

A Study Of Association Of Profits And Corporate Governance With Shareholders' Value Of Nifty Companies In India – 2009-10 To 2019-20

Dr. V. Y. John

Asst. Professor, CMS Business School,

Jain (Deemed-to-be University),

Bangalore, INDIA.

Prathibha Menon,

MBA – II Semester, CMS Business School,

Jain (Deemed-to-be University),

Bangalore, INDIA

Saunak Pal

BBA Fin Tech 1st Year

CHRIST (Deemed to be University)

Delhi NCR, INDIA.

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Abstract

The study undertakes to delve into the profit variants and proxies of corporate governance chosen, i.e., the composition of the Board of Directors and the shareholders to assess if there is a significant association of the above with the shareholders value of NIFTY Index, one of the prominent Stock Indices in India. The study also looks into the trends in the growth and contribution of various Industries comprising the NIFTY companies during the period of the study, 2009-10 to 2019-20 with the objective to identify industries which are contributing maximum value to shareholders.

Results amazingly reveal that there is a significant association of the following profit variants, viz., Av. EAT(Earnings After Taxes), Av. CFO(Cash from Operations), Av. D/P(Dividend Pay-out) Ratio and Av. FCF(Free Cash Flows) with shareholder Value as measured by the metric, MVA (Market Value Added) of the NIFTY companies during the years 2009-10 to 2019-20. Results also reveal that there is no significant association between the composition of the Board of Directors and the shareholders to the MVA. Regression, Correlation, Bar and Line graphs were the tools used in analysing data. It is observed that the MV (Market Value/Capitalization) and more importantly MVA (Market Value Added) are relatively quite high and consistently increasing in case of companies under Banking and Financial Services, Software, FMCG(Fast Moving Consumer Goods) and Pharmaceutical Industry in India. These are followed by companies in the Infrastructure and Automobile Sectors.

Key words: Market Value Added Corporate Governance Earnings after Taxes Cash from Operations FreeCash Flows

INRODUCTION

With enhanced importance to Corporate Governance after Satyam Scam hit India in 2009, and the scams of equally serious magnitude which hit the US market from the year 2001 and onwards, such as the Enron and the WorldCom, the imperative importance of corporate governance on the shareholder value cannot be gainsaid.

The effectiveness or otherwise of Corporate Governance has a game changing impact on the value of the shareholders.

In the Indian context, with the merger of Lakshmi Vilas Bank with DBS Bank last year, near collapse and revival of Yes Bank during 2020, sporadic instances of corporate and banking frauds, it is quite important and imperative for the management of every company and banks alike to focus on effective corporate governance in protecting and enhancing shareholder value. There is increasing evidence that public shareholders have become sceptical about corporates in enhancing shareholder value. There is always the perception that the promoters are attempting to amass wealth, corporate managers trying to get maximum packages often at the cost of ignoring the concerns of the minority shareholders. Such developments and corporate frauds enhanced the importance of corporate governance in enhancing shareholder value.

The focus on corporate governance emphasized by the regulatory bodies is not without falling short when it comes to implementation. Indian Investors have discovered it the hard way when big companies like DHFL, IL & FS, Jet Airways and Yes Bank have collapsed in the few years' past.

It is also very well known that there is a direct correlation between consistent profits and shareholder value. However, there is a mute question which has remained unanswered, i.e., which variant of profits has a close bearing on the shareholder value, particularly in respect of the large listed companies in India. This question is addressed in this research.

Ideally, the management of any company should have the robustness, freedom, responsibility, agility and dignity to protect the interests of the public and other investors who parked their money. Faith in the management is the *raison d'être* for investing in the business. It is therefore an obvious expectation that the management delivers value to the shareholders.

REVIEW OF LITERATURE:

There are mixed and somewhat paradoxical views on the association between Corporate Governance and Shareholders Value. Grossman and Hart (1982), and Kaplan and Minton (1994) find that majority shareholders improve firm's performance by solving the free rider problem. On the contrary, Nenova (2003), Ahunwan (2003), Pinkowitz et al (2003), Klapper and Love (2004), and Bebchuck et al (2004) find that concentrated shareholding in a firm deteriorates shareholders' value by expropriating the rights of minority shareholders. We notice of late that there are serious corporate governance allegations against promoters on issues like insider trading, not empowering women in patriarchal family-owned businesses, not empowering Independent Directors to freely express their views on the performance which causes them to innocuously resign at times and the like. SEBI Chairman Ajay Tyagi (2020) recently made a comment that Independent Directors need to raise corporate governance concerns, before resigning from companyⁱⁱ. Fayad Altawalbeh (2020) deduced that board meetings frequency had a significantly positive association with firm's performance, while the board independence, i.e., independent directors had no significant impact on the performance of Jordanian Companies.

In one of the conclaves of CEOs of USA during 2019, it was contended that shareholders' value is no longer a viable objective for corporate management. It was contended that in the final analysis, while each individual company serves its own corporate purpose, it shares a fundamental commitment to all of their stakeholders, not only shareholders, prominently customers, employees, communities and the countryⁱⁱⁱ. However, it has not been a confirmed idea as was refuted^{iv} (Raghuram Rajan et al, 2020) stating that efforts by managements to please all stakeholders rather than just their own shareholders could end up pleasing no one. By the above logic, his contention was that if all stakeholders are assumed to have equal importance, then, it follows that no group of stakeholders are finally more important the other. If all stakeholders are essential, then none are. In an attempt to please everyone, the Business Roundtable will probably end up pleasing no one. Thus, time and again, it has been empirically proven that those companies which have tried to focus on long-term growth and sustenance and thus enhance shareholder value have been on the forefront of maximizing the wealth of the all-other stakeholders. Companies like Infosys, Hindustan Unilever Ltd, Bajaj Auto Limited, Lupin Laboratories Ltd, Pidilite Industries and Asian Paints (Motilal Oswal, Thematic Study, 2020) are some of the classic examples of companies which have been able to live up to this credo for decades together.

Suresh V. N. (2012) in his article on “Corporate Governance Practices of Listed Companies in India” delineated that there is a need for a serious change in the mindset of the “management” of companies. One of the greatest challenges noticeable was to build and restore trust among stakeholders and improve the credibility in the independence of the board.

Alfred Rappaport(2006) in his incisive analysis on ten ways to creating shareholder value deduces that executives have developed short-term outlook towards maximizing the wealth of shareholders. This, he says comes at the expense of investing in long-term growth. He offers ten basic principles to help executives create lasting shareholder value. Prominent among them being companies should not manage earnings, should make strategic decisions and carry assets that maximize expected value, even if near-term earnings are negatively affected, return cash to shareholders if no viable investments exist, require senior executives to own shares and resort to full disclosure. He enunciates that most companies with a sound, well-executed business model, could better realize their potential for creating shareholder value by adopting these ten principles.

Jessica Comitto(2011) deduces that one of the most difficult tasks to an investor is to find value in investment, concluding that one of the best ways to find if a company is generating adequate cash and finding opportunities to enhance shareholders’ value is by examining the Free Cash Flows.

Michael J. Mauboussin(2011) deduces that a CEO’s job should be to earn a return in excess of the cost of Capital. Research in the area of pricing in stock market points to three salient features. First, the worth of a business is the present value of its future cash flows. Second, the stock market is a reflection of long-term cash flows in future and third, value creation is paid by the market.

We notice there while literature in the area of finance is replete with many studies related to shareholder value analysis over a number of years, there is no precise research that is conducted on which profit variants are closely associated with shareholders’ value on a long-term, particularly on the leading and listed companies in India. There is also very little literature on the proxies of corporate governance which enhance shareholder value. This Research attempts to fill this gap.

