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ANALYSIS OF ECONOMIC VALUE ADDED
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ANALYSIS OF ECONOMIC VALUE ADDED

5.1 INTRODUCTION

Economic Value Added (EVA) is a measurement of earning efficiency of a company. EVA is the profit earned by the company less the cost of capital. EVA is a registered trade mark of management consulting firm namely Stern Stewart & Co. of New York founded in 1982. The company has developed the Economic Value Added concepts. The idea is that value is created when the return on Economic Capital Employed is greater than the cost of capital. If EVA is positive that means company creates shareholders value and its vice-versa, if EVA is negative that means company has destroyed their shareholders wealth.

EVA is net operating profit after taxes (NOPAT) less capital charge. The basic formula is:

\[
\text{EVA} = \text{NOPAT} - C
\]

Where,

\[
\text{NOPAT} = \text{Net Operating Profit after Tax}
\]

\[
C = \text{Weighted average cost of capital (WACC)}
\]

In modern corporate world EVA is considered as a novelty management tools. There were some limitation in traditional accounting but EVA tried to minimize the limitation of traditional accounting. In short EVA is a tool for measurement of financial performance of a company. This way EVA is a latest one method for measuring financial performance of a company. Eva measures the efficiency of a profit of business. In western countries some giant corporate units have adopted EVA as a measurement of their financial performance. In India TCS, Wipro, BHEL etc companies have adopted and accepted EVA as a financial performance measurement in their companies.
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EVA helps to:

1. Measure the financial performance of business.

2. Guide to take managerial decision.

3. Align managerial incentives with shareholders’ interest.

4. Improve the financial and business literacy throughout the organization.

Economic value added is considered to be a tool for measuring corporate performance not only for evaluating performance of companies but also for determination of incentive pay. It tries to cope with the tension that exists between the need to come up with a performance measure which is co-related with shareholders’ wealth and at the same time less subject to random fluctuations in stock prices.

EVA is an amount remaining after capital charge or cost of capital is deducted from the amount of operating profit. EVA model indicates that EVA is a net result of excess of risk adjusted cost of capital employed to generate cash flows. Estimation of stock market data represented in calculating EVA does not from a part of standard accounting principles. So EVA is a way of measuring an operations real profitability. It holds a concern accountable for the cost of capital which used to expand and operate its business. It is better than traditional methods as it encourages growth through investment in new products, and new manufacturing facilities. It must be shared by employees, management and shareholders. EVA is linked with bonus to employee’s remuneration to management, and bonus share to equity shareholders.

5.2 DEFINITION OF EVA

According to Peter F. Drucker “EVA is based on something one have known for a long time, what we call profit, money left to serve equity, is not profit until a business returns profit, that is greater than cost of capital it operates at loss. The entire enterprise returns less to the economy than it devours in resources until it does not create wealth, it destroys it.” ¹

According to Stem Stewat “EVA makes use of principles and methods of modern economics to provide an accurate measure of Weighted Average Cost of Capital (WACC)”.²
EVA is a tool for determining a true economic profit of a business. It is directly related to creating shareholders’ wealth. It also helps to motivate management. EVA also works as an incentive for determining pay of employees.

\[ \text{EVA} = \text{NOPAT} - \text{Capital Charge} \]

OR

\[ \text{EVA} = \text{NOPAT} - \text{COCE} \]

Where,

\[ \text{NOPAT} = \text{Net Operating Profit before Interest But after Depreciation and Tax} \]

\[ \text{COCE} = \text{Cost of Capital Employed} \]

\[ \text{Invested Capital} = \text{Invested Capital at the beginning of year} \]

NOPAT and COCE are the two most important drivers of EVA. Company must make effort to improve NOPAT or minimize the cost of capital invested for the betterment of shareholders’ value creation. Stewart computed a modified EVA as follows.

5.3 EVA AND DISCOUNTED CASH FLOW (DCF)

Discounted cash flow is a long term measure and it is applicable only when entire life of project is considered. It gives a much better result than EVA.

Value of firm as per DCF can be calculated as:-
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\[ \text{Value of firm} = \text{Cumulative present value of future cost} + \text{Present value of terminal value} \]

From company’s point of view EVA is said to be much useful than DCF. So DCF model is highly sensitive to terminal values while EVA is used to quantify the effect of drivers in value.

5.4 EVA AND TOTAL QUALITY MANAGEMENT (TQM)

TQM is related with decreasing management conflicts with non-investor shareholders. However EVA is related with decreasing conflicts between managers and shareholders. Industrial peace and harmony leads to increase in productivity, while EVA is focused on creating shareholders wealth. Economic and efficient use of capital is possible only and only by EVA.

EVA provides a systematic framework for adoption of TQM programme. So TQM programme in association with EVA help managers to ensure that they are not under-investing is non share holder and stakeholders. Ultimately TQM and EVA both are working on the same track and help for shareholders value creation in an organization.

5.5 EVA AS A MANAGEMENT TOOLS

EVA as a residual income measures of financial performance. It is simply the operating profit after tax minus charges for the capital. EVA includes both profit and loss accounts as well as balance sheet efficiency as well as the opportunity cost of investors.

EVA companies typically find benefits come from three main areas

1. Better assets efficiency.
2. Improved business and financially literacy at all levels.
3. More owner liked behavior by mangers.

The EVA approach to management has been adopted by many influential investors and independent experts. EVA has already become the primary focus in most of the companies around the world across a wide range of industries sectors. In
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India TATA Consultancy Service, Godrej group of companies, WIPRO, Infosys LTD. and other companies have formally adopted the EVA framework.

