An Empirical Study on EVA & ROI for the Performance Evaluation of Selected Automobile Companies of Indian Stock Market

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Maximizing shareholder's value has become the new corporate performance measurement tool in recent years. Traditionally the methods of measurement of corporate performance are many i.e., EPS, ROCE, ROI and Ratio analysis. But EVA is one of the modern techniques for performance measurement of corporate units. EVA focuses on clear surplus in contradiction to the traditionally used profit available to the shareholder. In the present study researcher has been attempt to discover EVA of selected automobile companies. Further researcher has also been compare EVA and ROI of sample auto mobile companies during the study period. Statistical tools like ANOVA, T test also applied for the proposed study. In the present study variability can be seen in value creation ability of sample companies during the study period. Ashok Leyland and Tata Motors create negative EVA in the year 2009, 2012 and 2013.

Key Words: EVA, ROI, ANOVA, WACC.

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An accurate measure of corporate performance is the value a company generates for its shareholders. But which value shows best performance measurement? Value which firm earn over & above its adjusted cost of capital or value of the firm which remains after the deduction of cost of capital? In the present era there are many performance evaluation tools which measure performance on the basis of profit of the firm. But EVA is new performance measurement tool which focuses on clear surplus deducting cost of capital from profit before interest but after tax. The term 'Economic Value Added (EVA)' is a registered trademark of Stern Stewart & Co. of New York City (USA).

Review of Literature:
Linda M Lovata in their research paper “Does market value added increase with the integration of economic value added in performance evaluation?” In the present study examination has been made whether Market Value Added (MVA) increases subsequent to the integrating of Economic Value Added (EVA) into compensation contracts. Study reveals that 68 firms are identified as using EVA extensively to evaluate management. Furthermore study also seeks that MVA for these firms is estimated resulting in 317 firm-years tested using logistic regression. Results provide weak evidence that the use of EVA in performance evaluation increases MVA.

H.M. van der Poll, N.J. Booyse, A.J. Pienaar, S. Buchner & J. Foot in the research paper “An overview of the implementation of Economic Value Added (EVA) performance measures in South Africa” In the present study attempt has been made to investigate reasons why EVA is not implemented in companies and identify the sectors where implementation is most likely. From the present study researcher has been found that EVA is costly to implement, difficult to understand and often misunderstood by management and the staff who need to employ it.

Malik & Madhu in the year 2004 concluded that traditional performance measure fails to complete picture of valuation of shareholder’s wealth. She also found that EVA is superior to other measures on various ways. They also found a positive and high correlation between EVA, ROCE, and positive but low correlation between EVA and EPS during