



A STUDY OF SHARE HOLDERS' VALUE CREATION OF SELECTED PRIVATE SECTOR BANKS IN INDIA USING CONTEMPORARY TOOLS

Abstract

In current arena the decision of investor is very wise to invest their hard earned money. When Government securities and instruments of money market are providing mere return on the investment of investors, the share market is only a source through investors can maximize their wealth (but subject to market risk as if we always read as the precaution mark). While doing the investment in stock market one can do two types of analysis i.e. fundamental analysis and technical analysis. The current research paper is related more with fundamental analysis, where the researcher has made an attempt to analyse the real value of the company by applying contemporary tools. In contemporary tools researcher has selected Economic Value Added (EVA) and Market Value Added (MVA) and in traditional tool Dividend paid is adapted. The calculation of EVA and MVA is done with the formulas given by stern steward & co. and further more to establish the relationship in between of EVA, MVA and Dividend paid the statistical tools like ANOVA and T-Test is applied. In addition to analyse the relationship in between of EVA, MVA and Dividend paid by the companies selected under study correlation analysis technique is also used.

Keywords: HDFC, ICICI, AXIS, Kotak Mahindra, EVA, MVA, Dividend Paid.

1. Introduction

Creating shareholder value is the key to success in today's marketplace. There is increasing pressure on corporate executives to measure, manage and report the creation of shareholder value on a regular basis. In the emerging field of shareholder value analysis, various measures have been developed that claim to quantify the creation of shareholder's value and wealth.

More than ever, corporate executives are under increasing pressure to demonstrate on a regular basis that they are creating shareholder value. This pressure has led to an emergence of a variety of measures that claim to quantify value-creating performance. Creating value for shareholders is now a widely accepted corporate objective. The interest in value creation has been stimulated by several developments.

2. Banking: An Industry

After Demonetization and Digital India move of government importance of Banking sector has been enhanced. However the statistical figures of NPA is a matter of worry for the RBI and in order to make it correct RBI is working out. But, from the perspective of shareholder's wealth creation banking industry has been registered remarkable growth in past decades and created opportunities for investors for wealth creation. As the Indian economy does well economic growth in recent times, banking sector has got the highest benefit of it due to increasing requirement of credit and make over of RBI policy. The stocks like HDFC and State Bank of India has increased the wealth of investors by 24% and 21 % on compound basis, respectively. On the contrary if we see the dark side of the coin of banking sector than increasing level of NPA has created has put the investor's capital on risk.

3. Review of Literature

Various articles dealing with the theory and applications of EVA have been published over the years, but the concept is still under development.

Stewart (1991) examined the relationship between EVA and MVA of US companies and found a stronger correlation between EVA and MVA.

Kramer and Pushner (1997) studied the strength of relationship between EVA and MVA. They found that MVA and NOPAT were positive on average but the average EVA over the period was negative.

Fernandez (2001) examined the correlation between EVA and MVA of 582 American companies for the period 1983-97. It was shown that for 296 firms in the sample the changes in the NOPAT had higher correlation with changes in MVA than the EVA, while for 210 sample firms the correlation between EVA and MVA was negative.

Worthington and West (2001) reviewed the literature on EVA and provided a synoptic survey of EVA's conceptual underpinnings. They concluded that empirical evidences concerning EVA have been mixed.

Wet (2005) conducted a study on EVA-MVA relationship of 89 Industrial firms of South Africa and found that EVA did not show the strongest correlation with MVA.

Ghanbari and More (2007) analyzed the relationship between EVA and MVA of automobile industry in India and results indicate that there are strong evidences to support Stern- Stewart's claim.

Pal and Sura (2007) reviewed 25 empirical studies published in various journals related to relationship of EVA and stock returns. They have only reviewed the results of the studies and have not considered other issues prevalent in EVA research such as EVA-MVA relationship.

4. Research Methodology

The study is carried out to do quantitative and qualitative analysis of selected private banks of India. For this purpose descriptive and diagnostic research design has been adopted and it is based on the secondary data.

5. Objectives of the study

- To analyze EVA of Selected Private Sector Banks in India
- To analyze MVA of Selected Private Sector Banks in India
- To analyze Dividend Paid of Selected Private Sector Banks in India
- To analyze a relationship between EVA, MVA & Dividend paid of selected private sectors banks in India.

