



**“A Study on Economic Value Added and Market Value Added of Selected Sample Company of India”**

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## **ABSTRACT**

Economic Value Added (EVA) represents the residual income remaining after a company has covered the cost of capital provided by its investors and lenders. It signifies the additional value generated for shareholders by achieving operating profits that exceed the cost of the capital employed in the business. A review of existing literature reveals that the purpose of this study is to evaluate a company's financial performance using the concept of EVA. The research has been carried out over a decade, spanning from 2014-15 to 2023-24, with the sample being chosen through a non-probability sampling method, specifically the convenience sampling technique. As a tool and technique researcher has use EVA. Finding of the study is that in all the year company has added value to its shareholders- in all the year EVA is positive and in increasing trend except in the year 2020-21 which show decrease in EVA.

**KEY WORDS:** *EVA- Economic Value Added, NOPAT- Net Operating Profit After Tax, WACC- Weighted Average Cost of Capital, IC- Invested Capital, EBIT- Earnings Before Interest and Tax.*

## **1. INTRODUCTION**

A company's Economic profit can be calculated using Economic value added, or EVA for short. After deducting a finance charge from net operating profit, EVA is determined. The necessary rate of return on the company's capital investment is captured by the finance charge. If a company's EVA is positive, it indicates value addition; if it is negative, value destruction. EVA formula can be expressed as follows:

$$\text{EVA} = \text{NOPAT} - (\text{WACC} * \text{Invested Capital})$$

NOPAT is the operating profit has been generated by the business. In other words one can also say that it is EBIT less 1- tax rate.



WACC is the total cost of the invested capital (dividend for equity and preference and interest for debenture and bond.)

Invested capital is the total capital employed in the business.

## **2. REVIEW OF LITERATURE**

**(Akash, 2021)** An assessment of a company's actual Economic profit is called Economic value added, or EVA. EVA addresses the opportunity cost of capital spent in the company and serves as a management tool for evaluating the company's yearly performance, in contrast to other accounting measures. This study aims to elucidate the idea of EVA, particularly from the perspective of business unit control. The paper explains the idea and features of EVA as well as how the business can use it while taking into account both its advantages and disadvantages. The purpose of the study was to determine Travancore Cochin Chemicals Ltd.'s Economic value added for the 2015–2019 fiscal years. Sales, capital employed net worth, earnings per share, and other carefully chosen profitability metrics are also computed, and correlation analysis is used to examine how they relate to EVA. The firm's EVA peaked in 2018–2019 at Rs. 10.97 lakhs, and it has been declining overall over the research period, meaning that even when the EVA is positive, the company has not been able to generate real value for its owners.

**(Anil, 2010)** The aim of this work is to provide a narrative review of the 112 papers that were published between 1994 and 2008 about the EVA. It analyses the gaps in the body of literature, offers a classification system, and makes recommendations for future study directions. Based on the time period, topics addressed, literature distribution across several sources, technique, country-specific publications, and the researchers' contributions to the concept, studies are categorized and presented. Although some research in developed nations also view conventional measurements as superior business performance reporting tools, the majority of these studies have shown support for EVA.

**(Andrija, 2016)** The purpose of this article is to present approaches and strategies for defining, measuring, and utilizing the concept of economic value added (EVA). EVA is a financial performance measure that emphasizes optimizing shareholder wealth rather than solely focusing on maximizing net income. The authors introduce readers to key ideas and research that have contributed to the development of the EVA concept. This paper concentrates exclusively on analysing secondary sources, including theoretical perspectives and the results of various empirical studies on EVA. Additionally, before accounting profits can be utilized to compute EVA, the article will demonstrate several changes to financial statements. EVA will unquestionably be one of the most popular and well recognized indicators of total company performance, according to the findings of the aforementioned study. It will become even more well-liked when combined with the concepts of strategic (financial) management. The notion of EVA's function and position within the framework of value and performance management, as well as strategic management, are determined in the paper's conclusion.



### **3. OBJECTIVES OF STUDY**

To measure the company's financial performance through Economic value added of Hindustan Unilever limited during sample period.

### **4. RESEARCH METHEDOLOGY OF STUDY**

#### **4.1 SAMPLE AND ITS SELECTION**

In the present article researcher has been selected Hindustan Unilever limited as a sample and which was selected based on convenience sampling of non-probability sampling method.

#### **4.2 PERIOD OF STUDY**

Research has been conducted in time span of 10 years from 2014-15 to 2023-24

#### **4.3 HYPOTHESES OF STUDY**

**H<sub>0</sub>** –There is no significant difference in Economic value added of Hindustan Unilever limited Company of India during the study period

**H<sub>1</sub>** –There is a significant difference in Economic value added of Hindustan Unilever limited Company of India during the study period

### **5. TOOLS FOR ANALYSIS OF DATA**

In tools and technique for the present study researcher has been used that Economic value added.

### **6. WHEN WILL EVA INCREASE?**

A) It is possible to raise operating profits without using more capital, that is, through increased efficiency.  
B) Additional funds allocated to successful expansion initiatives that yields return greater than the cost of acquiring fresh funding.

C) Activities that don't cover the cost of capital, such selling off unproductive capital, reduce capital.