METHODOLOGY:

A sample of, 49 among 50 companies comprising NIFTY Index have been included. Regression Analysis is primarily conducted in order to find out if there is a fair degree of association between one of the important metrics of shareholder value, MVA (Market Value Added), the Dependent Variable and the variants of profits, viz., EBITDA(Earnings Before Interest, Taxes, Depreciation and Amortization), EAT(Earnings After Taxes), CFOs(Cash from Operations), FCFs(Free Cash Flows), ROI(Return on Investment), ROE(Return on Equity) and D/P(Dividend Pay-out) Ratio are taken as Independent Variables. The annual average figures of each of the above figures for the period 2009-10 to 2019-20 is taken so as to minimize the influence of short-term factors on the shareholder value. The proxies of Corporate Governance are taken as proportion of chief categories of directors, prominent categories of shareholders in the ownership of the companies. The Correlation between the proportion of the above categories of directors and shareholders and shareholders’ value is studied separately. Thus, the association between these proxies and the Market Value Added of the companies has been considered taking MVA as the Dependent Variable and considering the proxies as Independent Variables.

OBJECTIVES OF THE STUDY:

- 1) To study the Association between EBITDA and the Market Value Added
- 2) To Study the Association between EAT and the Market Value Added
- 3) To Study the Association between CFOs and the Market Value Added
- 4) To Study the Association between FCFs and the Market Value Added
- 5) To Study the Association between ROI and the Market Value Added.
- 6) To Study the Association between ROE and the Market Value Added.
- 7) To Study the Association between D/P (Dividend Pay-out) Ratio and the Market Value Added.
- 8) To study the Association between the proportion of important categories of Directors and the Market Value Added.

- 9) To study the Association between the proportion of important categories of Shareholders and the Market Value Added.
- 10) To study the contribution to the MV and MVA by different industries representing the NIFTY Index.

RESEARCH QUESTIONS:

- 1) What is the degree of Association between the various profit variants delineated in the study and the Market Value Added during the period of the study?
- 2) What is the degree of Association between the proxies of Corporate Governance and the Market Value Added during the period of the study?

HYPOTHESES OF THE STUDY:

H₁: There is a positive association between EBITDA and the Market Value Added.

H₂: There is a positive association between EAT and the Market Value Added.

H₃: There is a positive association between CFOs and the Market Value Added.

H₄: There is a positive association between FCFs and the Market Value Added.

H₅: There is a positive association between ROI and the Market Value Added.

H₆: There is a positive association between ROE and the Market Value Added.

H₇: There is a positive association between D/P Ratio and the Market Value Added.

H₈: There is a positive association between the proportion of prominent categories of Directors and the Market Value Added.

H₉: There is a positive association between the proportion of important categories of Shareholders and the Market Value Added.

SCOPE OF THE STUDY:

The study is focussed on the association of profit indicators and the shareholder value Metric employed, i.e., the Market Value Added of the listed companies in India comprising the Nifty Index. The study also looks at the association of the components of corporate governance basically from the point of view of the proportion of directors comprising executive, non-executive, independent and women directors, the composition of ownership patterns, viz., promoters, FIIs (Foreign Institutional Investors), DIIs (Domestic Institutional Investors) and see if their proportional representation has any association with shareholder value.

LIMITATIONS OF THE STUDY:

- 1) Since the data of profits and corporate governance indicators is taken from the secondary sources comprising annual reports and reliable disclosures, any limitation of these sources shall affect the study.
- 2) The study is about the companies listed in the NIFTY Index. While it is evident that the conclusions are purported to apply to the companies comprising the index, it has to be applied carefully in a proper context to other medium and large-scale companies which are not part of the Index.
- 3) Since data related to corporate governance is not directly quantifiable and to some extent not publicly disclosable, gauging corporate governance through secondary sources has its own limitations.

SCOPE FOR FURTHER RESEARCH:

The association of Corporate Governance with Shareholder Value has good number of other dimensions such as the frequency of meetings of the Board of Directors, deliberation process during the board of directors' meetings, processes comprising internal and external audit, compliance effectiveness, efficiency of operations, management philosophy and other subjective factors which have further scope of research so as to assess their association with shareholder value. The association of Profits to Shareholders Value too has other dimensions which have not been explored in this study. These can be further explored.

DATA ANALYSIS AND INTERPRETATION:

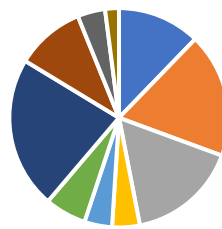
TABLE 1 – TABLE SHOWING THE NUMBER OF COMPANIES UNDER EACH INDUSTRY REPRESENTED IN THE NIFTY INDEX

S. No	Industries	No of Companies
1	Automobile	6
2	Manufacturing	9
3	Energy	8
4	FMCG (Fast-Moving Consumer Goods)	2
	Infrastructure	2
6	Pharmaceuticals	3
7	BFSI (Banking & Financial Services)	11
8	Software Services	5
9	Telecom Services	2
10	Entertainment services	1
	TOTAL	49

(Source: Compilation)

Author's

CHART - 1 - PIE-CHART SHOWING THE COMPOSITION OF MAJOR INDUSTRIES REPRESENTED IN THE NIFTY INDEX



- Automobile
- Manufacturing
- Energy
- FMCG (Fast-Moving Consumer Goods)
- Infrastructure
- Pharmaceuticals
- BFSI (Banking & Financial Services)
- Software Services
- Telecom Services
- Entertainment and other services

(Source: Compilation)

Author's

Descriptive Statistics:

Descriptives

	Av. MVA (Rs. Cr)	Av. EBITDA (Rs.Cr)	Av. EAT (Rs.Cr)	Av. ROI (%)	Av. ROE (%)	Av. CFO (Rs.Cr)	Av. FCF (Rs.Cr)	Av. D/P Ratio
N	49	49	49	49	49	49	49	49
Missing	0	0	0	0	0	0	0	0
Mean	39033	15678	5784	12.1	22.1	7490	1070	29.2
Median	31892	9168	3775	8.03	19.3	5332	1167	24.7
Standard deviation	45902	22295	5648	12.3	15.5	12063	6820	20.1
Range	214574	145445	27754	68.2	87.4	66017	40995	103
Minimum	-27490	1181	35.9	0.342	0.223	-17903	-19982	-21.0
Maximum	187084	146627	27790	68.6	87.7	48114	21013	82.3
Shapiro-Wilk W	0.834	0.538	0.777	0.778	0.841	0.894	0.918	0.904
Shapiro-Wilk p	< .001	< .001	< .001	< .001	< .001	< .001	0.002	< .001

(Source: Author's Compilation: Results from Jamovi software)

Discussion about Descriptive Statistics:

The descriptive statistics comprising the Averages of Variables, viz., Av. MVA, Av. EBITDA, Av. EAT, Av. ROI, Av.ROE, Av. CFO, Av. FCFs and Av. D/P Ratio show some interesting trends.

The Mean Value of Av. MVA is Rs.39033 crores, indicate that the companies comprising the NIFTY Index were able to make handsome contribution to the MVA during the last 10 years, there were only 2 entities showing a negative MVA, Hindalco Industries at -7817 crores and SBI at – Rs.27490 crores.The figures are moderately positively skewed at 1.64.

EBITDA shows a mean figure of Rs. 15,678 crores, this shows that the companies comprising the NIFTY Index are having reasonably high operating profits. The figures are positively skewed as evidenced from the skewness 4.52.

The Mean Value of Av. EAT is Rs. 5784 crores. It is a clear indication that the Average Net Profits generated by NIFTY companies are above par. This too is fairly positively skewed at 2.09.

The ROI figures show a mean value of 12.1%. which means that Corporate India, those which are in the genre of the NIFTY companies are generating a net profits on an average at the rate of Rs. 12 for every Rs. 100 invested in the business. The data positively skewed at 2.35.