6. Hypothesis of the study

A study would be consisting of the following hypothesis and to carry out a further analysis suitable test will be applied on the same.

Null Hypothesis

- There is no significant difference in the EVA among the companies of the Industry under study.
- There is no significant difference in the MVA among the companies of the Industry under study.
- There is no significant difference in the dividend paid among the companies of the Industry under study.

Alternate Hypothesis

- There is a significant difference in the EVA among the companies of the Industry under study.
- There is a significant difference in the MVA among the companies of the Industry under study.

- There is a significant difference in the dividend paid among the companies of the Industry under study.

7. Scope of the study

The study will define a relationship between EVA, MVA and Dividend Paid policy. EVA & MVA will be representing as modern tools of performance measurement, whereas Dividend paid will become a representative of traditional tools of performance measurement.

8. Sample selection procedure.

The samples are drawn from the population on the basis of its average market capitalization of last four years. While analyzing the facts HDFC Bank, ICICI Bank, AXIS Bank and Kotak Mahindra having highest market capitalization in last four years i.e. from 2014 to 2017 and due to that it is drawn as samples.

9. Data Collection Method

In this study secondary data collection method is applied and data is collected through various resources like www.moneycontrol.com & annual report of the companies.

10. Contemporary Tools to Measure the Shareholders' value creation

The shareholder value creation approach helps to strengthen the competitive position of the firm by focusing on wealth creation. It provides an objective and consistent framework of evaluation and decision-making across all functions, departments and units of the firm.

10.1 Economic Value Added (EVA)

The concept of Economic Value Added (EVA) is a revolutionary way to measure the value of a business. In its simplest form, EVA is a system that determines companies' worth and performance based on their economic reality, not numbers produced according to traditional accounting rules. It is calculated as,

$$EVA^i = \text{Net Operating Profit after Tax (NOPAT)} - \text{Capital Charge}$$

Where, Capital Charge = Weightage average Cost of Capital (WACC) * Capital Employed

Table 1: Economic Value Added

(` In Crores)

Year	2017	2016	2015	2014
HDFC	8522.98	5436.01	4927.14	2516.85
ICICI	2417.97	-4683.97	-2372.64	-3329.69
AXIS	-4903.51	565.15	1626.59	879.97
KOTAK MAHINDRA	881.86	-1226.77	-233.28	-647.70
AVG	1729.82	22.61	986.95	-145.14
STD DEV	5517.87	4215.53	3093.54	2485.35
CV	318.98	18646.76	313.44	-1712.39
MAX	8522.98	5436.01	4927.14	2516.85
MIN	-4903.51	-4683.97	-2372.64	-3329.69

1. Net Operating Profit After Tax (NOPAT)

Net Operating Profit after Tax is calculated by following way.

$$\text{NOPAT}^{\text{ii}} = \text{Profit after Tax as per P \& L account (+) Interest on Long term borrowing adjusted for tax}$$

Table 2: Net Operating Profit After Tax

(In Crores)

Year	2017	2016	2015	2014
HDFC	14,549.64	12,296.21	10,215.92	8,478.38
ICICI	9,801.09	9,726.29	11,175.35	9,810.48
AXIS	3,967.03	8,357.58	7,448.48	6,309.17
KOTAK MAHINDRA	4,949.08	3,431.12	3,065.08	2,511.54

2. Weighted Average Cost of Capital (WACC)

Weighted Average Cost of Capital is calculated by following formula.

$$\text{WACC}^{\text{ii}} = (\text{Equity Capital} * \text{Cost of Equity} / \text{Capital Employed}) + (\text{Preference Capital} * \text{Cost of Preference} / \text{Capital Employed}) + (\text{Long Term Borrowing} * \text{Cost of Debt} / \text{Capital Employed})$$

Table 3: Weightage Average Cost of Capital (WACC)

Year	2017	2016	2015	2014
HDFC	3.17%	4.70%	4.31%	6.36%
ICICI	2.52%	4.58%	4.58%	5.05%
AXIS	5.25%	4.93%	4.50%	5.96%
KOTAK MAHINDRA	4.61%	6.04%	6.16%	6.57%

(a) Cost of Equity

Cost of Equity can be calculated by following formula.

$$\text{Cost of Equity (K}_e\text{)}^{\text{ii}} = R_f + \beta (R_m - R_f)$$

Risk Free Rate of Return (R_f) is that Percentage of return which any individual can get on his investment in government securities.

