Research Article

Shareholder Value Creation Of Selected Companies In Automobile Industry

Dr.N.K.Govindaraju[1*], Dr.S.Kala[2]

[1*]Assistant Professor of Commerce, Sri Moogambigai Arts and Science College (Women), Palacode, Dharmapuri, TamilNadu, India. vicaskg2019@gmail.com
[2]Assistant Professor of Commerce, Vivekanandha Arts and Science College for Women, Veerachipalayam, Sankari, Salem, TamilNadu, India. kalasankaran01@gmail.com

ARTICLE INFO	ABSTRACT
	The primary objectives of any organization are to maximize profit and maximize shareholders wealth. Hence, shareholder value creation has become the main mantra intoned with solemnity at every annual general meeting and in every annual report of the companies. In view of this, in this research, it is intended at analysing the shareholder value creation of selected companies in automobile industry in NSE Nifty Index. The financial variables have intrinsic value, market capitalization, high and low price of shares for 4 companies listed on NSE Nifty for 10 years i.e., from 1st April 2013 to 31st March 2023. From this study results indicated that, all companies could able to create the positive results of value creation. It indicates that the companies could create the good image in the minds of investors. Hence, it could be concluded that the positive results lead to positive manner of the market, whereas negative results lead to negative manner of the market. The hypothesis is based on conducted tests. Therefore, this study will be useful to investors in knowing the status of all selected companies and industries who decide to retain with the company. Thus, this study has social utility to assist the investors for parking of their money.
	Keywords: *Profit Maximization, Shareholder, Value Creation, Market Capitalization and Investors*

INTRODUCTION

In order to the increasing global competition, companies are focusing their efforts on creating shareholder value in order to survive the intense competition. In the point of view of this, it is becoming important for companies to measure the value they create for their shareholders. Keeping track of the value created year-by-year enables companies to evaluate past decisions and make new decisions that will improve shareholder value. The whole corporate world throughout the globe has been busy in fulfilling their goal. Any negligence by any of the company in this area may threaten its mere existence in the marketplace what to talk about its prosperity or growth. Hence, all the companies in the domestic sector as well as in the international sector are striving hard to accomplish this goal in their own ways. The vision and mission they possess, with forces and strategies they have and with power and resources they can deploy. After the opening up of the economy, liberalization of trade and commerce and cross border flow of fund and technology, this move has gained added momentum. The expectations are increasing in the minds of the shareholders for their value of money and forward looking statements concerning performance and position being released by corporate in media. Therefore, the companies should be aware with such challenges to become of their position (in terms of shareholder value creation, revenue and expenditure) in comparison with their competitors. Knowing these will enable the companies to define and redefine their strategies to improve their profit margins and also capitalize on their individual strengths to enhance shareholder value creation. With this in mind, the objective of this study is to measure the shareholder value creation of selected companies in automobile industry.

SHAREHOLDER VALUE CREATION

Value is created, when management generates revenues over and above the economic costs to generate these revenues. Costs come from four sources: employee wages and benefits; material, supplies, and economic depreciation of physical assets; taxes; and the opportunity cost of using the capital. Under this value-based view, value is only created when revenues exceed all costs including a capital charge. This value accrues mostly to shareholders because they are the residual owners of the firm. Shareholders expect management to generate value over and above the costs of resources consumed, including the cost of using capital. If suppliers of capital do not receive a fair return to compensate them for the risk they are taking, they will withdraw their capital in search of better returns, since value will be lost. A company which destroys value will always struggle to attract further capital to finance expansion, since it will be hamstrung by a share price that stands at a discount to the underlying value of its assets and by higher interest rates on debt or bank loans demanded by creditors.

REVIEW OF LITERATURE

Miller and Modigliani (1961)[1] found that the value of the firm is unaffected by the dividend policy in a world without taxes and the transaction cost and where everyone was fully informed about the distribution of the firms uncertain cash flows.

