Chapter-5

FINDINGS

AND

SUGGESTIONS
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Findings:

Investors in the stock market always try to purchase and maintain the stocks which give them highest output and profit. EVA is the best measure between other value measures due to consider cost of equity. Today maximization of the shareholders’ value is the main purpose of the business unit.

EVA which has given by Stern Stewart and Co. is the most valuable measure of internal performance appraisal and it has a close link with MVA (Market value added) than any other traditional measures. Although it is a true measure of economic profit of a company, in India there are very less number of companies which are disclosing EVA in their annual reports.

As a part of this research work we find that none of the company under consideration has disclosed EVA in their annual report. The findings of the study are:

- This study identified that in order to present the correct financial data to shareholders and other financial information users, the cost of equity capital has to be considered as a segment of cost of capital in financial information.
- Capital asset pricing model, as an easy model to calculate the cost of equity capital that is based on beta has been introduced.
- Majority of top wealth destroying company is from public sector although ITC Ltd. which is the top performer in the study is ideal for other public sector companies. ITC Ltd. Secured topmost position in each and every matrices used in this study.
- The reason of increasing performance of ITC Ltd. is increasing profit and decreasing equity cost by investing funds in beneficial projects which ultimately gives it high profit than invested capital.
- While analysing Weighted Average Cost of Capital Nestle India Ltd. winning the race followed by Asian Paints Ltd as it has lowest Weighted Average Cost of Capital for all the 5 years. Thus Nestle India Ltd provided best investment opportunities with lowest risk among the other 9 FMCG companies.
Economic Value Added and its generalities, particularities and capabilities have been introduced as a new financial report.

A positive EVA reflects that the company is increasing its value to its shareholders, whereas a negative EVA reflects that it is diminishing its value to its shareholders. All the companies have shown improvement in Economic Value Added but some are leading the race by satisfying its shareholders and some have lose the race by earning less value for shareholders. ITC Ltd is the best company among all the other companies as it has increases it value to its shareholders. Procter & Gamble Hygiene and Health Care Ltd & Britannia Industries Ltd are placed on 9th and 10th position as it has least value among all the 10 FMCG companies listed in this research and also its values having more fluctuations in 2009-10 to 2013-14.

Market Capitalization of ITC Ltd has highest market value compared to all other 10 companies for the year 2009-10 to 2013-14. But there are more fluctuations in the amount of market capitalization. While Hindustan Unilever Ltd have second highest market capitalization during all the 5 years. It shown continuous increasing trend in market value which very good sign.

MVA (Market Value Added) which is a wealth metrics of EVA (Economic value added) has positive relationship with EVA.

Market value Added for ITC Ltd has added highest value to its shareholder’s investments during all the 5 years from 2009-10 to 2013-14 as its value increases with passage of time. 2nd largest market value added is with Hindustan Unilever Ltd., while Nestle India Ltd has added 3rd largest value against the shareholder’s investments during the 5 years from 2009-10 to 2013-14. There was improvement in the market value added from 2009-10 to 2013-14 but there was decrease in the market value added in the year of 2012-13.

It is identified that the measurement of shareholders Value & wealth in FMCG sector Companies through Economic Value Added is meaningful, because there has been a meaningful relationship between MVA and EVA.

This study interpret that in FMCG sector companies have no significant relationship between EVA and share price in stock exchange market as the
elements of shareholders wealth. As these companies share prices are influence by the expectations of the shareholders and shareholders expectations are influence by traditional measurement tools and techniques.

✔ From this study also identified that in FMCG companies, financial users have used NOPAT, EBDIT and EPS, as reliable information when they wanted to make decisions.

✔ In this study there is not a single company which is disclosing EVA & MVA in their annual report.
Suggestions:

The company should disclose EVA in their annual report. Manager’s performance can be linked with EVA. Management of the company should think about shareholders preferences and invest in the projects which give positive EVA and maintain it for long term. As market value added is positively linked with EVA so decreasing EVA can be the reason of decreasing MVA which is not a good sign for a company.

Followings are some suggestions:

- The study highly suggests that it should be mandatory for the companies to disclose economic value added and market value added in their annual report.
- EVA should be linked with the performance of the managers.
- The general rule of the business says increasing wealth of the shareholders and their interest is more important that manager’s personal interest so every time when they are investing money in any project they should think about the long term profit for the shareholders rather than thinking about the short term profits.
- Investors in Capital Market need financial data which would help them to forecast their investments returns. This study suggests listed companies in BSE to disclose the created shareholders wealth per share every year.
- Capital structure should be optimum equity is not a free cost of capital so there should be an optimum ration of equity and debt.
- MVA and EVA are positively linked, so if there is positive EVA, MVA will be positive.
Limitation of the Study:

✓ Stern Stewart, the father of Economic Value Added, has given 160 adjustments to calculate true economic profit but in this study only three adjustments have been taken.

✓ This study is based on valuation concept.

✓ Performance of the companies under consideration has taken for the year 2009-10 to 2013-14.

✓ This research focuses only on 10 Indian listed FMCG industry companies which are selected on the basis of Net profit earned at the end of accounting year.

✓ Limitation of EVA and MVA are the limitations of this research as this research study is completely based on secondary data.

✓ Statistical tools have their own limitations which would be affected to the result of study.
Conclusion:

Economic value added is an important measure to judge the performance of the company. It is not mandatory to disclose EVA in annual reports of the companies in India. It is less popular in India or may be the companies are not interested to adopt it because market price of the shares depends on the profit of the company, but if the companies calculate EVA and deduct the cost of equity from profit the value would be less as equity cost is the highest cost instead of other component of capital cost.

It has found while preparing this report that many companies has enough profit but these company has negative or less economic value added due to not having optimum capital structure or due to high cost of equity. But as investor is investing his hard-earned money to the company, so company should think about the investor first.

There is a value for his single penny and company should prove worthy to him by giving him good returns. Company should invest wisely in different projects, because if company would not think about investor it cannot survive for long term, so it should take care and think first about investor while investing in any project.

EVA is positively linked with MVA so it should generate positive EVA. MVA is positively linked with EVA so if EVA is decreasing simultaneously MVA would decrease which is not a good sign for company growth. It should be mandatory for every company to disclose EVA in its annual report. So that investor can check true profitability of the company while investing.
References


