CHAPTER – 6

SUMMARY, FINDINGS & SUGGESTION

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6.1 INTRODUCTION

Like a traveller, who after completing his journey, reaches to destination and looks back to see the distance that he has covered for identifying the important landmarks he came across. Review of the important aspects of the study and summing up of the key observations are presented in this chapter.

6.2 SUMMARY

In the present research study, the researcher has prepared and presented the research mainly in six chapters. The highlights of each chapter are as follows:

1) Sample profile of BSE-30:

Chapter one is about overview of BSE Sensex companies. Main aim of the chapter is to give brief introduction about capital market, stock market and sample of the study. This chapter includes history and evaluation of capital market at world level as well as at domestic, functions of capital market, history and evaluation of Indian stock market, types of capital market (Primary & secondary). Furthermore researcher has been attempting to disclose number of stock market in India with special reference to Bombe Stock Exchange. Researcher also shows profile of BSE – 30 companies as on 17th Feb. 2012.

2) Conceptual Framework of CAPM Model & EVA:

In the second chapter of the study researcher discloses theoretical aspect of capital asset pricing model and economic value added. In this chapter researcher mention origin of EVA, history & evolution of EVA, assumptions under EVA, Advantages & Limitations of EVA, how to calculate EVA and different types of methods for cost of capital. Furthermore researcher also discloses History & evolution of CAPM, assumptions under CAPM, important meaning under CAPM, risk return relationship under CAPM and Advantages & Limitations of CAPM.

3) Review of Literature:

Third chapter of the study is about review of literature with concern to topic. In this study researcher has been attempt to review on Economic Value Added, Capital Asset
Pricing Model and performance evaluation. For that purpose researcher has review literature through various books & thesis, various research papers regarding EVA, CAPM and Performance Evaluation. Among them researcher tried to classify review of foreign study as well as domestic study regarding EVA, CAPM and Performance Evaluation.

4) Research Methodology:

Research methodology is the pre planning process of the study. This chapter includes steps which undertake by the researcher for the study. This chapter shows introduction of research, title of the study, objectives of the study, scope of the study, nature of the study, hypothesis of the study, research design, significance of the study, outline of chapter plan and limitation of the study.

5) Data Analysis & Interpretation:

Data is the blood for the research. But after the collection of data proper tabulation, analysis, interpretation and presentation of data is needed for converting them in meaningful manner. In the chapter five data analysis and interpretation researcher has been tried to find out EVA statement of BSE – 30 companies during the study period. For that purpose researcher calculate cost of debt, cost of equity as per CAPM, beta value, weight to Ke, weight to Kd and WACC of BSE – 30 companies during the study period. Furthermore researcher also tried to find out whether CAPM is applicable in Indian stock market or not, which securities are undervalued and overvalued during the study period.

6) Findings, Suggestions & Conclusion:

This chapter includes summary of each chapter and findings of the study, and last but not the least suggestions for increase shareholder’s value creation, where and how investors invest their money in the securities.
6.3 FINDINGS OF THE STUDY

✓ Based on Table no. 5.1 it was found that HDFC Ltd. having 5.51% average cost of debt during the study period. It shows that debt holder demand 5.51% rate of return on their investment.

✓ Based on Table no. 5.1 it can be found that Cipla Ltd. having highest Kd among BSE – 30 companies during the study period. It was also found that in the year 2010 & 2012 company issue high interest on total debt during the study period.

✓ Researcher has also concluded that Infosys Ltd. does not issue debt instrument during the study period. Company fully relies upon owner’s capital.

✓ Hindustan Unilever Ltd. issued debt capital only in the year 2009 during the study period. Company excluding year 2009 having only owner’s capital.

✓ Banking Sector units having high Kd during the study period.

✓ Based on Table no. 5.2 it was analyzing that cost of debt of sampled companies are significantly different. But null hypothesis has been accepted in the average cost of debt during the study period.

✓ Table no. 5.3 depicts that DLF Ltd. high systematic risk during the study period.

✓ Furthermore it was also analyze that ICICI Bank Ltd., Hindalco industries Ltd., Tata Steel Ltd., Jindal Steel & Power Ltd., Tata Motors Ltd., Larsen & Toubro Ltd., Reliance industries Ltd., SBI Ltd., HDFC Ltd. and BHE Ltd. are the riskier securities among sampled companies during the study period.