In EVA system managers are penalised for falling short and they are rewarded for increasing EVA. Target is set every year on certain standards formula. Participating employee’s names are disclosed at beginning of every year with formula for calculating bonus of EVA. Managers are paid a portion and remaining balance is kept in “National Bonus Bank”. This balance serves as a superannuation benefits. If manager retires then amount which is present in his account is paid cash and in case if employees resigns, he losses the portion of bonus bank balance. This bonus plan is not good for poor performers. Those employees whose performance is not up to the mark for repeated year, may lead to negative bonus. As such organisation consist of right people at right place. Participation of employees in EVA bonus plan also depends on superior performance once entered does not mean that manager would automatically secure his position next year.

5.6 ECONOMIC INCOME AND EVA

For evaluating business income there are two approaches,

1. Accounting Concept
2. Economic Concept.

EVA is based on economic concept. In accounting concept every accountant measures business income by matching revenue with cost consumed through income statement.

As per economic concept, business income is the amount which business is capable of distributing among its shareholders it deals with real terms. When the net worth at end is more than beginning of year then organization is able to generate some values in the company. But when net worth is less or decreased for a particular time, the organization is definitely destroyed wealth of their shareholders.
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<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Accounting Concept</th>
<th>Sr. No</th>
<th>Economic Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>It considered only revenue generated and cost consumed and income is difference between these.</td>
<td>1)</td>
<td>It shows increase or decrease in net tangible assets which is not realized in a period.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2)</td>
<td>It also considers increase or decrease in goodwill.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounting Concept</th>
<th>Economic Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. It does not consider gains and losses due to price level.</td>
<td>1. It consider gains and losses due to price level</td>
</tr>
<tr>
<td>2. It includes real income</td>
<td>2. It includes both real and unreal income.</td>
</tr>
<tr>
<td>3. In this, all assets are evaluated at unabsorbed cost except money.</td>
<td>3. All assets are evacuated at their present value of future net receipts.</td>
</tr>
</tbody>
</table>

FOUR M’S OF EVA

Four M’s of EVA which are used in implementation process are: -

1. **Measurement:-**

   A proper system to measure EVA is to be accepted and adopted in business or in organization.

2. **Management:-**

   EVA itself become a part of management system. It should be integrated a part of organization.

3. **Motivation:-**

   When some motivation factors are considered, organization can run smoothly. Like some compensation with EVA must be given in order to motivate employees.
4. Mind set:-

Employees’ mind set must be cleared properly regarding their work. They must know what they are working and how they can be benefited through this. For this purpose training classes must be conducted in order to clear their doubts.

EVA – VBM PHILOSOPHY

Diagram:

- Objectives of Organisation
- Commitment
- Establishing of value criteria
- Identifying of SBU and (formation) of
- Defining Strategy
- Implementing Strategy
- Alignment of Management And Decision making process
- Designing Programme value creation and driver
- Monitoring Strategy of Value creation and driver
- Reward Financial & Non- Financial
5.7 LIMITATIONS OF ACCOUNTING CONCEPT

After many decades of study, many practitioners realised that there were many limitation in accounting using business income measurement which are as follows:

1. Du point model and other accounting approaches have a misleading effect on performance improvement.
2. It failed to recognize the opportunity cost and risk adjusted rate of return. In traditional approach information regarding investment risk was not incorporated in financial statements and they show down a distorted picture of profit.
3. It is a depth analysis of financial data. It does not provide support in decision making.
4. Existing method of accounting cannot eliminate inherent flexibility in accounting practice. Profitability measurement based on traditional accounting system could be misleading because it does not reflect cost of capital required for making investment. They just measure cost of debt financing and ignore cost of equity financing.

5.8 PROCESS OF CREATING VALUE

EVA (Economic Value added) is the amount by which the company’s NOPAT (Net Operating Profit after Tax) exceeds change over cost of capital. If EVA (Economic Value Added) is positive firm is adding value for its shareholders. But if negative the firm is destroying shareholders’ wealth.
VALUE DRIVERS AFFECTING VALUE OF COMPANY

INCREASE IN PROFIT

OPERATING DRIVERS

CAPITAL GAIN

INTERNAL DIVIDEND

Generation of Cost

FIT

Financing Decision

Minimize Cost

INCREASED EXPECTED CASH FLOW

Investment Decision

EXTERNAL SHAREHOLDERS RETURNS

- Actual
- Historical
- Corporate Level

INTERNAL TOTAL SHAREHOLDERS RETURNS

- Muddled
- Forward Looking
- Multilevel

PROFITABLE GROWTH

INCREASE IN PROFIT

CREATE VALUE
5.9 COMPUTATION OF EVA

According to Stewart:

\[ \text{EVAT} = \text{NOPAT}_t - \text{Kw} + \text{NAt} - 1 \]

Where,

\[ \text{NOPAT}_t = \text{Kw} + \text{Nat}-1 \]

\[ \text{Kw} = \text{Weighted Average Cost of Capital} \]

\[ \text{NAt-1} = \text{Adjusted book value of net asset base at end of period (t-1)} \]

Computation of EVA

The concept of Eva is used to calculate quantum of value which the organization has added for its shareholders through its operations and to use technique by which it can provide grass root information for its shareholders in future. Even though EVA is considered to be a sound approach, measurement of EVA can be done as follow:

- **Computation of Economic Capital**

  Economic capital includes total debts raised, total equity in circulation, adjustment for cumulative goodwill associated with acquisition, unusual losses, differed tax etc. Although accounting concept say that goodwill is an expense but then Stewart followed concept of economic capital and said that R & D charges, goodwill are capital investment and produce return in future and so must be considered as economic capital.

