

“A Study on Shareholders Value Creation and Financial Performance of Selected Automobile (LCVs & HCVs) Companies in India”

Sandip R. Dodiya
Research Scholar
Department of Commerce &
Business Administration
Saurashtra University

Dr. Ramesh A. Danger
Assistant Professor
J.H.Bhalodiya Womens College,
Rajkot, Gujarat(India)

Abstract: The basic objective of any organization is maximization of profit. Gradually this goal was replaced by wealth maximization. At the same time there are two types of investors. One group is in favour of regular income and another group is in favour of wealth creation but broadly thinking apart from these two objectives, the value creation for shareholders is very significant. In the world of corporate, to attract the investors the emphasis should be given on shareholders' value creation. In this study, an attempt is made to measure and analyze shareholders value creation by 5 Indian companies specially listed 'A' group from BOMBAY STOCK EXCHANGE (BSE). For value creation analysis purpose, Automobile (LCVs & HCVs) industry there are five companies to be selected. The data of the company is taken from 2007-2008 to 2014-2015. The study is based on the secondary data, which will be obtained from the annual reports of the respective companies.

Keywords: Intrinsic Value of Equity Shares, Market Capitalization, Paid up value of equity shares, Total Net Assets, Net Worth, Fictitious Assets, shareholders' value creation.

INTRODUCTION:

Indian automobile industry has matured in last few years and offers differentiated products for different segments in the society. It is currently making inroads into the rural middle class market after its inroads into the urban market and rural rich. In the recent years, Indian automobile sector has witnessed a slew of investment. India is on every major global automobile player's radar.

This industry is also fast becoming an outsourcing hub for automobile companies, worldwide, as indicated by the zooming automobile exports from the country. Today, Hyundai, Honda, Toyota, GM, Ford, and Mitsubishi have set up their manufacturing bases in India. Due to rapid economic growth and higher disposable income it is believed that the success story of the Indian automobile industry is not going to end soon.

Some of the major characteristics of Indian automobile sectors are:

- 2nd largest two-wheeler market in the world.

- 4th largest commercial vehicle market in the world.
- 11th largest passenger cars in the market.
- Expected to become the world's 3rd largest automobile market by 2030, behind only China and the US.

SHAREHOLDER VALUE CREATION:

The concept of shareholder value creation is arising due to the limitations of the wealth maximization concept. In the traditional method the capital appreciation is due to the concept of profit maximization and wealth maximization but now a day the measurement of shareholder value creation has been the issue of discussion all over the world for this purpose. It has been crucial when since the companies were increasingly committing to creating shareholder value. "The value, which a shareholder is able to obtain from their investments in a company which is made up of capital gains, dividend payments, proceeds from buyback programs and any other pay out that a firm might make to a shareholder".

The measurement of shareholder value creation is done through two different methods and the calculation of share holder value creation is divided into two parts share holder value creation – 1 and share holder value creation – 2. The computation of share holder value creation is a difference between Market Capitalization and Paid up Value of Shares that is known as total share holder value creation. This is further divided into two categories.

- 1) Shareholder value creation 1 = Intrinsic Value of Equity Shares –
Paid up value of equity shares.

$$\text{Intrinsic Value} = \frac{\text{Total Net Assets}}{\text{Total Number of Equity Shares}}$$

$$\text{Total Net Assets} = \text{Net Worth} - \text{Fictitious Assets}$$

The computation of share holder value creation 1 is related with internal financial soundness of the company. The improvement of the internal financial soundness is a result of economic efficiency of the company and accumulated reserves of the company. There is positive relationship between reserves and surplus and share holder value creation 1.

- 2) Shareholder value creation 2 = Market Capitalization –
Intrinsic value of Shares.

Share holder value creation 2 is the excess of market capitalization over intrinsic value of equity shares. It discloses the impact of external factors like national and international economical factors, perception of investors, role of speculators and others.

