

# A Study On the Empirical Analyses of Economic Value-Added Performance of Investment and Finance Companies in Chennai City (With Reference to Cholamandalam Investment and Finance Company Limited)

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## ABSTRACT

With increasing pressure on firms to deliver shareholder value, there has been a renewed emphasis on devising measures of corporate financial performance and incentive compensation plans that encourage managers to increase shareholder wealth. One professedly recent innovation in the field of internal and external performance measurement is a trade-marked variant of residual income known as economic value-added (EVA). This paper attempts to provide a synoptic survey of EVA's conceptual underpinnings and the comparatively few empirical analyses of performance

**KEYWORDS:** Economic value-added (EVA), deliver shareholder value, corporate financial performance, increase shareholder wealth, internal and external performance measurement.

## 1. INTRODUCTION

Being able to measure the value of an investment is becoming increasingly important today. This is due to increased global competition and financial pressure. The methods of measurement, however, are numerous and widely debated. Businesses find themselves using 1 performance measurement method for taxation purposes, another for bonus determination, and yet another for reporting to their shareholders. Ideally, only 1 method should be used to cover all the different purposes. Businesses have a dire need for a more accurate and efficient method of value measurement. This project explores EVA, which is a fairly recent addition to the existing list of performance measurement methods. Companies that use EVA include AT&T, Coca-Cola and Quaker Oats and many other successful companies. **EVA- New Tool for Performance Management (PM)**. Historically, Performance Management systems was developed as a means of monitoring and maintaining organizational control, which is the process of ensuring that an organization pursues strategies that lead to the achievement of overall goals and objectives. PM is increasingly used by organizations, as it enables them to ensure that they are achieving continuous improvement in their operations in order to sustain a competitive edge, increase market share and increase profits.

## 2. OBJECTIVES OF THE STUDY:

- The main objective of the study is to analysis the **EVA of Finance Companies in Chennai with reference to Cholamandalam Investment and Finance Company Limited.**
- To find the effect of credit in sales and the corresponding growth in business.
- To have a comparative study of the company's balance sheet and profit and loss account for five years.
- To have comparative ratio analysis of available annual report.

## 3. RESEARCH METHODOLOGY

The type of research applied is experimental research. The study carried with co-operation of the management who permitted to carry on the study and provided the requisite data. The data is collected from the following sources.

## 4. SOURCES OF DATA

Secondary Data

### Secondary Data:

The secondary data is mainly collected from the annual reports of the company and it is collected from journals, magazines and books available on the subject.

The information collected from

- \* Annual report
- \* Executives and staff of financial of financial accounting department.
- \* Executives of other departments.
- \* Journals and articles

## 5. ANALYTICAL AND TECHNICAL TOOLS:

The data are analyzed through accounting method. There are various accounting tools to analysis the data.

- \* Comparative income statement
- \* Common size income statement
- \* Ratio analysis

## 6. REVIEW OF LITERATURE

**Grant (2023)** found that the EVA concept may have everlastingly changed the way real profitability is measured. A survey was conducted that examines the empirical relations between EVA and corporate valuation. Results suggest that EVA significantly bangs the Market Value Added of a firm and that this wealth effect stems from the company's residual return on capital.

**Kramer and Pushner (2023)** empirically test the strength of the relationship between EVA and market value added. The results do not fully support the arguments of EVA proponents that it is the best internal measure of corporate success in adding value to shareholder investments. On the contrary, the market seems more focused on "profit" than EVA.

**Chen and Dodd (2022)** examine the economic value added (EVA) performance of 566 US companies and compares the information usefulness of EVA with accounting earnings and residual income. T

hey have explored three conclusions result from the study: (1) although improving EVA performance is a ssociated with a higher stock return, but the association is not as perfect as claimed by EVA advocates, ( 2) EVA is more powerful than traditional measures of accounting profit in explaining stock return; howe ver, accounting earnings are still of significant incremental information value in addition to EVA,

**Villiers (2022)** studies the extent to which EVA is distorted by inflation, and finds that it cannot b e used under inflation to estimate actual profitability. His study develops an adjusted EVA (AEVA) calcu lation procedure which provides a better estimate of actual profitability under inflation. He suggests that AEVA can be used instead of EVA for financial decision-making under inflation. He also shows that EV A is distorted by inflation and that it cannot be used under inflation to estimate actual profitability. While AEVA provides an alternative to inflation accounting, and could be used under inflation to estimate actu al profitability from conventional historical cost accounts.

**7. DATA ANALYSIS & INTERPRETATION**

**CURRENT RATIO:**

Current ratio is the ratio of current assets and current liability. It establishes the ability of a particular significance to short term creditors and management. The nature of business requirements have a bearing on the use in the light of credit allowed period and received and sum of the factors which determine the required satisfactory limit of current assets over current liabilities.

Standard ratio 2:1

The current ratio over the past 5 years as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Table: 1**

Current Ratio of Cholamandalam invst & fin Limited During the period 2020-21 to 2024-25.

