

DISSECTING DIVERGENT ECONOMIC VALUE ADDED METRICS: A RIGOROUS CROSS COMPANY ASSESSMENT OF TWO BUSINESS TITANS

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Abstract

This is cross company comparison of two corporate entities on the basis of Economic Value Added metrics. The main objective of the study is to calculate and compare the Economic Value Added (EVA) of two corporate giants. For this purpose, two samples (HUL Ltd and Marico Ltd) were selected from Indian Fast Moving Consumer Goods (FMCG) industry with the help of Non-Probability method / convenient sampling method. The period of study was 5 years (from 2019-20 to 2023-24). All the necessary data were collected from the annual reports of the respective companies and student t – test was used to analyse the data and generate the result. It was found out that although both of the companies are operating in same Indian FMCG industry, there is a huge difference in generation of EVA during the period of study. Although HUL Ltd was generating way more EVA than Marico Ltd but it was not stable (rather it was showing mixed trend) and Marico Ltd generating lesser EVA but it was constantly increasing.

Keywords : Economic Value Added (EVA), Weighted Average Cost of Capital (WACC), Marico Ltd, HUL Ltd.

1. INTRODUCTION

Economic Value Added (EVA) is one of the Value Added parameters that emerged in 21st century as the modern tool to evaluate the companies. It is being always argued that mere profit cannot justify all the activities done by a company in a particular period of time. That's why Economic Value Added (EVA) was developed. The main objective of EVA was to inquire about all the activities of the companies and by doing these activities how much of the value is generated apart and different from the profit.

2. ECONOMIC VALUE ADDED (EVA)

Economic Value Added popularly known as EVA is a configuration of financial elements to dissect the value generated by a corporate entity apart from the profit. It is the value of all the activities which is being done by a company in a significant economic manner. To know EVA first Net Operating Profit After Taxation (also known as NOPAT) of the Company must be found out then Weighted Average Cost of Capital (WACC) should be subtracted from NOPAT. WACC is the proportional cost of the Equity and debt capital that coexists in the capital structure of a company. It can be written in equation as follows :

EVA = Net Operating Profit After Taxation – Weighted Average Cost of Capital
(EVA = NOPAT – WACC)

3. REVIEW OF LITERATURE

(David E Keys, Mumin Azamhuzjaev, James Mackey, 2001) This is an analytical article about Economic Value Added (EVA). The article discusses the claim of the founder company of EVA that it is the best measure to analyse the performance of the company. According to them, this method is much better than older techniques like residual income which is already out dated for many multinational companies. As EVA's popularity increases, many authors and managers recommend this technique to be used in corporate. This article also explores Pros and Cons of using EVA.

(Andrew C Worthington, Tracey West, 2001) This study is done in Australian context. This study included the data of 110 Australian companies for 7 years (From 1992-1998). This data is analysed through time series analysis and Cross section analysis. Here the main aim of this study was to determine whether the Economic Value Added (EVA) is a more precise tool to measure the return than earnings, Net cash flow and residual income. The study reveals the result that return is much more related to the earnings than any other indicators. But EVA

is most appropriate tool which has a massive explanatory power to explain the financial information better than any other technique.

(Bartolomé Deyá Tortella, Sandro Brusco, 2003) This research paper throws light on the fact that Economic Value Added (EVA) is widely adopted and useful technique to know the amount of value generation. This method is much better than any other traditional indicators or techniques to measure the value or wealth. In this paper researchers tried to study the impact of introduction of Economic Value Added (EVA) on market. For this they tested the behavior of market before and after the introduction of EVA. They had also found out the good and bad points about this.

(James L Grant, 2003) This book is based on very fundamental of Economic Value Added. Writer tried to explain the depth of the Economic Value Added and also tried to explain this topic in the sense of application. Nowadays Economic Value Added is talk of a town. So writer tried to explain its immense role in the economy of nation. He also acknowledges this topic with the theory of the finance and valuation of the company.

4. OBJECTIVES OF THE STUDY

- To calculate the Economic Value Added (EVA) done by samples
- To make a comparison of Economic Value Added (EVA) of Samples

5. RESEARCH METHODOLOGY

• Sample and Sample Selection

Samples for this study were chosen with the help of Non Probability Method of sample selection. From the **Indian Fast Moving Consumer Goods (FMCG) industry HUL Ltd and Marico Ltd** were chosen with the help of **Convenient Sampling technique**.

• Period of the Study

The study is conducted for 5 years starting from 2019-20 to 2023-24.