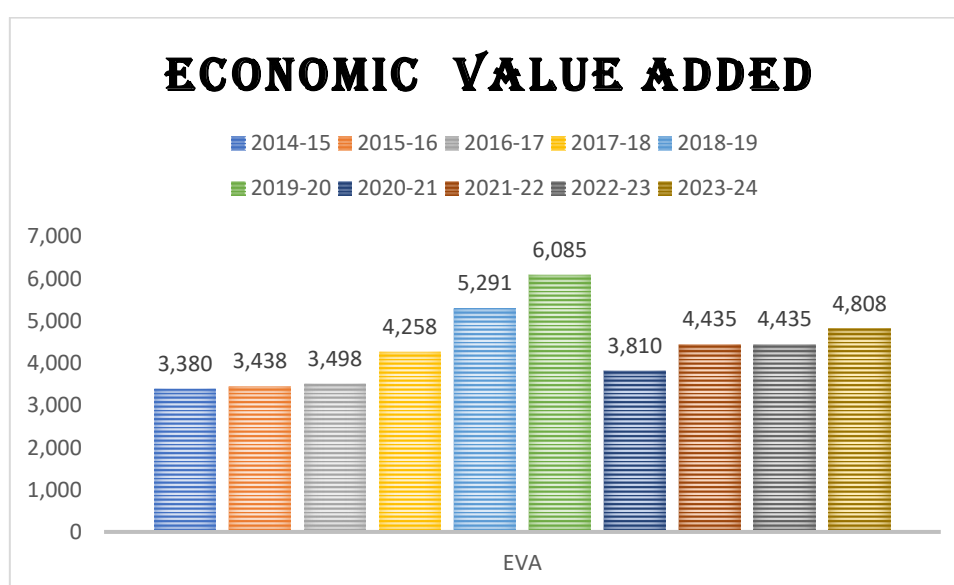
## 7. DATA ANALYSIS AND INTERPRETATION

### Calculation of Economic value added

(₹ crores)

PARTICULARS	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
<b>COST OF CAPITAL EMPLOYED (COCE)</b>										
1. Average total debt	0	0	0	0	0	0	0	0	0	0
2. Average total equity	4338	5664	5831	6181	6668	7227	46890	47156	48486	49508
3. Average total capital employed (1+2)	4338	5,664	5831	6181	6668	7227	46890	47156	48486	49508
4. COD (post tax %)	5.56	5.43	4.90	5.21	5.77	5.25	4.70	4.81	5.87	5.75
5. COE %	10.91	11.98	12.85	14.19	11.84	9.11	8.86	9.09	10.90	10.70
6. WACC	10.91	11.98	12.85	14.19	11.84	9.11	8.86	9.09	10.90	10.70
7. COCE: (3*6)	474	679	749	877	789	658	4153	4289	5285	5297
<b>ECONOMIC VALUE ADDED (EVA)</b>										
8. profit after taxes, but before exceptional items	3843	4116	4247	5135	6080	6743	7963	8724	9720	10105
9. add: interest, after taxes	11	0	0	0	0	0	0	0	0	0
10. NOPAT	3854	4116	4247	5135	6080	6743	7963	8724	9720	10105
11. COCE, as per the (7)	474	679	749	877	789	658	4153	4289	5285	5297
12. EVA 10-11	3380	3438	3498	4258	5291	6085	3810	4435	4435	4808

(Source- annual report of the company)



( Source- self created)



The chart represents the Economic Value Added (EVA) over the years 2014-15 to 2023-24. EVA is a measure of a company's financial performance and indicates the value it has generated beyond the required return of its investors.

### **1. Trend Overview:**

EVA started at 3,380 in 2014-15 and gradually increased over the years.

A significant peak occurred in 2020-21, reaching 6,085, the highest value on the chart.

### **2. Fluctuations:**

From 2018-19 to 2020-21, EVA saw a notable rise.

Post-2020-21, EVA dropped in 2021-22 to 3,810 but stabilized at 4,435 for 2022-23 and slightly increased to 4,808 in 2023-24.

### **3. Observation on Stability:**

The values from 2014-15 to 2016-17 show a steady upward trend with smaller increments.

After a sharp growth in 2019-20 and 2020-21, EVA saw fluctuations but ended with a positive recovery in 2023-24.

## **8. FINDINGS/ CONCLUSION OF THE STUDY**

In all the years from 2014-15 to 2023-24 Economic value added is in increasing trend but in the year 2020-21 EVA is decreased to 3810 from 6085 crore. Net operating profit after tax is more than its cost of invest capital in all the years. Company is not using debt fund in their business so one can conclude that company is fully based on equity capital.

### **Findings /conclusion based on**

#### **1. Cost of Capital Employed (COCE):**

The Weighted Average Cost of Capital (WACC) fluctuates over the years, ranging from 8.86% (2020-21) to 14.19% (2017-18).

The Average Capital Employed shows significant growth, especially after 2019-20, indicating possible investments or expansion.

#### **2. Profit and NOPAT:**

Profit after tax (before exceptional items) shows a steady increase, especially from 2020-21 onwards, reflecting a positive performance trend.

NOPAT (Net Operating Profit after Tax) follows a similar trend, consistently increasing over the years.



### **3. Economic Value Added (EVA):**

EVA has generally grown from ₹3,380 crores in 2014-15 to ₹4,808 crores in 2023-24. A dip in EVA is observed in 2020-21 (₹3,810 crores), likely due to external factors such as economic disruptions.

### **4. Capital Cost vs. Profitability:**

The cost of equity and debt remained stable over the years, reflecting controlled capital costs. Increasing profitability combined with stable WACC contributes to the positive EVA trend.

- **Value Creation:** The Company has consistently created economic value over the years, as reflected by positive EVA values.
- **Efficiency in Capital Usage:** The upward trend in capital employed has been effectively utilized, leading to higher NOPAT and EVA.
- **Future Growth Potential:** With an increasing trend in NOPAT and a controlled WACC, the company demonstrates strong potential for sustained value creation in the long term. This analysis suggests the company is efficiently managing its resources to generate shareholder value over time.

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