- **Computation of NOPAT**

  Computation of NOPAT (Net Operating Profit after tax) is obtained by accounting income concept and figure can be taken from income statement of any concern. Net operating profit after taxes but before amount of interest is considered as NOPAT (Net operating profit after Tax).
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➢ Computation of Cost of Debt Capital

Due to the tax benefits on interest payment on debt capital, cost of debt is, generally, lower than cost of equity capital. It can be calculated as below:

\[
\text{Cost of Debt (Kd)} = \frac{\text{Interest of debt borrowing} \times (1-\text{tax rate}) \times 100}{\text{Total amount of Borrowings}}
\]

➢ Computation of Cost of preference Capital (Kp)

The cost of preference share capital can be derived with the help of formula given as below:

\[
\text{Cost of preference capital (Kp)} = \frac{\text{Preference dividend}}{\text{Preference Sharecapital}}
\]

➢ Computation of Cost of Equity Capital

The cost of equity capital is more challenging. Equity capital and accumulated reserve and surpluses which are free to equity share holders carry the same cost because the reserve and surpluses are created out of appropriation of profit. As it is shareholders’ money, the expectation of the shareholders to have value appreciation on this money will be same as in case of equity share capital. Hence, its bears the same cost as the cost of equity share capital.

• Risk Premium:
  \[
  Bj (Mr – Rf)
  \]
  \[
  Mr = \text{Market rate of return}
  \]
  \[
  Rf = \text{Risk Free rate}
  \]

• Risk Free Rate of Returns:

• It consists of long term rate of inflation available in long term Government bonds. One has also to calculate.
Computation of Weighted Average Cost of Capital:

WACC can be calculated as:

\[
WACC = \text{Cost of debts}(\text{given}) \times \% \text{ of Debt in capital structure} + \frac{\text{Cost of Equity} \times \% \text{ of Equity in capital structure}}{[\text{Total debt Added to equity}]}
\]

Cost of Capital = WACC X Total Economic Cap

Computation of Cost of Capital under CAPM

- Capital Asset Pricing Model (CAPM)

Computation of cost of equity capital is little laborious and typical task as it depends on market expected rate of return. Capital Asset Pricing Model (CAPM) is generally used for calculating the cost of equity capital. Under CAPM cost of equity capital expressed as:

\[
\text{Risk Free Rate} + \text{Beta} \times (\text{Equity Risk Premium})
\]

OR

\[
\text{Risk Free Rate} + \text{Beta} \times (\text{Market rate of Return} – \text{Risk Free Rate})
\]

- BETA

Beta is a relative measure of volatility which determined by comparing the return on assets to the return on the stock market. When beta is lower that means volatility of share is also lower and beta is high means volatility of share is also higher, and treated as it is more risky shares for investment purpose. Beta is a statistical measure of volatility of share of a company. If the Beta is high then the share is risky and if the beta is low then the share of the company is less risky.
5.10 **BENEFITS OF EVA**

Benefits of EVA are as follows:

- EVA links corporate strategy to financial results.
- EVA creates greater accountability among employees.
- EVA increase productivity through incentives.
- It leads to driven cultural transformation.
- It creates a common framework in the organization.

5.11 **LIMITATIONS OF EVA**

The EVA measurement, like other management techniques, suffers from limitations. Bostosn Consultancy Group (BCG) has said that in solving the capital investment problem EVA results making managers worried about their existing assets and discouraged them.

5.12 **EVA and MVA**

1. EVA and MVA tend to go in the same direction. However MVA depends on stock prices.
2. EVA is used for managerial assessment more than MVA. EVA reflects performance over a year, while MVA reflects performance over the whole life of the company.
3. EVA can be applied to individual decisions or units of a corporation, while MVA must be applied for whole company.
4. The relationship between EVA and MVA is more complicated than relation between EVA and firm value.
5. The market value of firm reflects not only the expected EVA but also expected EVA from future projects.
6. To the extent the actual EVA is smaller than the expected EVA. While market value can be decreased even though the EVA is higher.
In order to make EVA an effective management tool, system planning, execution and evaluation are required to be done properly. Proper plan be set up and management success in carrying out the plan is measured in terms of EVA. In order to carry out process properly there are four conditions which are required to be, which to be met, which are as follows;

A. Properly defined objective must be laid down
B. Specific criteria must be set for making investment projects i.e. only positive projects which can earn at least their cost of capital.
C. At regular time interval companies must evaluate actual performance of their investment. EVA is used to measure the wealth creation on encourages them to take decision consistent with shareholder’s objectives.
D. Incentive in form of year and bonus lead to EVA must be provided to managers who are responsible for capital allocating. This encourages them to take decisions consistent with shareholders objectives.

One of the important strength of this approach is the consistency that it maintains among the three management phases of strategic planning, performance, measurement and managerial compensation.
5.13 Computation of EVA of Selected Companies of Indian Pharmaceutical Industry under the study.

5.13.1 Computation of Economic Value Added of Aurobindo Pharma Limited
From 2005-06 to 2011-12.

5.13.2 Computation of Economic Value Added of Cipla Ltd
From 2005-06 to 2011-12.

5.13.3 Computation of Economic Value Added of Divi’s Laboratories Limited
From 2005-06 to 2011-12.

5.13.4 Computation of Economic Value Added of IPCA Laboratories Limited
From 2005-06 to 2011-12.

5.13.5 Computation of Economic Value Added of NATCO Pharma Limited
From 2005-06 to 2011-12.

5.13.6 Computation of Economic Value Added of Ranbaxy Laboratories Limited From 2005-06 to 2011-12.

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5.13.9 Computation of Economic Value Added of Torrent Pharmaceuticals Ltd From 2005-06 to 2011-12.

5.13.10 Computation of Economic Value Added of Wockhardt Limited From 2005-06 to 2011-12.
5.13.1 COMPUTATION OF ECONOMIC VALUE ADDED (EVA) IN AUROBINDO PHARMA LTD FROM 2005-06 TO 2011-12.