The ROE figures have a mean of 22.1%, this indicates that the return on shareholders funds is 22.1%, this data is having a somewhat high positive skewness at 2.02.

The Average CFO is Rs. 7490 crores. This shows that the unencumbered cash generated from operations of the NIFTY companies is reasonably high. The S.D is Rs. 12063 crores. There is a near moderate skewness at 1.26 of the above data indicating that the cash generated is somewhat evenly spread across the mean. .

The Average FCF is found to be Rs. 1070 crores, which is found to have the least variation in terms of its spread across the companies. This, in comparison with the CFOs, which were Rs. 7490 crores indicate that the amount of Free Cash Flows is somewhat much lesser than the CFOs, indicating that there are lots of other expenditures, most importantly the Capital Expenditures which consume a bulk of the Cash from Operations, which ultimately result in a relatively lesser amount of Free Cash Flows. Interestingly, CFOs comprises the only standalone variable which shows a symmetric trend indicated by its skewness which is near '0' at 0.04. displaying a perfectly normal distribution.

The Average Dividend-Pay-out (D/P) Ratio is showing a mean of 29.2%. This shows that Corporate India is depicting a trend of paying reasonably consistent, fair and regular dividends. The Standard Deviation is about 20.1%, minimum value at -21% and maximum at 82.3%. This shows that the range of dividends is reasonably well dispersed across companies. The data is showing a moderately skewed structure at 0.88. This data too depicts a near normal trend.

PROFIT VARIANTS AND THEIR ASSOCIATION WITH SHAREHOLDER VALUE

The Regression Analysis depicted below shows the degree of association or predictability of each of the profit variants chosen as Independent Variables on the Dependent which is MVA (Market Value Added), the proxy of Shareholder Value. The Average Annual Figures of the Independent Variables, viz., EBITDA, EAT, CFO, FCF, ROI, ROCE, D/P Ratio are taken considering data procured for the period from FY 2009-10 to 2019-20.

Linear Regression

Model Fit Measures

Model	R	R ²	Adjusted R ²
1	0.726	0.527	0.446

Model Coefficients - Av. MVA

Predictor	Estimate	SE	T	P
Intercept	250.524	11918.129	0.0210	0.983
Av. EBITDA	-0.361	0.289	-1.2479	0.219
Av. EAT	4.573	1.520	3.0079	0.004
Av. CFO	-2.261	0.745	-3.0344	0.004

Model Fit Measures					
Model	R	R ²	Adjusted R ²		
Av.FCF		1.856	0.976	1.9016	0.064
ROI		830.189	708.242	1.1722	0.248
ROE		280.637	576.697	0.4866	0.629
Av. D/P Ratio		570.429	273.967	2.0821	0.044

(Source: Author's Compilation: Results from Jamovi software)

The Regression Equation taking MVA as the Dependent Variable and the various Profit Variants, viz., Av. EBITDA, Av. EAT, Av. CFO, Av. FCF, Av.ROI, Av. ROE, Av. D/P Ratio show some very interesting trends. The Model is found to have an “R” Value 0.726, the adjusted R² is 0.446. The ‘p’ values of the Independent Variables, Av. EAT, Av. CFO, Av. D/P Ratio and Av. FCF are found to be 0.004, 0.044, 0.05 and 0.068 respectively. This shows that the MVA which is considered as an average of the years 2009-10 to 2019-20 is having a fair degree of predictability through the Independent Variables prominently the Av. EAT, Av. CFO, Av. D/P Ratio which are having a very high degree of predictability at ‘p’ values of 0.004, 0.004 and 0.044 respectively followed by FCF which too is having a fairly high degree of predictability at 0.064. The other Independent Variables, i.e., Av. EBITDA, Av. ROI, Av. ROE do not have any significant “p” values which indicate that they do not have predictability on the MVA.

The Above Regression Analysis points to the fact that the companies comprising the NIFTY Index and the like need to focus on maximizing the Profits After Taxes, Cash from Operations, Free Cash Flows apart from focussing on paying consistent and reasonably high dividends. This would ultimately result in the Market's Perception of the Company as a Profitable and Growing Entity thus attracting a good number of shareholders. Companies like Infosys, Hindustan Unilever Ltd and Bajaj Auto Ltd are found to be having a record of achieving the results in a consistently growing and high trend as regards the overall performance indicators including the predictable variables, viz., Net Profits, Cash from Operations, D/P Ratio and the Free Cash Flows during the period of the study. It is therefore an empirical reinforcement of the above deduction made out of the Regression Analysis.

CORPORATE GOVERNANCE PARAMETERS AND THEIR INFLUENCE ON THE SHAREHOLDERS' VALUE:

1) REPRESENTATION OF CHIEF CATEGORIES OF BOARD OF DIRECTORS AND THEIR ASSOCIATION WITH SHAREHOLDER VALUE:

The following discussion is about the selected parameters taken as a proxy of Corporate Governance. The first among which is the proportion of the Directors in the Company. The Total Number of Directors are Classified into four major categories., viz., Executive, Non-Executive, Independent and Women Directors. The objective of classifying is to find if there is any association between the proportion of each of these categories of Directors and Shareholders Value as measured by the proxy, MVA. The following Regression Analysis clarifies the phenomena studied.

Linear Regression

Model Fit Measures

Model	R	R ²	Adjusted R ²	Overall Model Test			
				F	df1	df2	p
1	0.310	0.0960	0.0139	1.17	4	44	0.338

Model Coefficients - Av. MVA

Predictor	Estimate	SE	T	p
Intercept	217843	3.34e+6	0.0652	0.948
Non-Executive	-2225	33418	-0.0666	0.947
Independent	-2429	33399	-0.0727	0.942
Executive	-1782	33470	-0.0533	0.958
Women	2533	1206	2.1002	0.041

(Source: Author’s Compilation: Results from Jamovi software)

The above linear Regression pertains to the MVA as the Dependent Variable and the Proportion of various chief categories of Board of Directors treated as Independent Variables, these IVs are Proportion of Executive Directors, Non-Executive Directors, Independent and Women Directors. The Regression Model shows an R Value of 0.310, R² value of 0.096 and Adjusted R² of 0.0139 which shows that the predictability of these IVs is quite low. However, relatively speaking, there seems to be more predictability of the category of women directors on the MVA with a “p” value of 0.041. The proportion of other categories of Directors has no association with the MVA as can be noted.

2) REPRESENTATION OF CHIEF CATEGORIES OF SHAREHOLDERS AND THEIR ASSOCIATION WITH SHAREHOLDER VALUE:

RESULTS OF MULTIPLE REGRESSION CONSIDERING MVA AS THE DEPENDENT VARIABLE AND PROPORTIONS OF PROMOTERS, FII(Foreign Institutional Investors) s, AND DII(Domestic Institutional Investors) s AS INDEPENDENT VARIABLES:

Correlation Matrix

MVA	Promoters	FII (in %)	DII (in %)	Others (in %)
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Correlation Matrix

		MVA	Promoters	FII (in %)	DII (in %)	Others (in %)
MVA	Pearson's r	—				
	p-value	—				
Promoters	Pearson's r	0.063	—			
	p-value	0.669	—			
FII (in %)	Pearson's r	-0.027	-0.609	—		
	p-value	0.853	< .001	—		
DII (in %)	Pearson's r	0.039	-0.658	-0.049	—	
	p-value	0.789	< .001	0.737	—	
Others (in %)	Pearson's r	-0.174	-0.370	-0.137	0.104	—
	p-value	0.232	0.009	0.347	0.478	—

(Source: Author's Compilation: Results from Jamovi software)

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.19
R Square	0.04
Adjusted R Square	-0.03
Standard Error	2.28
Observations	49.00

