EVA-MVA RELATIONSHIP: A CRITICAL ANALYSIS OF INDIAN PHARMACEUTICAL INDUSTRY'S FINANCIAL EFFICIENCY

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Abstract

Economic Value Added (EVA) and Market Value Added (MVA) are crucial metrics for evaluating shareholder value creation, as they provide insights into a company's ability to generate economic profits and increase market value. Shareholder value creation is a key objective for companies, and EVA and MVA offer valuable tools for assessing performance. Effective application of EVA and MVA analysis enables companies to make informed decisions, optimize resource allocation, and enhance shareholder wealth. By examining the relationship between EVA and MVA, companies can better understand the drivers of shareholder value creation. This study examines the value analysis and creation of companies through modern techniques, specifically Economic Value Added (EVA) and Market Value Added (MVA), to understand financial performance and shareholder value creation. Focusing on 51 listed pharmaceutical companies on the Bombay Stock Exchange (BSE), the research investigates the concept of shareholder value creation, calculates value creation via EVA and MVA, and statistically examines the relationship between MVA and EVA. The findings reveal a significant positive correlation between MVA and EVA across all selected companies, indicating that companies with high EVA tend to have high MVA, thereby underscoring the effectiveness of these modern techniques in evaluating financial performance and creating shareholder value.

Keywords: *Economic Value Added (EVA), Market Value Added (MVA), Financial Efficiency, Indian Pharmaceutical Industry, Financial Performance. Shareholder value creation (SVC).*

INTRODUCTION

The Indian pharmaceutical industry has emerged as a significant contributor to the country's economy, with a growing global presence. However, the industry's financial efficiency remains a crucial aspect to ensure sustainability and competitiveness. Economic Value Added (EVA) and Market Value Added (MVA) are two pivotal metrics that assess a company's financial performance and shareholder value creation. EVA measures a company's true economic profitability, while MVA reflects its market value creation.

Economic Value Added (EVA) and Market Value Added (MVA) are two pivotal metrics that assess a company's financial performance and shareholder value creation. EVA measures a company's true economic profitability by comparing net operating profit after taxes (NOPAT) to its cost of capital. MVA, on the other hand, reflects a company's market value creation by comparing its market capitalization to its invested capital. Understanding the relationship between EVA and MVA is essential for stakeholders to evaluate a company's financial health and potential for long-term growth.

This study critically examines the relationship between EVA and MVA in the Indian pharmaceutical industry, aiming to provide insights into the industry's financial efficiency. By analyzing the EVA-MVA nexus, this research seeks to answer key questions: Does EVA significantly impact MVA in the Indian pharmaceutical industry? This study's findings will contribute to the existing literature on EVA and MVA, offering valuable implications for strategic decision-making and policy development.

CONCEPT

Economic Value Added (EVA) and Market Value Added (MVA) are grounded in several key theories and concepts, providing a framework for evaluating a company's financial performance and potential for long-term growth. The Residual Income Theory underlies EVA, measuring a company's true economic profit as excess return over its cost of capital. Shareholder Value Theory drives MVA, emphasizing that a company's primary objective is to maximize shareholder value.

Value-Based Management, Cost of Capital, Invested Capital, and Economic Profit are essential concepts in EVA and MVA analysis. The Efficient Market Hypothesis (EMH) suggests that markets reflect all available information, incorporating EVA and MVA measures into market prices. The EVA Model, developed by Stern

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Stewart & Co., calculates EVA as NOPAT minus cost of capital, while the MVA Model calculates market value creation as market capitalization minus invested capital.

Key researchers, such as Alfred Rappaport, Joel Stern, and G. Bennett Stewart, have contributed significantly to EVA and MVA development. Important papers, including "EVA and MVA: Performance Measures for the 21st Century" and "The Quest for Value," provide foundational knowledge. Understanding these theories and concepts is crucial for applying EVA and MVA in financial analysis, decision-making, and strategic planning.

EVA and MVA differ in focus, time horizon, and perspective. EVA focuses on economic profitability, while MVA focuses on market value creation. EVA is a short-term measure, whereas MVA is a long-term measure. EVA represents a management perspective, whereas MVA represents a shareholder perspective. Notably, EVA is a leading indicator of MVA.