(Rs. In Crore)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NOPAT</th>
<th>COCE</th>
<th>EVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>111.82</td>
<td>176.24</td>
<td>-64.42</td>
</tr>
<tr>
<td>2006-07</td>
<td>282.32</td>
<td>186.7</td>
<td>95.62</td>
</tr>
<tr>
<td>2007-08</td>
<td>323.32</td>
<td>213.52</td>
<td>109.8</td>
</tr>
<tr>
<td>2008-09</td>
<td>185.38</td>
<td>240.52</td>
<td>-55.14</td>
</tr>
<tr>
<td>2009-10</td>
<td>569.56</td>
<td>310.82</td>
<td>258.74</td>
</tr>
<tr>
<td>2010-11</td>
<td>632.31</td>
<td>486.61</td>
<td>145.7</td>
</tr>
<tr>
<td>2011-12</td>
<td>144.69</td>
<td>656.96</td>
<td>-512.27</td>
</tr>
</tbody>
</table>

(Source: Compiled and Calculated from Annual Reports of Aurobindo Pharma Limited from the year 2005-06 to 2011-12)
Chapter-5 Analysis of Economic Value Added

Table No.5.13.1 and Graph No.5.13.1 are show the Computation of NOPAT-Net Operating Profit After Tax, COCE – Cost Of Capital Employed and EVA – Economic Value Added from the study period year 2005-06 to 2011-12 of Aurobindo pharmaceutical Limited.

NOPAT- Net Operating Profit after Tax

The Aurobindo Pharmaceutical Limited showed an increasing trend of the year 2005-06 to 2007-08 as Rs.111.82 Crore to Rs.323.32 Crore respectively. But it was decreased as Rs.185.38 Crore in the year 2008-09. Next two year from 2009-10 to 2010-11 it was increased as Rs.569.56 Crore to Rs.632.21 Crore which was the highest level of NOPAT of the Aurobindo Pharmaceuticals. But, again it was decreased in the final year of the Aurobindo Pharmaceuticals as Rs.144.69 Crores in the year 2011-12.

COCE – Cost of Capital Employed

Table No.5.13.1 and Graph No.5.13.1 Show the COC Cost of Capital Employed trend was increased for the whole study period. For the year 2005-06 to 2011-12 it was as Rs.176.24 Crores, Rs.186.70 Crores, Rs.213.52 Crores, Rs.240.52 Crores, Rs.310.82 Crores, Rs.486.61 Crores, and Rs.656.96 Crores.

EVA – Economic Value Added

Table No.5.13.1 and Graph No.5.13.1 Show the EVA Economic Value Added fluctuated trend for the whole study period. For the year 2005-06 it was negative as Rs.-64.42 Crores. But it was increased as Rs.95.62 Crores to Rs.109.80 Crores from the year 2006-07 to 2007-08.Again in the year 2008-09 it was negative as Rs.-55.14 Crore. In the year 2009-10, it was Rs.258.74 Crore and in 2010-11, it was145.70 Crore. But in the last year of the present study it was Rs.-512.27 Crore.

Aurobindo Limited destroyed shareholders’ wealth for 2005-06, 2008-09 and 2011-12 for three years of study period and rest of four years EVA is positive and created wealth for their shareholders.
5.13.2 COMPUTATION OF ECONOMIC VALUE ADDED (EVA) IN CIPLA LTD FROM 2005-06 to 2011-12.

(Rs. In Crore)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NOPAT</th>
<th>COCE</th>
<th>EVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>618.88</td>
<td>280.62</td>
<td>338.26</td>
</tr>
<tr>
<td>2006-07</td>
<td>675.84</td>
<td>483.03</td>
<td>192.81</td>
</tr>
<tr>
<td>2007-08</td>
<td>713.68</td>
<td>476.49</td>
<td>237.19</td>
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<tr>
<td>2008-09</td>
<td>813.58</td>
<td>559.28</td>
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<td>2009-10</td>
<td>1101.3</td>
<td>693.43</td>
<td>407.87</td>
</tr>
<tr>
<td>2010-11</td>
<td>969.43</td>
<td>819.14</td>
<td>150.29</td>
</tr>
<tr>
<td>2011-12</td>
<td>1142.6</td>
<td>951.85</td>
<td>190.75</td>
</tr>
</tbody>
</table>

(Source: Compiled and Calculated from Annual Reports of Cipla Limited from the year 2005-06 to 2011-12)
Chapter-5 Analysis of Economic Value Added

The Table No.5.13.2 and Graph No.5.13.2 are show the Computation of NOPAT- Net Operating Profit After Tax, COCE – Cost of Capital Employed and EVA – Economic Value Added from the year 2005-06 to 2011-12 of Cipla Limited.

NOPAT- Net Operating Profit after Tax

The Cipla Limited showed an increasing trend of NOPAT from the year 2005-06 to 2009-10 as Rs.618.88 Crore, Rs.675.84 Crore, Rs.713.68 Crore, Rs.813.58 Crore and Rs.1101.30 Crore respectively. But it was decreased as Rs.969.43 Crore in the year 2010-11. Next year from the year 2011-11 it was increased as Rs.1142.60 Crore in the year 2011-12.

COCE – Cost of Capital Employed

Table No.5.13.2 and Graph No.5.13.2 Show the COCE Cost of Capital Employed trend was increased for the whole study period. For the year 2005-06 to 2011-12 it was as Rs.280.62 Crore, Rs.483.03 Crore, Rs.476.49 Crore, Rs.559.28 Crore, Rs.693.43 Crore, Rs.819.14 Crore, and Rs.951.85 Crore.

EVA – Economic Value Added

Table No.5.13.2 and Graph No.5.13.2 Show the EVA Economic Value Added fluctuated trend for the whole study period. For the year 2005-06 it was positive as Rs.338.26 Crore. But it was decreased as Rs.192.81 Crore in the year 2006-07. From the year 2007-08 to 2009-10 it was increased as Rs.237.19 Crore, Rs.254.30 Crore and Rs.407.87 Crore. In the year 2010-11 it was decreased as Rs.150.29 Crore. In the final year of the study period it was again increased as Rs.190.75 Crore in the year 2011-12.

