telangana, India.

Email Id: ranjithavadthya@gmail.com, Email id: 24r01e0126@cmrithyderabad.edu.in

Abstract:

Capital budgeting is an essential component of financial management that assists organizations in evaluating long-term investment opportunities and making effective financial decisions. The selection of appropriate investment projects is important for improving profitability, maximizing shareholder wealth, and ensuring sustainable business growth. Investment appraisal techniques provide a systematic framework for assessing the financial viability of investment proposals and support management in allocating resources efficiently. The present study, titled “A Study on Investment Appraisal Techniques and Capital Budgeting Practices in Wipro Limited,” aims to examine the investment appraisal methods used by the company and evaluate their effectiveness in supporting capital budgeting decisions. The study is based on secondary data collected from the annual reports, financial statements, investor presentations, company publications, books, journals, and other reliable financial sources relating to Wipro Limited. The study covers a period of five financial years from 2021 to 2025. The findings of the study highlight the significance of investment appraisal techniques in evaluating investment opportunities and improving the quality of financial decision-making. The study concludes that the effective application of capital budgeting techniques contributes to efficient resource allocation, risk reduction, improved profitability, and long-term organizational growth. The analysis further demonstrates that sound investment decisions play a vital role in strengthening the financial performance and competitive position of Wipro Limited.

Key words : Investment Appraisal Capital Budgeting NPV - Net Present Value, IRR - Internal Rate of Return, Payback Period, Financial Decision Making.

1. Introduction:

In the modern business environment, organizations are required to make sound financial decisions to achieve sustainable growth, profitability, and long-term success. Rapid technological advancements, globalization, and increasing market competition have made investment decisions a critical aspect of corporate financial management. Investment appraisal refers to the systematic process of evaluating investment opportunities to determine their financial feasibility and potential contribution to organizational objectives. Capital budgeting is an important function of financial management that involves planning, evaluating, and selecting long-term investment projects such as business expansion, technological development, infrastructure improvement, and research and development activities. These decisions require substantial financial commitments and have a direct impact on the future profitability and growth of an organization. The primary objective of capital budgeting is to maximize shareholder wealth by selecting projects that generate positive returns and create long-term value. The present study aims to examine the investment appraisal techniques and capital budgeting practices followed by Wipro Limited. It seeks to analyse the methods used for evaluating investment proposals and understand their role in supporting effective financial decision-making. The study also highlights the practical application of financial management concepts within a leading multinational organization.

Statement of the Problem:

In the present business environment, organizations are required to make effective investment decisions to achieve sustainable growth, profitability, and long-term success. Capital budgeting is a critical function of financial management that assists organizations in selecting suitable investment projects and ensuring the efficient utilization of financial resources. Since capital budgeting decisions involve substantial financial commitments and have long-term implications for organizational performance, careful evaluation of investment proposals is essential. Wipro Limited operates in a highly competitive and rapidly evolving information technology industry where continuous investments are required in areas such as digital transformation, cloud computing, artificial intelligence, infrastructure development, and business expansion. Therefore, there is a need to examine the investment appraisal techniques and capital budgeting practices followed by Wipro Limited.

Objectives of the study:

1. To study the capital budgeting practices followed by Wipro Limited.
2. To analyze the investment appraisal techniques used for evaluating investment projects.
3. To evaluate the effectiveness of key capital budgeting techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period.
4. To analyze the impact of risk and uncertainty on capital budgeting decisions.

Scope of the Study:

The present study focuses on examining the investment appraisal techniques and capital budgeting practices followed by Wipro Limited. The study is limited to Wipro Limited, one of India's leading multinational information technology companies, recognized for its strong financial management and investment decision-making practices. The study covers a period of five financial years from 2021 to 2025. The selected period provides an understanding of the company's recent investment activities, financial performance, and capital budgeting decisions. The analysis of this period helps evaluate the effectiveness of investment appraisal techniques in supporting long-term investment decisions. The study also highlights the importance of investment appraisal in improving financial performance, enhancing resource utilization, reducing investment risk, and supporting long-term organizational growth. It provides an understanding of the practical application of capital budgeting techniques in a leading multinational information technology company.