ANOVA

	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sign F</i>
Regression	3.00	8.75	2.92	0.56	0.64
Residual	45.00	233.68	5.19		
Total	48.00	242.43			

	<i>Coefficients</i>	<i>Std Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 90%</i>	<i>Upper 90%</i>
Intercept	-2.64	3.80	-0.70	0.49	-10.29	5.00	-9.02	3.73
Promoters	0.05	0.04	1.26	0.21	-0.03	0.13	-0.02	0.12
FII (in %)	0.04	0.04	0.98	0.33	-0.05	0.13	-0.03	0.12
DII (in %)	0.06	0.05	1.22	0.23	-0.04	0.16	-0.02	0.14

(Source: Author's Compilation: Results from MS Excel)

INTERPRETATION: The above Regression Equation though may not fit exactly to have a fair degree of predictability, given that the R Value is 0.19 and R²value being 0.04, however, at least peripherally, shows that

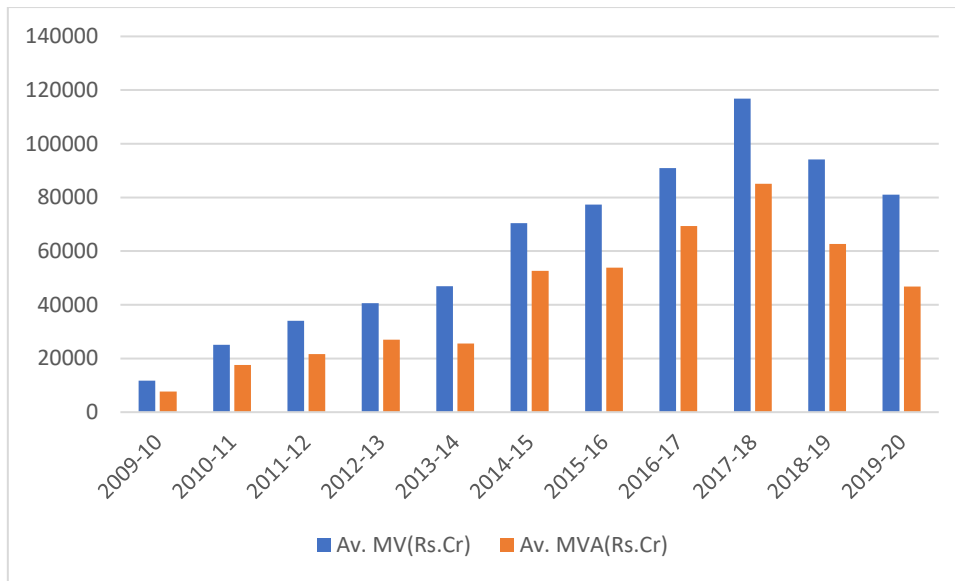
there is no predictability of the proportion of shareholding of important categories of shareholders and the MVA as the p-value of these categories, i.e., Promoters, FIIs and DIIs shows values of 0.214, 0.33 and 0.228. In other words, irrespective of who the owners (major group of shareholders) are, the performance of the firm as measured by MVA is exogenic to these variables. It is the effective risk management systems and the orientation towards high degree of sustainability, efficiency and profitability that enables a business to maximize value to the shareholders. This is further attested by the correlation matrix which shows that there is near 0 or in other words no correlation between the share of each of these categories of shareholders and the MVA.

INDUSTRY ANALYSIS OF MARKET VALUE (MV) AND MARKET VALUE ADDED (MVA) OF COMPANIES IN THE NIFTY INDEX DURING 2009-10 TO 2019-20

TABLE 2 - AVERAGE MV AND MVA OF AUTOMOBILE COMPANIES		
IN THE NIFTY INDEX - 2009-10 TO 2019-20		
Year	Av. MV(Rs.Cr)	Av. MVA (Rs.Cr)
2009-10	11717	7635
2010-11	25112	17526
2011-12	33998	21667
2012-13	40631	27005
2013-14	46979	25604.5
2014-15	70463	52624
2015-16	77321	53854
2016-17	90991	69326
2017-18	116791	85119
2018-19	94154	62620
2019-20	81081	46836

(Source: Author's compilation)

CHART2 – AVERAGE MV AND MVA OF AUTOMOBILE COMPANIES IN THE NIFTY INDEX – 2009-10 TO 2019-20



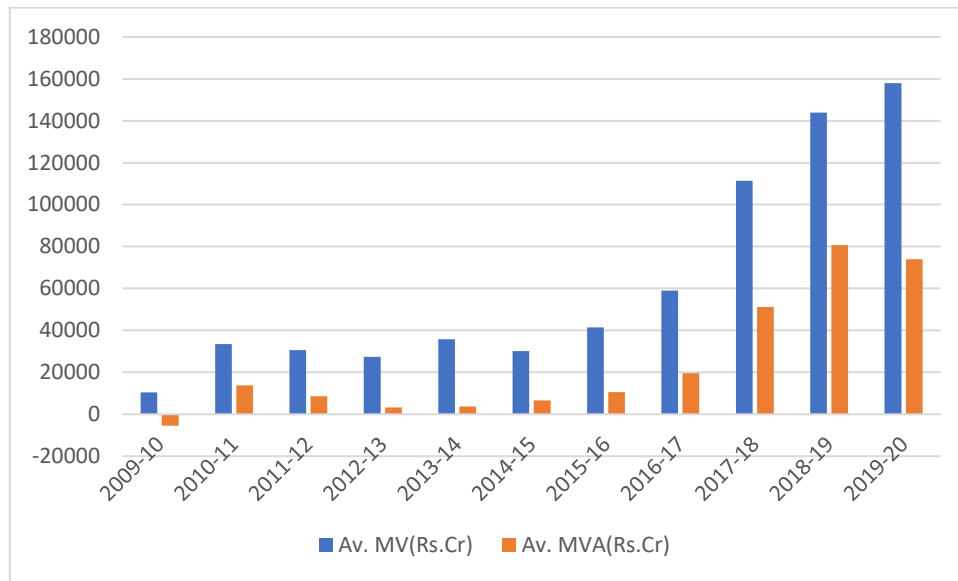
(Source: Authors compilation)

INTERPRETATION: There is observed to be a consistent growth of MV and MVA of Automobile Companies in India during the period of the study except during the last two to three years. There is observed to be a clear decreasing trend after 2017-18, these figures have somewhat decreased in 2018-19 and further reduced in the year even before the pandemic, i.e., 2019-20. This shows that there is a significant impact of one of the important factors like the ordinance to phase out diesel and petrol vehicles in the near future among others, most importantly the onset of the pandemic which happened during the last quarter of 2019-20. The share of MVA in MV is about 55-75% of the MV which indicates that there is a significant amount of Value Added by Companies in the Automobile Sector. Noteworthy among them are Hero MotoCorp, Maruti Suzuki Ltd and Tata Motors.