The EVA is positive for all seven years of the study period from 2005-06 to 2011-12 and Cipla limited created wealth for its shareholders for all seven years of study period.
5.13.3 COMPUTATION OF ECONOMIC VALUE ADDED (EVA) IN DIVI’S LABORATORIES LIMITED FROM 2005-06 to 2011-12.

(Rs. In Crore)

Table: 5.13.3

COMPUTATION OF ECONOMIC VALUE ADDED (EVA) IN DIVI’S LABORATORIES

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NOPAT</th>
<th>COCE</th>
<th>EVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>74.37</td>
<td>58.91</td>
<td>15.46</td>
</tr>
<tr>
<td>2006-07</td>
<td>199.24</td>
<td>103.47</td>
<td>95.77</td>
</tr>
<tr>
<td>2007-08</td>
<td>360.66</td>
<td>146.6</td>
<td>214.06</td>
</tr>
<tr>
<td>2008-09</td>
<td>429.51</td>
<td>184.85</td>
<td>244.66</td>
</tr>
<tr>
<td>2009-10</td>
<td>346.13</td>
<td>205.94</td>
<td>140.19</td>
</tr>
<tr>
<td>2010-11</td>
<td>437.09</td>
<td>239.9</td>
<td>197.19</td>
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<tr>
<td>2011-12</td>
<td>549.17</td>
<td>275.48</td>
<td>273.69</td>
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</tbody>
</table>

( Source: Compiled and Calculated from Annual Reports of Divi’s Laboratories Limited From the Year 2005-06 to 2011-12)
Chapter-5 Analysis of Economic Value Added

The Table No.5.13.3 and Graph No.5.13.3 are show the Computation of NOPAT- Net Operating Profit After Tax, COCE – Cost of Capital Employed and EVA – Economic Value Added form the study period year 2005-06 to 2011-12 of Divi’s Laboratories Limited.

**NOPAT- Net Operating Profit after Tax**

The Divi’s Laboratories showed an increasing trend of NOPAT from the year 2005-06 to 2008-09 as Rs.74.37 Crore, Rs.199.24 Crore, Rs.360.66 Crore and Rs.429.51 Crore respectively. But it was decreased as Rs.346.13 Crore in the year 2009-10. Next two year from the year 2010-11 to 2011-12, it was increased as Rs.437.09 Crore to Rs.275.48 Crore.

**COCE – Cost of Capital Employed**

Table No.5.13.3 and Graph No.5.13.3 Show the COCE Cost of Capital Employed trend was increased for the whole study period. For the year 2005-06 to 2011-12 it was as Rs.58.91 Crore, Rs.103.47 Crore, Rs.146.60 Crore, Rs.184.85 Crore, Rs.205.94 Crore, Rs.239.90 Crore, and Rs.275.48 Crore.

**EVA – Economic Value Added**

Table No.5.13.3 And Graph No.5.13.3 Show the EVA Economic Value Added fluctuated trend for the whole study period. For the year from 2005-06 to 2008-09 it was increased as Rs.15.46 Crore to Rs.244.66 Crore. But it was decline in the year 2009-10 as Rs.140.19 Crore. But it was increased as Rs.197.19 Crore to Rs.273.69 Crore in the year 2010-11 to 2011-12.

The EVA trend is positive and increasing for whole study period from 2005-06 to 2011-12. Though the amount of EVA is an average, Divi’s Lab added wealth for all seven years to their shareholders.
5.13.4 COMPUTATION OF ECONOMIC VALUE ADDED (EVA) OF IPCA LABORATORIES LIMITED FROM 2005-06 to 2011-12.

(Rs. In Crore)

<table>
<thead>
<tr>
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<th>EVA</th>
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</thead>
<tbody>
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<td>277.16</td>
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<td>2011-12</td>
<td>309.73</td>
<td>176.48</td>
<td>133.25</td>
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</table>

(Source: Compiled and Calculated from Annual Reports of IPCA Laboratories Limited From the Year 2005-06 to 2011-12)
Table No.5.13.4 and Graph No.5.13.4 show the Computation of NOPAT- Net Operating Profit After Tax, COCE – Cost Of Capital Employed and EVA – Economic Value Added from the year 2005-06 to 2011-12 of IPCA Laboratories Limited.

**NOPAT- Net Operating Profit After Tax**

The IPCA Laboratories showed an increasing trend of NOPAT from the year 2005-06 to 2007-08 as Rs.74.97 Crore, Rs.139.26 Crore, and Rs.157.68 Crore respectively. But it was decreased as Rs.116.65 Crore in the year 2008-09. Next three year from the year 2009-10 to 2011-12 it was increased as Rs.231.85 Crore, Rs.277.16 Crore and Rs.309.73 Crore.

**COCE – Cost of Capital Employed**

Table No.5.13.4 and Graph No.5.13.4 Show the COCE Cost of Capital Employed trend fluctuated for the whole study period. For the year 2005 -06 to 2006-07 it was Rs.54.13 Crore, it was increased in the year 2006-07 as Rs.79.48 Crore. But it was decreased in the year 2007-08 as Rs.77.57 Crore. Last four year from the year 2008-09 to 2011-12 COCE was increased as Rs.91.89 Crore, Rs.93.60 Crore, Rs.147.43 Crore and Rs.176.48 Crore.

**EVA – Economic Value Added**

Table No.5.13.4 and Graph No.5.13.4 Show the EVA Economic Value Added fluctuated trend for the whole study period. For the year 2005-06 to 2007-08, it was increased as Rs.20.84 Crore to Rs.80.11 Crore. But it was decline in the year 2008-09 as Rs.24.76 Crore. But it was increased as Rs.138.25 Crore in the year 2009-10. But, again it was decreased as Rs.129.73 Crore in the year 2010-11. But in the last year of study period 2011-12, it went up as Rs.133.25 Crore.