✓ Coal India Ltd. is the low risky security among sampled companies with 0.21 averages Beta during the study period.

✓ So far as concern to average Ke DLF Ltd. having highest average Ke among BSE – 30 companies during the study period. it shows that high risky security having high expected rate of return.
Furthermore it was also analyze that there is a high correlation between Beta & Ke during the study period.

Infosys Ltd. having highest weight to Ke with (1.00) among sampled companies during the study period. It shows that company having fully owner’s capital rather than debt capital.

Researcher found that 13 companies among sampled companies have more than $\frac{4}{5}$ proportion of average weight to Ke in their total asset during the study period.

Furthermore it was also analyze that 13 companies have between $\frac{1}{2}$ to $\frac{4}{5}$ proportions of owner’s capital in their total asset during the study period.

HDFC Ltd. having highest average weight to Kd among BSE – 30 companies with (0.86) during the study period. It shows that company having high debt proportion during the study period.

Furthermore it was also analyze that out of 30 companies 23 companies having less than $\frac{1}{3}$ proportion average weight to Kd of total assets. Only 2 companies are above $\frac{1}{2}$ proportion of average weight to Kd of total assets, while 5 companies are between $\frac{1}{2}$ to $\frac{1}{3}$ proportion average weight to Kd of total assets.

Based on Table no. 5.8 it was found that TCS Ltd. having highest WACC among BSE – 30 companies during the study period. It shows that investors demand high rate of return on their capital employed during the study period.

Banking sector & Consumer finance sector companies registered lowest average WACC among sampled companies during the period under review.

Based on table no. 5.9 it was found that there is significant difference in the required rate of return of sampled companies. While so far as concern to year wise WACC, null hypothesis has been accepted. It shows that there is no significant difference in the required rate of return during the study period.
✓ So far as concern to EVA statement researcher has analyzed that HDFC Ltd. destroyed their shareholder’s wealth during the study period. Main reason for destroy wealth is cost of capital employed is greater than adjusted net operating profit. Company over a period of time increases their debt proportion and as a result operating profit is minimize up to payment of interest. So that profit does not cover their cost of capital employed.

✓ So far as concern to table no. 5.11 it shows that Cipla Ltd. generate shareholder’s wealth during the study period. Further it can also be seen that company diminish their shareholder’s value in the year 2011, main reason for downfall is increase in the debt instrument.

✓ So far as concern to table no. 5.12 it shows that BHE Ltd. shows continuously increasing trend in the EVA during the study period. Furthermore it was also found that company having high weight to Ke during the study period.

✓ Researcher has been found that SBI Ltd. does not create shareholder’s value during the period under review. Company earns net operating profit but it is not a true performance indicator as it doesn’t deduct cost of capital employed.

✓ So far as concern to table no. 5.14 it was analyze that HDFC Bank Ltd. disclose constant rising trend of EVA during the period under review. Though it was quite low but it is positive during the study period. Furthermore it was also analyze that company performing well as compare to other banking sector units among sampled companies during the study period.

✓ Based on table no. 5.15 it was found that Hero Moto corp Ltd. registered positive EVA during the study period. Though it was fluctuating trend during the study period.

✓ So far as concern to table no. 5.16 it was found that Infosys Ltd. creates their shareholder’s value during the study period. Furthermore it was also analyze that cost of capital employed shows continuous increasing trend during the study period, even though net operating profit cover it’s COCE as company totally rely upon equity capital.
Based on table no. 5.17 it was analyze that ONGC Ltd. create positive EVA during the study period. Adjusted net operating profit of the company covers its COCE.

So far as concern to table no. 5.18 it was analyze that Reliance Industries Ltd. does not create shareholder’s wealth during the study period. Cost of capital employed shows continuous increasing trend and adjusted net operating profit of the company does not cover its COCE, as a result company fail to show positive EVA.

Table no. 5.19 shows EVA statement of Tata Power Ltd. during the study period. Based on table it was found that company fails to create their shareholder’s value during the period under review. Furthermore it was also found that cost of capital employed continuous increasing trend due to increase in debt capital during the study period. As a result company reported lower profit and it does not cover its COCE.

Based on table no. 5.20 it can be seen that Hindalco Industries Ltd. create shareholder’s value only initial year of the study period. Afterward company reported negative and continuously decreasing trend in EVA during the study period.

