Chapter - 7 Conclusions and Recommendations

7.1 Conclusions

7.2 Recommendations
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Maximizing shareholders value is becoming the new corporate standard in the world. Shareholder’s wealth is measured in term of the returns they receive on their investment. The returns can either be in the form of dividends or in the form of capital appreciation or both. Capital appreciation depends on the subsequent changes in the market value of the shares. This market value of shares is influenced by a number of factors, which can be company specific, industry specific and macro-economic in nature.

EVA has been adopted by the advanced economies as financial performance measurement tool and corporate strategy which helped EVA to be identified as an important financial performance measurement tool over the conventional tools around the world.

From the analysis Hero Moto Corp has highest average EVA throughout the period under study. The same result suggested with the help of Sales units, Net Operating Profit After Tax, Earnings Per Share, Return on Capital Employed and WACC. Hero MotoCorp has highest level of Return on Newt Worth where as M & M as well as Tata Motors has second and third highest level of Return on Newt Worth among all automobile companies. TVS Motors as well as Maruti Limited has lower level of Return on Net Worth among all automobile companies.

The same result also supported with correlation matrix of stock price that Hero Moto Corp has highly positive relationship all the other automobile companies and BSE Sensex.

For evaluation of the efficiency of any decision, value creation or value addition aspect is of utmost importance in the present backdrop of corporate governance. Although adopting a holistic approach safeguarding the interests of all stakeholders is being emphasized and rightly so, it should be kept in mind that value creation or value addition aspect is of prime consideration in the assessment of the corporate policy guidelines. The same with the aspects Hero Moto Corp has better efficiency as well as good financial performance of the company.

The managers are so focused on increasing earnings that they take on projects for which the profits do not justify the capital outlays. These managers either are
unaware of capital costs or, knowing these costs, choose to ignore them. Because the cost of capital is right in the middle of the EVA formula, managers will not easily ignore these costs when evaluated on an EVA system.

Thus, using EVA only is no case a good decision. Rather, it should be used with other to take decisions more effectively. Companies may go for simulations over past several years’ performance to find out the areas where EVA as a managerial tool is stronger over others, where other tools show important correlations. Then, a set of tools can be used simultaneously in line with the philosophy of management.

EVA might underestimate the value creation when the required adjustments are not made. There are good alternatives to establish control over a firm or project or to define benchmarks to pay incentives within an organization. One of these alternatives is the real free cash flow that can be accessed from the public financial statements of the firm. Even these improved measures to control the firm’s performance as much as they include depreciation, is not a proper indicator to measure value or to control the performance.

The recognition of EVA concept in India shows, to some extent, diverse trend. A majority of the companies are still not prepared to employee the EVA technique to evaluate their financial performance because of certain inherent difficulties associated with the computation. In view of above facts, the competent authorities in India should issue necessary guidelines for the computation of EVA and its practices in financial reporting to the appropriate bodies in India, so that it become obligatory for all companies to disclose their EVA in their financial statement and to meet expectations of shareholders in the country.

An important goal of financial management is to maximise the wealth of the organisation, highest capital employees’ wealth and consequently enhance the value of the firm. Shareholder wealth is traditionally reflected by either standard accounting parameters (such as profits, earnings and cash flow from operations) or financial ratios (including earnings per share, return on capital employed, return on net worth, net profit margin, operating profit margin, etc). All these indicators failed to measure the true economic worth due to manipulative accounting techniques to state higher or lower earnings, depending on non meaningful decision on how to
record revenues or expenses. Further, financial information is used by managers, shareholders and other interested parties to access their firm's current performance, and also by stakeholders to predict its future performance. The question that then arises is, whether these measures of corporate performance are linked to the expectation of the shareholders or not. To help corporate to generate value for shareholders, value-based management system has been developed.

The company has been successfully able to create value for its shareholders. On comparing industry-wise composite frequencies for EVA for all years, it was found that there has been a significant increasing trend in EVA of the Automobile Industry firms which means that companies have a positive trend to improve their firm values. The recognition of EVA concept in India shows, to some extent, diverse trends.

Kinetic Motor Company board has approved the merger of Kinetic Motor Company Limited (KMCL) with Kinetic Engineering Limited (KEL) at an exchange ratio of 7.75:1.

As a result of the merger, the stake of the promoters in Kinetic Engineering would stand at 53% from a current stake of 57%. The balance of shares will be held by public and financial institutions.

From the analysis it has been observed that kinetic motors Sales, EPS, Return on Net Worth, Return on Capital Employed and Book Value of Shares continuously decline and negative. The reasons behind it that poor performance of kinetic brand vehicles, fuel consumption ratio was very high, high maintenance cost, poor after sales services, low residual value of vehicles, etc.
7.2 Recommendations:

Today because of high competition among the corporate and scarce resources employed by them, it is a serious need to review and modify financial decisions. It should be done in a way that leads an organization to acquire the highest return on capital employed. Managers should believe that equity capital is not free of charge and in existence environment shareholders expect a minimum rate of return on their investments. Hence, the investigation and also evaluation of managerial performance and its effect to the firm value is a must. For this purpose, a proper performance measure should employ. The researcher believes EVA has enough potency to serve in this field and accordingly an attempt is made here to summarize a few recommendations:

- To use EVA as a performance evaluation tool of the managers, the component parts of the EVA like the accurate amount of capital employed, operating profit margin, cost of capital, etc. should be identified and the performance should be measured based on the improvements made in these value drivers. Consistency in calculating the values drivers is a must.

- The accountancy profession has a key role to encourage the corporate manager for using EVA, but cannot play its role alone. The profession is part of a complex web of regulations and laws, rules and relationships and organizational structures that all are affected by culture and tradition. Only if each element of this web is structured properly in an accepted framework can the profession be expected to provide professional services according to highest standards delivered in the public interest. The standards and guidance represent the minimum requirements though a more comprehensive approach may be adopted. This guidance should help to support the development and implementation of a plan of action to improve standards within corporate financial frameworks.

- As the outset, this research was an exploratory effort to study capital structure practices of Indian Automobile Industry and to find out whether the capital structure impacts upon the EVA. Further research of this kind should
enlarge our understanding of corporate finance, and increase the knowledge of corporate manager in order to improve firm value by an optimum utilization of fund.

- In this research the EVA of Indian Automobile Industry was studied. For expansion of using this financial performance measure in developing countries such as India, there is a need to study Economic Value Added of all other major industries also.

- EVA can be an important tool that company can use to measure and improve the financial performance of their company. Since EVA takes the interest of the company’s shareholders into consideration, the use of EVA by company management may lead to different decisions than if management relied solely on other measures.

- A majority of the companies are still not prepared to employ the EVA technique to evaluate their financial performance because of certain inherent difficulties associated with the computation. In view of the above facts, the competent authorities in India should issue necessary guidelines for the computation of EVA and its practices in financial reporting, to the appropriate bodies in India, so that it becomes obligatory for all companies to disclose their EVA in their financial statement and to meet the expectations of shareholders in the country.