

## SHAREHOLDER VALUE CREATION BY INDIAN COMPANIES

**MANU DOGRA**

ASSISTANT PROFESSOR (UBS)  
M.PHIL, MBA (FINANCE), B.COM.

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### ABSTRACT

Modern businesses focus on shareholder value creation as they intend to maximize shareholder wealth. Traditional measures like Residual income, Return on investment etc have been able to compute revenue generation by the company but to a large extent, they fail to predict the shareholder wealth creation by the company. That requirement has been met by a new performance measure by the name Economic value added which a trademark of Stern Stewart & Co. The company is of the opinion that EVA computation can give a clear picture of the wealth created or destroyed by a company for its shareholders. In this paper, a sample of 50 NSE listed companies has been taken to detect disclosure of EVA in their annual reports and to calculate EVA using their financial information. I have made three adjustments of Interest expenses, goodwill written off and R& D expenses in the NOPAT to calculate adjusted NOPAT. Besides that, beta of all fifty companies has been calculated to detect dependency of security return on market return. The weighted average cost of capital has been deducted from NOPAT of the respective companies to compute Economic value added. The EVA thus calculated has been ranked in this paper to adjudge the best wealth creator company and the wealth destroyer company amongst the sample companies. The study depicts that only four companies HUL, Emami, Hero Motorcorp and Godrej have disclosed EVA in their annual report in the financial year 2012-13. Besides that the EVA Computation has adjudged SBI as the best wealth creator and Tata Motors as the company having last rank in computed EVAs for the financial year 2012-13 subject to their financial performance in the mentioned year.

**KEYWORDS:** EVA, Residual income, ROI, wealth generation, wealth destroyer, shareholder value, Beta, cost of capital, cost of equity, goodwill written off.

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