Table no. 5.21 depicts EVA statement of Tata Steel Ltd. during the period under review. Based on table it can be found that company create positive EVA only initial two years of the study period, where company maintain balance between equity to debt. Afterward as company decrease their equity capital company fails to create positive EVA during the study period.

So far as concern to table no. 5.22 it was concluded that Larsen & Turbo Ltd. shows continuous decreasing trend first four year of the study period, and in the last year slight increase can seen. Although company create positive EVA during the study period.

So far as concern to table no. 5.23 it was analyze that Mahindra & Mahindra Co. Ltd. destroy their shareholder’s wealth in the second year of the study
period as company increase their debt and decrease their equity capital, company earn low profit, in the year 2009. Although afterward company increase debt capital but increase in Profit cover its cost of capital employed.

Table no. 5.24 shows EVA statement of Tata Motors Ltd. Based on table it was analysed that company destroy their shareholder’s value in last four year of the study period. Furthermore it can also be seen that COCE shows continuous increasing trend, while net adjusted profit shows fluctuating trend during the study period. As a result company’s profit does not cover its COCE.

So far as concern to table no. 5.25 it was analyze that Hindustan Unilever co. Ltd. create very high & Positive EVA during the study period.

Based on table no. 5.26 it was analyze that ITC Ltd. has been able to generate shareholder’s value during the study period. Company shows continuous raising trend during the study period. Furthermore researcher has also found that during the study period company decrease their debt capital and their adjusted net operating profit cover its COCE.

So far as concern to table no. 5.27 it was concluded that Sesa Sterlite Industries Ltd. does not able to generate shareholder’s wealth in the last year of the study period. Furthermore it can also analyze that trend of EVA fluctuate with trend of debt capital of the company. In the last year of the study period many structural change has occur like merger & acquisition, as well as company issue debt capital as a result profit of the company does not cover its COCE.

Based on table no. 5.28 it was found that Wipro Ltd. has been able to generate its shareholder’s wealth during the study period.

Table no. 5.29 depicts EVA statement of Sun pharmaceuticals Ltd. during the study period. Based on table it was found that company has been able to generate wealth for their shareholders during the study period.
Based on table no. 5.30 it was concluded that Gail India Ltd. has been able to generate wealth for their shareholders during the study period. Furthermore it was also analyze that in the last year of the study period EVA has been decrease due to continuous increase in debt as well as low increase in profit.

So far as concern to table no. 5.31 it was found that ICICI Bank Ltd. destroy their shareholder’s wealth during the study period. It was also analyzing that though companies earn profit but it does not cover its COCE during the study period.

Table no. 5.32 reflects EVA statement of Jindal Steel & Power co. ltd. during the study period. It was analyzing that company destroy their shareholder’s wealth in the last year of the study period as profit doesn’t cover its COCE.

So far as concern to table no. 5.33 it was found that Bharti Airtel Ltd. destroy their shareholder’s wealth in the last year of the study period. Furthermore it was also analyze that as compare to equity capital company increase their debt in west proportion as a result in the last year of the study period profit has been decrease and it doesn’t cover its COCE.

Based on table no. 5.34 it was concluded that Maruti Suzuki India Ltd. destroy their shareholder’s wealth in the second and last year of the study period. It was also found that trend of adjusted net operating profit is fluctuating during the study period, and in the second and last year of the study period profit doesn’t cover company’s COCE.

So far as concern to table no. 5.35 it was analyze that TCS Ltd. has been able to generate their shareholder’s value during the study period.

Table no. 5.36 shows EVA statement of NTPC Ltd. during the study period. Based on table it was analyzing that company almost destroy their shareholder’s wealth during the study period. It was also found that company highly relies on debt capital.
✓ So far as concern to table no. 5.37 it was concluded that DLF Ltd. almost destroy their shareholder’s value during the study period. Reason for destroying EVA is increase in capital employed and company’s operating profit (sales) is low.

✓ Based on table no. 5.38 it was found that Bajaj Auto Ltd. has been able to generate their shareholder’s wealth during the study period.

✓ So far as concern to table no. 5.39 it was found that Coal India Ltd. generate continuous increasingly their shareholder’s wealth during the study period.

