

“A Study on Shareholders Value Creation and Financial Performance of Selected Cement Companies in India”

By

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Abstract

The basic objective of any organization is maximization of profit. Gradually this goal was replaced by wealth maximization. At the same time there are two types of investors. One group is in favour of regular income and another group is in favour of wealth creation but broadly thinking apart from these two objectives, the value creation for shareholders is very significant. In the world of corporate, to attract the investors the emphasis should be given on shareholders' value creation. In this study, an attempt is made to measure and analyze shareholders value creation by 5 Indian companies specially listed 'A' group from BOMBAY STOCK EXCHANGE (BSE). For value creation analysis purpose, Cement industry there are five companies to be selected. The data of the company is taken from 2007-2008 to 2014-2015. The study is based on the secondary data, which will be obtained from the annual reports of the respective companies.

Keywords

Intrinsic Value of Equity Shares, Market Capitalization, Paid up value of equity shares, Total Net Assets, Net Worth, Fictitious Assets, shareholders' value creation.

Introduction

India is the second largest producer of quality cement in the world. Cement is one of the core industries which plays a vital role in the growth and expansion of a nation. The industry occupies an important place in the Indian economy because of its strong linkages to other sectors such as construction, transportation, coal and power. The cement industry is also one of the major contributors to the exchequer by way of indirect taxes.

Indian Cement Industry is engaged in the production of several varieties of cement such as Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC), Portland Blast Furnace Slag Cement (PBFS), Oil Well Cement, Rapid Hardening Portland Cement, Sulphate Resisting Portland Cement, White Cement, etc. They are produced strictly as per the Bureau of Indian Standards (BIS) specifications and their quality is comparable with the best in the world.

The cement industry in India comprises 139 large cement plants and over 365 mini cement plants. The initiatives provided by the Government of India to various infrastructure projects, road network and housing activities will provide required stimulus towards growth of cement industry in India.

Currently, the top players-Ultra Tech, ACC, Ambuja Cements, Jaiprakash Associates, India Cements-and Shree Cement, collectively control more than half of the cement market in the country. There are 40 players in the industry across the country.

Shareholder Value Creation

The concept of shareholder value creation is arising due to the limitations of the wealth maximization concept. In the traditional method the capital appreciation is due to the concept of profit maximization and wealth maximization but now a day the measurement of shareholder value creation has been the issue of discussion all over the world for this purpose. It has been crucial when since the companies were increasingly committing to creating shareholder value. “The value, which a shareholder is able to obtain from their investments in a company which is made up of capital gains, dividend payments, proceeds from buyback programs and any other pay out that a firm might make to a shareholder”.

The measurement of share holder value creation is done through two different methods and the calculation of share holder value creation is divided into two parts share holder value creation – 1 and share holder value creation – 2. The computation of share holder value creation is a difference between Market Capitalization and Paid up Value of Shares that is known as total share holder value creation. This is further divided into two categories.

- 1) Shareholder value creation 1 = Intrinsic Value of Equity Shares – Paid up value of equity shares.

$$\text{Intrinsic Value} = \frac{\text{Total Net Assets}}{\text{Total Number of Equity Shares}}$$

Total Net Assets = Net Worth– Fictitious Assets

The computation of share holder value creation 1 is related with internal financial soundness of the company. The improvement of the internal financial soundness is a result of economic efficiency of the company and accumulated reserves of the company. There is positive relationship between reserves and surplus and share holder value creation 1.

- 2) Shareholder value creation 2 = Market Capitalization – Intrinsic value of Shares.

Share holder value creation 2 is the excess of market capitalization over intrinsic value of equity shares. It discloses the impact of external factors like national and international economical factors, perception of investors, role of speculators and others.

- 3) Total share holder value creation = Share holder value creation 1 + Share holder value creation 2

The determination of intrinsic value of equity shares for all industries and companies for given period of time is calculated respectively. The total market capitalization of shares of all companies is obtained from the reports of CMIE. The market capitalization

of each year to arrive at market capitalized value of shares of each company, for the period of the study.

$$\text{Market capitalized Value per share} = \frac{\text{Total Market Capitalization of respective Year}}{\text{Number of equity shares of that respective year}}$$

Review Of Literature

Stern (1990) ascertained that EVA as a performance measure captures actuality economic profit of a corporation. EVA may be a performance measure that is most closely connected to the creation of shareholders' wealth over a period of time. The managers could also be guided by EVA and pursue such objectives that improve operational profits finance a lot of capital. Managers are often paid a proportion of each the overall EVA and therefore the positive modification in EVA.