• Hypothesis

H₀ : There is not even a significant change in the data of Economic Value Added (EVA) of samples.

H₁ : There is a considerable change in the data of Economic Value Added (EVA) of samples.

• Tool for Analysis

T-test

t-test also popularly known as student t – test is a statistical test to measure the differences between the average of two samples. Student t test is parametric test which mean it can be only used on quantitative data. Hence, for this study in which it has two samples and main objective to comparison of Economic Value Added (EVA), t – test is used.

6. DATA ANALYSIS

Table No. 1
EVA of HUL Ltd

Particulars	2019-20	2020-21	2021-22	2022-23	2023-24
Profit After Tax (PAT)	6,743	7,963	8,724	9,720	10,105
Add : Interest	0	0	0	0	0
Net Operating Profit After Tax (NOPAT)	6,743	7,963	8,724	9,720	10,105
Less : Weighted Average Cost of Capital (WACC)	658	4,153	4,289	5,285	5,297
Economic Value Added (EVA)	6,085	3,810	4,435	4,435	4,808

(Source: Annual Reports of HUL Ltd)

Analysis : Table no. 1 shows the calculation of Economic Value Added (EVA) of HUL Ltd. It is clear from the table that EVA showing the Mixed trend during the study period. In 2019-20, it was amounted to 6,085 Crores which is highest during the period. Then it was down by almost 50 % and amounted to 3,810 Crores in 2020-21. Then it started recovering in 2021-22, when it went up to 4,435 Crores and the same was in 2022-23. Then finally, it ended with 4,808 Crores in 2023-24. Here, noticeable thing was that Profit After Taxation was increasing continuously, still EVA is not increasing in the same pace. The reason behind it is tremendous increase in WACC (Weighted Average Cost of Capital) which is increased by almost 9 times during the study period comparing to 2019-20.

Table No. 2
EVA of Marico Ltd

Particulars	2019-20	2020-21	2021-22	2022-23	2023-24
Profit After Tax (PAT)	1,056	1,175	1,258	1,366	1,584
Add : Interest	38	27	31	42	57
Net Operating Profit After Tax (NOPAT)	1,094	1,202	1,289	1,408	1,641
Less : Weighted Average Cost of Capital (WACC)	390	357	394	498	549
Economic Value Added (EVA)	704	845	895	910	1,092

(Source : Annual Reports of Marico Ltd)

Analysis : Table no. 2 shows the calculation of Economic Value Added (EVA) of Marico Ltd. it can be seen from the table that Economic Value Added (EVA) is showing the incremental trend during the period. It was 704 Crores in 2019-20. Which increased to 845 Crores in 2020-21. It went to 895 Crores in 2021-22. Which further increased to 910 Crores in 2022-23 and last it reached its highest of 1,092 Crores in 2023-24. The main reason behind its increasing EVA is gradually increase in the profit of the company during the period. At the same time, WACC is also increasing but its growth was overshadowed by growth of profit.

Table No. 3
t-Test: Two-Sample Assuming Equal Variances

Particulars	Marico	HUL
Mean	889.2	4714.6
Variance	19461.7	715343.3
Observations	5	5
Pooled Variance	367402.5	
Hypothesized Mean Difference	0	
df	8	
t Stat	-9.978742234	
P(T<=t) two-tail	8.6241E-06	
t Critical two-tail	2.306004135	

Analysis : Table no. 3 shows the t - test result of the data of Economic Value Added (EVA) of two HUL Ltd and Marico Ltd. t-test was done with 5 % level of significance and 8 of degree of freedom.

It is visible that t-stat is negative (- 9.9787) and the t - critical or table value is 2.3060. Here, table value or critical value is way lower than calculated value or t - stat and because of which null hypothesis (H₀) cannot be accepted and it can be said that **There is a considerable change in the data of Economic Value Added (EVA) between samples.**

7. FINDINGS

- On an average, HUL Ltd is generating almost 500 % more Economic Value Added (EVA) annually than Marico Ltd.
- The Weighted Average Cost of Capital (WACC) of HUL ltd was increased by almost 10 times during the period.
- HUL ltd also not sing any debt in capital structure hence, it is unable to take benefit of leverage.
- Although profit of HUL Ltd is increased by almost 180 % but the it was overshadowed by growth of WACC and that's why HUL Ltd is not doing well in EVA.
- Profit of Marico Ltd is increased by almost 50 % during the study period and its WACC was increased by 40 % and hence, Marico Ltd is doing well in EVA.

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