✓ Researcher has found that traditional performance evaluation tool i.e. adjusted net operating profit shows healthy financial position of the company, it does not deduct COCE. Furthermore it was also analyze that EVA is one of the most important performance evaluation tool which shows true and fair financial position of the business unit.

✓ Based on table no. 5.40 it was analyze that ONGC Ltd. is the most value generating company among the sampled companies during the study period.

✓ Furthermore it was also found that SBI Ltd. is the highest value destroyed company among sampled companies during the study period.

✓ Researcher also analyze that 10 companies of sampled companies destroy shareholder’s value during the study period.

✓ So far as concern to table no. 5.41 it was analyze that there is a significant difference in the value creation ability of BSE – 30 companies during the study period.

✓ It was also found that there is no significant difference in the value creation ability during the study period.

✓ Based on table no. 5.42 it was analyze that HUL Ltd. is the most high Performing company among sampled companies during the study period.
Furthermore it can also analyze that automobile sector is the second highest sector among 16 sectors for creating wealth during the study period. While I.T. Sector got 3rd position among 16 sectors for wealth creation ability.

It was also found that Banking Sector got last position among 16 sectors for EVACE.

Table no. 5.43 shows ANOVA for EVACE during the study period. Based on that it was found that null hypothesis has been rejected for value creation ability for sampled companies. It shows that there is a significant difference in the value creation ability of sampled companies.

Furthermore researcher has also concluded that null hypothesis has been accepted for value creation ability during the study period. It shows that there is no significant difference in the value creation ability during the study period.

Table no. 5.44 shows distribution of EVA on the basis of equity capital during the study period. Based on that it was found that companies having below 1000 cr. equity capital registered more negative EVA as compare to 1000 to 2500 cr. equity and more than 2500 cr. equity. It shows that proportion of equity capital in capital structure affect the value creation ability of the company.

Furthermore it was also analyze that approximately 77% companies among sampled companies having below 1000 cr. equity share during the study period.

It was found that in the last year of the study period 14 companies among the sampled companies destroy their shareholder’s value, which is highest during the study period. While 6 companies generate above 3000 cr. EVA in the last year of the study period, which also highest during the study period.

So far as concern to table no. 5.45 it was found that all BSE – 30 companies have been overvalued during the study period. It shows that investor’s
expected return is more than actual return and companies fail to fulfill investor’s expectation during the study period.

- Table no. 5.46 to 5.75 depicts regression model for risk and return relationship. Based on tables it was found that Capital Asset Pricing Model has been applicable in Indian stock market since risk and return are highly correlate during the study period.

- Furthermore it can also be analyze that investors invest in riskier security to earn high return and low risky security to earn at list risk free return, but Indian stock market fail to fulfill their expectation during the study period.

6.4 SUGGESTION OF THE STUDY

- Overall performance of BSE – 30 companies is satisfactory. As annual report shows each companies earn profit, but companies should reflect true and fair performance indicator ‘EVA Statement’ in their annual reports.

- Though EVA can compute by two way one by applying ratio analysis and second by way of CAP Model. Ratio analysis does not consider risk factor, expected return as per CAPM (WACC) etc. Companies should calculate EVA as per CAP Model so that investors take proper decision regarding investors.

- Companies which destroy their shareholder’s wealth should improve their net operating profit without increasing capital employed.

- Companies should invest in profitable alternative which earn return higher than cost of capital.

- Companies should reduce their cost of capital employed.

- Companies should fulfill their shareholder’s expected return.

- Investors should take their investment decision based on EVA statement of the companies, actual return of the company, risk factor of the company etc.
6.5 **LIMITATION OF THE STUDY:**

1) This study is based on secondary data taken from published annual report and websites. The reliability and the finding are contingent upon the data published in annual report.

2) Present study is undertaken for a particular period of time. So findings cannot be applicable for a very long period of time.

3) The individual efforts is limited so it also limitation of the study.

4) Personal view from person to person may be differed.

6.6 **FUTURE SCOPE OF THE STUDY:**

This study is only limited for EVA of BSE – 30 Companies of the stock market. In future researcher will take keen interest for investigating EVA of specific industries for inter firm comparison. They can also compare EVA with other performance measurement tools like ROI, MVA, ROA, ROE, etc. Furthermore researcher can test applicability of CAP model in different sectors of stock market i.e. BSE – 100, Nifty – 50 etc, based on that they can also check whether securities are undervalued or overvalued.