Stewart (1994) has gone that EVA may be a powerful new management tool that has gained worldwide recognition because the normal tool of company performance. EVA presents associate integrated framework of financial management and incentive compensation. The adoption of EVA system by a lot of associated additional firms throughout the globe clearly depicts that it provides an integrated decision-making framework, will reforms energies and resources to form property worth for firms, customers, employees, shareholders and for managements.

Kramer and Pushner (1996) through empirical observation take a look at the strength of the link between EVA and market value added. The results don't totally support the arguments of EVA proponents that it's the most effective internal measure of company success in adding value to shareowner investments.

Burkette and Hedley (1997) explained that the EVA idea is often wont to assess structure performance called economic profit; it is often applied for profit firms, public sector organizations and non-profit organizations. EVA as a measure of monetary performance provides a superb tool for strategy designing, investment appraisal, evaluation choices and a basis for incentive compensation.

Ray (2001) ascertained that the primitive between EVA and improved financials is really productivity. EVA is often a strong tool once properly applied. For those areas of the firm wherever the previous is so bigger than the latter EVA analysis then permits the firm to focus on the firm's productivity so as to maximize the value created of the firm.

Madhu Malik (2004) examined the link between shareowner wealth and sure monetary variables like EPS, RNOW and ROCE. By victimization correlation analysis, it had been found that there was positive and high correlation between EVA and RONW, ROCE. There was a positive however low correlation between EVA and EPS. By victimization co-efficient of determination, EVA was compared with ancient performance measures and it had been found that not one ancient performance measure explains to the fullest extent variation in stockholder wealth.

Ramachandra Reddy and Yuvaraja Reddy (2007) examined the result of designated variables on MVA. This study was conducted with 10 cement firms in India and therefore the objective of this study was to look at the result of choose variables on MVA. The study found that none of the factors is found to possess impact on MVA and EPS is found to possess negative and important impact on MVA.

MandeepKaur associated Sweety Narang (2009) did an explorative study to analyze the wealth making capabilities of India's most precious corporations supported the two-valued metrics of monetary performance, i.e. economic value Added(EVA) and market value Added(MVA).By computing these two measures for a sample of 104 firms, specifically as per the methodology developed by Stern Stewart & Company, the study identifies that quite 500th of the sampled firms representing India's wealth club doubtless destroyed the wealth of its stockholder.

Chauhan and Bhayani, (2010) has examined the impact of mergers on shareholders' value creation in Indian business. The result suggests that firm's shareholders value creation is very captivated with operational expenses, gross margin, ROCE and Expense ratio. The inter company and inter business analysis results indicate there's no positive impact of mergers on shareholder value creation.

Sakthivel (2011) analyzed shareholder's value in Indian pharmaceutical business for the period of 1997-98 to 2006-07. it's complete that the businesses below pharmaceutical business has succeeded to fulfill public expectations in terms of shareholders' value creation through EVA either by increasing operational financial gain from assets in situ through reducing cost of production or increasing sales, or reducing the cost of capital by dynamic the financing mix in capital structure.

Pratapsinh Chauhan (2012) examines the shareholder's value creation within the Indian petroleum industry. The study aims to research the performance of the corporate we've got divided petroleum into public sector firm and private sector firms. EVA has been found to own vital correlation with OP, NOPAT, EPS, market capitalization and MVA figures of companies of each the sectors.

Murthy (2013) analyzed the performance of TCS and INFOSYS with reference to its shareholder wealth maximization. To check the performance of ROE, Du Pont Analysis has been applied. The fundamental objective to pick out {the 2}the 2} firms is to know and apply the idea of value creation within the two firms with totally different factsheet. in line with the study, TCS has provided consistent come to their equity shareholders on their investment, even quite Infosys.

Need And Objectives Of The Study

Present scenario in capital market is surprising wherever investors have to be compelled to depth analysis before their rational investment in market. Present study is predicated on it drawback and provides data to investor for their investment decision. Below this analysis on Shareholders value Creation and monetary Performance of chosen Cement firms in India

The following are the objectives of the study

- To investigate degree of shareholder value creation by the selected companies over a period of time.
- To undertake measurement of shareholder value creation created by the selected company through different methods.
- To suggest the investors about real shareholder value creation to maketheirinvestments.

Hypothesis

For better understanding of shareholder value creation the following hypothesis can be framed.

1. H_0 = There is no significant difference of shareholder value creation of selected Companies.

Methodology

The present study adopts an analytical and descriptive research design. The data of the sample Companies has been collected from the annual reports and the balance sheet published by the Companies and the websites of the companies finite a sample size of 5 companies' listed on the Bombay stock exchange has been selected for the purpose of the study.

Sampling Plan

Sizes of the samples are 5 big bodies of Cementcompanies of India.

Data Collection

Data for analysis have been calculated from Annual reports.