- 3) Total share holder value creation = Share holder value creation 1 +
Share holder value creation 2

The determination of intrinsic value of equity shares for all industries and companies for given period of time is calculated respectively. The total market capitalization of shares of all companies is obtained from the reports of CMIE. The market capitalization of each year to arrive at market capitalized value of shares of each company, for the period of the study.

$$\text{Market capitalized Value per share} = \frac{\text{Total Market Capitalization of respective Year}}{\text{Number of equity shares of that respective year}}$$

REVIEW OF LITERATURE:

Stern (1990) ascertained that EVA as a performance measure captures actuality economic profit of a corporation. EVA may be a performance measure that is most closely connected to the creation of shareholders' wealth over a period of time. The managers could also be guided by EVA and pursue such objectives that improve operational profits finance a lot of capital. Managers are often paid a proportion of each the overall EVA and therefore the positive modification in EVA.

Stewart (1994) has gone that EVA may be a powerful new management tool that has gained worldwide recognition because the normal tool of company performance. EVA presents associate integrated framework of financial management and incentive compensation. The adoption of EVA system by a lot of associated additional firms throughout the globe clearly depicts that it provides an integrated decision-making framework, will reforms energies and resources to form property worth for firms, customers, employees, shareholders and for managements.

Kramer and Pushner (1996) through empirical observation take a look at the strength of the link between EVA and market value added. The results don't totally support the arguments of EVA proponents that it's the most effective internal measure of company success in adding value to shareowner investments.

Burkette and Hedley (1997) explained that the EVA idea is often wont to assess structure performance called economic profit; it is often applied for profit firms, public sector organizations and non-profit organizations. EVA as a measure of monetary performance provides a superb tool for strategy designing, investment appraisal, evaluation choices and a basis for incentive compensation.

Ray (2001) ascertained that the primitive between EVA and improved financials is really productivity. EVA is often a strong tool once properly applied. For those areas of the firm wherever the previous is so bigger than the latter EVA analysis then permits the firm to focus on the firm's productivity so as to maximize the value created of the firm.

Madhu Malik (2004) examined the link between shareowner wealth and sure monetary variables like EPS, RNOW and ROCE. By victimization correlation analysis, it had been found that there was positive and high correlation between EVA and RONW, ROCE. There was a positive however low correlation between EVA and EPS. By victimization co-efficient of determination, EVA was compared with ancient performance measures and it had been found that not one ancient performance measure explains to the fullest extent variation in stockholder wealth.

Ramachandra Reddy and Yuvaraja Reddy (2007) examined the result of designated variables on MVA. This study was conducted with 10 cement firms in India and therefore the objective of this study was to look at the result of choose variables on MVA. The study found that none of the factors is found to possess impact on MVA and EPS is found to possess negative and important impact on MVA.

Mandeep Kaur associated Sweety Narang(2009) did an explorative study to analyze the wealth making capabilities of India's most precious corporations supported the two-valued metrics of monetary performance, i.e. economic value Added(EVA) and market value Added(MVA).By computing these two measures for a sample of 104 firms, specifically as per the methodology developed by Stern Stewart & Company, the study identifies that quite 500th of the sampled firms representing India's wealth club doubtless destroyed the wealth of its stockholder.

Chauhan and Bhayani, (2010) has examined the impact of mergers on shareholders' value creation in Indian business. The result suggests that firm's shareholders value creation is very captivated with operational expenses, gross margin, ROCE and Expense ratio. The inter company and inter business analysis results indicate there's no positive impact of mergers on shareholder value creation.

Sakthivel (2011) analyzed shareholder's value in Indian pharmaceutical business for the period of 1997-98 to 2006-07. it's complete that the businesses below pharmaceutical business has succeeded to fulfill public expectations in terms of shareholders' value creation through EVA either by increasing operational financial gain from assets in situ through reducing cost of production or increasing sales, or reducing the cost of capital by dynamic the financing mix in capital structure.

Pratapsinh Chauhan (2012) examines the shareholder's value creation within the Indian petroleum industry. The study aims to research the performance of the corporate we've got divided petroleum into public sector firm and private sector firms. EVA has been found to own vital correlation with OP, NOPAT, EPS, market capitalization and MVA figures of companies of each the sectors.