Year	Av. MV (Rs.Cr)	Av. MVA (Rs.Cr)
2009-10	10502	5506
2010-11	33431	13731
2011-12	30647	8532
2012-13	27451	3213
2013-14	35720	3718
2014-15	30151	6608
2015-16	41420	10514
2016-17	58947	19537
2017-18	111336	51244
2018-19	143880	80686
2019-20	157914	73924

(Source: Authors compilation)

CHART – 3 – AVERAGE MV AND MVA OF MANUFACTURING COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20



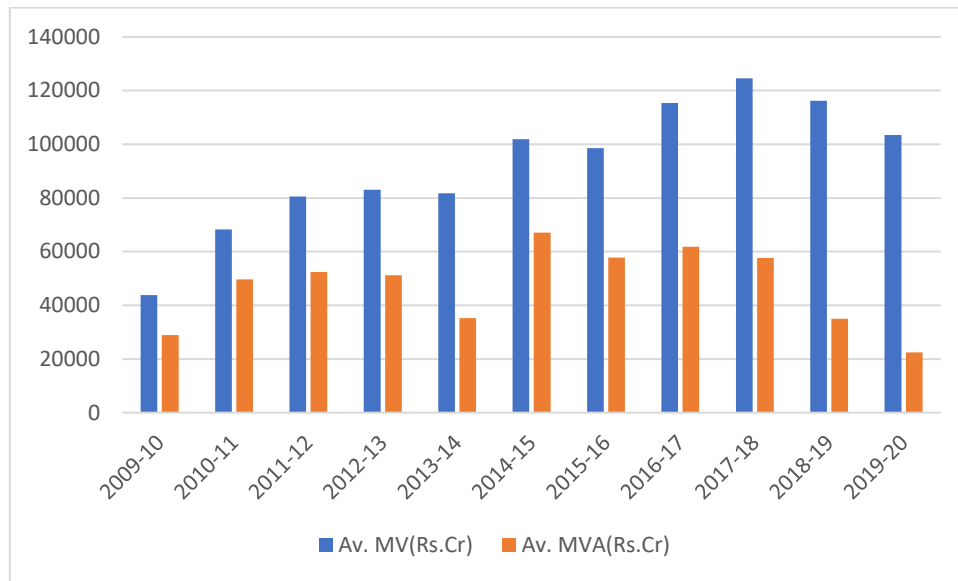
(Source: Authors compilation)

INTERPRETATION: The overall trend in the Manufacturing Sector in general and the companies in the Nifty index presents a grim picture, i.e., the share of the MVA in the MV is relatively much low throughout the period of the study, ranging between 0 to 50%, indicating that the Market Value Added of the manufacturing sector companies is very low. While the Market Value of the companies is found to show a very low or nil growth during the first six years of the study, the figures steadily and consistently increased during the years 2016-17 to 2019-20. The situation must have surely dampened after 2019-20 with the onset of the pandemic. It is pertinent to note that the companies in Nifty Index comprise the privately owned entities like Asian Paints, Grasim Industries, JSW Steel, Reliance Industries Ltd and Tata Steel. While the share of MVA in MV in companies like UPL Ltd, Titan Industries Ltd and Asian Paints Ltd, is about 55-85% of the MV, the share of the remaining companies ranges from negative to 0 to about 35%.

TABLE 4 - AVERAGE MV AND MVA OF ENERGY COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20		
Year	Av. MV (Rs. Cr)	Av. MVA (Rs. Cr)
2009-10	43784	28891
2010-11	68293	49640
2011-12	80530	52374
2012-13	83051	51245
2013-14	81730	35227
2014-15	101954	67054
2015-16	98570	57762
2016-17	115347	61867
2017-18	124535	57655
2018-19	116205	34949
2019-20	103447	22457

(Source: Authors compilation)

CHART – 4 – AVERAGE MV AND MVA OF ENERGY COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20



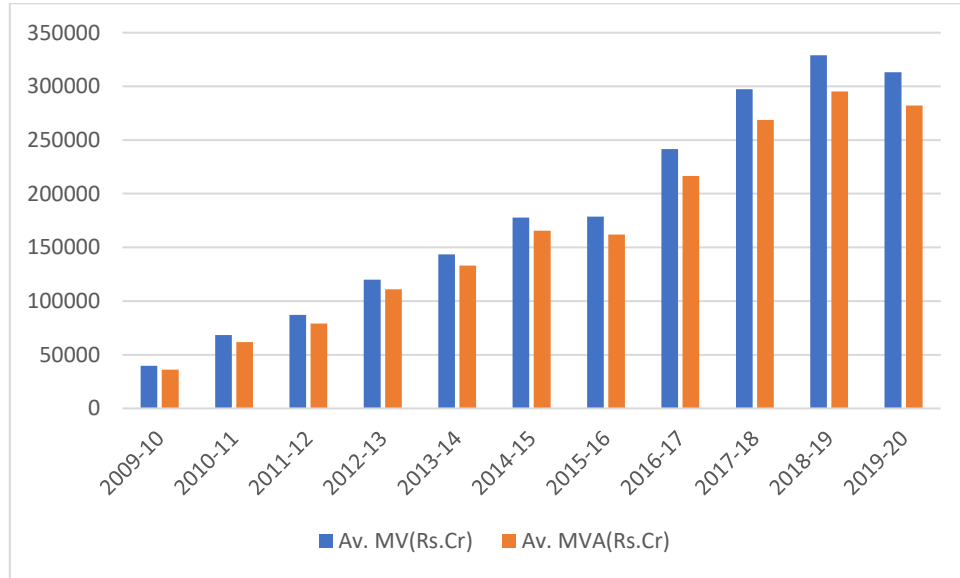
(Source: Authors compilation)

INTERPRETATION: The picture of MV and MVA of energy companies viz., NTPC Ltd, Coal India Ltd, BPCL, ONGC, GAIL, IOC, PowerGrid and HPCL is very interesting. From the table underlying the above figures, it is observed that the share of Coal India Ltd and Power Grid Corporation of MVA in MV ranges between 40-85%. However, the share of the remaining companies ranges between 0-40% to the maximum extent. By the way, all are public sector units. Energy sector is beset with its own evils like the fluctuating crude oil prices, flexible pricing initiated by the government since a few years, phased and gradual removal of subsidies while increasing the rate of GST in the retail sector and the like. There is observed to be a decline further during the year 2019-20 in MVA and MV which must have gone down further after March 2020 due to the pandemic.

TABLE 5 - AVERAGE MV AND MVA OF FMCG COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20		
Year	Av. MV(Rs.Cr)	Av. MVA(Rs.Cr)
2009-10	39838	36170
2010-11	68475	61821
2011-12	87186	79117
2012-13	119857	111031
2013-14	143406	132922
2014-15	177691	165471

2015-16	178802	162049
2016-17	241631	216395
2017-18	297257	268861
2018-19	328991	295313
2019-20	313124	282087

CHART – 5 – AVERAGE MV AND MVA OF FMCG COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20



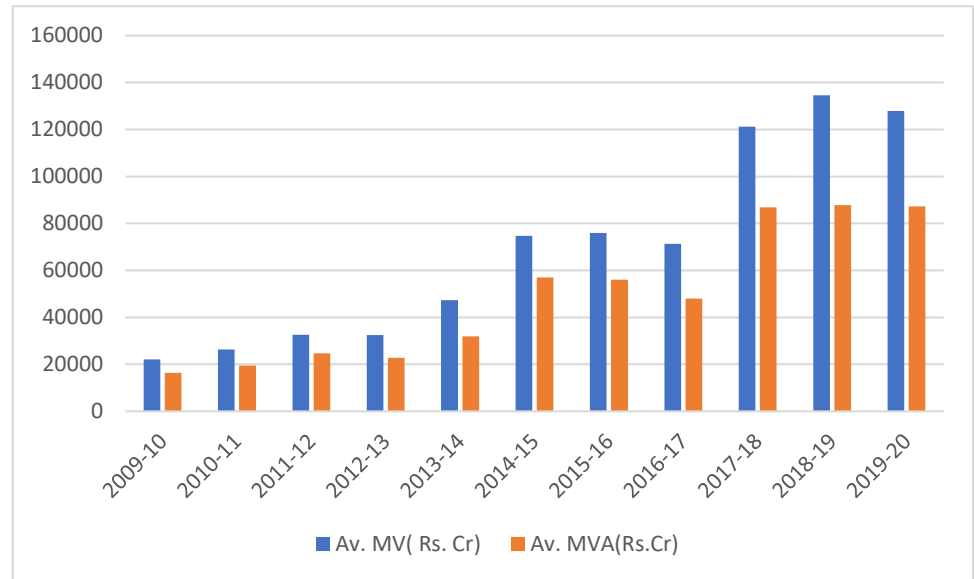
(Source: Authors compilation)

INTERPRETATION: We observe that there is high market value addition in the FMCG companies comprising the Nifty index. It is also observed that the proportion of MVA to MV is ranging between 75 to 90 %. The companies as noted in the underlying table are HUL and ITC Ltd. It can be said that due to their strong, established and agile management, the companies have aggressively grown and also contributed a lot to shareholders' value. The growth of both MV and MVA has somewhat muted during the year 2015-16 in this industry. One of the main reasons being that less demand prevailed in the FMCG sector during the years 2014-15 and 2015-16. The values of MV and MVA have slightly tapered down during the year 2019-20 which must have further gone down later after the pandemic and presently the FMCG Industry is gaining a lot of momentum as stores have been allowed to operate apart from digital sales which has picked up much after the pandemic.

