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### A study on value creation models in relation to shareholders' value creation with reference to ultra tech cement Pvt. Ltd.

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#### Abstract

Measuring and valuations are carried out in a different number of situations or intentions, these are giving some positive or negatives results. Therefore, shareholders value creation is most important to understand the value of the company. This study evaluates and analyses EVA, MVA in relation to SVC and the study also found the important metric for creating shareholder value/wealth. The ultra Tech Cement Company has been selected for analyzing and measuring the performance based on the market capital during the period of 2008-09 to 2017-18. It concluded that the EVA is the best metric for creating value and MVA is also supporting metric to SVC and it was also found that there is significant relation between EVA and SVC (0.832) whereas less relation with MVA (0.071). Therefore, shareholders value creation would depend on the EVA and less on MVA measures for making future investment on profitable projects.

**Keywords:** EVA, MVA and shareholder value creation

#### Introduction

Shareholder Value Creation (SVC): Creating value to shareholders is main objective of all the companies in relation to maximizing shareholders wealth. Many years companies have been measuring their financial performances in terms of net profit or long-term returns. Therefore, Shareholder value analysis advocates that the significant measure of a company's success is how well it enhances to its shareholders. Present days many of the companies applied the method of shareholder value analysis and it became fashionable. The concept of VBM is how the interest of shareholders will be affect by management decisions which is related to investment and other decisions. SVC creates only when long term profits exceeds over the cost of capital vice-a-versa. The calculated results give us the shareholder value of the company. The simple rule of SVA is that a company adds value for its shareholders only when equity returns exceeds cost of capital, when a company calculated their value and it can take necessary steps to improve its performance then, company also use SVA to assess the achievement of those activities which have been taken by the management.

In this article study the relationship between performance metrics along with value creation that is invented by Mr. Pablo Fernandez, Professor of Financial Management, University of IESE, Navarra, in his paper he was explained the concept of shareholder value creation.

**Shareholder Value Analysis:** It is a comprehensive concept of corporate finance to understand the meaning of SVA. In general most of the scholars are accepting the meaning of SVA is how management/directors decisions affect the net present value or firm value of their company shareholders. This value analysis measures a company's ability to earn more than its total cost of capital. At the corporate level, SVA stipulate a structure for estimating selections for rising shareholder value by determining the trade-offs between whether reinvesting in current businesses or investing in new or other businesses and repaying profits to its stockholders in the form of dividends. Now the decision of the investment is in the hands of management; however that would be favour to its shareholders because they are the real owners of the company and its create value as well as maximize the shareholder's return. This is not a different idea but the formalization was developed in the 1980's by Rappaport and various firms of consultants.

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The practical adjustments for debt, risk and costs of capital are important for calculating the shareholder value creation metrics like Economic Value Added (EVA) and Market Value Added (MVA). EVA determined the economic profit of the company over a period of time, economic profit will calculate based on NOPAT and overall cost of the particular company, when NOPAT exceeds the COC means generating economic profit whereas when NOPAT less than COC it destroys the shareholders' value. Moreover, MVA also explain clearly about value creation, when market value is more than the book value it creates or it destroys when it is less than book value.

In this article, we tried to find the superior proficiency between EVA and MVA in relation to shareholder value creation with selected company during the financial period of 2006 to 2015 which shares are traded actively in the Bombay stock market. Furthermore, in this paper we calculate EVA and MVA for finding out which one is highly significant in relation to SVC.

**Literature Review**

2014. Angayarkanni & Anand Shankar Raja M in their study, they concluded that the Bimetal bearings Ltd., used equity capital investment than the debt capital at satisfactory level, therefore WACC is decreased and value of the firm is increased during the period of study.

2012. Rajesh, Ramana Reddy *et al.* (2012) they investigated a comparative study between EVA and MVA with reference to cement industries and study the found that Economic Value Added and Market Value Added are important tools in order to analyses the financial position of the companies, moreover, the study found that two metrics are stipulated consistent returns to their shareholders vale creation.

2010. Sharma & Kumar- they were published paper on Economic value added in reputed journal and found that EVA provided consistent returns in advanced economy as compared less developing economies during the period of study 1994 – 2008.

2008. Aminimehr and Iqbal study the relationship between EVA and MVA through Pearson and trend analysis. In this found that the negative relationship between selected variables during the period of study.

2008. Mahmood *et al-* In his study Malaysian property companies failed to create the wealth to their shareholders with regard to EVA during the period of study 1997 – 2006.

