The Automobile Sector of today is one of the key sectors of the country contributing largely to the economy of India. The automobile industry is one of India’s most vibrant and growing industries. This industry accounts for 22 percent of the country's manufacturing Gross Domestic Product (GDP). The auto sector is one of the biggest job creators, both directly and indirectly. It is estimated that every job created in an auto company leads to three to five indirect ancillary jobs.

India is presently the world's third largest exporter of two-wheelers after China and Japan. Two-wheeler sales are projected to rise from 15.9 million in FY 2013 to 34 million by FY 2020. According to a report by Standard Chartered Bank, India is likely to overtake Thailand in global auto-export market share by the year 2020. Strong growth in demand due to rising income, growing middle class, and a young population is likely to propel India among the world's top five auto manufacturers by 2015. Automobile export volumes increased at a Compound Annual Growth Rate (CAGR) of 19.1 percent during FY 2005-2013, out of which two-wheelers accounted for the largest share in exports at 67 percent in FY 2013.

The automobile sector is compartmentalized in four different sectors which are as follows:

Two-wheelers which comprise of mopeds, scooters, motorcycles and electric two-wheelers

Passenger Vehicles which include passenger cars, utility vehicles and multi-purpose vehicles

- Commercial Vehicles that are light and medium-heavy vehicles
- Three Wheelers that are passenger carriers and goods carriers.

The automobile industry is one of the key drivers that boost the economic growth of the country. Since the de-licensing of the sector in 1991 and the subsequent opening up of 100 percent Foreign Direct Investment (FDI) through automatic route, Indian automobile sector has come a long way. Today, almost every global auto major has set up facilities in India.

India is the world's second fastest growing auto market and boasts of the sixth largest automobile industry after China, the US, Germany, Japan and Brazil. According to Vikas Sehgal, Global Head of automotive industry, Rothschild, the Indian automobile market, which includes cars, trucks and auto parts, is pegged at 3.5 million units by the
end of 2011-12. Rothschild is a UK-based global financial advisory firm. India's car market is evolving at a great pace. A car is not only a utility, but also represents aspirations and image of its owner. Hence, auto giants across the globe are leaving no stone unturned to attract Indian consumers by offering luxury, value, utility and convenience in their products.

Two wheelers dominate market share; in FY 2013, the segment accounted for 77 percent and FY 2014 is 80% of the total automotive production in India. The overall growth in domestic sales during March - April 2013 was 2.61 percent over the same period last year.

The top players in the Indian automobile industry have played a key role in the growth and development of the automobile industry in India. Companies like Bajaj Auto, Hindustan Motors, Maruti Suzuki, Hero, Honda, and TVS Motors, with their ever expansive car dealing networks, promotional, convenient customer care services, have marked India among the leading automobile Industries.

The government aims to develop India as a global manufacturing as well as a research and development (R&D) hub. It has set up National Automotive Testing and R&D Infrastructure Project (NATRIP) centres as well as a National Automotive Board to act as facilitator between the government and the industry. There are a wide range of jobs available in the automobile industry. According to the Confederation of Indian Industry, the automobile sector currently employs over 80 lakh people. An extension in production in the automobile industry is forecasted, it is likely to rise to Rs. 6,00,000 crores by 2016.

Economic Value Added (EVA) is a value based performance measure that gives importance on value creation by the management for the owners. Economic Value Added is the financial performance measure that comes closer than any other to capturing the true economic profit of an enterprise. Thus, in modern economics and finance area, EVA holds an important part that has less debate among practitioners.

Basically, the theory of Economic Value Added rests on two principle assertions: (1) a company is not truly profitable unless it earns a return on invested capital that exceeds the opportunity cost of capital, and (2) that wealth is created when a firm’s managers make positive NPV investment decisions for the shareholders.

The formula for calculating EVA is as follows:

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EVA = \text{Net Operating Profit After Taxes (NOPAT)} - (\text{Capital} \times \text{Cost of Capital})
\]

It is an indicator of the market value of service centre’s owner’s equity, a measure especially important to closely held companies, which do not have the benefit of a
published stock price. For publicly traded companies, EVA correlates very closely with stock price.

The present research was studied under the title: “A Study of Economic Value Added Based Performance Measurement of Selected Automobile Companies in India”.

The present study has the following objectives:

1. To examine whether Indian Automobile Industry has been able to generate value for its shareholders.
2. To compute the performance of the company by applying traditional performance indicator like ROI and new corporate performance measure EVA.
3. To study overall performance of Indian Automobile Industry.
4. To make suggestions for improving EVA.
5. To make suggestion for improving financial performance on basis of analysis through EVA.

To test the hypothesis following are the variables used in this study like, Return on Investment (Net Worth), Return on Capital Employed, Weighted Average Cost of Capital, Economic Value Added and Cost of Debt & Cost of Equity.

The financial data of Indian Automobile Industry has been collected from published annual reports of the selected companies for the period of eight years, i.e. from 2003-04 to 2010-11. For the purpose, Capitaline-2000 database, other websites like, www.bseindia.com, www.moneycontrol.com and Different companies website has been used. The Indian Automobile Industry has been selected on the basis of their performance, capital and turnover representing various segments of the industry. The following companies take as a sample Maruti Suzuki India Limited, Tata Motors Limited, Mahindra & Mahindra Limited, Hero Honda Motors Limited (Now, Hero MotoCorp Limited), Kinetic Motor Company Limited and TVS Motors Company Limited.

The Hero MotoCorp has sold the highest ever number of two-wheelers at 15,89,462 for the quarter and it is the world’s largest manufacturer of two-wheelers. The two-wheelers are manufactured across three globally benchmarked manufacturing facilities. Company has strong market share 46% in Domestic Two Wheeler Market, 53.2% in Domestic Motorcycle Market and 47.77 million two wheelers sold. Tata Motors
Limited is India's largest automobile company, with consolidated revenues of Rs. 2,32,834 crores in 2013-14.

In the year 2013-14, the Maruti Suzuki India Ltd. has total revenue (net of excise) was Rs. 4,45,235 million as against Rs. 4,44,003 million in the previous year showing an increase of 0.28%. Sale of vehicles in the domestic market was 10,53,689 units as compared to 10,51,046 units in the previous year showing an increase of 0.25%. Total number of vehicles exported was 1,01,352 units as compared to 1,20,388 units in the previous year. Profit before tax was Rs. 36,585 million against Rs. 29,910 million showing an increase of 22% and profit after tax stood at Rs. 27,830 million against Rs. 23,921 million in the previous year showing an increase of 16%. 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 Net 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. 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 vehicles, fuel consumption ratio was very high, high maintenance cost, poor after sales services, low residual value of vehicles, etc. The same result also supported with correlation matrix of stock price that Hero MotoCorp has highly positive relationships compare to all the other automobile companies and BSE Sensex.

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. 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.