The combined use of EVA and MVA provides a comprehensive understanding of financial performance, enhances decision-making and strategic planning, and improves alignment with shareholder interests. By applying these concepts, companies can evaluate their financial performance and potential for growth, informing strategic decisions and driving long-term success.

OBJECTIVE OF THE STUDY

1) To investigate and understand the concept of shareholders' value creation.
2) To calculate shareholders value creation through different methods like Economic Value Added (EVA), Market Value Added (MVA).
3) To statistically examine the relationship between Market Value Added (MVA) and Economic Value Added (EVA) of selected Companies.

HYPOTHESIS OF THE STUDY

This study uses the null hypothesis method to maintain objectivity and clarity. The null hypothesis posits no significant differences, and its acceptance or rejection is determined by probability levels. The research objectives are addressed through the following hypotheses.

1. There is no significant positive correlation between Market Value Added (MVA) and Economic Value Added (EVA) of all selected companies.

METHODOLOGY

Sample Selection:

This research investigates the Healthcare sector within the Indian context, leveraging data from the ACE Equity database, specifically focusing on companies listed on the Bombay Stock Exchange (BSE). Given BSE's status as the world's second-largest exchange by domestic quoted companies, this focus provides a comprehensive insight.

A population of 173 BSE-listed Healthcare companies was identified, with the top 51 companies by market capitalization selected for analysis, contingent upon complete data availability. The resultant sample comprises 51 Healthcare companies, as elaborated in the subsequent table.

Sr. No.	Company Name	Sr.No.	Company Name	Sr .No.	Company Name
1	Sun Healthcare Industries Ltd.	18	Panacea Biotec Ltd.	35	Themis Medicare Ltd.
2	Dr. Reddys Laboratories Ltd.	19	JB Chemicals & Healthcares Ltd.	36	IOL Chemicals & Healthcares Ltd.
3	Cipla Ltd.	20	Shilpa Medicare Ltd.	37	Hester Biosciences Ltd.
4	Lupin Ltd.	21	Indoco Remedies Ltd.	38	Lincoln Healthcares Ltd.
5	Cadila Healthcare Ltd.	22	Hikal Ltd.	39	Wintac Ltd.
6	Divis Laboratories Ltd.	23	Suven Life Sciences Ltd.	40	Gufic Biosciences Ltd.
7	Glenmark Healthcares Ltd.	24	Vivimed Labs Ltd.	41	Ambalal Sarabhai Enterprises Ltd.
8	Wockhardt Ltd.	25	Bliss GVS Pharma Ltd.	42	Jagsonpal Healthcares Ltd.
9	AurobindoPharma Ltd.	26	TTK Healthcare Ltd.	43	Celestial Biolabs Ltd.
10	Biocon Ltd.	27	MarksansPharma Ltd.	44	Coral Laboratories Ltd.
11	Torrent Healthcares Ltd.	28	Granules India Ltd.	45	Ortin Laboratories Ltd.
12	Ipca Laboratories Ltd.	29	Amrutanjan Health Care Ltd.	46	SanjivaniParanteral Ltd.
13	Novartis India Ltd.	30	Aarti Drugs Ltd.	47	Natural Capsules Ltd.
14	FDC Ltd.	31	Zenotech Laboratories	48	Makers Laboratories Ltd.

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			Ltd.		
15	Unichem Laboratories Ltd.	32	RPG Life Sciences Ltd.	49	Mangalam Drugs & Organics Ltd.
16	NatcoPharma Ltd.	33	AnuhPharma Ltd.	50	Advik Laboratories Ltd.
17	Ajanta Pharma Ltd.	34	DIL Ltd.	51	Hindustan Bio Sciences Ltd.

Duration of the Study:
The study is conducted on the basis of five years. I.e. From 2009-2010 to 2013-2014.