The EVA trend is positive and increasing for whole study period. The IPCA Lab added wealth for all seven years to their shareholders.
Chapter-5 Analysis of Economic Value Added

5.13.5 COMPUTATION OF ECONOMIC VALUE ADDED (EVA) IN NATCO PHARMA LIMITED FROM 2005-06 to 2011-12.

(Rs. In Crore)

<table>
<thead>
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<th>EVA</th>
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<td>46.86</td>
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<td>7.35</td>
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<tr>
<td>2008-09</td>
<td>53.27</td>
<td>45.02</td>
<td>8.25</td>
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<tr>
<td>2009-10</td>
<td>57.94</td>
<td>41.24</td>
<td>16.7</td>
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<tr>
<td>2010-11</td>
<td>62.06</td>
<td>71.55</td>
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<td>2011-12</td>
<td>78.2</td>
<td>73.85</td>
<td>4.35</td>
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(Source: Compiled and Calculated from Annual Reports of NATCO PHARMA LIMITED from the Year 2005-06 to 2011-12)
Table No.5.13.5 and Graph No.5.13.5 show the Computation of NOPAT- Net Operating Profit After Tax, COCE – Cost Of Capital Employed and EVA – Economic Value Added from the year 2005-06 to 2011-12 of Natco Pharmaceuticals Limited.

**NOPAT- Net Operating Profit after Tax**

The IPCA Laboratories showed an increasing trend of NOPAT from the year 2005-06 to 2011-12 as Rs.29.40 Crore, Rs.35.08 Crore, Rs.46.86 Crore, Rs.53.27 Crore, Rs.57.94 Crore, Rs.62.06 Crore and Rs.78.20 Crore respectively.

**COCE – Cost of Capital Employed**

Table No.5.13.5 and Graph No.5.13.5 Show the COCE Cost of Capital Employed trend was increasing for first four year of the study period from 2005-06 to 2008-09 as Rs.25.67 Crore, Rs.31.80 Crore, Rs.39.51 Crore and Rs.45.02 Crore. It was decreased as Rs.41.24 Crore in 2009-10. But last two year of the study period from 2010-11 to 2011-12 it was increased as 71.55 Crore to Rs.73.85 Crore.

**EVA – Economic Value Added**

Table No.5.13.5 and Graph No.5.13.5 Show the EVA Economic Value Added was increased as Rs.3.73 Crore in the year 2005-06. It was decreased as Rs.3.28 Crore in the year 2006-07. But it was increased from the year 2007-08 to 2009-10 as Rs.7.35 Crore, Rs.8.25 Crore and Rs.16.70 Crore respectively. In the year 2010-11 it was negative as Rs.-9.49 Crore. But last year of the study period it was increased and shown positive value of EVA as Rs.4.35 Crore in 2011-12.

The EVA for the year 2010-11 is negative so, only for this year shareholders wealth is destroyed by the company but rest six years of the study period the EVA is positive and the Natco Pharma created wealth for their shareholders.
5.13.6 COMPUTATION OF ECONOMIC VALUE ADDED (EVA) IN RANBAXY LABORATORIES LTD FROM 2005-06 to 2011-12.

(Rs. In Crore)

<table>
<thead>
<tr>
<th>YEAR</th>
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<th>EVA</th>
</tr>
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<td>2008-09</td>
<td>674.06</td>
<td>644.08</td>
<td>29.98</td>
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<td>2009-10</td>
<td>1176.35</td>
<td>775.55</td>
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</tr>
<tr>
<td>2010-11</td>
<td>-3014.11</td>
<td>339.84</td>
<td>-3353.95</td>
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<tr>
<td>2011-12</td>
<td>47</td>
<td>475.86</td>
<td>-428.86</td>
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</table>

(Source: Compiled and Calculated from Annual Reports of Ranbaxy Laboratories Limited from the Year 2005-06 to 2011-12)
Chapter-5 Analysis of Economic Value Added

Table No.5.13.6 and Graph No 5.13.6 are show the Computation of NOPAT-Net Operating Profit after Tax, COCE – Cost of Capital Employed and EVA – Economic Value Added from the study period year 2005-06 to 2011-12 of Ranbaxy Laboratories Limited.

NOPAT- Net Operating Profit after Tax

The Ranbaxy Laboratories showed an increasing trend of NOPAT from the year 2005-06 to 2006-07 as Rs.399.02 Crore to Rs.658.63 Crore. But it was negative means loss by the company as Rs.-979.39 Crore in the year 2007-08. NOPAT of Ranbaxy Laboratories was again increased in the year 2008-09 to 2009-10 as Rs.674.06 Crore to Rs.1176.35 Crore. But again it was negative as Rs.-3014.11 Crore in the year 2010-11. But in the last year of the study period from year 2011-12 it was increased as Rs.47.00 Crore.

COCE – Cost of Capital Employed

Table No.5.13.6 and Graph No.5.13.6 Show the COCE Cost of Capital Employed trend was increasing in the first five year of the study period from the year 2005-06 to 2009-10 as Rs.339.33 Crore, Rs.405.58 Crore, Rs.523.98 Crore, Rs.644.08 Crore and Rs.775.55 Crore. It was decreased as Rs.339.84 Crore in the year 2010-11. But in the last year of the study period from year 2011-12 it was increased as Rs.475.86 Crore.

EVA – Economic Value Added

Table No.5.13.6 and Graph No.5.13.6 Show the EVA Economic Value Added was Rs.59.69 Crore in the year 2005-06. It was increased as Rs.253.05 Crore in the year 2006-07. But it was decreased in the year 2007-08 as Rs.-1503.37 Crore. Next two year from the year 2008-09 to 2009-10 it was increased as Rs.29.98 Crore to Rs.400.80 Crore. But in the last two year from 2010-11 to 2011-12 it was negative as Rs.-3353.95 Crore to Rs.-428.86 Crore.

During 2007-08, 2010-11 and 2011-12 for three year’s EVA is negative and destroyed wealth of shareholders and rest four years EVA is positive.