Time Period Of Study

The study has been conducted during period of eight years (2007 to 2016)

Tools Used For Analysis

Statistical Variables

- Mean
- Anova

Limitations Of The Study

- The study is based on secondary data and only the period of 8 years is taken for analysis.
- The pertaining to the analysis is collected from Websites and corporate databases.
- Some of the external factors affecting the leverage were not taken into account.

Results & Discussion
[A] ULTRA TECH CEMENT

Table 1: Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	216.65	10	385.50	206.65	168.85	375.50
2008-09	289.36	10	914.20	279.36	624.84	904.20
2009-10	370.21	10	1,084.26	360.21	714.04	1,074.26
2010-11	856.81	10	2,567.92	846.81	1,711.11	2,557.92
2011-12	1,033.03	10	4,372.99	1,023.03	3,339.96	4,362.99
2012-13	1,223.82	10	3,885.42	1,213.82	2,661.61	3,875.42
2013-14	1,373.45	10	5,898.79	1,363.45	4,525.34	5,888.79
2014-15	1,514.84	10	6,129.47	1,504.84	4,614.62	6,119.47
AVG.V.C.						3,144.82

From the Cement Industry, the Ultra Tech Cement Industries has performed excellent. This company shows the best result. As against the paid up value of `10 the intrinsic value of the company is continuously increased during the observation period. The market capitalized value per share is also having an excellent growth so it can be said that the investors' are having good impact on the company.

[B] SHREE CEMENT

Table 2: Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	193.13	10	460.14	183.13	267.01	450.14
2008-09	347.34	10	1,926.11	337.34	1,578.78	1,916.11
2009-10	526.23	10	2,003.70	516.23	1,477.47	1,993.70
2010-11	570.14	10	2,167.41	560.14	1,597.27	2,157.41
2011-12	784.78	10	4,651.49	774.78	3,866.71	4,641.49
2012-13	1,103.32	10	4,330.48	1,093.32	3,227.16	4,320.48
2013-14	1,352.26	10	9,412.15	1,342.26	8,059.89	9,402.15
2014-15	1,514.60	10	11,472.69	1,504.60	9,958.09	11,462.69
AVG.V.C.						4,543.02

The intrinsic value of the Shree Cement Limited is in good position. In the first financial year of

The observation it is ` 193.13 and it is increases up to the sixth observed year that is 2012-13 at 1,103.32. In the last two observed years it is ` 1,352.26 and `1,514.60 respectively. Therefore, it can be said that the company is having good economic efficiency. The market capitalized value per share is also increases up to the last observed year.

[C] AMBUJA CEMENT

Table 3: Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	31.88	2	146.90	29.88	115.02	144.90
2008-09	37.22	2	69.70	35.22	32.48	67.70
2009-10	42.43	2	103.70	40.43	61.27	101.70
2010-11	47.91	2	143.05	45.91	95.14	141.05
2011-12	52.56	2	154.94	50.56	102.38	152.94
2012-13	57.09	2	200.99	55.09	143.90	198.99
2013-14	61.36	2	182.75	59.36	121.39	180.75
2014-15	65.19	2	228.70	63.19	163.51	226.70
AVG.V.C.						151.84

In this company the intrinsic value per share is increases as against the paid up value of Rs.2. Therefore, value creation-1 is also having fluctuation during the eight observed years. As the value creation-2 is the difference between marketcapitalized value and intrinsic value. It is also showing ups and downs during the observation.

[D] ACC CEMENT

Table 4: Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	221.33	10	103.03	211.33	-118.31	93.03
2008-09	262.56	10	480.57	252.56	218.01	470.57
2009-10	320.45	10	873.28	310.45	552.83	863.28
2010-11	344.59	10	1,075.60	334.59	731.01	1,065.60
2011-12	383.09	10	1,136.35	373.09	753.26	1,126.35
2012-13	393.24	10	1,437.38	383.24	1,044.14	1,427.38
2013-14	416.78	10	1,108.20	406.78	691.42	1,098.20
2014-15	438.66	10	1,399.40	428.66	960.74	1,389.40
AVG.V.C.						941.73

The intrinsic value of this company is showing increasing trend up to the last observed years. In the first year of the observation it is Rs.221.33 but after than it increases up to Rs. 438.66 in the year 2014-15. It shows positive result at all the year.

Therefore, it can be said that the performance of the company is sound. The market capitalized value per share shows increasing trend during the observation.

