Research Paper Commerce

Shareholder Value Creation in Tata Consultancies Ltd.

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ABSTRACT

To create value for shareholder is demand of today's scenario. It is focused in most of the Indian industries. For measuring shareholder value economic value-based models is adopted. It helps to align managerial decision-making with the firm preferences. Economic Value- Added is a technique to measure wealth created for share holders. EVA is the surplus generated by an entity after meeting an equitable charge towards providers of capital. Companies which earn higher returns than cost of capital are creating shareholder's value. The present paper examines the value creation strategy of TCS by analyzing the EVA as better tool of measuring performance. In this regards, EVA is measured to understand of wealth creation by the company.

KEYWORDS Value Added, Economic value added, growth and profitability, NOPAT, Weight Average cost of capital, Share holder's value creation

INTRODUCTION

The EVA framework developed by Stern Stewart & Company is gradually replacing the traditional measures of financial performance on account of its robustness and its immunity from creative accounting. **It** is an estimate of a firm's economic profit. It measures the value addition to an organization. EVA is the profit earned by the firm less the cost of financing the firm's capital. The idea is that value is created when the return on the firm's economic capital employed is greater than the cost of that capital. Traditional performance measures such as NOPAT, EPS, ROI, ROE etc. have been criticized due to their inability to incorporate full cost of capital thereby accounting income is not a consistent predictor of firm value and cannot be used for measuring corporate performance. Value based management system has gained popularity in academic literature in last two decades. One such innovation in the field of internal and external performance measurement is EVA.

COMPANY PROFILE

Tata Consultancy Services Limited (**TCS**) is an Indian multinational information technology (IT) services, business process and consulting company headquartered in Mumbai, Maharashtra. TCS operates in 46 countries and has 199 branches across the world. It is a subsidiary of the Tata Group and is listed on the Bombay Stock Exchange and the National Stock Exchange of India. TCS is the largest Indian company by market capitalization and is the largest India-based IT services company by 2013 revenues. TCS is ranked 40th overall in the *Forbes* World's Most Innovative Companies ranking, making it both the highest-ranked IT services company and the top Indian company

LITERATURE REVIEW

EVA is a important technique to measure performance. It has become more popular in comparison to traditional approach. Till now various papers has been published on EVA. Last ten years research has been find to study further. Worthington and West(2001) reviewed the literature on EVA and provided a synoptic survey of EVA's conceptual underpinnings. They concluded that empirical evidences concerning EVA have been mixed. There is strong need for research over a longer time frame to allow greater empirical certainty on the status of EVA as a corporate performance measure.

Pal and Sura (2007) reviewed 25 empirical studies published in various journals related to relationship of EVA and stock returns. They have only reviewed the results of the studies and have not considered other issues prevalent in EVA research such as EVA-MVA relationship, EVA and discounting techniques, other residual income (Note 3) based techniques, EVA implementation and EVA and managerial performance and control. Till date no other study has been conducted to cover the issues involved in research about EVA. In the present paper various issues on EVA by reviewing 112 studies on the concept, is taken. Apart from this, the studies have been categorized on the basis of methodologies used by various researchers, country and year-wise publication and breakup of literature reviewed on research related to EVA. Dr. Anil Sharma ,Indian Institute of Technology Roorkee has reviewed 112 papers published on the EVA from 1994 to 2008in hid paper on Economic Value Added (EVA) -Literature Review and Relevant Issues.

OBJECTIVES OF STUDY

The objectives of the study are as under:

- To determine share holder creation through Economic value added
- To Compare wealth creation by both the methods

HYPOTHESIS

In order to realize the above objectives, the following hypothesis has been formulated.

Hypothesis 1

H01: There is significant share valuation in Tata Consultation Ltd.

H11: There is no significant share valuation in Tata Consultation Ltd.

RESEARCH METHODOLOGY

Research Design:

The research design used for the research problem in hand is causal research as the objective is to determine which variable might be causing certain behavior, i.e. whether there is a cause and effect relationship between variables. In order to determine cause and effect, it is important to hold the variable that is assumed to cause the change in the other variable(s), constant, and then measure the changes in the other variable(s). This type of research is very complex and the researcher can never be completely certain that there are not other factors influencing the causal relationship, especially when dealing with people's attitudes and motivations.

Independent Variables:

earning capacity, evaluating operating performance, rate of return, cost of capital, capital employed, cost of capital,

WACC, invested capital

Dependent Variables: Economic value added
METHODS OF DATA COLLECTION
present study is mainly based on secondary data which were collected from the corporate annual audited reports, company database, published research reports by various industries, related websites, and annual report of different companies of software industry and research organizations.

SELECTION OF COMPANY AND PERIOD:
The present study is mainly intended to examine the comparative financial performance of Software industry particularly for Infosys Limited for six years in the period from 2005 to 2010.

