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Додана економічна вартість як показник створення акціонерної вартості

Стаття присвячена дослідженню тенденції зміни додаткової економічної вартості (EVA) та зв'язку цього показника із створенням акціонерної вартості в корпоративних підприємствах Індії. Максимізацію акціонерної вартості можна простежити шляхом вивчення ринкових показників. В цьому аспекті завдяки використанню методів лінійної регресії, коефіцієнта кореляції автором здійснено аналіз впливу додаткової економічної вартості на формування ринкової ціни протягом дев'яти років (з 2004-го по 2012-й). Результати проведеного дослідження показують, що показник додаткової економічної вартості чинить позитивний вплив на створення акціонерної вартості. Автор висловлює сподівання, що дана стаття буде цікавою та корисною для інвесторів при прийнятті рішень і доповнить існуючі дослідження в галузі інвестування.

Ключові слова: додаткова економічна вартість, акціонери, середньозважена вартість капіталу, показники функціонування ринку, вартість створення.

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Добавленная экономическая стоимость как показатель создания акционерной стоимости

Статья посвящена исследованию тенденции изменения дополнительной экономической стоимости (EVA) и связи этого показателя с созданием акционерной стоимости в корпоративных предприятиях Индии. Максимизацию акционерной стоимости можно проследить путем изучения рыночных показателей. В этом аспекте благодаря использованию методов линейной регрессии, коэффициента корреляции автором осуществлен анализ влияния дополнительной экономической стоимости на формирование рыночной цены в течение девяти лет (с 2004-го по 2012-й). Результаты проведенного исследования показывают, что показатель дополнительной экономической стоимости оказывает положительное влияние на создание акционерной стоимости. Автор выражает надежду, что данная статья будет интересной и полезной для инвесторов при принятии решений и дополнит существующие исследования в области инвестирования.

Ключевые слова: дополнительная экономическая стоимость, акционеры, средневзвешенная стоимость капитала, показатели функционирования рынка, стоимость создания.

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EVA as an Indicator of Shareholders' Value Creation

The present paper investigates the EVA trend and its relationship with shareholders' value creation in corporate enterprises in India. Shareholders' value maximization is reflected in the market performance. The impact analysis of EVA on market price has been tested for nine years (2004-05 to 2012-13) with the help of linear regression, correlation coefficient and adjusted R-square. Results show that EVA has a positive impact on shareholders' value creation. It is hoped that it will be useful to the investors for decision-making and contribute to the value investing.

Keywords: EVA, shareholders, weighted average cost of capital, market performance, value creation.

Introduction

Shareholder's value creation has been the universal standard for corporate. In India, it becomes all the more relevant where capital is still costly. A company should focus not only on profit maximization but also on creating enough profit to cover the cost of its capital, including equity, which is quite important for the company's survival. The idea of EVA was given in 1982 by Stern Stewart & Co – a New York based global financial consultant. Economic Value Added (EVA) is an improved measure of checking the company's performance so that the shareholders can decide that the company is generating or destroying their wealth.

Companies generally consider traditional measures like Return on Equity and Return on Assets. But they do not reveal the true profitability of a company because they don't consider equity as a cost. EVA is the financial performance measure that comes closer to capturing the true economic profit of an enterprise and that's why it is directly linked to the creation of shareholder wealth (value).

EVA has been gaining importance worldwide and several international companies have been adopting EVA as a tool for performance measurement for example, Coca Cola, Eli Lilly, ANZ, HLL, etc.

The Importance of EVA

EVA is considered as a superior measure because of the following reasons:

- 1) It reflects the economic performance of the entity;
- 2) It has a higher correlation with the market value of the firm;
- 3) It aligns both shareholders as well as managers' interests together, and
- 4) Companies reporting EVA generally rank high on investor trust.

Despite the significance, EVA is not a very popular discourse by the companies. Goel (2012) in his study had studied EVA reporting practices of the constituents of SENSEX (Mumbai Stock Index comprising of 30 large, well-established and financially sound companies across key sectors). It was found out that only five companies out of thirty companies were reporting EVA in their annual reports.

