

## A COMPARATIVE ANALYSIS ON EVA & MVA OF A LEADING I.T. COMPANIES OF INDIA

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### ABSTRACT

*Maximizing shareholders value has become one of the new corporate practices in recent years. The Companies, which have given less preference to shareholders curiosity, are now giving the utmost preference to it. Shareholder's wealth is measured in terms of returns they receive on their investment. It can either be informs of dividends or in the form of capital appreciation or both. Capital appreciation depends on the changes in the market value of the stocks. There has been a swelling concern about the performance measures based on traditional accounting information such as Return on Equity (ROE), Earning per Share (EPS), Net Operating Profit after Taxes (NOPAT) and Return on Investment (ROI) etc. But EVA and MVA are the two different approaches to measure the existing financial status and predicting the future performance of the company. The present study is an attempt to determine the financial performance of selected I.T. Sector companies in India and position them based on their mean EVA and MVA for the tenure of 3 years from 2017-18 to 2019-20.*

**KEYWORDS:** ROE, EPS, NOPAT, ROI, EVA and MVA, Capital Appreciation.

### Introduction

In today's business world, shareholders' wealth maximization is very important. And Maximization of shareholders' value has become the new corporate performance standard in India. Any company which gives less return to its shareholders is considered as low performing company. In a country like India where capital is still costly, the corporate management would try to get a maximum profit for every single penny of investment. EVA means economic value added, in another words addition in the returns of shareholder. EVA is the difference between a company's profit and the full cost of its capital. A company should not only seek to make profit from its business but it should also make enough profit to cover the cost of its capital, including the equity invested by shareholders, for its survival. Idea of EVA has been given by Stern Stewart and Co, a New York based global financial consultant. Most of the companies consider the returns but not the entire cost. Only the cost of debt and cost of preference shares are considered, but the equity cost is not considered, whereas equity share capital is also the cost which has to be considered.

In this Paper the economic value added calculation on selected IT companies of India. And also calculated market value added is under the consideration of selected IT companies in India. Market value added is considered as a good measure for financial performance of the company. Market value added related to measure of economic value added. Market value added is the difference between a company's fair market value, as reflected primarily in its stock price, and the economic book value of capital employed. Promoting MVA, stern Stewart has focused on the true goal of CEO's to create wealth for shareholders.

- EVA is defined as "Excess profit of a firm after charging cost of capital".
- Market Value Added is the difference between the Market Value and Book Value of The Equity. In Modern Approach MVA Is the Present Value of the Future Stream of EVA.

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### Company Profile

- **Tata Consultancy Services Limited (TCS)**

TCS is an Indian multinational (IT) services and consulting company headquartered in Mumbai, Maharashtra, India. It is a subsidiary of the Tata Group and operates in 149 locations across 46 countries. TCS is the second largest Indian company by market capitalization. Tata consultancy services is now placed among the most valuable IT services brands worldwide. In 2015, TCS was ranked 64th overall in the Forbes World's Most Innovative Companies ranking, making it both the highest-ranked IT services company and the top Indian company. It is the world's largest IT services provider. As of 2018, it is ranked eleventh on the Fortune India 500 list. In April 2018, TCS became the first Indian IT company to reach \$100 billion in market capitalization, and second Indian company ever (after Reliance Industries achieved it in 2007) after its market capitalization stood at ₹6,79,332.81 crore (\$102.6 billion) on the Bombay Stock Exchange. In 2016–2017.

- **Infosys Limited**

Infosys Limited, is an Indian multinational corporation that provides business consulting, information technology and outsourcing services. The company is headquartered in Bangalore, Karnataka, India. Infosys is the second-largest Indian IT company after Tata Consultancy Services by 2017 revenue figures and the 596th largest public company in the world based on revenue. On 29 March 2019, its market capitalization was \$46.52 billion. The credit rating of the company is A- (rating by Standard & Poor's).