Market Rate of Return (R_m) is calculated by following formula.

$$R_m = \text{Sum of change in nifty} / \text{Number of months.}$$

Beta is calculated by following formula.

$$\beta = (\text{Number of months} * \text{Total of xy}) - (\text{Total of x} * \text{Total of y}) / (\text{Number of months} * \text{total of x}^2) - (\text{Total of x})^2$$

Where, X = Deviation in nifty Y = Deviation in selected script

Table 4: Cost of Equity

Year	2017	2016	2015	2014
HDFC	1.97%	5.15%	4.81%	6.28%
ICICI	1.73%	5.83%	5.60%	5.44%
AXIS	4.52%	4.85%	4.58%	6.61%
KOTAK MAHINDRA	2.85%	4.53%	4.70%	4.13%

(b) Cost of Debt

Cost of Debt can be calculated by following formula.

$$K_d = \text{Interest on Long Term Borrowing} * (1 - \text{Tax Rate}) * 100 / \text{Long Term Borrowing}$$

Table : 5 Cost of Debt

Year	2017	2016	2015	2014
HDFC	4.28%	4.23%	3.79%	6.43%
ICICI	4.88%	4.05%	4.17%	4.89%
AXIS	5.62%	4.97%	4.46%	5.48%
KOTAK MAHINDRA	5.98%	7.20%	7.18%	8.18%

10.2 Market Value Added (MVA)

Stewart (1991) defines MVA as the excess of market value of capital (both debt and equity) over the book value of capital. If the MVA is positive, the company has created wealth for its shareholders. According to Stern and Shiely (2001), to determine the market value, equity is taken at the market price on the date the calculation is made, and debt at book value. The total investment in the company since day one is then calculated as interest-bearing debt and equity, including retained earnings. Present market value is then compared with total investment. If the former amount is greater than the former, the company has created wealth.

$$MVA^i = \text{Market Capitalization} - \text{Net Worth}$$

Table : 6 Market Capitalization

(₹ In crores)

Year	2017	2016	2015	2014
HDFC	369661	270808	257192	179641
ICICI	146617	125122	166307	130733
AXIS	117549	105834	132795	68620
KOTAK MAHINDRA	160563	124857	50715	30083

Table : 7 Net Worth

(₹ In crores)

Year	2017	2016	2015	2014
HDFC	91,793.95	74,304.13	63,154.07	44,166.63
ICICI	104,625.74	94,104.02	84,697.10	76,423.27
AXIS	56380.35	53558.76	44949.59	38396.04
KOTAK MAHINDRA	38,490.84	33,360.64	22,153.32	19,076.01

Table : 8 Market Value Added (MVA)

				(₹ In Crores)
Year	2017	2016	2015	2014
HDFC	277,866.70	196,504.01	194,037.90	135,474.23
ICICI	41,991.70	31,018.18	81,609.74	54,309.93
AXIS	61,168.70	52,275.52	87,845.82	30,224.09
KOTAK MAHINDRA	122,072.46	91,496.43	28,562.15	11,007.30
AVG	125,774.89	92,823.54	98,013.90	57,753.89
STD DEV	106987.8631	73519.71686	69322.04758	54758.398

CV	85.06297409	79.2037444	70.72674973	94.81335214
MAX	277,866.70	196,504.01	194,037.90	135,474.23
MIN	41,991.70	31,018.18	28,562.15	11,007.30

10.3 Dividend

Dividend is part of profits of a company which is distributed by the company among its shareholders. Dividend paid represents a cash outflow which depletes the cash resources. It is the reward of the shareholders for investments made by them in the shares of the company. The investors are interested in earning the maximum return on their investment and to maximization their wealth.

Table : 9 Dividend Paid

(` In Crores)

Year	2017	2016	2015	2014
HDFC	0	2,401.78	2,005.20	1,643.35
ICICI	0	2,907.52	2,898.81	2,656.28
AXIS	1,444.26	31.26	1,092.80	939.69
KOTAK MAHINDRA	0.07	91.84	82.07	63.08

11. Analysis & Interpretation of Data

The data is processed by applying various tests like ANOVA and T-test.