Economic Value Added - The Concept

Economic Value added is an indicator which measures economic profit of the company as follows:

$$\text{EVA} = \text{Net Operating Profit after Tax (NOPAT)} - \text{WACC} \times (\text{Cost of Debt} + \text{Equity})$$

$$\text{If NOPAT} > \text{WACC} \rightarrow +\text{EVA}$$

$$\text{If NOPAT} < \text{WACC} \rightarrow -\text{EVA}$$

Literature review

Value creation

(Fernandez, 2001) stated that a firm creates value for shareholders when the shareholder return exceeds the cost of equity. If opposite happens, firm destroys value. (Albouy, 1999) propounded that there is a 'good' correlation between value creation and changing futures market price. So, the companies concerned with the shareholders' interest have good performance.

(Vijaykumar, 2011) mentioned that an appropriate measure of corporate performance should not only be highly correlated to shareholder return and, but also be able to signal the extent of periodic wealth creation

EVA: The background

Stern Stewart & Co introduced EVA as its trademark in 1990's which was subsequently adopted by various companies. It gained its popularity since the late 1980s (Rappaport, 1986; Stewart, 1991).

EVA and market performance

EVA is the only performance measure that links directly to stock's intrinsic value (Stewart, 1991). (Luber, 1996) confirmed that 'a positive EVA over a period of time will also have an increasing MVA, while negative EVA will bring down MVA as the market loses confidence in the company' (Chen and Dodd, 1997) reported that 'EVA measure provides relatively more information than the traditional measures of accounting profits'. They also found that EVA and RI (Residual Income) variables are highly correlated and identical in terms of association with stock returns.

(Lefkowitz, 1999) analyzed the US companies and the results supported Stern- Stewart hypothesis, i.e., EVA is better correlated with stock returns as compared to traditional performance measures. (Turvey, et al., 2000) examined performance of food companies stock market values compared EVA to ROA ROE and CAPM.

(Haquel, et al., 2013) investigated the impact of EVA on share price of Advanced Chemical Industries Ltd (ACIL) one of the leading pharma company in Bangladesh and come to the conclusion that EVA has significant positive impact on market price of shares

Research design

The present study analyses impact of EVA performance on the market performance of the Indian companies for shareholders' wealth maximisation. Total 7 companies have been taken into consideration for analysis according to the EVA reporting.

The data for closing price was taken from Bombay Stock Exchange (BSE). To study the impact of EVA on market price, linear regression, correlation coefficient and Adjusted r-square are applied for a period of nine years, 2004-05 to 2012-13. It will cover the trend, both pre-recession and post-recession of the companies.

Analysis

EVA & its impact on SWM of the companies is analyzed below.

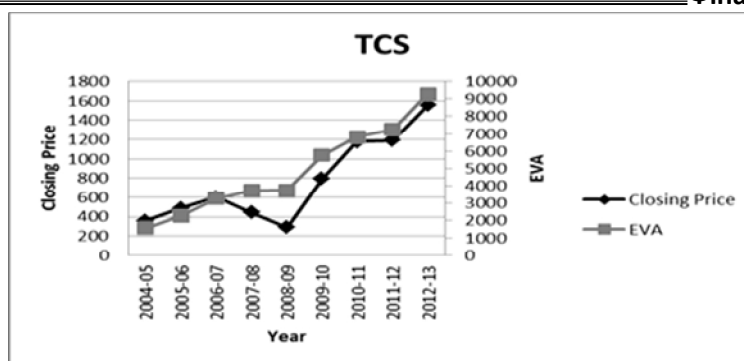


Figure 1. EVA trend & SWM performance of TCS

Correlation: 0.9413

Adjusted $R^2 = 0.87$

$CP = 0.16EVA - 25.26$

Thus we see a high correlation between the market price and EVA. In 2007-08, there was an opposite trend between EVA and share price of TCS in the year 2007-08. This was because of the recession in US when Indian market was at an all-time low and the share prices

dropped. TCS having its major business with US also saw its share prices going down. But still, the company managed to pose profit and thus increase its EVA. But when the share prices went down for the consecutive year in 2008-09, its EVA also became almost stagnant.

Later on when the market recovered, EVA and share prices again went hand in hand as clear from the graph after the period of 2008-09.