### Review of Literature

- **Shilpa Pruthy (2013)** she was pen down on "A comparative study of EVA and MVA of power sector companies in India" In this study researcher has taken secondary data from various annual reports she was using economic value added etc. in this study used average and correlation between EVA and MVA. This study period was 2009-2011. This study based on secondary database and collect data from various annual report of companies. And they found reason for negative economic value added is high cost of equity.
- **Mamatha. Ellanti (2016)** "selected Indian pharmaceutical company's performance through EVA, A study" in this study based on secondary data and study of the period was 2012-13 to 2014-15. This study in researcher hire sample three and it's depends on top three pharmaceutical company. In this paper also used EVA approach, mean, standard deviation, and cost of debt etc. finally researcher found that Ajanta pharma is having a positive EVA when compared to all other mid cap company-
- **Dr. Asha Sharma (2013)** she write down on "Economic value added in Infosys limited" in this paper examines the value creation strategy of Infosys by analyzing whether the economic value added better represents the market value of company in comparison to conventional performance measures. In this regards Eva and the conventional measures of corporate performance such as PAT, EPS, ROA and operating profit and analyzed. This study totally based on secondary data and study period was 2007-08 to 2011-12.
- **Ashima, Delhi University (2014)** "financial synergic impact on Icici and HDFC bank after merger (with EVA & MVA approach)" in this research study she was said that financial synergic impact in banking industry after merger with special reference to ICICI bank & HDFC bank. Merger takes place with a view to improve the financial synergy so it's necessary to evaluate whether this financial synergy has created any shareholders wealth or not. In this study evaluate the impact of financial synergy on shareholder value after merger takes place with EVA & MVA approach.
- **Dr. Kuldeep Kumar (2014)** written on "comparative performance evaluation of selected automobile companies in India using EVA and MVA measures" in this paper maximization shareholders value has become one of the new corporate practice in years. In the present study two distinctive approaches. EVA and MVA have been used to measure the existing financial condition and forecasting automobile companies in India. This study clearly concluded that the performance of maruti Suzuki India Ltd. and Mahindra and Mahindra Ltd. found satisfactory with consistent returns to the shareholders.

### Statement of the Problem

The research reviewed a past study as literatures identify research gap itself. The shareholders always try to find out an efficient dividend from the company and to define relationship between economic value added and market value added before taking new investment decision in IT companies. A very few studies have been made focus on relationship between or comparison between EVA and MVA approach in IT companies of India, thus the proposed study would be carrying out to fill such a research gap.

### Objectives of the study

To estimate the performance of chosen I.T. companies in India through value added measures like Economics value added (EVA) and Market value added (MVA).

### Hypothesis of the Study

**H<sub>0</sub>:** There would be no significant relationship between Economic value added and Market value added in selected IT companies in India.

### Research Methodology

This study has been conducted with special reference to two most preferred and trusted Indian I.T. sector company i.e., Tata Consultancy Services& Infosys Limited. The study period is three year duration i.e., 2017-18 to 2019-20 and the secondary data for analysis have been collected from published reports, magazines, annual reports and website of the companies. The EVA & MVA measures have been used to evaluate the performance of selected I.T. Sector companies for the period of study.

### Calculation of EVA and MVA

$$\text{EVA} = \text{NOPAT} - \text{COCE}$$

$$\text{COCE} = W_1.K_d + W_2.K_e$$

$$K_d = \text{cost of debt}$$

$$K_d = I(1-t)$$

$$t = \text{tax rate}$$

$$I = \text{interest rate}$$

$$K_e = \text{cost of equity} = \text{dividend}/P_o + g$$

$$P_o = \text{price of share}$$

$$g = K_e \times \text{Retention ratio (b)}$$

$$b = \text{EPS-DPS/EPS}$$

MVA is calculated as below:

$$\text{MVA} = (\text{Closing share price} \times \text{No of outstanding share}) - \text{Net Worth}$$

### Analysis and Interpretation

**Table 1: EVA of Two Companies FOR Three YEARS (Rs. in Crore)**

Year	Tata Consultancy Services Limited	Infosys Limited
2017-18	3945.46	3126.1
2018-19	3537.58	3576.12
2019-20	3527.6	5428.32
Mean	3670.21	4043.51
SD	238.42	1220.20
Variance	56845.45	148889.7
CV(%)	6.49	30.17

Table 1 states the EVA of selected automobile companies during the period of study.