Collection of Data:
For the purpose of the study, secondary data is used.
For obtaining the secondary data the following sources are as follows:
(i)   Published financial reports of the company i.e. 2010-2014
(ii)   ACE EQUITY database from IIM library
(iii)   Website of selected companies and Reserve Bank of India

Method:
Methods used for measurement of value creation are as follows:

Formulas for Calculations:		
1)	Economic Value Added (EVA)	= NOPAT – [Invested Capital × WACC] **Step –1** NOPAT = Net Profit + Interest on Borrowings – [1- Tax Rate] **Step –2** Invested Capital = Paid – up Capital + Reserves + Total Borrowings **Step –3** WACC = Paid –up Capital × Ke + Borrowings × Kd Where, (1) Cost of Debt (Kd): = Interest on Borrowings (1- Tax Rate) * 100 (2) Cost of Equity (Ke): Ke = Rf + β (Rm - Rf) **Rf -** The researcher has taken 365 T-Bills rate of particular year from Reserve Bank of India Websites as a risk free rate of return. **Rm** - The market rate of return is calculated based on market Index. **β -** Beta is the risk free coefficient which measures the sensitivity of the security returns of a particular security to change in the market returns. Beta has been calculated based on SENSEX for each year separately. **Beta (β) =** $\frac{N\Sigma XY- (\Sigma X)(\Sigma Y)}{N\Sigma X^2- (\Sigma X)^2}$ **X** = Monthly Closing Return on the Stock Market Indices (BSE) **Y** = Monthly Closing Return on Share Prices of a particular company **N** = No. of Months in a year
2)	MARKET VALUE ADDED (MVA)	Market Capitalization – Net Worth

Significance of the Study:
This study contributes significantly to the understanding of economic and managerial efficiency in the Pharmaceutical Industry, offering valuable insights for:
1. Stakeholders: Providing decision-oriented information for existing and potential shareholders to evaluate investment decisions.
2. Lenders: Guiding informed lending decisions by assessing borrowers' creditworthiness.
3. Management: Reflecting managerial efficiency and identifying areas for improvement.
4. Industry Benchmarking: Offering a framework for other industries and companies to enhance performance and shareholder value creation.
5. Academic Research: Contributing to the body of knowledge on shareholder value creation, economic efficiency, and managerial performance.
Specific Benefits
- Evaluating investment decisions for shareholders
- Informing lending decisions for financial institutions
- Enhancing managerial efficiency and performance
- Providing industry benchmarks for best practices
- Contributing to academic research and literature
  Broader Implications
 This study's findings will have far-reaching implications for:

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- Improving corporate governance and accountability
- Enhancing shareholder value creation and wealth maximization
- Fostering a more efficient and competitive Pharmaceutical Industry
- Informing policy decisions and regulatory frameworks

Limitations:

● The study is limited to selected companies of Indian Pharmaceutical Industry.

● The study will base on Secondary Data.

● The study will limited to some techniques of shareholders value creations.

RESEARCH GAP

Despite the pharmaceutical industry's growing importance in India, research on the relationship between Economic Value Added (EVA) and Market Value Added (MVA) among Indian pharmaceutical companies remains scarce. The industry's significant contribution to India's economy and healthcare system underscores the need for comprehensive research. Existing literature primarily focuses on developed markets or other industries, neglecting the Indian pharmaceutical context and creating a knowledge gap. Addressing this gap is crucial, as EVA and MVA are essential metrics for evaluating corporate performance, investor wealth creation, and shareholder value. This study aims to bridge this gap by examining the EVA-MVA relationship in 51 selected Indian pharmaceutical companies, providing valuable insights for stakeholders to make informed decisions.

LITERATURE REVIEW

● Thampy & Bhaheti (2000) investigated the Economic Value Added (EVA) performance of Indian banking and development financial institutions. The study's results showed that most of these institutions, including public and private sector banks, were unable to create positive EVA, suggesting inadequate economic value creation.

● Ramana (2012) conducted a study between 1999 and 2003, exploring the relationship between Market Value Added (MVA) and Economic Value Added (EVA) in relation to traditional accounting metrics. The correlation analysis revealed that Net Operating Profit After Tax (NOPAT) and Net Profit After Tax were stronger predictors of changes in a firm's market value than EVA.

● Phani and Bhattacharya (2000), made clear the concept of Economic Value Added and its recognition in corporate. They found that investors had not been more educated for their investment decision only through the Economic Value Added, it just provided additional information. He also concluded that by the performance measurement like Economic Value Added company can educate and train their employees for value creation.

