Sustainable Growth Rate and Firm Performance

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Growth for business is significant especially for company’s goal because the company can maintain their performance without running into financial problems. Financial problems or financial distress can make the company not enough capital or financial resources to run company activities. This research investigates the association between firm performance and sustainable growth rate of HDFC bank.

Methodology: The indicators for sustainable growth rate are calculated by using Return on Equity Ratio, dividend payout ratio, sustainable growth rate, return on asset, return on equity, debt equity, return on capital employed ratio

Findings: The results found that there is a significant relationship between debt ratio, equity ratio, total asset turnover and size of the firm with sustainable growth rate.

Practical Implications: The sustainable growth rate is one of the valuable financial tools especially for managers used to gauging financial and operating decision, whether to sustain, increase or decrease.

Social Implications: The results of this study also enable the company to manage its financial and operating policy towards healthy growth without having additional financial problem.

Research Limitations/Implications: This study focuses on all sectors except for financial sector of Bursa Malaysia to identify an implication to the role of debt and financing decisions for sustainable firm’s growth over 5 years period from 2012 until 2017.

Originality/Value: Our results are suitable for bank to manage their solid performance to sustain firm’s growth in the future undertakings.

Keywords: Sustainable Growth Rate, Financial Resources, Capital Structure. Market Share, Market Growth
1. Introduction
Sustainable growth is defined as the growth the company is capable of it does not alter its capital structure. A company’s capital structure is mix of debt and equity that is used to finance the company long-term. It’s conceivable that a company could grow by simply increasing its borrowings. This concept is consistent with idea of a target capital structure: a company try to maintain a relatively constant capital structure, even though there will be slight year-to-year deviations in the actual capital structure.

According to PIMS (Profit Impact of Marketing Strategy) an important lever of business success is growth. Among 37 variables, growth is mentioned as one of the most important variables for success: market share, market growth, marketing expense to sales ratio or a strong market position.

Sustainable growth is defined as the annual percentage of increase in sales that is consistent with a defined financial policy (target debt to equity ratio, target dividend payout ratio, target profit margin, target ratio of total assets to net sales). This concept provides a comprehensive financial framework and formula for case/ company specific SGR calculations. Assesses sustainable growth from a total shareholder return creation and profitability perspective - independent of a given strategy, business model and/ or financial frame condition. This concept is based on statistical long-term assessments and is enriched. It provides an orientation frame for case/ company specific mid- to long-term growth target setting. The sustainable growth rate model assumes several simplifications such as depreciation is sufficient to maintain the value of existing assets, the profit margin remains stable (also for new businesses), the proportion of assets and sales remains stable (also for new businesses) and the company maintains its current capital structure and dividend payout policy. The sustainable growth rate model has implications for valuation models, as for instance the Gordon model and other discounted cash flow models require a growth estimate that can be sustained for many years. The sustainable growth rate can be a check if business plans are reasonable.

2. Research Methodology
2.1. Need of the Study
The Sustainable growth rate Of HDFC bank for the period 2012-2017. Financial ratios are employed to measure to profitability, liquidity and credit quality performance. The study
found the overall bank performance considerably in fluctuations of the bank.

2.2. Objective
- The main objective is to analysis of sustainable growth rate of HDFC bank.
- To identify the components of sustainable growth rate and the efficiency in their usage.
- To study the impact of the components of the sustainable growth rate.

2.3. Research Design
Experimental design is appropriate when one wishes to discover whether certain variables produce effects in other variables.

2.4. Source of Data
Secondary data is collected from the website www.HDFC bank .com

2.5. Period of the Study
The period of the study is restricted to 5 years 2012-17.

2.6. Tools for Analysis
The data relating to the performance of HDFC bank limited drawn from the different sources have been carefully and meaningfully analyzed by using well established statistical tools and financial tools. They are

Return on Equity Ratio
The return on equity means to identify the performance and strength of the company to attracting the future investments.

\[
\text{RETURN ON EQUITY} = \frac{\text{profit after tax}}{\text{net worth}}
\]

Dividend Payout Ratio
The dividend payout ratio means to identify the growth of the owners.

\[
\text{DIVIDEND PAYOUT RATIO} = \frac{\text{dividend per share}}{\text{earning per share}}
\]
Sustainable Growth Rate Ratio
The sustainable growth rate means to identify the growth of the company is capable of if it does not alter its capital structure.

\[
\text{sustainable growth rate} = \text{return on equity} \times (1 - \text{dividend payout ratio})
\]

Return on Asset Ratio:
The return on asset ratio means to identify the asset value.

\[
\text{RETURN ON ASSET} = \frac{\text{EBIT}}{\text{sales}}
\]