Year	Current Assets in Rs.	Current Liabilities in Rs.	Ratio
2024-2025	592,081,591	184,822,995	3.20
2023-2024	635,060,000	210,798,637	3.01
2022-2023	595,297,792	170,696,030	3.48
2021-2022	644,848,751	202,829,598	3.18
2020-2021	624,866,578	190,479,571	3.28

Source: secondary data

**INTERPRETATION:**

From the above table we can notice there is an increase the current ratio in the last two years. In general 2:1 is the ideal ratio for current ratio. The company’s current ratio is more than the ideal ratio. In average the company is in liquid position because in average the current ratio equal to the ideal ratio.

**TABLE -2**

Table showing changes in working capital of **cholamandalam investment & finance ltd.**

Year	Current Assets Rs	Current Liabilities Rs	Working Capital Rs.	Changes in W.C Rs.
2024-2025	592,081,591	184,822,995	407,258,596	192,685,678
2023-2024	635,060,000	210,798,637	424,261,363	17,002,767
2022-2023	595,297,792	170,696,030	424,601,762	340,399
2021-2022	644,848,751	202,829,598	442,019,163	17,417,401
2020-2021	624,866,578	190,479,571	434,387,007	7,655,144

Source: secondary data

**INTERPRETATION:**

The above table shows that there is an increase in Working Capital in the year 2020-2021 compared to previous years. However, there is a decrease in the year 2022-2023. It will be increased in the year 2024-2025 to 2.9 percent. And it will be increased 11.8 percent. It is the better environment to working capital.

**TABLE -3**

**Debtors Turnover Ratio of Cholamandalam Invst & Fin Limited**

Years	Credit sales Rs.	Average Debtors Rs.	Ratios
2024-2025	815,131,218	97,681,468	8.34
2023-2024	919,539,122	111,826,213	8.22
2022-2023	852,307,423	124,959,792	6.82
2021-2022	820,734,436	143,642,534	5.71
2020-2021	112,919,624	179,268,595	6.30

Source: secondary data

**INTERPRETATION:**

Debtors' turnover ratio indicates the number of times debtors turnover each year. enerally higher value of debtor's turnover, the more efficient is the management of credits.The ratio is good in the year 2020-21,it was 8.34. But it is gradually decreasing to 5.71 in the year 2023-24. But it is increasing in the last year of 2024-25 it was 6.30.

**INVENTORY TURNOVER RATIO:**

Inventory turnover ratio indicates the efficiency of the firm in producing and selling its products. It is also known as stock velocity. It is calculated by dividing the cost of goods sold by the average inventory. It also calculated with the help of sales.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

The average inventory is the average of opening and closing balance of inventory. In manufacturing companies, inventories of finished goods are used to calculate inventory turnover.

**Table:4**  
**Inventory Turnover Ratio of Cholamandalam Invst & Fin Limited**

Years	Cost of goods sold Rs.	Average Inventory Rs.	Ratio
2024-2025	626,975,086	156,179,205	3.63
2023-2024	576,565,039	188,886,937	3.60
2022-2023	610,259,100	131,405,030	5.15
2021-2022	669,072,318	105,291,435	5.59
2020-2021	929,222,648	136,431,528	6.81

Source: secondary data

**INTERPRETATION:**

Inventory turnover indicates the number of times the stock has turned over during the period and evaluates the efficiency with which the firm is able to manage its inventory. The inventory turnover is high during the year 2024-25 High inventory turnover indicates good inventory management. On the whole the turnover is high in inventory indicates efficient management of inventory by the company. The stocks are sold more frequently and lesser amount is required to finance the inventory.

**NET WORKING CAPITAL RATIO:**

This Ratio shows the proportion of networking capital to Net Current Assets

$$\text{Net Working Capital} = \frac{\text{Net Working Capital}}{\text{Net Assets}}$$

**Table: 5**

**Net working capital ratio of Cholamandalam Invst & Fin Limited during the period**

Years	Working Capital Rs.	Net Assets Rs.	Ratio
2024-2025	407,258,596	592,081,591	0.687
2023-2024	424,261,363	635,060,000	0.668
2022-2023	424,601,762	595,297,792	0.713
2021-2022	442,019,163	644,848,751	0.685
2020-2021	434,387,007	624,866,578	0.695

**INTERPRETATION:**

The ratio is good in the year 2021-22. But net working capital ratio is in fluctuation situation over the last 5 years’ time period. It low to in the year 2022-23. But there is an increase in the year 2024-25 up to 6.95. In overall the company is not in a bad position.

**8. CONCLUSION**

EVA is an appropriate management tool for small business .Economic Value Added (EVA) is easy-to-calculate .Periodical EVA calculation and analysis can be done with minimal effort because only few basic data have to be entered in a common spreadsheet .EVA calculation is a starting point for improvement in financial and business policy .Scarce capital resources of a small company can be more efficiently allocated using EVA than using intuition or traditional methods .EVA implementation in a small company will result in a better business performance, because of better understanding the objectives (especially near the floor/operating activities).Since EVA helps the organization to realize that capital is a costly resource the most immediate effect of EVA implementation is in most cases dramatic improvement in capital efficiency (improved capital turnover) .

**REFERNCE:**

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