[E] RAMCO CEMENT

Table 4: Year wise different shareholder value creation

1	2	3	4	5	6	7
Year	Intrinsic value	Paid-up value	Market value per share	(2-3) V.C. [I]	(4-2) V.C. [II]	(5-6) V.C. [Total]
2007-08	798.84	10	1,408.97	788.84	610.13	1,398.97
2008-09	52.26	1	111.70	51.26	59.43	110.70
2009-10	64.58	1	106.15	63.58	41.57	105.15
2010-11	71.73	1	102.70	70.73	30.97	101.70
2011-12	86.16	1	245.90	85.16	159.74	244.90
2012-13	99.62	1	191.55	98.62	91.93	190.55
2013-14	104.30	1	345.00	103.30	240.70	344.00
2014-15	111.11	1	389.10	110.11	277.99	388.10
AVG.V.C.						360.51

In this company the intrinsic value per share is 798.84 in the first year as against the paid up value of Rs.10 and after that it continuously fluctuating during the last observed year. Here, market capitalized value per share is also showing downward situation from the second observed years but in the last two observed years it shows upward results.

Table 5: Cement (Major) Industry

Sr. No.	Company Name	Average Total Share Holder Value Creation	Rank
1	Ultra Tech Cement	3,144.82	2
2	Shree Cement	4,543.02	1
3	Ambuja Cement	151.84	5
4	ACC Cement	941.73	3
5	Ramco Cement	360.51	4

The trend of shareholder value creation of selected companies within the industry may not be uniform. The average shareholder value creation of selected companies of Cement industry is shown in Graph No.5.2. Shree Cement Ltd had obtained 1st rank and Ultra Tech Cement Ltd had obtained 2nd rank with maximum and minimum shareholder value creation respectively. This shows the perception of the investors towards these companies is positive.

Inter Company comparison

Table 6: Year wise total shareholder value creation in % of selected companies of Cement (Major) industry

Year	Ultra Tech Cement	Shree Cement	Ambuja Cement	ACC Cement	Ramco Cement
	%	%	%	%	%
2007-08	3754.97164	4501.42951	41282.0058	12757.8307	21014.2318
2008-09	9041.99187	19161.1304	141015.611	47364.2527	755673.75
2009-10	10742.5847	19937.0296	153398.072	50616.6439	812962.582
2010-11	25579.1928	21574.0822	235766.375	68727.3571	1158806.32
2011-12	43629.8973	46414.9123	450224.048	136459.722	2265045.32
2012-13	38754.2487	43204.8196	409795.341	125163.888	2071229.56
2013-14	58887.9183	94021.48	764546.992	246930.878	3998402.77
2014-15	61194.6837	114626.871	879107.773	290448.425	4662699.8

Hypothesis testing

Here using the techniques of hypothesis testing is One-way ANOVA.

H_0 = There is no significance difference of shareholder value creation of selected companies.

H_1 = There is significance difference of shareholder value creation of selected companies.

Table No.5.41

One-way ANOVA Table of share holder value creation of Cement industry

Source of Variation	SS	D.F.	MS	F	F.crit
Between Group	21898807173741	4	5474701793435	9.845	2.641
Within Group	19462823602453	35	556080674355		
Total	41361630776194	39			

Consider above testing is identify that the calculated value is 9.845 and table value is 2.641. Hence the calculated value is more than the calculated value table value of ANOVA means the H_1 is accepted.

Conclude that there is significance difference of shareholder value creation of selected companies of Cement industry.

Major Findings

- ⇒ The researcher has found the market capitalized value of Ultra Tech Cement is higher than the intrinsic value, the value creation-2 is having positive increasing trend and therefore, the total value creation is also having continuous increasing growth.
- ⇒ As well as find that value creation-1 of Shree Cement is also having good situation during the years of the observation. The value creation- 2 and the total value creation is reflecting good impact of the company.
- ⇒ The researcher has found high market price of Ambuja Cement is the highest in the year 2014-15 and the lowest market price is the highest in the second year of the observation.
- ⇒ As well as it can be said for ACC Cement that the value creation-2 shows negative results in the second year of the observation because as against the market capitalized value the intrinsic value is higher so it can be said that the investors are not ready to buy the shares in the second year, except this year overall position of the company is good.
- ⇒ The researcher has found as value creation-1 of Ramco Cement is also having fluctuation during the eight observed years. As the value creation-2 is the difference between market capitalized value and intrinsic value. It is also showing ups and downs during the observation.
- ⇒ Through ANOVA testing Researcher found that there is significance difference of shareholder value creation of selected companies of Cement industry.

Conclusion

In Cement (Major) industry 5 companies are selected for the study of shareholder value creation. From the 5 companies, two companies namely ACC Cement and State Ramco Cement having continuous increasing growth of shareholder value creation and the market price during the 8 years of the study. The shareholder value creation in the other 3 industries also shows increase results except the year 2012-13, except this year in other observed years the market price and shareholder value creation both shows upward trend.