TABLE - 6 - AVERAGE MV AND MVA OF INFRASTRUCTURE COMPANIES IN THE NIFTY INDEX		
2009-10 TO 2019-20		
Year	Av. MV (Rs. Cr)	Av. MVA (Rs. Cr)
2009-10	22125	16399
2010-11	26347	19486
2011-12	32538	24697
2012-13	32408	22826
2013-14	47380	31900

2014-15	74674	57015
2015-16	76000	56106
2016-17	71291	48038
2017-18	121181	86819
2018-19	134581	87752
2019-20	127881	87286

CHART – 6– AVERAGE MV AND MVA OF INFRASTRUCTURE COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20



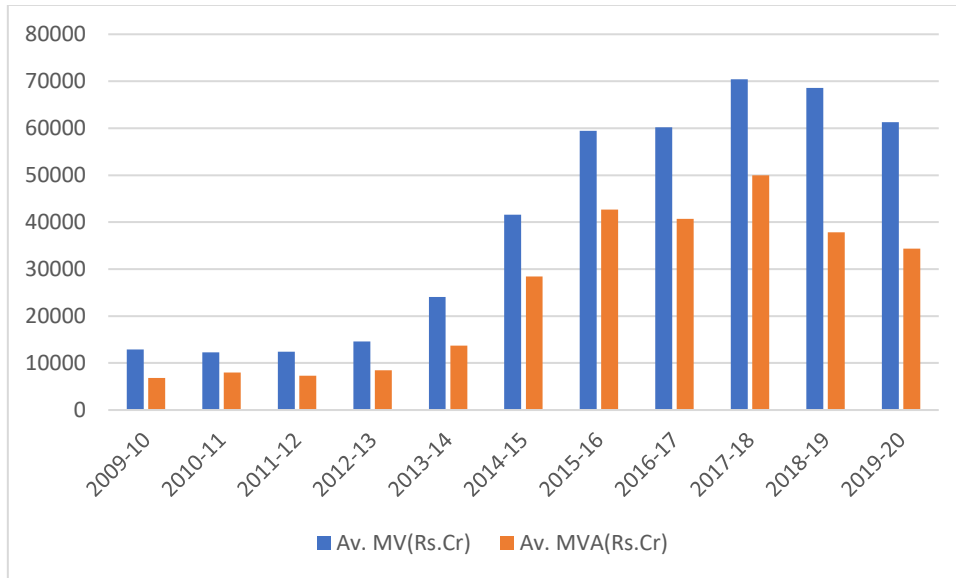
(Source: Author's compilation)

INTERPRETATION: The infrastructure companies are Adani Ports and SEZ Ltd and L & T Ltd. The share of MVA in MV of these companies is ranging between 55-70%. This shows that despite the limitation of funds with the government to spend on infrastructure, practice of PPP in Indian Government which makes the projects to realize their cash inflows far into the future and the fairly longer gestation period involved in the infrastructure projects, there is a fair degree of Market Value Added. We also note that the growth of this industry has almost muted during the years 2015-16 and 2016-17. One of the reasons could be that the change of guard in the government starting from 2014, after which the 12th Five-year plan was discarded. The growth of MV and MVA has slightly decreased during the year 2019-20 when compared to 2018-19 which must have further decreased after the pandemic which is now showing gradual pick up.

TABLE 7 - AVERAGE MV AND MVA OF PHARMACEUTICAL COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20		
Year	Av. MV(Rs.Cr)	Av. MVA(Rs.Cr)
2009-10	12893	6844
2010-11	12268	7988
2011-12	12431	7293
2012-13	14612	8476
2013-14	24090	13724
2014-15	41613	28452

2015-16	59422	42701
2016-17	60192	40736
2017-18	70408	49999
2018-19	68594	37806
2019-20	61274	34355

CHART – 7– AVERAGE MV AND MVA OF PHARMACEUTICAL COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20



(Source: Authors compilation)

INTERPRETATION: The companies in the pharma industry show a slow growth from 2009-10 to 2012-13 wherein the MV ranges from Rs.12893 to Rs. 14692 crores, while there is a phenomenal growth in MV from the year 2013-14 to 2018-19 where the MV which was Rs.24090 crores in 2013-14 reaches to a peak of Rs.70408 crores in 2017-18 and slightly tapers off to Rs. 68594 crores during 2018-19. The growth of MV has further reduced to Rs.61274 crores during 2019-20. We notice that there is also a sharp reduction in MVA from Rs. 49999 crores during the years 2017-18 to Rs.34355 crores during the year 2019-20, which must have further decreased at least during the first quarter of FY 2019-20. The companies in pharma sector in NIFTY are Cipla, Dr. Reddy’s Laboratories Ltd and Sun Pharmaceuticals Ltd. These companies are well-established and have their own niche presence in the global markets apart from having a dominant presence in the Indian market. It is small wonder that the benchmark pharmaceutical companies are a trend-setter for the remaining players in this industry reaching greater heights in terms of their reach and ability to capitalize the strength of the Indian Economy and population in pharmaceutical production, marketing and distribution. On an average, we find that the share of MVA in MV is found to range between 55-70%.

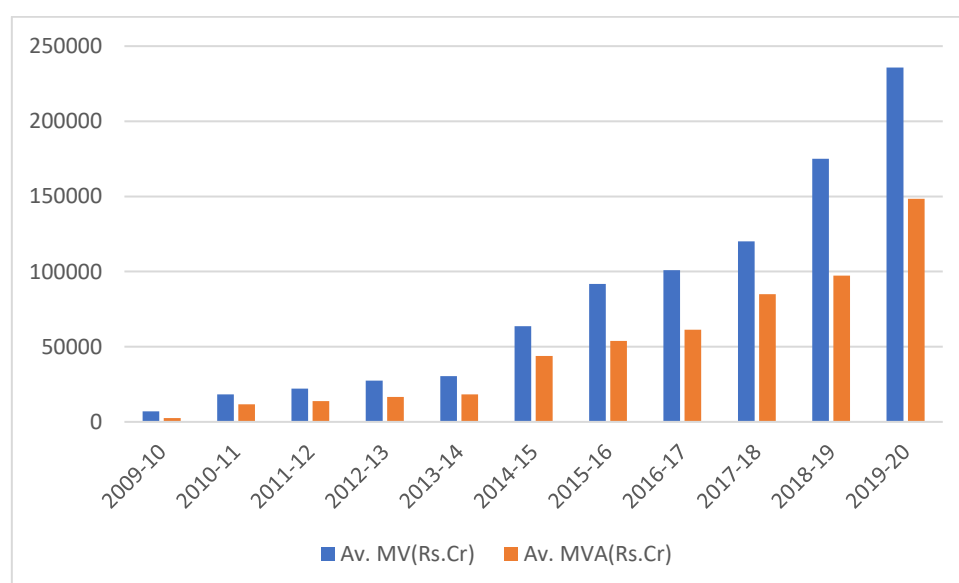
TABLE - 8 - AVERAGE MV AND MVA OF BANKING AND FINANCIAL SERVICES(BFSI) COMPANIES		
COMPANIES IN NIFTY INDEX - 2009-10 TO 2019-20		
Year	Av. MV(Rs.Cr)	Av. MVA(Rs.Cr)
2009-10	6993	2615
2010-11	18340	11778
2011-12	22168	13893
2012-13	27501	16666