Limitations of the study:

1. The study is confined to the analysis of a single organization, namely Wipro Limited. Therefore, the findings and conclusions may not be applicable to other companies or industries, as investment appraisal techniques and capital budgeting practices vary across organizations.
2. The research is based entirely on secondary data collected from annual reports, financial statements, company publications, journals, books, and other publicly available sources. The accuracy of the study depends upon the reliability and completeness of the information obtained from these sources.
3. The period of study is limited to five financial years, from 2021 to 2025. Although this period provides insight into the recent investment and financial performance of the company, it may not fully reflect long-term trends and changes in capital budgeting practices.
4. The study primarily focuses on selected investment appraisal techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period, Accounting Rate of Return (ARR), and Profitability Index (PI). Other advanced financial evaluation techniques have not been considered in the analysis.
5. The analysis is restricted to financial aspects of investment decisions. Non-financial factors such as managerial judgment, organizational culture, technological changes, government policies, and market conditions have not been examined in detail.

6. The findings are based on historical financial information and assumptions used for analysis. Future business conditions, economic fluctuations, and industry developments may influence actual investment outcomes differently.
7. The study uses financial and analytical tools to evaluate investment decisions; however, these tools have their own limitations and may not always provide a complete picture of project performance and investment effectiveness.

1. Review of Literature:

1. Wasim Abbas Shaheen et al. (2025): The study found that NPV, IRR, and Payback Period are widely used investment appraisal techniques. These methods help organizations evaluate investment projects effectively and improve financial decision-making.

2. Selvi Permata Groda et al. (2024): The study revealed that investment appraisal techniques support efficient resource allocation and improve profitability. Effective capital budgeting contributes to long-term organizational growth and sustainability.

3. Rahul Sharma and Neha Gupta (2023): The study found that IT companies prefer discounted cash flow techniques such as NPV and IRR. These methods provide reliable evaluations for long-term investment decisions.

4. Kumar and Srinivas (2022): The findings indicated that effective investment appraisal techniques reduce financial risk and improve profitability. Capital budgeting plays a significant role in financial planning.

5. Anitha and Ramesh (2021): The study found that NPV and IRR are the most preferred capital budgeting techniques in multinational companies. These methods provide accurate investment evaluations by considering the time value of money.

6. Paula de Souza Michelin et al. (2020): The study concluded that discounted cash flow methods are more reliable than traditional techniques. NPV and IRR were identified as the most effective tools for project evaluation.

3. Research Methodology:

Research Design

The present study adopts a descriptive and analytical research design. The descriptive approach is used to understand the investment appraisal techniques and capital budgeting practices followed by Wipro Limited. The analytical approach is employed to evaluate the effectiveness of various investment appraisal techniques in assessing investment proposals and supporting capital budgeting decisions.

Sources of Data

The study is based entirely on secondary data. Since the research focuses on investment appraisal techniques and capital budgeting practices, the required information has been collected from reliable and publicly available sources.

The major sources of data include:

1. Annual Reports of Wipro Limited for the selected study period.
2. Published financial statements and cash flow statements of Wipro Limited.
3. Investor presentations and corporate information available on the official website of Wipro Limited.
4. Books, academic journals, research articles, and publications related to financial management and capital budgeting.
5. Financial databases, business magazines, and other reliable online sources.

The data collected from these sources has been used for analysis and interpretation to ensure the reliability and accuracy of the research findings.

Variable of the study

The study focuses on evaluating investment decisions using financial data obtained from Wipro Limited.

Input Variable

- Initial Investment

Evaluation Variables

- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- Payback Period (PP)
- Accounting Rate of Return (ARR)
- Profitability Index (PI)

These variables are used to assess the financial viability, profitability, and effectiveness of investment proposals undertaken by the company.