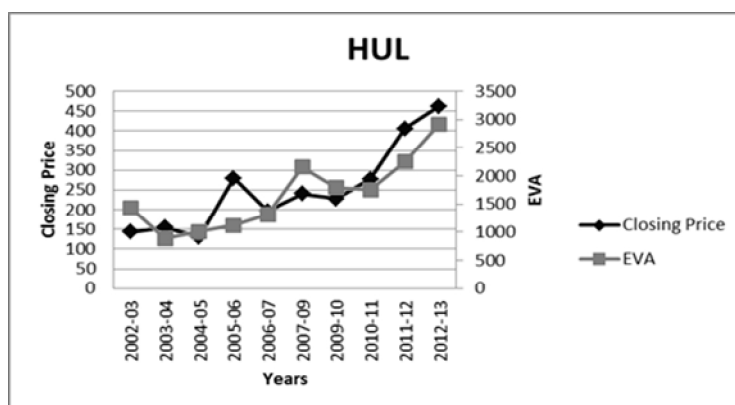


Figure 2. EVA trend & SWM performance of HUL

Correlation: 0.84

Adjusted $R^2 = 0.67$

$CP = 0.144EVA + 12.13$

We see a decent correlation between the market price and EVA.

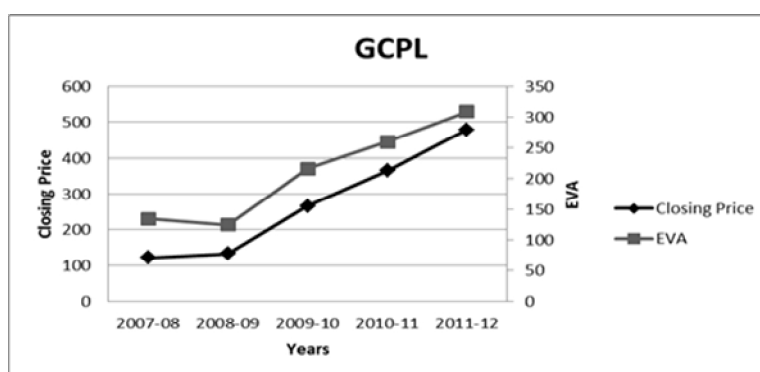


Figure 3. EVA trend & SWM performance of GCPL

Correlation: 0.99

Adjusted $R^2 = 0.98$

$CP = 1.912EVA - 126.53$

Thus we see very high correlation between market price and EVA almost close to 1. The reason for this high

correlation can be attributed to the fact that GCPL was the first company to come out with the concept of EVA in their annual reports.

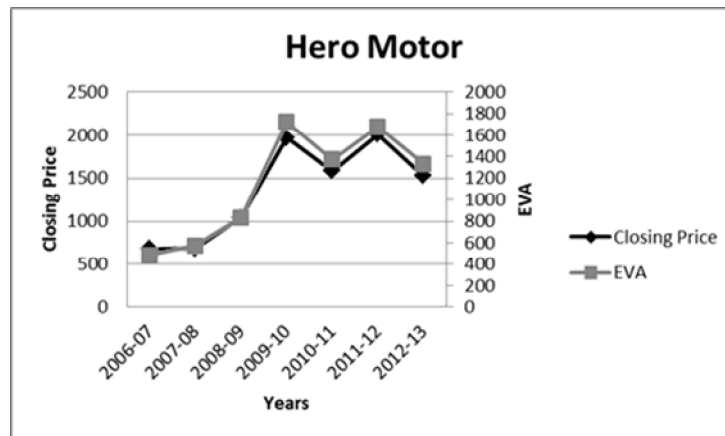


Figure 4. EVA trend & SWM performance of Hero Motocorp

Correlation: 0.99

Adjusted $R^2 = 0.99$

$CP = 1.09EVA + 104.89$

Thus we again see very high correlation between market price and EVA, almost close to 1.

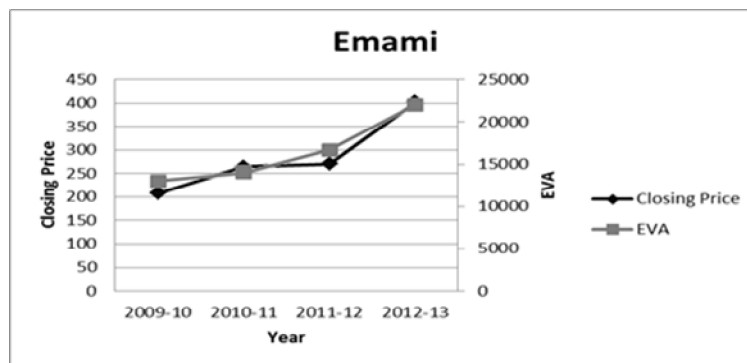


Figure 5. EVA trend & SWM performance of Emami

Correlation: 0.93

Adjusted $R^2 = 0.90$

$CP = 0.019EVA - 36.58$

Thus we again see a high correlation between market price and EVA. Also from Adjusted R^2 we can conclude that EVA has 90% effect on the price.

