SHAREHOLDER VALUE CREATION- A SECTORAL ANALYSIS

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Abstract

The concept of Shareholder Value Creation is gaining momentum in India under the Open regime. Indian Companies are geared to understand and act upon the concept of Shareholder Value to stay competitive in this unfathomable and volatile environment. Most executives today understand that, the need to create shareholder value is paramount and the world’s most competitive management teams are responding to the pressure to create value by embracing new metrics and new models for managing their companies.

This research examines the Shareholder Value Created in Indian Companies by adopting Pablo Fernandez model, a refined model based on Market Values, believed to be a superior model when compared to the traditional measures (ROE, ROI, EPS) and various models developed by Consulting Firms (EP, EVA, MVA, SVA) to analyze Value Creation. For this purpose, sample of 20 companies representing TEN industrial sectors has been taken. Five industrial sector will represent the Indian old generation sector (Oil & gas, steel, Textile, sugar, cement) & another five will represent the new generation sector (IT, pharmaceuticals, FMCG, Capital Goods, Automobiles) The companies data for the period of 2007-2011 has been analyzed and found that though the companies Ranked high on the basis of Market capitalization, when measured in terms of Value Creation have destroyed value and have low Shareholder Returns or negative Shareholder Returns and companies ranked low have Created Value.

Hence, it can be concluded that though Market Capitalization and other accounting methods used by the companies worldwide convey about value creation they do not measure Shareholder Value Created.

Key Words: shareholder value, EVA, Value creation