Tools for Analysis

The following investment appraisal techniques have been used for analyzing investment proposals and capital budgeting decisions:

- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- Payback Period (PP)
- Accounting Rate of Return (ARR)
- Profitability Index (PI)
- Graphical Representation using MS Excel

These tools help in evaluating the profitability, feasibility, and overall effectiveness of investment decisions and support the assessment of capital budgeting practices followed by Wipro Limited.

Data analysis and interpretation

Capital Budgeting Practices in Wipro Limited

Capital budgeting is an essential financial management process used by organizations to evaluate long-term investment decisions. Wipro Limited follows a systematic capital budgeting process to assess investment opportunities and allocate financial resources effectively. The company employs both traditional and modern investment appraisal techniques, including Payback Period, Accounting Rate of Return (ARR), Net Present Value (NPV), Internal Rate of Return (IRR), and Profitability Index (PI).

These techniques help management evaluate project feasibility, profitability, risk, and expected returns before committing funds. Among these methods, NPV and IRR are widely preferred because they consider the time value of money and provide a more accurate assessment of project viability. The use of multiple appraisal techniques enables Wipro Limited to make informed investment decisions and ensure efficient utilization of capital.

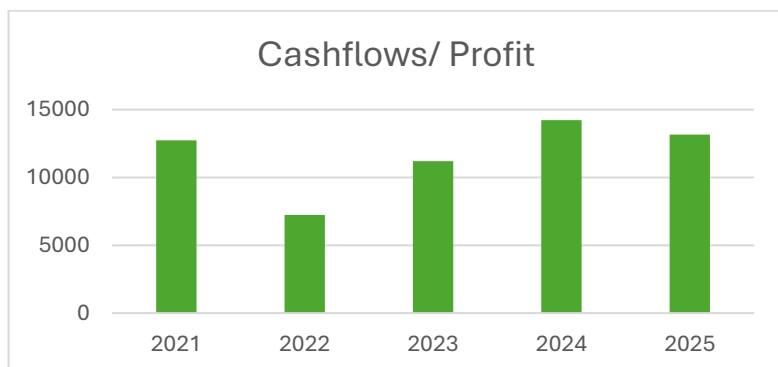
Cash Flow Trend Analysis

The cash flow data of Wipro Limited for the period 2021–2025 was analyzed to assess the company's financial performance and its ability to undertake investment projects. Cash flow is an important indicator in capital budgeting as it forms the basis for evaluating investment proposals through various appraisal techniques.

Table: Cash Flow Analysis

Year	Cashflows/ Profit
2021	12728
2022	7240

2023	11192
2024	14216
2025	13155



Interpretation

The cash flow trend analysis reveals that Wipro Limited maintained positive operating cash flows throughout the study period. Although cash flows declined during 2022, the company experienced substantial recovery and growth in subsequent years. The highest cash flow was recorded in 2024 at ₹14,216 crore, reflecting strong operational efficiency and effective financial management. The consistent generation of positive cash flows demonstrates the company's capacity to finance investment opportunities and supports the application of capital budgeting techniques for investment decision-making.

Analysis of Investment Appraisal Techniques

To evaluate the financial feasibility of the investment proposal, various capital budgeting techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period (PP), Accounting Rate of Return (ARR), and Profitability Index (PI) were applied.

Results of Investment Appraisal Techniques

Techniques	Result	Decision
Net Present Value (NPV)	₹ 40,622.03 Crore	Accept
Internal Rate of Return (IRR)	365.02%	Accept
Payback period (PP)	0.25 Years	Accept
Accounting Rate of Return (ARR)	363.70%	Accept
Profitability Index (PI)	13.62	Accept

Interpretation

The results obtained from the investment appraisal techniques indicate that the investment proposal is financially viable and profitable. The positive Net Present Value of ₹40,622.03 crore signifies that the project is expected to generate value beyond the initial investment. The Internal Rate of Return of 365.02 percent is significantly higher than the required rate of return, indicating exceptional profitability. The Payback Period of 0.25 years demonstrates quick recovery of the investment amount, thereby reducing financial risk. Similarly, the Accounting Rate of Return of 363.70 percent reflects strong earnings potential, while the Profitability Index of 13.62 confirms that the present value of future cash inflows considerably exceeds the initial investment. Therefore, all investment appraisal techniques support the acceptance of the project.