#### Tata Consultancy Services Limited

The EVA of TCS Ltd is high (Rs3945.46crore) in the year 2017-18. The calculated Mean EVA is Rs3670.21crore and the Co-efficient of Variation (CV) is 6.49per cent shows consistent EVA of the company. Overall the company performance is satisfactory with positive EVA during the study period.

#### Infosys Limited

The EVA of **Infosys Limited** is high (Rs. 5428.32crore) in the year 2019-20 and low (Rs3126.1crore) in the year 2017-18. The calculated Mean EVA is (Rs4043.51crore) high in all during the study period. The CV is 30.17per cent shows consistent EVA over the study period.

**Table 2: MVA of Two Companies FOR Three YEARS (Rs. in Crore)**

Year	Tata Consultancy Services Limited	Infosys Limited
2017-18	24018.6	17752.3
2018-19	25453.15	20455.7
2019-20	38778.7	18183.31
Mean	29416.81	18797.10
SD	8139.29	1452.46
Variance	66248128.09	2109649.58
CV(%)	27.66	7.72

Table 2 shows the Market Value Added (MVA) of selected automobile companies for the year March 2017-18 to March 2019-20.

#### **Tata Consultancy Services Limited**

The MVA of TCS Ltd is highest (Rs. 38778.7crore) in the year 2019-20 and lowest (Rs. 24018.6crore) in the year 2017-18. The calculated Mean MVA is Rs 29416.81crore and the co-efficient of variation (CV) is 27.66 per cent. The company performance is satisfactory and the CV shows consistent MVA of the company.

#### **Infosys Limited**

The MVA of Infosys Limited is Positive during the study period. The calculated Mean MVA is 18797.10crore) Positive along with Positive CV. The company performance is satisfactory with Positive MVA.

**Table 3: Ranking of Companies Based on EVA and MVA With Respect To Mean**

Company Name	Rank Based on EVA	Rank Based on MVA	Average Rank	Final Rank Based on maen
<b>TCS Limited</b>	2	1	1.5	1
<b>Infosys Limited</b>	1	2	1.5	2

Table 3 shows the calculated ranks of selected I.T. companies for the study period based on Mean EVA and MVA. TCS Ltd. is at 1<sup>st</sup>rank, Infosys Ltd is at 2<sup>nd</sup> rank based on the mean EVA and MVA. The ranking procedure indicates that TCS Ltd. showing satisfactory performance during the period of study followed by Infosys Ltd.

**Table 4: Ranking of Companies Based on EVA and MVA With Respect To CV**

Company Name	Rank Based on EVA	Rank Based on MVA	Average Rank	Final Rank Based on CV
<b>Tata Consultancy Services Limited</b>	1	1	1	1
<b>Infosys Limited</b>	2	2	2	2

Table 4 shows the calculated ranks of selected I.T. companies for the study period based on CV of EVA and MVA. With CV of EVA and MVA, TCS Ltd. is at 1<sup>st</sup>rank, Infosys Ltd 2<sup>nd</sup>rank. The ranking procedure shows that TCS Ltd is consistent during the period of study followed by Infosys Ltd.

#### **Conclusion**

From the data analyzed under study related to four selected automobile companies in India using EVA and MVA measures, it is clearly found that EVA ofTCS Ltd is satisfactory with consistent returns whereas Infosys Ltd. showing inconsistent returns during the study period. The Mean EVA reveals that, Tata Consultancy Ltd is at 1st rank, Infosys Ltd is at 2nd rank Based on MVA, TCS Ltd. and Infosys Ltd. showing satisfactory returns positive MVA. The Mean MVA reveals that TCS is at 1st rank and Infosys is at 2nd rank. Based on Mean EVA and MVA, Tcs is at 1st rank, Infosys Ltd is at 2nd rank. The ranking procedures concluded that TCS Ltd. is consistent in the study period followed by Infosys Ltd. Lastly, it is observed during the study period, that the EVA and MVA measures showing Both Companies having satisfactory performance with consistent returns to the shareholders. The two measures are having relative significance to examine the performance of the companies.

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