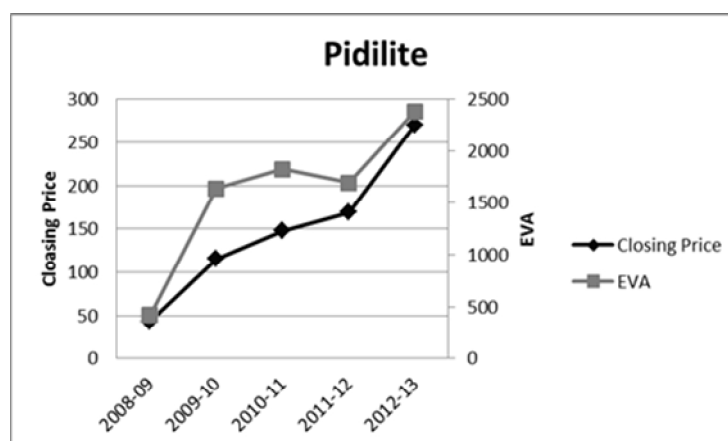


Figure 6. EVA trend & SWM performance of Pidilite

Correlation: 0.92

Adjusted $R^2 = 0.80$

$CP = 0.106EVA - 20.71$

Thus we again see high correlation between market price and EVA. Therefore EVA can be considered by

investors as an indicator for their investments. Adjusted R^2 corroborates this fact as that EVA has 80% effect on Closing Price.

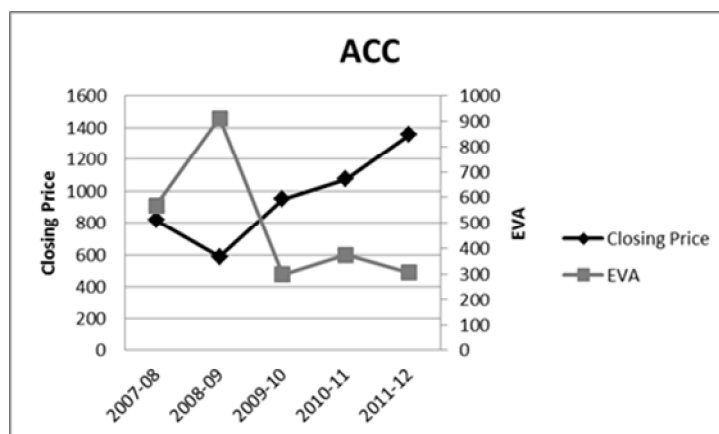


Figure 7. EVA trend & SWM performance of ACC

Correlation: -0.85

Adjusted $R^2 = 0.63$

CP = -0.94EVA + 1421.67

This is the only company which has a negative correlation between the market price and EVA. So for ACC, investors shouldn't take EVA as an indicator for their investment decisions. Also from Adjusted R^2 we can see that EVA has less effect on Closing Price (CP).

Conclusion

It is found that TCS, HUL, Godrej, Hero, Emami and Pidilite have created value to the shareholders consistently during the period. Value addition expressed in terms of EVA has significant positive impact on market price of shares with ACC being an exception where EVA has an inverse relation to market price.

So, the companies which report EVAs in their balance sheet have been able to create values for their shareholders rather than companies which don't. Therefore investors should look for the EVA performance of the companies before investing. EVA takes into picture the real financial health of the company. In the EVA system a company will be a wealth creator if its operations are as good as it can generate profit more than the cost of capital which includes the cost of equity as well. Although EVA has some limitations, still it is a better performance indicator than any other method and has a reputation globally because it considers the cost of equity in the form of shareholder expectations.

Suggestions of the study for future

- EVA disclosure should be made by the companies in their annual reports & if possible it should be mandatory.

- The main aim for every investment should be to create value for the shareholder from that investment. The managers should not consider their own profit while making an investment.

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