4. Results / Findings:

1. Wipro Limited follows a structured capital budgeting process and utilizes various investment appraisal techniques such as Payback Period, Accounting Rate of Return (ARR), Net Present Value (NPV), Internal Rate of Return (IRR), and Profitability Index (PI) to evaluate investment proposals.
2. The cash flow analysis revealed that Wipro Limited maintained positive operating cash flows throughout the study period, indicating strong financial performance and operational efficiency.
3. The Net Present Value (NPV) of ₹40,622.03 crore was positive, demonstrating that the project is financially feasible and capable of creating value for the organization.
4. The Internal Rate of Return (IRR) of 365.02% was significantly higher than the required rate of return, indicating strong profitability and investment attractiveness.
5. The Payback Period of 0.25 years, Accounting Rate of Return (ARR) of 363.70%, and Profitability Index (PI) of 13.62 indicate quick recovery of investment, high earning potential, and overall financial viability of the project.
6. The overall results confirm that the investment proposal is profitable and that the application of capital budgeting techniques supports effective investment decision-making and shareholder value maximization.

5. Suggestions:

1. Wipro Limited should continue to prioritize the use of discounted cash flow techniques such as Net Present Value (NPV) and Internal Rate of Return (IRR), as these methods provide a more accurate assessment of project profitability by considering the time value of money.
2. The company should incorporate comprehensive risk assessment and sensitivity analysis while evaluating investment proposals to improve decision-making under uncertain market conditions.
3. Regular monitoring and post-investment evaluation of projects should be undertaken to compare actual performance with projected outcomes and improve future capital budgeting decisions.
4. Wipro Limited may enhance the use of advanced financial analytics and forecasting tools to strengthen investment planning and resource allocation.
5. The organization should periodically review its capital budgeting policies and procedures to ensure alignment with changing business environments, technological developments, and strategic objectives.
6. Greater emphasis should be placed on sustainable and technology-driven investment opportunities that contribute to long-term growth and shareholder value creation.

6. Conclusion:

Capital budgeting plays a crucial role in evaluating investment opportunities and ensuring effective utilization of organizational resources. The present study examined the investment appraisal techniques and capital budgeting practices followed by Wipro Limited. The analysis was carried out using various appraisal techniques, including Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period, Accounting Rate of Return (ARR), and Profitability Index (PI). The findings of the study indicate that Wipro Limited follows a systematic and well-structured capital budgeting process for evaluating investment proposals. The cash flow analysis revealed consistent positive cash flows, reflecting the company's strong financial position. Furthermore, the positive NPV, high IRR, short Payback Period, favourable ARR, and Profitability Index greater than one collectively demonstrate that the selected investment proposal is financially viable and profitable. The study concludes that the effective application of capital budgeting techniques supports sound investment decision-making, enhances resource allocation, and contributes to long-term organizational growth. Therefore, Wipro Limited's capital budgeting practices play a significant role in maximizing shareholder value and achieving sustainable business performance.

7. References:

1. Pandey, I. M. (2023). Financial Management. New Delhi: Vikas Publishing House Pvt. Ltd.
2. Khan, M. Y., & Jain, P. K. (2022). Financial Management: Text, Problems and Cases. New Delhi: McGraw Hill Education.
3. Chandra, P. (2021). Financial Management: Theory and Practice. New Delhi: McGraw Hill Education.
4. Brealey, R. A., Myers, S. C., & Allen, F. (2020). Principles of Corporate Finance. New York: McGraw Hill Education.
5. Van Horne, J. C., & Wachowicz, J. M. (2019). Fundamentals of Financial Management. New Delhi: Pearson Education.