● Venugopal and Reddy (2016) , identified the trends in the value creation with the sample of 77 companies from Indian Healthcare Industry, which are listed in the BSE-SENSEX. The researcher also analyzed comparative Analysis of company wise shareholders Value Creation from 2007 to 2015. The researcher calculated shareholder Value Creation by Economic Value Added method and classified all he sample in Value Creators and Value destroyer. The researcher concluded that EVA based performance framework not only provides the financial performance, it helps the management in strategic decision making and enhancing shareholder value.

● Chauhan (2012) examined the shareholder's value creation in the Indian petroleum industry.. The study had used T-test to test the hypothesis in the present research. EVA was found to have significant correlation with Net operating profit after tax, Earning per share, operating profit and Market capitalization and MVA figures of the firm for private and public sector. Both sectors have created a positive EVA and MVA in the study.

● Sharma and Kumar (2012) conducted a study to evaluate the effectiveness and superiority of value-based financial performance measures, specifically Economic Value Added (EVA) and Shareholder Value Added (SVA). Their research aimed to demonstrate the ability of these measures to accurately reflect a company's true valuation. The study compared traditional performance measures with value-based measures for selected companies over a specified period. The findings revealed that while EVA is a valuable tool, it is insufficient on its own for making investment decisions. Instead, the researchers recommended combining EVA with traditional measures for comprehensive firm valuation and informed investment decisions.

TABLE: Calculation of Economic Value Added (EVA) & Market Value Added (MVA)

(RS. in cr.)

COMPANY NAME	AVG VALUE OF EVA	AVG VALUE OF MVA
Aarti Drugs Ltd.	22.4159	-7.6399

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Advik Laboratories Ltd.	-1.2774	-8.3084
Ajanta Pharma Ltd.	63.9521	891.0286
Ambalal Sarabhai Enterprises Ltd.	-13.1062	-2.2676
Amrutanjan Health Care Ltd.	-1.9177	121.4647
Anuh Pharma Ltd.	5.3472	37.6349
Aurobindo Pharma Ltd.	116.4213	3943.5014
Biocon Ltd.	61.1696	4304.9509
Bliss GVS Pharma Ltd.	21.1074	99.4236
Cadila Healthcare Ltd.	464.5903	13283.9784
Celestial Biolabs Ltd.	-3.7671	-42.2678
Cipla Ltd.	309.8986	19924.1207
Coral Laboratories Ltd.	2.4373	-13.6215
DIL Ltd.	-1.2465	9.2888
Divis Laboratories Ltd.	276.8357	9642.4783
Dr. Reddys Laboratories Ltd.	454.1975	23438.5688
FDC Ltd.	74.8961	1054.9574
Glenmark Pharmaceuticals Ltd.	4.4452	7936.1288
Granules India Ltd.	12.1815	-6.1549
Gufic Biosciences Ltd.	0.9885	24.3461
Hester Biosciences Ltd.	3.7022	18.1590
Hikal Ltd.	53.9900	255.7347
Hindustan Bio Sciences Ltd.	-1.6550	-7.1717
Indoco Remedies Ltd.	16.4022	291.8742
IOL Chemicals & Pharmaceuticals Ltd.	0.8208	-83.8602
Ipca Laboratories Ltd.	205.8368	4390.4222
Jagsonpal Pharmaceuticals Ltd.	-5.2787	-46.1599
JB Chemicals & Pharmaceuticals Ltd.	-26.8423	-77.7392
Lincoln Pharmaceuticals Ltd.	-1.8577	-30.1767
Lupin Ltd.	741.2720	21110.3401
Makers Laboratories Ltd.	-0.7409	-7.8293
Mangalam Drugs & Organics Ltd.	-4.1356	-21.1529
Marksans Pharma Ltd.	-52.6456	249.9103
Natco Pharma Ltd.	12.6317	768.9464
Natural Capsules Ltd.	2.7559	-14.5880
Novartis India Ltd.	31.2661	1145.4443
Ortin Laboratories Ltd.	-0.0060	2.2602
Panacea Biotec Ltd.	-108.8251	461.1169
RPG Life Sciences Ltd.	16.1118	25.7598
Sanjivani Paranteral Ltd.	-2.1223	-13.5489
Shilpa Medicare Ltd.	21.1638	510.3964
Sun Pharmaceutical Industries Ltd.	29.9644	61964.8402
Suven Life Sciences Ltd.	22.1087	208.7669
Themis Medicare Ltd.	-5.5184	35.0825
Torrent Pharmaceuticals Ltd.	343.7738	4470.3791
TTK Healthcare Ltd.	1.5516	225.2941
Unichem Laboratories Ltd.	41.0289	878.6683
Vivimed Labs Ltd.	-3.8098	100.7569
Wintac Ltd.	-3.5307	20.4194
Wockhardt Ltd.	221.6885	7404.0801
Zenotech Laboratories Ltd.	-18.4519	107.7404