2013-14	30487	18401
2014-15	63651	43832
2015-16	91784	53922
2016-17	100901	61255
2017-18	120172	84931
2018-19	174985	97271
2019-20	235690	148520

(Source:

Author's compilation)

CHART -8- AVERAGE MV AND MVA OF BANKING AND FINANCIAL SERVICES(BFSI) COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20



(Source: Authors compilation)

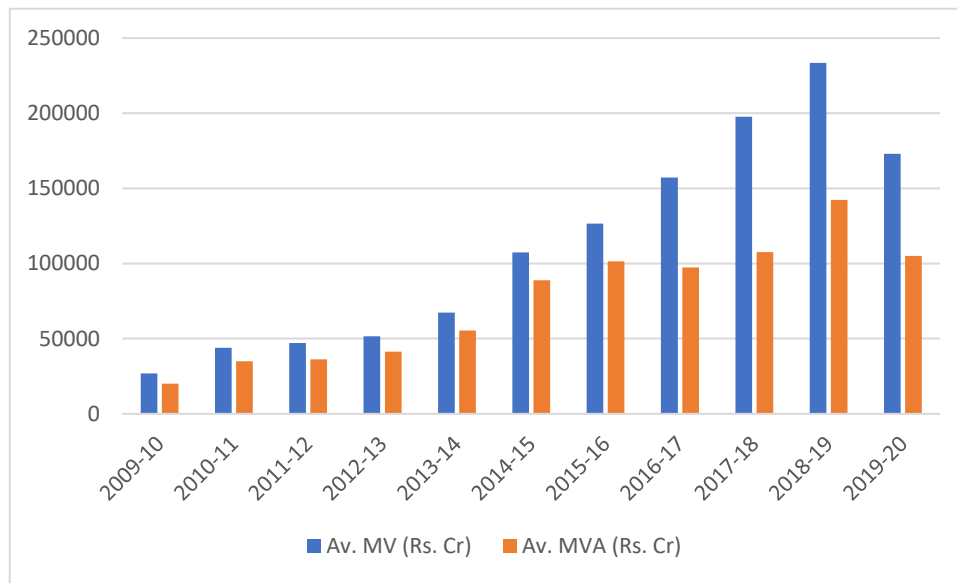
INTERPRETATION: It is observed that there is a marginal or low growth on an overall basis as regards both MV and MVA during the years 2009-10 to 2013-14. However, we notice that both MV and MVA are growing immensely during the years 2014-15 to 2019-20 so much so that the figures during the year 2018-19 is more than double and nearly 3 times in terms of MV and MVA when compared to that of the year 2014-15. The percentage of MVA in MV during all the years however ranges between 50-70%. It is observed that it was much low during the years 2009-10 and 2010-11 which was between 35-55%. One of the main reasons for the low share of MVA to MV during the years can be attributed to the growing and high levels of NPAs over the years, the figures must have taken a deep dip after the pandemic set in March 2020.

TABLE - 9 - AVERAGE MV AND MVA OF SOFTWARE COMPANIES IN NIFTY INDEX - 2009-10 TO 2017-18		
Year	Av. MV (Rs. Cr)	Av. MVA (Rs. Cr)
2009-10	26786	20076
2010-11	43990	34905
2011-12	47203	36357
2012-13	51620	41419

2013-14	67375	55482
2014-15	107304	88865
2015-16	126495	101392
2016-17	157259	97342
2017-18	197810	107706
2018-19	233543	142283
2019-20	173023	105066

(Source: Author’s compilation)

CHART -9 - AVERAGE MV AND MVA OF SOFTWARE COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20



(Source: Author’s compilation)

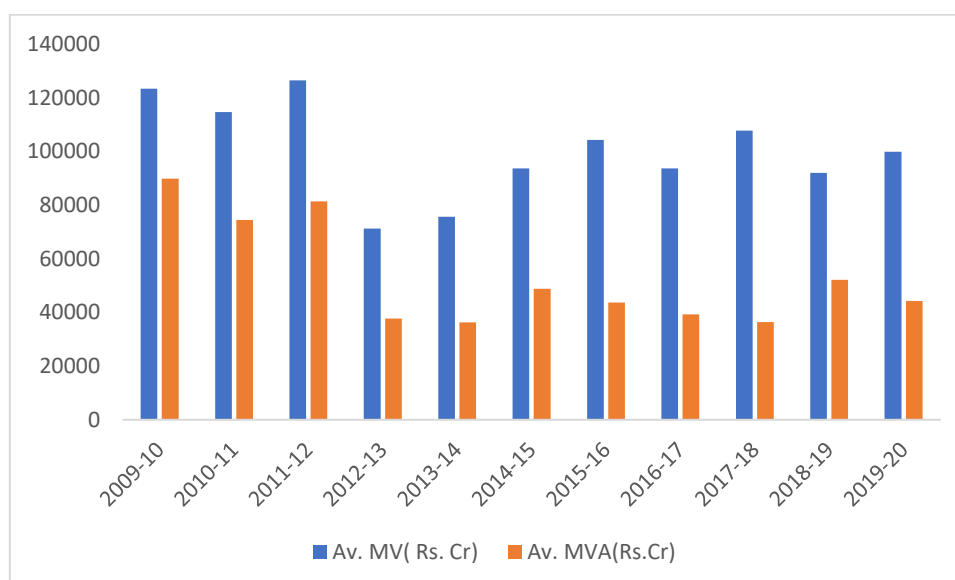
INTERPRETATION: The share of MVA to MV during all the year ranges between 55 to 90%. The companies in the software sector comprising the Nifty Index are Infosys, TCS, Tech Mahindra, Wipro Ltd and HCL Ltd. We notice that while there is a significant increase both in terms of MV and MVA during the years on the whole, however the period during 2011-12 to 2013-14 has somewhat low growth rate both in MVS and MVAs and 2014-15 to 2018-19, we find a consistent and high growth rate. During the year 2019-20, we find that there is a considerable decrease when compared to the previous year due to a marginal slowdown partly due to the onset of the pandemic during the last quarter. All in all, it shows that the large, leading and listed companies in this sector have contributed not only to their own growth and development, but have indeed contributed to the growth and development of software industry across the globe in many countries and as a by-product added significant value to the shareholders.

