

An Analysis of EVA & MVA of Indian Cement Industries

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ABSTRACT

Advancement in the nature of business and management performance has pushed the need of people to build a more effective and structural financial measurement. Today it is well settled that the aim of every business entity should be to maximize shareholders' wealth. As investors world over, are currently demanding more shareholder value than just high returns. So investors are very keen in assessing the corporate financial performance that correlate with shareholders' wealth. Traditional performance measures like ROI, EPS, etc. have been used as the most important measure of shareholder value creation. But in the recent years, value based measures like EVA & MVA which measures performance in terms of change in value have received a lot of attention. So, I inspired to write this research paper which will throw light on this concept of value added. This consist the meaning, calculation and analysis of EVA and MVA with in selected cement companies. The design of the study is analytical in nature. This is a secondary database research. The relevant information is collected from various sources like internet, books, magazine etc.

Key words: EVA , MVA.

Meaning of EVA:-

Economic value added is a financial performance measure which computes the true economic profits of a corporation. EVA is a measure that enables managers to see whether they are earning an adequate return on the capital employed in the business. EVA was in use long back to measure divisional performance.

EVA is a trademark of Stein Steward and company, a consulting firm which reinvented the use of 'Residual Income' and made it popular.

4 steps in calculation of EVA:-

1. Compute the NOPAT
2. Compute total Invested Capital (TC)
3. Determine a cost of capital (WACC)

$$4. \text{ Calculate EVA} = \text{NOPAT} - \text{WACC}\% \times \text{TC}$$

Meaning of MVA:-

Value based management and shareholder value analysis is well known concepts in the 1980's, but there is now a renewed interest in them and also newer related concepts such as MVA. Market value added is the difference between the company's market and book value of shares. According to stern Stewart, if the total market value of a company is more than the amount of capital invests in it, the company has managed to create shareholder value. If the market value is less than capital invested the company has destroyed shareholder value

$$\text{MVA} = \text{company's total market value} - \text{capital invested.}$$

Cement industry in India :

The key infrastructure sectors of India are coal, petroleum, telecommunication, fertilizers and cement. Cement industry plays a crucial role in the building of the national infrastructure. Cement is an essential component of infrastructure development and most important input of construction industry, particularly in the government's infrastructure and housing programs, which are necessary for the country's socioeconomic growth and development. It is also the second most consumed material on the planet (WBCSD 2002).

Leading players in the industry are ultra tech cement, Gujarat ambuja cement limited, JK cements, ACC cement, Madras cements, etc. cement is an adhesive that holds the concrete together and is therefore vital for meeting economy's needs of housing and accommodation and necessary infrastructure such as roads and bridges, schools, hospitals etc., hence, the cement is one of the fundamental elements for setting up strong and healthy infrastructure of the country and plays an important role in economic development and welfare of the nation.

In this paper India Cement Limited and Ultra Tech Cement Limited have taken as sample.

1. India Cement Limited :

India Cement Limited is one of the well known cement companies in india. It has a big market base in the infrastructure as well

as the real estate segment. The high quality products and services at affordable cost make it one of the most preferred cement companies in the country. More and more industry segments are opting for the products of india cement.

2. Ultra Tech Cement Limited :

Ultra Tech Cement was incorporated in 2000 as Larson and tubro, later it was demerged and acquired by Grasim and was renamed as ultra tech cement in 2004. Today ultra tech cement a part of Aditya Birla Group, is the country's largest exporter of cement clinker. Ultra tech cement limited has an annual capacity of 52 million tones. It manufactures and markets Ordinary Portland Cement, Portland Blast Furnace Slag Cement and Portland Pozzalana Cement. It also manufactures Ready Mix Concrete. All the plants have received ISO 9001 certification.

Title of this Paper:-

In this paper, research has done of selected Indian cement industries' financial and managerial performance by evaluating and a analysis of EVA and MVA. So Title of this paper is, "An Analysis of EVA and MVA of Indian Cement Industries."

Review of Literature:-

One can find vast literature relating to EVA and MVA. These topics, as a research issue, have gained momentum after the consulting firm Stern Stewart Ltd. launched EVA™. Several studies have documented the relationship between EVA and MVA. The

related literature on EVA, MVA and the Relationship exist between them and with other performance measures is as follows:

**“Market Value Added and Economic Value Added: Some Empirical Evidences”,
Ramana D.V., Xavier Institute of Management**

Literature is replete with studies, which have tried to capture the behavior of MVA. Stewart (1991) claims that EVA is the ultimate proxy of MVA. Following Stewart (1991), several studies examined the relationship between EVA and MVA using the Stern Stewart-1000 data. Most of these studies found evidence to support Stewart’s claim.

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N. Zafiris, R. Bayldon,

"Economic value added and market value added: A simple version and application".

The current search for operational criteria and tests of firm performance is largely focused on the Economic Value Added (EVA) framework. While reasserting the essential soundness of this approach the paper seeks to improve its application by proposing a version of EVA which anchors the opportunity cost of equity capital on market rather than book values. The practicability of the model is illustrated by applying the proposed ‘EVA’ formula to a mixed set of accounting and stock market data from a sample of UK companies.