(Source: researcher's calculated data)

Formulas for Calculations:	
Economic Value Added (EVA)	= NOPAT –[Invested Capital × WACC]
MARKET VALUE ADDED (MVA):	Market Capitalization – Net Worth

As per the EVA value Lupin Ltd., Cadila Healthcare Ltd., Dr. Reddys Laboratories Ltd., Torrent Pharmaceuticals Ltd., Cipla Ltd., Divis Laboratories Ltd. ,Wockhardt Ltd. ,Ipca Laboratories Ltd., Aurobindo Pharma Ltd. have created wealth for shareholders during study period. While some companies like Ortin Laboratories Ltd., Makers Laboratories Ltd., DIL Ltd., Advik Laboratories Ltd.,Hindustan Bio Sciences Ltd., Lincoln

Pharmaceuticals Ltd., Amrutanjan Health Care Ltd., Sanjivani Paranteral Ltd., Wintac Ltd., Celestial Biolabs Ltd., Vivimed Labs Ltd., Mangalam Drugs & Organics Ltd., Jagsonpal Pharmaceuticals Ltd., Themis Medicare Ltd., Ambalal Sarabhai Enterprises Ltd., Zenotech Laboratories Ltd., JB Chemicals & Pharmaceuticals Ltd., Marksans Pharma Ltd., Panacea Biotec Ltd. have negative EVA which shows these companies are not good as per the shareholders' wealth.

According to the Average MVA Sun Pharmaceutical Industries Ltd.,Dr. Reddys Laboratories Ltd.,Lupin Ltd., Cipla Ltd., Cadila Healthcare Ltd., Divis Laboratories Ltd., Glenmark Pharmaceuticals Ltd., Wockhardt Ltd., Torrent Pharmaceuticals Ltd. have created highest shareholder value for entire study period, while on the other side companies like Ambalal Sarabhai Enterprises Ltd.,Granules India Ltd., Hindustan Bio Sciences Ltd., Aarti Drugs Ltd., Makers Laboratories Ltd., Advik Laboratories Ltd., Sanjivani Paranteral Ltd., Coral Laboratories Ltd., Natural Capsules Ltd., Mangalam Drugs & Organics Ltd., Lincoln Pharmaceuticals Ltd., Celestial Biolabs Ltd., Jagsonpal Pharmaceuticals Ltd., JB Chemicals & Pharmaceuticals Ltd., IOL Chemicals & Pharmaceuticals Ltd. have destroyed their shareholders value because their MVA value shows negative trend. These companies are not proving themselves beneficial for their shareholders for this study period.

Correlation between MVA & EVA

Objective	To statistically examine the relationship between Market Value Added (MVA) and Economic Value Added (EVA) of selected Companies.
Model	EVA = α + β. MVA+ ε
Variable Description	EVA & MVA
Statistical Tools & Techniques	Correlation Analysis

SUMMARY OUTPUT								
Regression Statistics								
Multiple R	R Square	Adjusted R Square	Standard Error	Observations				
0.227921	0.051948	0.048201	10642.8	255				
ANOVA								
	Df	SS	MS	F	Significance F			
Regression	1	1.57E+09	1.57E+09	13.86294	0.000242			
Residual	253	2.87E+10	1.13E+08					
Total	254	3.02E+10						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	2908.155	700.0302	4.154327	4.47E-05	1529.526	4286.783	1529.526	4286.783
EVA(rs in cr)	11.95802	3.211677	3.723296	0.000242	5.632998	18.283 05	5.632998	18.28305

ANALYSIS

The above table shows the correlation between the MVA & EVA .Since the R is 0.228, it shows that there is low positively co – relation between the MVA with respect to the EVA. Since the Value of R square is 0.0519 it shows that EVA is affected by 5.19% by MVA and remaining 94.81 % by some other factors. The p value is 0.000242 (p value < 0.05) which indicates that there is significant relationship between MVA & EVA. Therefore, Null Hypothesis is rejected and Alternative Hypothesis is accepted.