Levent Ataünal, Ali Osman Gürbüz and Asli Aybars (2016) investigated the relationship between growth rate and shareholder value creation by using a sample of 243 non-financial Standard and Poor's 500 (S&P500) companies during the period from 1993–2014. They found that sales growth below Sustainable Growth Rate (SGR) enhance shareholder value at a significantly higher rate compared to growth above sustainable growth rate. They suggested that shareholder value creation maximizes around sustainable growth rate and decreases sharply once SGR exceeded.

Sandip R. Dodiya and Ramesh A. Danger (2019) evaluated the shareholder value creation of selected companies in automobile industry. They found from the study, Tata Motors Ltd., SM Isuzu Ltd. Shows continuous high growth of shareholder value creation during the period of study. The market price also shows the same position as when total shareholder value creation increase, the market price also increase. It shows the perception of the investors for investments in that particular companies are good. The other two companies namely Ashok Leyland Ltd. And Force Motors Ltd. Shows fluctuation in shareholder value creation in Ashok Leyland Ltd. When shareholder value creation shows upward trend the market price also shows upward trend but when in the last year of the study, the shareholder value creation shows downward trend and the market price was also having the same trend in case of Force Motors Ltd.

Kiran Kumar (2020) measured the shareholder value creation of Ultra Tech Cement Pvt. ltd. used by the Economic Value Added (EVA) and Market Value Added (MVA) metrics during the period of 2008-09 to 2017-18. He found from the study, EVA is the best metric for creating value and MVA is also supporting metric to SVC and it was also found that there is significant relation between EVA and SVC (0.832) whereas less relation with MVA (0.071). Therefore, he concluded that the shareholders value creation would depend on the EVA and less on MVA measures for making future investment on profitable projects.

Maxwell Dela Yao Gakpo, Charlotte Agyei and Vera Graham Asante (2021) investigated the shareholder's value on listed banks on the Ghana Stock Exchange during the period of 2004 to 2014. Their study revealed that the listed banks recorded positive Economic Value Added throughout the period. They also found the ranks of bank which indicates that Standard Chartered Bank, Eco-bank Ghana and Ghana Commercial Bank as the first three leading banks in creating shareholder value. Further, Economic Value Added (EVA) explained more variations in Market Value Added (MVA) of the sampled banks than Conventional Accounting measures.

Egiyi, Modesta and Okafor (2022) examined the effect of shareholder value on firm performance in Nigeria by using the Ordinary Least Squares (OLS) regression method. They found that shareholder value has a significant effect on firm profitability and that shareholder value has no significant influence on financial efficiency. They also recommended that firms hire managers with not only a great marketing strategy, but one that also has good knowledge of the stock market and its operations; this is the only way to ensure a win-win situation between shareholders and other stakeholders.

STATEMENT OF THE PROBLEM

The research issue arises from variety of different ways to create shareholder value. There is a limit for creating in shareholder value of the companies and they reward themselves of value-creating suggestion. Further, their strategies are put into practice within the framework of that limit. Therefore, the companies must have not only strategies in place but also they need for some indicators to ensure whether value has been created or not. Thus the companies need to measure and make sure they are being successful in creating value for shareholders. Hence, this research paper will wrap the different valuation methods used to measure the shareholder value creation by companies.

OBJECTIVES OF THE STUDY

The following are the objectives of the study:
1. To give a general picture of how shareholder value is created a background to measure shareholder value.
2. To measure the share holder value creation of selected companies in automobile industry adopting Pablo Fernandez[2] Model.
3. To compare the shareholder value creation of within the selected industries.The study also intends to look at the hypothesis which acts as a milestone to reach the stated objectives.

HYPOTHESIS OF THE STUDY

The empirical evidence on shareholder value creation has inspired the researcher to develop theories to explain value creation, thus contributing to a better understanding the phenomenon of shareholder value creation. The following null hypothesis is postulated in this study as below:

H_{01}:   There is no significant relationship between intrinsic value and shareholder value creation of the selected companies.