TABLE 10 - AVERAGE MV AND MVA OF TELECOM SERVICE COMPANIES IN NIFTY INDEX - 2009-10 TO 2017-18		
Year	Av. MV(Rs.Cr)	Av. MVA(Rs.Cr)
2009-10	123419	89868
2010-11	114685	74451

2011-12	126457	81354
2012-13	71249	37758
2013-14	75627	36299
2014-15	93616	48847
2015-16	104243	43670
2016-17	93696	39305
2017-18	107730	36430
2018-19	91942	52150
2019-20	99836	44290

(Source: Author's compilation)

CHART -10 - AVERAGE MV AND MVA OF TELECOM SERVICES COMPANIES IN THE NIFTY INDEX - 2009-10 TO 2019-20



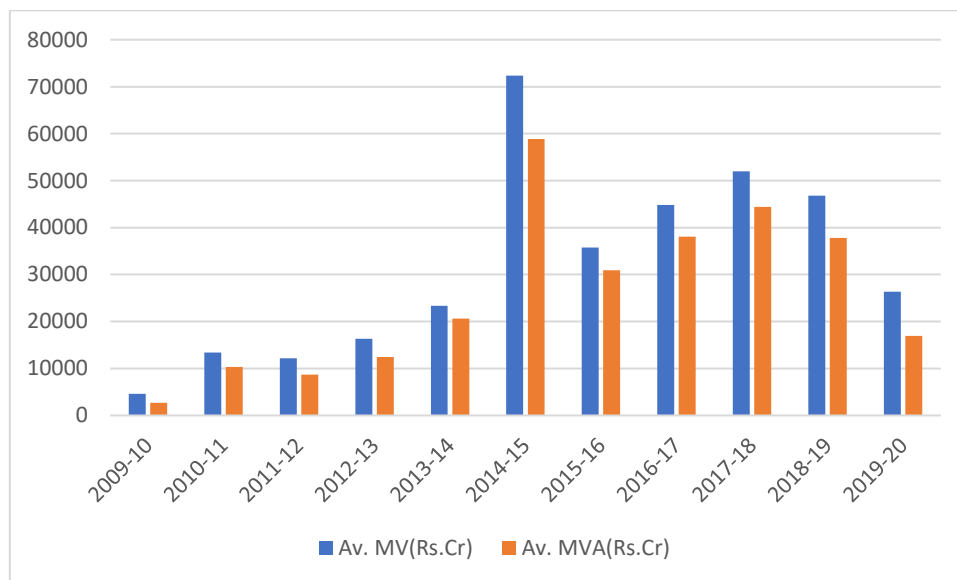
(Source: Authors compilation)

INTERPRETATION: This is one exceptional industry where the trend in growth of MV and MVA is atypical. During the year 2017-18, the overall aggregate figures of MV have decreased by 75% to what they were in the year 2009-10 which clearly shows an overall trend, similarly, MVA has decreased by 50% and even less during the last few years. This shows that the Companies included in NIFTY do not constitute Reliance owned Jio and hence are in a somewhat turbulent and inconsistent growth situation during the period. By the way, the companies in the Nifty under this sector are Bharti Airtel and Bharti InfraTel Ltd. One of the main reasons for the trend shown above would be the aggressive introduction and growth of Jio Mobile and allied services during the above years. By the way, this also indicates how any industry and more so, the telecom industry in the decade past is prone to competition risk.

TABLE - 11 - AVERAGE MV AND MVA OF ENTERTAINMENT COMPANY IN NIFTY INDEX - 2009-10 TO 2019-20		
Year	Av. MV(Rs.Cr)	Av. MVA(Rs.Cr)
2009-10	4618	2706
2010-11	13419	10321

2011-12	12157	8727
2012-13	16350	12439
2013-14	23338	20617
2014-15	72331	58892.5
2015-16	35729	30922
2016-17	44795	38102
2017-18	51998	44433
2018-19	46774	37831
2019-20	26317	16957

CHART -11 - CHART SHOWING THE MV AND MVA OF ENTERTAINMENT COMPANY IN THE NIFTY INDEX – 2009-10 TO 2019-20



(Source: Authors compilation)

INTERPRETATION: It is observed that the lone company which belongs this sector under the NIFTY, i.e., Zee Entertainment Enterprises Ltd is found to be having a high share in MVA to MV throughout the period despite glaring inconsistencies in its growth throughout the period. It is noted that both the MV and MVA peaked during the year 2014-15 while there was a marginal growth during the first few years and after 2014-15, we notice there is a plunge during the year 2015-16 which dives to almost half of the previous years' figures, a gradual increase takes place till 2017-18, after which again high decrease is noted in the years 2018-19 and 2019-20, it could be attributed to the growing indebtedness of the Company and the promoter Subhash Chandra and his son's share getting diluted in the company accompanied by relatively lower profitability during the last two to three years.

CONCLUSIONS:

- 1) It is clear from the Regression Analysis considering the MVA as the Dependent Variable and the profit variants viz., Av. EBITDA, Av. EAT, Av. CFO, Av. FCF, Av. ROI, Av. ROE, Av. D/P Ratio that the predictability of MVA is high from the profit variants, i.e., Av. EAT, Av. CFO, Av. D/P Ratio and Av. FCF whose 'p' values are found to be 0.004, 0.004, 0.05, 0.044 and 0.064 respectively.

- 2) The Regression Equation pertaining to the Composition of Directors and the Independent Variables, viz., the Executive, Non-Executive, Independent and Women Directors and MVA as the Dependent Variable points to the plausible deduction that irrespective of which category of directors are at the helm, MVA is not driven exactly by the quantity of the Directors' composition but obviously by its quality, as shown by the 'p' values, except for women directors which show a somewhat acceptable 'p' value of 0.041.
- 3) The Correlation and the Regression between the major categories of shareholders, viz., the Promoters, FIIs(Foreign Institutional Investors) and the DIIs(Domestic Institutional Investors) indicate that the performance of the company as measured by MVA is exogenic to these variables.
- 4) Conclusions made about the hypotheses made in the study are given in the table below:

TABLE 12 - CONCLUSIONS BASED

ON HYPOTHESES AND RELEVANT DATA ANALYSIS

	Accepted	Not Accepted	Basis	Degree of Confidence
H1- MVA is positively associated with EBITDA		√	p > 0.05	90%
H2-MVA is positively associated with PAT	√		p < 0.05	90%
H3-MVA is positively associated with CFOs	√		p < 0.05	90%
H4-MVA is positively related to FCFs	√		p < 0.05	90%
H5-MVA is positively related to ROI		√	p < 0.05	90%
H6-MVA is positively associated with ROE		√	p > 0.05	90%
H7- MVA is positively associated with D/P Ratio	√		p < 0.05	90%
H8 – MVA is positively associated with the proportion of prominent categories of directors		√	p > 0.05	90%
H9 – MVA is positively associated with the important categories of Shareholders		√	p > 0.05	90%

- 5) It is observed that the MV (Market Value/Capitalization) and more importantly MVA (Market Value Added) are relatively quite high and consistently increasing in case of companies under Software, FMCG and Pharmaceutical Industry prominently. These are followed by companies in the Automobile and to some good extent in Infrastructure, Banking and Financial Services Sector.

SUGGESTIONS:

- 1) Company Managers, Investors and Shareholders including promoter shareholders must focus on the Net Profits, Cash from Operations, Free Cash Flows and the Dividend Pay-out Ratios. If these are found to consistently increase on a long-term, such shares are worthy of investment.
- 2) It is not the composition of different categories of Board of Directors nor the composition of various categories of shareholders that really matter. It is rather the orientation towards high degree of efficiency, profitability and proper risk analysis and mitigation mechanisms employed by the company to maximize wealth to the shareholders that really matter.
- 3) Investors would do well to invest in shares of some of the promising companies like Infosys from Software Sector, HUL from FMCG Sector, Dr. Reddy's Laboratories from Pharmaceutical Sector, Bajaj Auto from Automobile Sector and the like. Investors can rest assured with a very high degree of probability that their wealth would be maximized in the long-term.

ⁱ ET Bureau, Economic Times, “DBS Merger: LVB Shareholders Set to Contest Move to Wipe out their Equity”, Economic Times dated 19/10/20

ⁱⁱ ET Bureau, Economic Times, “Independent Directors must flag governance issues before resigning, says SEBI Chief”, Economic Times 22/10/2020.

ⁱⁱⁱ Thomas Kaplan, *Sheelagh McNeill (2019), The New York Times, Business RoundTable.*

^{iv} Accessible at <https://www.livemint.com/opinion/online-views/shareholder-value-isn-t-past-its-sell-by-date-as-a-corporate-goal-11602167194475.html> (2020).

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