Objective of the study:-

1. To compute and analyze EVA and MVA of selected companies of Indian cement industry.
2. To find the trend of EVA and MVA in selected companies.

Research methodology:-

Research is a structured enquiry that utilizes acceptable scientific methodology to solve problems and create new knowledge that is generally applicable.

Research Methodology is a way to solve the research problem in a systematic manner. The path to finding answers to your research questions constitutes research methodology. The sequence or steps, which will be followed, are explained under in detail.

(i) Sample :-

Indian cement industry will be considered as the sample under study. Cement industry has always been very different from other industries in world market, in all time. Indian cement industry is one of those sectors that saw a constant pace of growth among other Indian industries in the boom in the world over the past many years. With the boom in the economy growth rate of India. The cement industry is seeing a great future . So this is the most important rational reason to select the cement industry to examine the above identified problem. I have selected 10 major companies. Such top ten industries are as follows:-

1. Ultra Tech Cement Limited
2. India Cement Limited

(ii) Time Period:-

The study will be of 7 consecutive years starting from 2006-07 to 2012-13.

(iii) Data Collection:-

The research study will be totally based on secondary data, which will be collected through:

- (1). Published annual financial reports of the sample companies
- (2). some other related data will also be collected through different sites for example: capital line, prowess, and money control.com etc and also from other related publications, bulletins, periodicals.

(iv) Data analysis:

For making the paper scientific and accurate following tools will be used:

1. Statistical Tool:-

ANOVA test

(v) Hypothesis:-

Corresponding to the objectives of the paper, the following hypothesis has been formulated and tested.

1. H_0 = There is no significant different among EVA of selected units.

2. H_0 =There is no significant different among MVA of selected units.

(vi) Limitations of Study:

1. One of the major limitations of the paper is that the study will be based on 7 years' data of selected companies from the Indian cement industries. So findings will cannot be applicable to whole industry for a long period. Because sample may not be represent all the common characteristics of universe.
2. The paper is based on secondary data. So the limitations of secondary data will may be revealing with this paper.
3. Statistical tools have their own limitation which will be affected to the result of paper.

To analyze the data and interpreting the results are the reward for the work of collecting the data. This is essential for a scientific study and for ensuring that we have all relevant data for making contemplated comparisons and analysis. The term analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data groups.

Calculation of EVA, MVA

In present study the variables are EVA, MVA. Out of which, the formula of some variables are as under through which the value of measures have computed.

- $EVA = NOPAT - \{ \text{cost of capital} \}$
- $MVA = \{ (\text{shares o/s} \times \text{stock price}) + \text{market value of preferred stock} + \text{market value of debt} \} - \text{total capital}$

EVA (in Rs. Crore)								
Co. Name	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Mean
UTCL	639.88	863.44	780.69	694.44	967.62	2003.51	2199.02	1164.09
ICL	298.57	461.70	265.18	149.27	-119.70	-105.20	-205.64	106.31

MVA (in Rs. Crore)								
Co. Name	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Mean
UTCL	5489.01	6643.49	5457.64	5436.45	1465.71	9068.01	8432.40	5998.96
ICL	1841.87	2778.56	130.58	-1444.92	-4215.70	-1745.34	-3174.24	-832.74

Hypothesis testing:

1. H_0 = There is no significant different among EVA of selected units.

Anova: Single Factor						
Summary						
Groups	Count	Sum	Average	Variance		
UTCL	7	8148.6	1164.09	424510		
ICL	7	744.18	106.311	63913.5		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	3916102.538	1	3916103	16.0357	0.00175	4.74723
Within Groups	2930540.732	12	244212			
Total	6846643.27	13				

Here, the cal. Value of F is greater than the tab. value. So, H_0 will be rejected at 0.05 significance level. There is significant difference among EVA of selected units.

H_0 = There is no significant different among MVA of selected units.

Anova: Single factor						
Summary						
Groups	Count	Sum	Average	Variance		
UTCL	7	41992.71	5998.958571	6195994		
ICL	7	-5829.19	-832.7414286	6542943		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	163352437.1	1	163352437.1	25.64616	0.000278	4.747225
Within Groups	76433621.95	12	6369468.496			
Total	239786059.1	13				

Here, the cal. Value of F is greater than the tab. value. So, H_0 will be rejected at 0.05 significance level. There is significant difference among EVA of selected units.

Findings:

From the study of EVA, MVA cement industry and their relationship in the sample of 2 companies of Indian cement Industry from the year 2006 -07 to 2012-13, the research findings are as follows:-

From the calculation of MVA, it is found that the trend of MVA is mix. The averages of all Companies are also mix. In general all the companies have created wealth or added value for its Shareholders.

According to the study, Most of the times there is negative EVA in ICL. There for in

General, company is not generating positive EVA from its Operations.

Reference:

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A man who dares to waste one hour of time has not discovered the value of life.

~ Charles Darwin