Murthy (2013) analyzed the performance of TCS and INFOSYS with reference to its shareholder wealth maximization. To check the performance of ROE, Du Pont Analysis has been applied. The fundamental objective to pick out {the 2|the 2} firms is to know and apply the idea of value creation within the two firms with totally different factsheet. in line with the study, TCS has provided consistent come to their equity shareholders on their investment, even quite Infosys.

NEED AND OBJECTIVES OF THE STUDY :

Present scenario in capital market is surprising wherever investors have to be compelled to depth analysis before their rational investment in market. Present study is predicated on it drawback and provides data to investor for their investment decision. Below this analysis on Shareholders value Creation and monetary Performance of chosen Automobile (LCVs & HCVs) firms in India

The following are the objectives of the study

- To investigate degree of shareholder value creation by the selected companies over a period of time.

- To undertake measurement of shareholder value creation created by the selected company through different methods.
- To suggest the investors about real shareholder value creation to make their investments.

HYPOTHESIS:

For better understanding of shareholder value creation the following hypothesis can be framed.

1. H_0 = There is no significant difference of shareholder value creation of selected Companies.

METHODOLOGY:

The present study adopts an analytical and descriptive research design. The data of the sample Companies has been collected from the annual reports and the balance sheet published by the Companies and the websites of the companies finite a sample size of 5 companies' listed on the Bombay stock exchange has been selected for the purpose of the study.

SAMPLING PLAN:

Sizes of the samples are 5 big bodies of Automobile companies of India.

DATA COLLECTION:

Data for analysis have been calculated from Annual reports.

TIME PERIOD OF STUDY:

The study has been conducted during period of eight years (2007 to 2016)

TOOLS USED FOR ANALYSIS:

Statistical Variables

- Mean
- ANOVA

LIMITATIONS OF THE STUDY :

- The study is based on secondary data and only the period of 8 years is taken for analysis.
- The pertaining to the analysis is collected from Websites and corporate databases.
- Some of the external factors affecting the leverage were not taken into account.

RESULTS & DISCUSSION:**[A] TATA MOTORS**

Table 1: Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	203.20	10	159.85	193.20	-43.35	149.85
2008-09	237.86	10	754.48	227.86	516.62	744.48
2009-10	262.28	10	1,249.48	252.28	987.21	1,239.48
2010-11	314.99	10	823.87	304.99	508.88	813.87
2011-12	61.03	2	293.14	59.03	232.11	291.14
2012-13	32.44	2	190.38	30.44	157.94	188.38
2013-14	59.57	2	471.51	57.57	411.94	469.51
2014-15	46.18	2	396.71	44.18	350.53	394.71
AVG.V.C						536.43

From table no.1, it is observed that, the intrinsic value is continuously increased till the year 2010-11 after that the value from 2011-12 value is 61.03 at that time paid up value is 2 only for period of the study. In the year 2012-13 it was 32.44 when paid up value is 2 and after that it increases up to the last year which is 46.18 as against the paid up value of `2.

[B] EICHER MOTORS

Table 2: Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	147.11	10	407.47	137.11	260.37	397.47
2008-09	171.14	10	234.95	161.14	63.81	224.95
2009-10	316.93	10	653.23	306.93	336.30	643.23
2010-11	169.77	10	1,233.94	159.77	1,064.17	1,223.94
2011-12	200.01	10	1,475.48	190.01	1,275.47	1,465.48
2012-13	232.98	10	2,906.70	222.98	2,673.72	2,896.70
2013-14	304.20	10	4,983.00	294.20	4,678.80	4,973.00
2014-15	455.23	10	15,077.68	445.23	14,622.45	15,067.68
AVG.V.C.						3,361.56

From the automobile industry, the Eicher Motors has excellent growth in the intrinsic value against the paid up value of `10. The growth of intrinsic value is in positive trend from the first year to the last year, The growth of market value per share is also in the positive direction, it is Rs. 407.47 in the first year and so on it increases up to the last year.