Findings As per Economic Value Added (EVA) method:
As per the EVA value Lupin Ltd., Cadila Healthcare Ltd., Dr. Reddys Laboratories Ltd., Torrent Pharmaceuticals Ltd., Cipla Ltd., Divis Laboratories Ltd. ,Wockhardt Ltd. ,Ipca Laboratories Ltd., Aurobindo Pharma Ltd. have created wealth for shareholders during study period. While some companies like Ortin Laboratories Ltd., Makers Laboratories Ltd., DIL Ltd., Advik Laboratories Ltd.,Hindustan Bio Sciences Ltd., Lincoln Pharmaceuticals Ltd., Amrutanjan Health Care Ltd., Sanjivani Paranteral Ltd., Wintac Ltd., Celestial Biolabs Ltd., Vivimed Labs Ltd., Mangalam Drugs & Organics Ltd., Jagsonpal Pharmaceuticals Ltd., Themis Medicare Ltd., Ambalal Sarabhai Enterprises Ltd., Zenotech Laboratories Ltd., JB Chemicals & Pharmaceuticals Ltd., Marksans Pharma Ltd., Panacea Biotec Ltd. have negative EVA which shows these companies are not good as per the

shareholders' wealth. The positive value of EVA presents that the companies are generating value and negative value shows that the companies are destroying value for shareholders. In this research out of 51 companies total 32 companies are having positive EVA from 2010 to 2014 which indicates that these companies are not only giving importance on profit maximization but also working on the objective of wealth maximization.

When company is creating Shareholder value it proved that the company is competent in managing its wealth as its profits are more than its cost of capital, and this way these companies are also able to attract the investors in future also. In this research 19 companies from the sample are having negative value of EVA. It shows that these companies are not creating wealth for shareholders. They are known as value destroyer. The result proved that these companies are not capable of control its cost of capital due to which their earnings are less than cost of capital. The management of the company has not done a good job for their shareholders.

Findings As per Market Value Added (MVA) method:

According to the Average MVA Sun Pharmaceutical Industries Ltd.,Dr. Reddys Laboratories Ltd.,Lupin Ltd., Cipla Ltd., Cadila Healthcare Ltd., Divis Laboratories Ltd., Glenmark Pharmaceuticals Ltd., Wockhardt Ltd., Torrent Pharmaceuticals Ltd. have created highest shareholder value for entire study period, while on the other side companies like Ambalal Sarabhai Enterprises Ltd.,Granules India Ltd., Hindustan Bio Sciences Ltd., Aarti Drugs Ltd., Makers Laboratories Ltd., Advik Laboratories Ltd., Sanjivani Paranteral Ltd., Coral Laboratories Ltd., Natural Capsules Ltd., Mangalam Drugs & Organics Ltd., Lincoln Pharmaceuticals Ltd., Celestial Biolabs Ltd., Jagsonpal Pharmaceuticals Ltd., JB Chemicals & Pharmaceuticals Ltd., IOL Chemicals & Pharmaceuticals Ltd. have destroyed their shareholders value because their MVA value shows negative trend. These companies are not proving themselves beneficial for their shareholders for this study period.

Findings As Per Correlation Analysis between MVA & EVA

As per the correlation between the MVA & EVA , it shows that there is low positively co – relation between the MVA with respect to the EVA. EVA is affected by 5.19% by MVA and remaining 94.81 % by some other factors. The p value is < 0.05 which indicates that there is significant relationship between MVA & EVA.

CONCLUSION

The objective of the study is to statistically examine the relationship between MVA EVA of selected Companies and in this regard the following hypothesis is developed;

"There is no significant positive correlate on between MVA and EVA of all selected companies. "

On investigation it is noticed that there is significant positive correlation between MVA and EVA of all selected companies. Hence this hypothesis is rejected.

This study could be extended to Companies of different group, Companies of different industries, Data of 10 years or more, with the other measurement methods, with identification of other quantitative factors, with consideration of qualitative factors.

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[3] https://www.bseindia.com

https://www.gapgyan.org/