METHODOLOGY OF THE STUDY

The study is to analyse the shareholder value creation of selected companies in National Stock Exchange Fifty Index (NSE Nifty). For this purpose, the standard methodology is used to evaluate the shareholder value creation. The study uses the secondary data in order to find out the main objective, i.e., to examine the shareholder value creation of selected NSE listed companies. The financial variables have intrinsic value, market capitalization, high and low price of shares for 4 companies listed on NSE Nifty for 10 years i.e., from 1st April 2013 to 31st March 2023. To examine the share, high and low stock prices of respective companies are collected from the official website of NSE (www.nseindia.com) and variations are calculated. In order to perform analysis on the sample companies selected, the specified criteria that companies meet has to be identified.

The first criterion is the financial variables that are used to calculate the financial information from 5 companies. They pose a number of problems, which means that variables under study can be computed only after considerable adjustments are made. For the purpose of the study, it is decided to use only 4 companies belonging to automobile industries.

The second criterion is the number of years for using the financial variables under study has to be computed. It is decided that a period of 10 years would provide sufficient information i.e., the period of study is from 2013-14 to 2022-23.

They are subjected to statistical analysis, such as, mean, co-efficient of variation and t-test. Interpretations have been made and finally suggestions have been made to the investors about real shareholder value creation to make their investments.

SAMPLE SELECTION

1. Data Sources

The secondary data are collected through the official website of respective companies and official website of NSE (www.nseindia.com). The period of the study is 1st April 2013 to 31st March 2023, and the companies selected are all companies quoted on the NSE Nifty Index. The number of companies is 4, and the companies that fulfill the specified criteria alone are selected to construct the sample.

2. Selection of Companies

The main criterion for selection of companies is that the companies should fulfill the specified criterions. The researcher selects 4 companies in automobile industries which is given below:

Table 1: Names of the Companies in Selected Industries

S. No	Selected Industry	Available Companies	Selected Companies
1	Automobile	1. Bajaj Auto Ltd 2. Hero Motors Ltd 3. M & M Ltd 4. Maruti Suzuki Ltd 5. Tata Motors Ltd	1. Bajaj Auto Ltd 2. Hero Motors Ltd 3. M & M Ltd 4. Tata Motors Ltd

The above table 1 indicates the sample companies in selected industries. Automobile Industry has five companies and among them, the researcher selects four companies and one company is eliminated i.e, Maruti Suzuki as it does not fulfill the consideration of uniformity and sample selection criterion. The criterion like, financial information and stock prices are also not available for the study period.

RESULTS AND DISCUSSION

The attempt of the present study is to investigate the shareholder value creation of automobile industry namely; Baja Auto ltd, Hero Motors ltd, Mahindra & Mahindra ltd and Tata Motors ltd are discussed:

Average Shareholder Value Creation of Automobile Industry
The average shareholder value creation of automobile industry for the period from 2013-14 to 2022-23 (10 years) is measured with the help of linear trend model.

Table 2: Average Shareholder Value Creation of Automobile Industry

S. No	Company Name	Average Shareholder Value Creation	Rank
1	Bajaj Auto ltd	1658.21	1
2	Hero Motors Ltd	1251.69	2
3	M & M ltd	686.76	3
4	Tata Motors Ltd	552.30	4