De Wet (2005)- During the period of study 1994 to 2004 studied the correlation between accounting ratios like Earnings per share, DPS, ROA, Return on equity and EVA, in this study found that there is low correlation between selected variables.

Mekonnen (2002) he investigated the issues of value drivers measurement and ranking. The research revealed that, almost value metric have parallel pattern around the industries. Moreover, the study found that the Free cash flows very much important that the sales which were

affected by operating cost and interest expenses.

Lange (2000) he studied the Shareholder value concept and found that it was promoted as most important value driver and many of the scholars are also accepting that the SV is a one of important measure in this competitive world. Risk management has also raised its profile in the wake of significant corporate disasters. VBM aligns the organization's objectives with those of shareholders, and hence the financial markets, therefore, identification of internal and external risk factors of companies align the objectives.

**Research methodology**

**Objectives of the study**

1. To assess the financial performance through EVA, MVA and SVC
2. To examine effect of EVA and MVA on Shareholder Value Creation
3. To identify the measure-proficiency of EVA, MVA on Shareholder Value Creation.

**Tools of analysis**

**Financial Tools:** EVA, MVA and SVC.

**Statistical Tools:** Adjusted R<sup>2</sup> test, p-test, Beta coefficient, Regression and Multiple Regression

**Statement of hypothesis**

H<sub>0</sub> = there is no measure-proficiency of Economic Value Added, Market Value Added on Shareholder Value Creation

H<sub>1</sub> = there is measure-proficiency of Economic Value Added, Market Value Added on Shareholder Value Creation

**Data analysis and interpretation**

In order to confirm EVA to be the best performance measurement tool for the shareholders, the relationship between MVA, EVA and CSV have been considered. The relationship between EVA, MVA and Shareholder's wealth Creation have been literally reviews and analyzed and was found that EVA is the best measure to identify value of shareholders for the construction companies of Malaysia.

**Table 1:** R-Statistics of EVA, MVA and combination of both

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
EVA	.923 <sup>a</sup>	.851	.832	2069.46027
MVA	.417 <sup>a</sup>	.174	.071	4874.39629
EVA and MVA	.936 <sup>a</sup>	.876	.840	2019.70740

In the above table no1 shows both EVA and MVA adjusted R<sup>2</sup> in relation to shareholder value creation. EVA shows significant correlation with SVC (83%) whereas MVA shows poor relation with SVC (7%). But multiple correlations between EVA, MVA with SVC shows (84%) highly, means both are supporting and significant for creating SVC to its shareholders.

**Table 2:** Beta Coefficient between EVA, MVA and SVC

Model	Unstandardized Coefficients		Standardized Coefficients	p Value	t	Sig.	
	B	Std. Error	Beta				
1	(Constant)	4164.996	1594.019		0.0347	2.613	.035
	EVA	-2.454	.390	-1.038	0.0004	-6.293	.000
	MVA	-.001	.000	-.195	0.2755	-1.183	.276

From the above Table 2 shows Multiple Regression Analysis: the independent variables EVA and MVA are statistically significant with SVC and this model is tested by F-statistics and we found that the model is good fit at 24.57. The estimated regression model applying as follows

$$\begin{aligned} \text{SVC} &= a + X_1 (\text{EVA}) + X_2(\text{MVA})+e \\ \text{SVC} &= 4164.96 (+) -2.45 (+) -0.01 \end{aligned}$$

The expected beta coefficient of the multiple-correlation for EVA, MVA with respect to SVC stands as 1.038 and 0.195 (mod) respectively. This provides a valuable interpretation of relative influence between EVA, MVA with respect to SVC. Further, the relationship between EVA and the SVC is stronger compared to MVA and the SVC, irrespective of direction. Here the direction is kept unattended and the respective analysis is postponed.

### Conclusion

From the above analysis reveals EVA & MVA in Relation to Shareholders' Value Creation with special reference to Ultra Tech Cement Pvt. Ltd., EVA and MVA are the Best Measurement tools for Creating Value and it was concluded that the EVA is the best measure creating value to their shareholder and MVA is supporting measure to SVC and it was also found that there is significant relation between EVA and SVC (0.832) whereas less relation with MVA (0.071). Furthermore, the expected beta coefficient of the multiple-correlation for EVA, MVA with respect to SVC stands as 1.038 and 0.195 (mod) respectively. Therefore shareholders value creation would depend on the EVA and MVA measures for making investment decision.

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