Chapter-5 Analysis of Economic Value Added

5.13.7 COMPUTATION OF ECONOMIC VALUE ADDED (EVA) IN STRIDES ARCO LAB LTD FROM 2005-06 to 2011-12.

(Rs. In Crore)

Table: 5.13.7

COMPUTATION OF ECONOMIC VALUE ADDED (EVA)
IN STRIDES ARCOLAB LTD

<table>
<thead>
<tr>
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<td>51.93</td>
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<td>2010-11</td>
<td>174.34</td>
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<td>2011-12</td>
<td>105.84</td>
<td>248.98</td>
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(Source: Compiled and Calculated from Annual Reports of STRIDES ARCOLAB LTD from the year 2005-06 to 2011-12)

Graph: 5.13.7

NOPAT, COCE AND EVA of STRIDES LAB

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Chapter-5 Analysis of Economic Value Added

The above Table No. 5.13.7 and Graph No.5.13.7 are show the Computation of NOPAT- Net Operating Profit after Tax, COCE – Cost of Capital Employed and EVA Economic Value Added from the year 2005-06 to 2011-12 of Strides Arco Lab.

NOPAT- Net Operating Profit after Tax

The Strides Arco Lab showed trend of NOPAT in the year 2005-06 as Rs.55.33 Crore. It was decreased in the year 2006-07 as Rs.-83.36 Crore. But it was increased in the year 2007-08 to 2009-10 as Rs.51.93 Crore to Rs.148.69 Crore. In the year 2009-10 it was decreased as Rs.146.10 Crore. But again it was increased as Rs.174.34 Crore in the year 2010-11. But in the last year of the study period from year 2011-12, it was decreased as Rs.105.84 Crore.

COCE – Cost of Capital Employed

Table No.5.13.7 and Graph No.5.13.7 Show the COCE Cost of Capital Employed was Rs.77.41 Crore in the year 2005-06. It was decreased in the year 2006-07 as Rs.68.78 Crore. But next four year from the year 2007-08 to 2010-11 COCE increased as Rs.109.21 Crore, Rs.166.30 Crore, Rs.201.06 Crore and Rs.300.01 Crore respectively. But in the last year of the study period from year 2011-12 it was decreased as Rs.248.98 Crore.

EVA – Economic Value Added

Table No.5.13.7 and Graph No.5.13.7 Show the EVA Economic Value Added was negative for the whole study period year 2005-06 to 2011-12 as Rs.-22.08 Crore, Rs.-152.14 Crore, Rs.-57.28 Crore, Rs.-17.61 Crore, Rs.-54.96 Crore, Rs.-125.67 Crore and Rs.-143.14 Crore respectively.

The EVA is negative for all seven years of the study period. The Stride Ltd. has destroyed shareholders wealth for whole study period from 2005-06 to 2011-12.
Chapter-5 Analysis of Economic Value Added

5.13.8 COMPUTATION OF ECONOMIC VALUE ADDED (EVA) IN SUN PHARMA INDUSTRIES LTD FROM 2005-06 TO 2011-12.

(Rs. In Crore)

<table>
<thead>
<tr>
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<th>EVA</th>
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<td>1700.05</td>
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<td>717</td>
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(Source: Compiled and Calculated from Annual Reports of Sun Pharmaceuticals Industries Limited from the year 2005-06 to 2011-12)
Table No. 5.13.8 and Graph No. 5.13.8 are show the Computation of NOPAT-Net Operating Profit After Tax, COCE, Cost of Capital Employed and EVA Economic Value Added form the year 2005-06 to 2011-12 of Sun Pharma. Limited.

**NOPAT- Net Operating Profit after Tax**

The Sun Pharmaceutical Limited showed trend of NOPAT from the year 2005-06 to 2008-09 and it was increased as Rs.539.81 Crore, Rs.690.50 Crore, Rs.1049.46 Crore and Rs.1284.68 Crore respectively. It was decreased as Rs.901.73 Crore in the year 2009-10. But in last two year from 2010-11 to 2011-12, Sun Pharmaceutical Limited was increased as Rs.1387.93 Crore to Rs.1700.05 Crore.

**COCE – Cost of Capital Employed**

Table No.5.13.8 and Graph No.5.13.8 Show the COCE Cost of Capital Employed of Sun Pharmaceutical Limited was Rs.255.23 Crore in the year 2005-06. It was increased in the year 2006-07 to 2007-08 as Rs.394.03 Crore to Rs.498.21 Crore. But in the year 2008-09 it was decreased as Rs.435.05 Crore. From the year 2009-10 to 2010-11 it was increased as Rs.717.83 Crore to Rs.1094.39 Crore. But it was again decreased as Rs.983.05 Crore in the year 2011-12.

**EVA – Economic Value Added**

Table No.5.13.8 and Graph No 5.13.8 Show the EVA Economic Value Added of Sun Pharmaceutical Limited was positive and increased first four year from 2005-06 to 2008-09 as Rs.248.58 Crore, Rs.296.47 Crore, Rs.551.25 Crore and Rs.849.63 Crore respectively. It was decreased as Rs.183.90 Crore in the year 2009-10. But it was increased as Rs.293.54 Crore to Rs.717.00 Crore from the year 2010-11 to 2011-12.

The EVA is totally positive for all seven years of the study period. The Sun Pharma has created value for their shareholders from 2005-06 to 2011-12.
5.13.9 COMPUTATION OF ECONOMIC VALUE ADDED (EVA) IN TORRENT PHARMA LTD FROM 2005-06 to 2011-12.

(Rs. In Crore)

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<th>EVA</th>
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<td>174.02</td>
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(Source: Compiled and Calculated from Annual Reports of Torrent Pharmaceuticals Ltd from the year 2005-06 to 2011-12)
Chapter-5 Analysis of Economic Value Added

Table No.5.13.9 and Graph No.5.13.9 are show the Computation of NOPAT-Net Operating Profit After Tax, COCE – Cost of Capital Employed and EVA – Economic Value Added from the year 2005-06 to 2011-12 of Torrent Pharm. Limited.