11.1 Hypothesis Testing of Economic Value Added (ANOVA Test)

Ho: There is no significant difference in the value of Economic Value Added among the selected private sector banks under study

Ha: There is a significant difference in the value of Economic Value Added among the selected private sector banks under study

Level of Significance: 5% Degree of Freedom: 3 Critical value: 2.12

Table : 10 Hypothesis Testing EVA (ANOVA TEST)

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	9221667.14	3.00	3073889.05	0.19	0.90	3.49
Within Groups	191893773	12.00	15991147.75			
Total	201115440.1	15.00				

Single factor ANOVA is applied in order to find whether there is any significant difference in the value of EVA among the selected private sector banks. It can be observed from Table 10 that calculated F ratio is 0.19 which is less than critical value or tabulated value of F i.e. 3.49. Decision rule in statistics states that if calculated value is less than tabulated value then null hypothesis should be accepted. Here in this case calculated F ratio 0.19 is less than tabulated value 3.49. Hence, **Null hypothesis is accepted.** It can be inferred that there is no significant difference in the value of Economic Value Added among the selected private sector banks under study.

11.2 Hypothesis Testing of Market Value Added (ANOVA Test)

Ho: There is no significant difference in the value of Market Value Added among the selected private sector banks under study

Ha: There is a significant difference in the value of Market Value Added among the selected private sector banks under study

Level of Significance: 5%

Degree of Freedom: 3

Critical value: 2.12

Table : 11 Hypothesis Testing MVA (ANOVA TEST)

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	9361009809	3	3120336603	0.51	0.69	3.49
Within Groups	73966740137	12	6163895011			
Total	83327749946	15				

Single factor ANOVA is applied in order to find whether there is any significant difference in the value of MVA among the selected private sector banks. It can be observed from Table 11 that calculated F ratio is 0.51 which is less than critical value or tabulated value of F i.e. 3.49. Decision rule in statistics states that if calculated value is less than tabulated value then null hypothesis should be accepted. Here in this case calculated F ratio 0.51 is less than tabulated value 3.49. Hence, **Null hypothesis is accepted.** It can be inferred that there is no significant difference in the value of Market Value Added among the selected private sector banks under study.

11.3 Hypothesis Testing of Dividend Paid(ANOVA Test)

Ho: There is no significant difference in the value of Dividend paid among the selected private sector banks under study

Ha: There is a significant difference in the value of Paid among the selected private sector banks under study

Level of Significance: 5%

Degree of Freedom: 3

Critical value: 2.12

Table : 12 Hypothesis Testing Dividend Paid (ANOVA TEST)

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	3331638.608	3	1110546	0.81	0.51	3.49
Within Groups	16419489.59	12	1368291			
Total	19751128.2	15				

Single factor ANOVA is applied in order to find whether there is any significant difference in the value of Dividend paid among the selected private sector banks. It can be observed from Table 12 that calculated F ratio is 0.81 which is less than critical value or tabulated value of F i.e. 3.49. Decision rule in statistics states that if calculated value is less than tabulated value then null hypothesis should be accepted. Here in this case calculated F ratio 0.81 is less than tabulated value 3.49. Hence, **Null hypothesis is accepted.** It can be inferred that there is no significant difference in the value of Market Value Added among the selected private sector banks under study.

11.4 Analysis of Relationship between EVA and MVA

H₀: There is no significant relationship between EVA and MVA

H₁: There is a significant relationship between EVA and MVA

Table : 13 T-Test on EVA and MVA

Name of the Company	EVA	MVA
HDFC	5338.37	200970.71
ICICI	-2015.25	52232.39
AXIS	-462.18	57878.53
KOTAK MAHINDRA	-310.87	63284.59
Mean	637.52	93591.55
Variance	10414670.55	5144931974.23
Observations	4	4
Pearson Correlation	0.98	
Hypothesized Mean Difference	0.00	
df	3.00	
t Stat	-2.71	
P(T<=t) one-tail	0.04	
t Critical one-tail	2.35	
P(T<=t) two-tail	0.07	
t Critical two-tail	3.18	

T-Test result shows that the calculated value of 't' is -2.71, where degree of freedom is 3 and level of significance is 5% and this calculated value is less than table value i.e. 3.18. Thus, the **null hypothesis will be accepted** which states that there is no significant relationship between EVA and MVA in selected private sector banks.