Figure 1: Average Shareholder Value Creation Of Automobile Industry
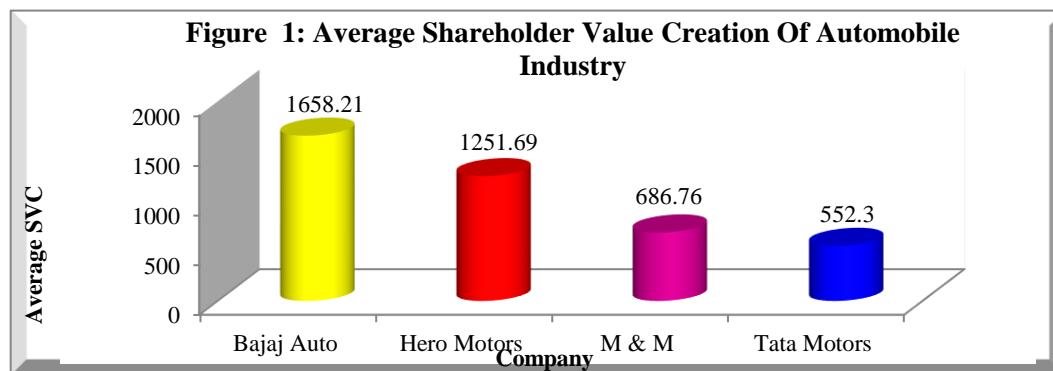
Trend of shareholder value creation (SVC) of selected companies within the industry may not be uniform. The average shareholders' value creation of selected companies of automobile industry is shown in figure 1.

Bajaj auto ltd has obtained 1st rank for having maximum SVC and Tata Motors has obtained 4th rank for possessing minimum SVC. This shows the effect of company's performance and expectation of investors. Wherever the company has met the expectations of investors, their market value and SVC are found to be higher and vice versa.

Inter Company Comparison of Shareholder Value Creation of Automobile Industry
The following table 3 shows that the inter company comparison of energy industry of shareholder value creation.

Table 3: Inter Company Comparison of Shareholder Value Creation of Automobile Industry

Paid Up Value Per share	10	2	5	10
	Bajaj Auto	Hero Motors	M & M	Tata Motors
2013-14	9590.40	24183.50	9400.80	3836.30
2014-15	17214.70	35622.50	10209.20	5503.70
2015-16	27350.00	37265.00	14212.60	8308.70
2016-17	23025.60	34551.00	14479.40	7066.30
2017-18	4853.50	40426.00	9057.00	3291.90
2018-19	13389.90	77683.50	17075.00	5170.50
2019-20	18371.00	90907.00	13066.80	10255.50
2020-21	15309.60	95985.50	14246.40	5759.70
2021-22	17685.40	94309.00	15990.40	2757.80
2022-23	19031.30	94910.50	19614.80	3279.60

There are several factors which are having direct or indirect effect on share holder value creation. But here the shareholder value creation has an impact on market price. Theoretically, it can be said that there is direct relation between share holder value creation and market price of the shares. In the following analysis, an attempt is made to examine this relationship.

The four companies in automobile industry are selected to study the share holder value creation for the study period of 10 years. The table 3 shows that all companies namely, Bajaj Auto, Hero Motors, M&M and Tata Motors having ups and down trend in shareholder value creation and also the market price of the shares due to various international factors like US financial crisis, Covid-19 and Ukraine-Russia war could accelerate the financial market.

Measurement of Consistency in Shareholder Value Creation of Automobile Industry

Table 4: Measurement of Consistency in Shareholder Value Creation of Automobile Industry

S. No	Name of the Company	Mean (X)		Standard Deviation		Co-efficient of Variation	
		Value	Rank	Value	Rank	Value	Rank
1	Bajaj Auto ltd	1658.21	1	638.17	4	38.49	2
2	Hero Motors Ltd	1251.69	2	607.97	3	48.57	4
3	M & M ltd	686.76	3	171.11	1	24.92	1
4	Tata Motors Ltd	552.30	4	243.18	2	44.03	3

Table 4 indicates that the analysis of the industry done by mean, standard deviation and co-efficient of variation in this industry, 4 companies are selected and all the companies are ranked by mean, standard deviation and co-efficient of variation. The companies which have the highest mean score 1st rank and all other companies are having rank in descending order whereas by standard deviation and co-efficient of variation, the lowest value is given the 1st rank and all other companies are having rank in ascending order.