**NOPAT- Net Operating Profit after Tax**

The Torrent Pharmaceutical Limited showed trend of NOPAT was increasing during whole study period from the year 2005-06 to 2011-12 as Rs. 71.99 Crore, Rs.127.19 Crore, Rs.170.12 Crore, Rs.213.50 Crore, Rs.227.58 Crore, Rs.318.17 Crore and Rs. 339.09 Crore respectively.

**COCE – Cost of Capital Employed**

Table No. 5.13.9 and Graph No. 5.13.9 Show the COCE Cost of Capital Employed of Torrent Pharmaceutical Limited was increased during first four year from 2005-06 to 2008-09 as Rs.52.28 Crore, Rs.84.30 Crore, Rs.94.41 Crore and Rs.124.13 Crore. But it was decreased in the year 2009-10 as Rs.93.77 Crore. But again it was increased as Rs.146.21 Crore to 165.07 Crore for the last two year 2011-11 to 2011-12 of the present study.

**EVA – Economic Value Added**

Table No.5.13.9 and Graph No.5.13.9 Show the EVA Economic Value Added of Torrent Pharmaceutical Limited was positive and increased during whole study period from the year 2005-06 to 2011-12 as Rs.19.71 Crore, Rs.42.98 Crore, Rs.75.71 Crore, Rs.89.37 Crore, Rs.133.81 Crore, Rs.171.96 Crore and Rs.174.02 Crore respectively.

The EVA is totally positive for all seven years of the study period. The Torrent Pharma has created value for all seven years for their shareholders from 2005-06 to 2011-12.
5.13.10 COMPUTATION OF ECONOMIC VALUE ADDED (EVA)
IN WOCKHARDT LIMITED FROM 2005-06 to 2011-2012.

(Rs. In Crore)

Table: 5.13.10
COMPUTATION OF ECONOMIC VALUE ADDED (EVA)
IN WOCKHARDT LIMITED

<table>
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<th>EVA</th>
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</thead>
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<td>2007-08</td>
<td>239.67</td>
<td>176.42</td>
<td>63.25</td>
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<td>2008-09</td>
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<td>10.08</td>
<td>243.33</td>
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<tr>
<td>2011-12</td>
<td>334.75</td>
<td>278.92</td>
<td>55.83</td>
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(Source: Compiled and Calculated from Annual Reports of Wockhardt Limited from the year 2005-06 to 2011-12)
Chapter-5 Analysis of Economic Value Added

Table No.5.13.10 and Graph No.5.13.10 are show the Computation of NOPAT- Net Operating Profit after Tax, COCE – Cost Of Capital Employed and EVA – Economic Value Added from the year 2005-06 to 2011-12 of Wockhardt Ltd.

NOPAT- Net Operating Profit after Tax

The Wockhardt Ltd showed trend of NOPAT was Rs. 257.41 Crore in the year 2005-06. It was decreased in second year as Rs.220.98 Crore in 2006-07. But it was suddenly increased as Rs.239.67 Crore in the year 2007-08. In the year 2008-09 and 2009-10 NOPAT was negative as Rs.-263.59 Crore and Rs.-613.83 Crore. But in last two year of 2011-11 to 2011-12, NOPAT of Wockhardt Ltd was positive as Rs.10.08 Crore to Rs.334.75 Crore.

COCE – Cost of Capital Employed

Table No.5.13.10 and Graph No.5.13.10 Show the COCE Cost Of Capital Employed of Wockhardt Ltd. It was Rs.148.26 Crore in the year 2005-06. It was decreased as Rs.140.29 Crore in the year 2006-07. It was increased in the year 2007-08 as Rs.176.42 Crore. But again it was decreased as Rs.173.05 Crore in the year 2008-09. But last three year from 2009-10 to 2011-12 it was increased as Rs.243.30 Crore, Rs.243.33 Crore and Rs.278.92 Crore.

EVA – Economic Value Added

Table No.5.13.10 and Graph No.5.13.10 Show the EVA Economic Value Added of Wockhardt Ltd. It was positive during the year 2005-06 to 2007-08 and was as Rs.109.15 Crore, Rs.80.69 Crore and Rs.63.25 Crore. But it was shown negative for the next three year from 2008-09 to 2010-11 as Rs.-400.04 Crore, Rs.-857.13 Crore and Rs.-233.70 Crore. But in the last year of the study period 2011-12, it was positive as Rs.55.83 Crore.

The EVA is negative for 2008-09, 2009-10 and 2010-11 for constant three years period and shareholders wealth destroyed for these three years. But rest four years of study period the EVA is positive.
5.14 CONCLUSION

Aurobindo Ltd., EVA trends was fluctuated It was negative for three years, it shown that the company has destroyed wealth of shareholder for 3 years but for rest four years, shown positive EVA trends.

Cipla, it can be concluded that EVA trends shown positive for all years. The company has been performing at its best.

Divi’s Lab., shown increasing and positive EVA for throughout seven years of the study period.

Ipca Lab, the EVA trends was positive. The company has created wealth for their shareholders.

NATCO Ltd., EVA trends shown fluctuating In 2010-11 EVA was negative but rest six years it was positive.

Ranbaxy Ltd. has fluctuating EVA trends. EVA was positive for four years and Negative for three years.

STRIDES, has negative EVA for all seven year from 2005-06 to 2011-12. The company should increase, NOPAT for getting positive performance of the company.

Sun Pharma., created very good margin of wealth to their shareholders. The EVA and financial performance has shown very much positive.

Torrent Ltd. has shown positive EVA trends for whole seven years. Though average performance of the company, it has created wealth for their shareholders.

For wockhardt Ltd, it has shown negative EVA for 2005-06 to 2007–08 for three years. But rest four years, the EVA was positive.
5.15 REFERENCES