11.5 Analysis of Relationship between EVA and Dividend Paid

H₀: There is no significant relationship between EVA and Dividend Paid

H₁: There is a significant relationship between EVA and Dividend Paid

Table : 14 T-Test on EVA and Dividend Paid

Name of the Company	EVA	Dividend Paid
HDFC	5338.37	1512.58
ICICI	-2015.25	2115.65
AXIS	-462.18	877.00
KOTAK MAHINDRA	-310.87	59.27
Mean	637.52	1141.13
Variance	10414670.55	775955.43
Observations	4.00	4.00
Pearson Correlation	0.06	
Hypothesized Mean Difference	0.00	
df	3.00	
t Stat	-0.31	

P(T<=t) one-tail	0.39	
t Critical one-tail	2.35	
P(T<=t) two-tail	0.78	
t Critical two-tail	3.18	

T-Test result shows that the calculated value of 't' is -0.31, where degree of freedom is 3 and level of significance is 5% and this calculated value is less than table value i.e. 3.18. Thus, the **null hypothesis will be accepted** which states that there is no significant relationship between EVA and Dividend Paid in selected private sector banks.

11.6 Analysis of Relationship between MVA and Dividend Paid

H₀: There is no significant relationship between MVA and Dividend Paid

H₁: There is a significant relationship between MVA and Dividend Paid

Table : 15 T-Test on MVA and Dividend Paid

Name of the Company	MVA	Dividend Paid
HDFC	15328.87	155.79
ICICI	2408.61	41.60
AXIS	19482.48	337.26
KOTAK MAHINDRA	30959.76	308.03
Mean	93591.55	1141.13
Variance	5144931974.23	775955.43
Observations	4.00	4.00
Pearson Correlation	0.22	
Hypothesized Mean Difference	0.00	
df	3.00	
t Stat	2.58	
P(T<=t) one-tail	0.04	
t Critical one-tail	2.35	
P(T<=t) two-tail	0.08	
t Critical two-tail	3.18	

T-Test result shows that the calculated value of 't' is 2.58, where degree of freedom is 3 and level of significance is 5% and this calculated value is less than table value i.e. 3.18. Thus, the **null hypothesis will be accepted** which states that there is no significant relationship between EVA and Dividend Paid in selected private sector banks.

11.7 Company wise Correlation Analysis

The company wise correlation analyses the correlation of coefficient exists in between of different financial parameters like EVA & MVA, MVA & Dividend Paid and EVA and Dividend Paid among the companies selected under study.

Company	EVA & MVA	MVA & Dividend Paid	EVA & Dividend Paid
HDFC	1.00	-0.71	-0.67
ICICI	-0.01	0.31	-0.95
AXIS	0.02	0.26	-0.53
KOTAK MAHINDRA	0.42	-0.55	-0.91

From the above table it can be observed that in case of HDFC Bank EVA and MVA is having perfect positive relationship and MVA and Dividend Paid has negative relationship likewise EVA & Dividend paid has negative relationship. ICICI Bank has negative relationship for EVA and MVA and MVA and Dividend paid is partially positively related for EVA and Dividend paid is negatively related with each other. In AXIS Bank EVA and MVA has almost no relation and MVA & Dividend paid has positive relationship while EVA & Dividend paid has partial negative relationship. In Kotak Mahindra EVA & MVA has partial positive relationship and MVA & Dividend paid is partially negatively related with each other while EVA & Dividend paid is negatively related with each other.

12. Conclusion

When SENSEX inches closer to mount 35000, the banking sector stocks have provided maximum return to the shareholders and its market capitalization is increased remarkably. This research was an attempt to ensure that the stocks which are creating wealth of its share holder is successfully to maximize its Economic value added and Market Value Added or not and to analyse the fact the contemporary tools of analysis have been adapted. EVA & MVA are contemporary tools which analyse the real value added of the company. From the research it can be concluded the company disclosing crores of profit in their balance sheet is even fail to secure positive EVA like ICICI Bank in 2016 (₹ 4683.97 Crore), 2015 (₹ 2372.64 Crore) and in 2014 (₹ 3329.69 Crore), while AXIS Bank has created negative EVA in 2017 (₹ 4903.51 Crore) and Kotak Mahindra has is having negative EVA in 2016 (₹ 1226.77 Crore), 2015 (₹ 233.28 Crore) and (₹ 647.70 Crore).

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