Return on Equity after Tax Ratio

\[
\text{RETURN ON EQUITY AFTER TAX} = \frac{\text{tax}}{\text{EBIT}}
\]

Return on Equity before Tax Ratio:

\[
\text{RETURN ONEQUITY BEFORE TAX} = \frac{\text{EBIT} - \text{tax}}{\text{EBIT}}
\]

Debt Equity Ratio
The debt equity ratio means to identify the long term solvency position of the company.

\[
\text{DEBT EQUITY RATIO} = \frac{\text{debt}}{\text{equity}}
\]

Return on Capital Employed Ratio
The return on capital employed ratio means to identify more efficient use their capital. Return on capital employed

\[
\text{Return on Capital Employed Ratio} = \frac{\text{profit after tax(PAT)}}{\text{capital employed}} \times 100
\]

Statistical Tools
Average Mean
The arithmetic mean, also called the average or average value, is the quantity obtained by summing two or more numbers or variables and then dividing by the number of variables.
3. Data Analysis and Interpretations

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<thead>
<tr>
<th>Year</th>
<th>ROE</th>
<th>DPO</th>
<th>SGR</th>
<th>ROA</th>
<th>REBTR</th>
<th>DE</th>
<th>ROCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>0.35</td>
<td>0.16</td>
<td>0.15</td>
<td>0.49</td>
<td>0.50</td>
<td>30.93</td>
<td>1.58</td>
</tr>
<tr>
<td>2013</td>
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<td>0.16</td>
<td>0.11</td>
<td>0.62</td>
<td>0.37</td>
<td>50.80</td>
<td>1.72</td>
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<tr>
<td>2014</td>
<td>2.09</td>
<td>0.16</td>
<td>0.11</td>
<td>0.64</td>
<td>0.35</td>
<td>69.35</td>
<td>1.84</td>
</tr>
<tr>
<td>2015</td>
<td>2.09</td>
<td>0.16</td>
<td>0.11</td>
<td>0.73</td>
<td>0.26</td>
<td>82.19</td>
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<tr>
<td>2016</td>
<td>0.60</td>
<td>0.20</td>
<td>0.12</td>
<td>0.71</td>
<td>0.28</td>
<td>90.19</td>
<td>1.83</td>
</tr>
<tr>
<td>2017</td>
<td>2.09</td>
<td>0.16</td>
<td>0.12</td>
<td>0.63</td>
<td>0.35</td>
<td>64.69</td>
<td>1.77</td>
</tr>
</tbody>
</table>

*Source: Data collected from Annual Reports in HDFC BANK LTD*

- Return on equity (ROE) is fluctuates during the study period. The return on equity defines the performance and strength of the company.
- The dividend payout ratio (DPO) is constant during the study period. The dividend payout ratio defines the growth of the owners is increased.
- The return on equity after tax (ROA) values are fluctuating during the study period. The return on equity after tax is increased 0.73% in the year is 2013-2014.
- The return on equity before tax (REBTR) is fluctuates during the study period. The return on equity before tax value is increased 0.5%.
- The debt equity ratio (DE) is gradually increasing during the study period. The debt equity ratio is defines the risky financial position. The debt equity ratio is increased.
- The return on capital employed (ROCE) is fluctuates during study period. The return on capital employed ratio is defines the more efficient use of capital and the greater will be the return for the owners and the better profitability. The return on capital employed value is increased 1.88% in the year is 2013-2014 and decreased 1.58%.

4. Suggestions

- The return on equity is high. So the company performance and strength high to attract the future investments to improve the return on equity.
- The dividend payout ratio is high. So the company as well as owners growth is high.
• Return on asset is high. So the company equity is high during the study period.
• Return on equity after tax is high during the study period.
• Return on equity before tax is high and sometimes decrease during the study period.
• The company are not maintaining the Debt-Equity Ratio at standard level. The company maintain Debt and Equity ratio in proportion of 1:1. To improve the long term solvency position.
• The Return on Capital Employed is high. So the company are utilize their capital and reserve and surplus effectively and efficiently to improve the Return on Capital Employed.
• Sustainable growth rate is moving opposite direction to make significant relation the firm increases the sales as rapidly as the market conditions permit

5. Conclusion

In the fast changing economic and competitive environment, achieving the sustainable growth is not easy task, especially in the present highly complex global environment. Customer attitude, for instance, change considerably over the last few decades. They are more discriminative which compels the firm to attract customers by adding more values to the products and by offering innovative services. Similarly, competition is keen in almost all the industries, which have been unprecedented breakdowns in the barriers that formerly separated them, therefore, companies must look forward to identify their competitors and their strategic choices in the search for creating sustainable growth.

6. References


Websites