[C] ASHOK LEYLAND

Table 3 Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	16.14	1	15.00	15.14	-1.14	14.00
2008-09	26.04	1	49.60	25.04	23.56	48.60
2009-10	27.54	1	64.00	26.54	36.46	63.00
2010-11	29.76	1	45.60	28.76	15.84	44.60
2011-12	15.82	1	26.95	14.82	11.13	25.95
2012-13	16.74	1	17.20	15.74	0.46	16.20
2013-14	16.72	1	51.35	15.72	34.63	50.35
2014-15	17.99	1	88.00	16.99	70.01	87.00
AVG.V.C.						43.71

From the table, it is observed that the intrinsic value is not stable, from the year 07-08 to 10-11 it continuously increases, after that it is decreases till the year 13-14 and it will again raise in the year 14-15 up to 17.99 as against the paid up value of Rs. 1. It can be said that the market capitalization of the company is also in positive as well as negative trend. The value creation-1 shows the positive results due to upward valuation of the intrinsic value.

[D] FORCE MOTORS

Table 4: Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	78.14	10	0.78	68.14	-77.36	-9.22
2008-09	172.72	10	2.87	162.72	-169.85	-7.13
2009-10	215.02	10	9.18	205.02	-205.84	-0.82
2010-11	253.70	10	4.38	243.70	-249.32	-5.62
2011-12	867.70	10	4.67	857.70	-863.03	-5.33
2012-13	8.75	10	3.74	-1.25	-5.01	-6.26
2013-14	9.31	10	10.75	-0.69	1.45	0.75
2014-15	10.08	10	30.97	0.08	20.89	20.97
AVG.V.C.						-1.58

The performance of this company is good as its intrinsic value is continuous increases except in the last observed years. As from the view point of market capitalization in the observed years it is not good to attract the investors but from the last observed year it shows positive result. The value creation-1 shows positive results in the first five Years of the observation against the market capitalized value the intrinsic value is higher so it can be said that the investors are not ready to buy the shares. and the value creation-2 shows negative growth except last two years.

[E] SM ISUJU

Table 5: Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	89.23	10	215.79	79.23	126.56	205.79
2008-09	92.05	10	334.80	82.05	242.75	324.80
2009-10	131.10	10	430.28	121.10	299.18	420.28
2010-11	147.04	10	402.02	137.04	254.98	392.02
2011-12	166.67	10	459.72	156.67	293.05	449.72
2012-13	182.48	10	290.98	172.48	108.49	280.98
2013-14	191.00	10	817.37	181.00	626.38	807.37
2015-16	209.30	10	1,221.12	199.30	1,011.82	1,211.12
AVG.V.C.						511.51

The performance of this company is good as its intrinsic value is continuous Increases till the last observed years. As from the view point of market capitalization in the first initial two observed years it is not good to attract the investors but from the third observed year it shows positive result till the last observed year.

Table 6: Automobile Industry

Sr. No.	Company Name	Average Total Share Holder Value Creation	Rank
1	Tata Motors	536.43	2
2	Eicher Motors	3,361.56	1
3	Ashok Leyland	43.71	4
4	Force Motors	-1.58	5
5	SM Isuju	511.51	3

The trend of shareholders value creation (SVC) of selected companies within the industry may not be uniform. The average share holders value creation of selected companies of automobile industry is shown in graph no.5.1. Eicher Motors Ltd had obtained 1st rank and having maximum SVC and Force Motors Ltd had obtained 5th rank and having minimum SVC.

This shows the effect of company's performance and expectation of investors. Wherever company had met the expectations of investors, their market value and SVC also found to be higher and vice a versa.

INTER COMPANY COMPARISON:

Table 7: Year wise total shareholder value creation in % of selected companies of Automobile industry

Year	Tata Motors	Eicher Motors	Ashok Leyland	Force Motors	SM Isuju
	(%)	(%)	(%)	(%)	(%)
2007-08	1498.5214	3974.7331	54732.545	9447.98759	14921.2421
2008-09	7444.77728	2249.46619	96942.4347	11943.7097	21637.9531
2009-10	12394.8125	6432.28346	188270.959	25259.3794	44086.4753
2010-11	8138.70154	12239.4052	203781.067	32617.512	52995.6187
2011-12	14557.1294	14654.8148	175662.407	32221.0555	49787.2962

2012-13	9418.81898	28967.037	308508.008	59817.8379	90668.6387
2013-14	23475.4178	49730.000	544250.836	104155.084	158580.167
2014-15	19735.5081	150676.753	1546238.54	305300.607	459924.462

There are several factors which are having direct or indirect effect on shareholder value creation. But here shareholder value creation has impact on market price. Theoretically, it can be said that there is direct relation between shareholder value creation and market price of the shares.