The observation reveals that the mean of Bajaj Auto Ltd is the highest and is in 1st rank, Hero Motors Ltd is in 2nd rank, M&M Ltd is in 3rd rank and Tata Motors Ltd has 4th rank. The standard deviation shows the consistency and the volatility of the data. The low standard deviation reveals that the return is more with less risk. From that point of view, M & M Ltd shows 1st rank, while co-efficient of variation is found out on the basis of average of standard deviation and mean. The use of standard deviation is limited as it has more influence of mean. The value which is nearer to mean has low variation and the value which is distant to the mean has higher variation. This type of limitation is removed by the use of co-efficient of variation and according to that, Bajaj Auto ltd has 4th and 2nd rank, Hero Motors is has 3rd and 4th rank, M&M ltd retains the same 1st rank. By standard deviation, Tata Motors Ltd attains 2nd rank and by co-efficient of variation, it obtains 3rd rank respectively.

Correlation between Intrinsic Value and Shareholder Value Creation

The Pearson co-efficient of correlation (r) is used to test the hypothesis to determine the degree of correlation between intrinsic value and shareholder value creation.

H_0: There is no correlation between intrinsic value and shareholder value creation.

Table 5: Correlation between Intrinsic Value and Shareholder Value Creation of Automobile Industry

S. No	Company Name	*r*-value	*p*-value
1	Bajaj Auto Ltd	.425	.220
2	Hero Motors Ltd	.912	.000(**)
3	M & M ltd	.597	.068
4	Tata Motors Ltd	.432	.212
** Correlation is significant at the 0.01 level (2-tailed)			

It is inferred from table 4.101 that among the 4 companies in Automobile Industry only one company like, Hero Motors Ltd has correlation between intrinsic value and shareholder value creation. The value of Hero Motors Ltd as against Pearson correlation, i.e., 0.912 is the *r*-value. Since, the *r*-value is positive and significance at 1% (2-tailed) value of 0.000 (*p*-value) is below 0.01. Therefore, the H_0 and H_1 of Hero Motors Ltd is rejected and

accepted respectively. The other three companies Bajaj Auto Ltd, M & M ltd and Tata Motors Ltd accept the H_0.

SUGGESTIONS

The study has implications and utility for fund managers, decision-makers, financial institutions, retail investors, regulators, and policy makers can use various instruments to influence firm performance and thereby project higher value creation. Based on the key findings of the study, the following suggestions are presented:

- Managers should learn how to discriminate the two aspects of growth – good and bad. Good growth will be the results if the shareholders' capital supports the company. It reflects when the shareholders' capital is invested in strategies that earn consistently positive equity spreads and thus, positive economic profit over time, whereas, bad growth is just opposite to good growth. It occurs when the shareholders' money is invested in strategies that produce an again and again negative equity spread and thus, economic losses over time.
- The financial performance evaluation measure used needs to be accurate, consistent, and globally analogous and should lead to goal similitude between the owners and managers.
- The problems of corporate governance in India are very different from developed economies. Rather than difference between owners and managers of firms, it is the divergence between the interests of minority shareholders and promoters (like, business groups) that is more relevant for India and that needs to be addressed.

CONCLUSION

The primary objectives of any organization are to maximize profit and maximize shareholders wealth. Hence, shareholder value creation has become the main mantra intoned with solemnity at every annual general meeting and in every annual report of the companies. In view of this, in this research, it is intended at analysing the shareholder value creation of selected companies in automobile industry in NSE Nifty Index. The shareholder value of the company as determined by the market value depends on the intrinsic value created by the management of the company. Further, the market value of the shares is also affected by numerous other factors, like general market sentiments, global market movements, etc.

From this study results indicated that, all companies could able to create the positive results of value creation. It indicates that the companies could create the good image in the minds of investors. Hence, it could be concluded that the positive results lead to positive manner of the market, whereas negative results lead to negative manner of the market. The hypothesis is based on conducted tests. Therefore, this study will be useful to investors in knowing the status of all selected companies and industries who decide to retain with the company. Thus, this study has social utility to assist the investors for parking of their money.

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