Table-1 MEASUREMENT OF PROFIT BASED ON TRADITIONAL APPROACH

Tata Consultancy Services								
							(Rs. in million)	
Year	EPS	DPS	BV	MV	ROCE	EY	DY	Payout
Mar-06	55.53	13.5	114.64	48.93	55.7	1.13	0.28	0.24
Mar-07	38.39	11.5	82.35	97.86	49.87	0.39	0.12	0.30
Mar-08	46.07	14	111.43	97.86	42.92	0.47	0.14	0.30
Mar-09	47.92	14	136.38	97.86	43.27	0.49	0.14	0.29
Mar-10	28.62	20	76.72	187.72	42.46	0.15	0.11	0.70
Average	43.31	14.60	104.30	106.05	46.84	0.53	0.16	0.37

Table 2 Calculation of EVA					
Year	PAT	INT.	NOPAT	COCE	EVA
Mar-05	1831	10.4	1841.4	226.6523	1614.748
Mar-06	2716	4.49	2720.49	333.1109	2387.379
Mar-07	3757	3.43	3760.43	460.4489	3299.981
Mar-08	4508	3.42	4511.42	552.2054	3959.215
Mar-09	5618	9.54	5627.54	689.6949	4937.845
Mar-10	4696	7.44	4703.44	577.2222	4126.218
Average	3854.333	6.453333	3860.787	473.2224	3387.564

RESULT & DISCUSSIONS
VALUE CREATION SINCE FISCAL 2005
Over the years, TCS has grown consistently across geographies leveraging its large portfolio of industry verticals and service practices. As for the customers, the Company's ability to innovate customer specific solutions, disciplined execution of complex projects and customer centricity has turned TCS into a trusted business partner. In its journey towards technical and professional excellence, TCS has not only added value to customers' businesses, but created significant wealth for its shareholders and other stake holders. The wealth so created has been judiciously allocated and shared with the stake holders.

EARNINGS PER SHARE
Earnings per share (EPS), after adjusting for two 1:1 bonus issues, went up from ` 11.84 in fiscal 2005 to ` 53.07, in fiscal 2012 - 4.5 times in eight years.

MARKET CAPITALISATION
Market capitalisation crossed ` 2,29,000 crores on March 31, 2012. Compared to the listing price, capital appreciation of a share, post two 1:1 bonus issues is more than 5 times.

ECONOMIC VALUE ADDITION (EVA)
EVA per annum in the last eight years has registered steady increase - more than 4.5 times in eight years.

INCREASE IN NET WORTH
The net worth of the Company has increased 8.5 times in the last six years.

RESEARCH TECHNIQUE APPLIED

Table for applying statistical tool									
Particulars	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mean	Standard Deviation	CV
OP / Capital Employed	0.6997667	0.591233	0.53041	0.455918	0.44642987	0.4400087	0.544751	0.094302916	17.31118
EVA / Capital Employed	0.47	0.42	0.41	0.36	0.37	0.27	0.404862	0.06206356	15.32954
PAT / Capital Employed	0.5319906	0.481148	0.463271	0.408961	0.41656101	0.3099187	0.460386	0.070163998	15.24025
EPS/ Capital Employed	0.0110843	0.009837	0.004734	0.004179	0.00355315	0.0018888	0.006678	0.003387259	50.7256
Economic value added	1614.7477	2387.379	3299.981	3959.215	4937.84506	4126.2178	3239.834	1113.956164	34.38313
PAT	1831	2716	3757	4508	5618	4696	3686	1269.491068	34.44089
operating profit	2,408.45	3,337.41	4,301.48	5,025.61	6,020.83	6,667.17	4218.756	1477.477968	35.02165
EPS	38.15	55.53	38.39	46.07	47.92	28.62	45.212	8.63045734	19.08886
Capital Employed	3,441.79	5,644.83	8,109.73	11,023.06	13,486.62	15,152.36	8341.206	4178.523345	50.09495

Table for applying statistical tool	
	Corelation
EVA/ PAT	0.999998365
EVA/ OPERATING PROFIT	0.931513567
EVA/ EPS	-0.08876085

The various statistical tools i.e., mean, standard deviation and correlation are applied to compare conventional measures and EVA of TCS. On the basis of last six years study, it is found that is an achievement for a company. Standard deviation and Coefficient of variability indicates that variability is highest in EPS/ Capital employed, which is 50.7256. operating profit, EVA and PAT has less variability 17.31118, 15.32954, 15.24025 respectively. There is consistency in EVA which shows that there is stability in shareholder value creation from last six years.

Co-relation between EVA and PAT is 0.999998365, which shows the high correlation between both the variables. It is

approximately same in EVA and OP, EVA. As EVA is residual income after paying cost of capital. So directly it is correlated with operating profit. There is negative correlation with EVA and EPS. It may be assumed that overall shareholder value is increasing but earning per share is fluctuating.

CONCLUSION

EVA is now recognized as an important tool of performance measurement and management all over the world, particularly in advance economies by adopting it as corporate strategy. Still there are mixed evidences about the superiority of EVA over traditional performance measurement tools. Country specific evidences are also not clear when compared with other residual income metrics. In this review paper, an attempt has been made to find correlation and compare tradition profit measurement method to EVA. EVA is found more appropriate tool for measuring financial performance. EVA better represents the market value of company in comparison to conventional performance measures. It is felt that further research is needed on implementation issues, role of accounting adjustments, empirical evidences in developed economies. Empirical studies conducted till date on EVA had used data for smaller period whereas there is scope for future research on the concept by considering the data. Therefore efforts should be made in this direction to further broaden the horizon of applicability of this useful concept.

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