HYPOTHESIS TESTING:

Here using the techniques of hypothesis testing is One-way ANOVA.

H_0 = There is no significance difference of shareholder value creation of selected companies.

H_1 = There is significance difference of shareholder value creation of selected companies.

Table No.5.41

One-way ANOVA Table of shareholder value creation of Automobile industry

Source of Variation	SS	D.F.	MS	F	F. crit
Between Group	753122554531	4	188280638632	3.421	2.641
Within Group	1926349107492	35	55038545928		
Total	2679471662024	39			

Consider above testing is identify that the calculated value is 3.421 and table value is 2.641. Hence the calculated value is more than the calculated value table value of ANOVA means the H_1 is accepted. Conclude that there is significance difference of shareholder value creation of selected companies.

MAJOR FINDINGS:

- ⇒ The researcher has found the market capitalization of the Tata Motors is also in positive trend. The value creation-1 shows the positive results due to upward valuation of the intrinsic value.
- ⇒ As well as find that value creation – 1 of Eicher Motors shows positive effect due to higher of intrinsic value. It is due to favourable economic efficiency of the company. value creation-2 shows positive results because market value is higher than the intrinsic value in each year and therefore, the total value creation having an excellent growth. It shows the company has good image in the market so the investors are attracted to purchase the shares.
- ⇒ The researcher has found in Ashok Leyland Value creation - 2 shows negative results in the first year because in this year the market value is lower than but afterwards it is in positive direction and therefore the total value creation is also increase but in the year 12-13 is it lower at 0.46 in rest of the years it is increases..
- ⇒ As well as it can be said for Force Motors that the economic efficiency of the company is not good and the company is unable to capture investors' interest.

- ⇒ The researcher has found as both value creation of SM Isuzu showing positive growth and therefore the total value creation is also having similar growth. It can be said that the economic efficiency of the company is very good and the company is able to capture investors' interest.
- ⇒ Through Anova testing Researcher found that there is significance difference of shareholder value creation of selected companies.

CONCLUSION:

In automobile industry 5 companies are selected for the study period of 8 years for shareholder value creation. From the table of this industry, it is revealed that 3 companies namely Eicher Motors Ltd., Tata Motors Ltd., SM Isuzu Ltd. Shows continuous high growth of shareholder value creation during the period of study. The market price also shows the same position as when total shareholder value creation increase, the market price also increase. It shows the perception of the investors for investments in that particular companies are good. The other two companies namely Ashok Leyland Ltd. And Force Motors Ltd. Shows fluctuation in shareholder value creation in Ashok Leyland Ltd. When shareholder value creation shows upward trend the market price also shows upward trend but when in the last year of the study, the shareholder value creation shows downward trend and the market price was also having the same trend in case of Force Motors Ltd. There is also fluctuation in the market price of the shares, the shareholder value creation decreases the market price shows decreases results also decrease. Afterwards, in the last year of the study when the shareholder value creation increase the market price was also increased.

REFERENCES:

- 1) Pablo Fernandez (2002), "A Definition of Shareholder Value Creation", Research Paper No.448, January 2002, Research Division IESE, University Of Navarra, Spain.
- 2) Stern,Joel, "One way to build value in your firm, Executive Compensation", Financial Executive, Nov/Dec. 1990, pp: 51-54.
- 3) Stewart, G. Bennet, "EVATM Fact and Fantasy", Journal of Corporate Finance, Vol. 7, No. 2, June 1994, pp: 71-84.
- 4) Chawla Deepak and Neena Sondhi, "Research Methodology-concepts and cases", 2011.
- 5) Sachdeva J. K., "Research Methodology", Himalaya Publishing House, Second Edition.
- 6) Kothari C. R. And Garg Gaurav, "Research Methodology- methods and techniques", New Age International Publications, Third Edition, 2014