



## **An Empirical Study Of Shareholder Value Creation By Using Traditional As Well As Value Based Performance Measurement Of Infosys**

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### **Abstract**

The main aim of this research paper is to study the shareholder value creation by applying traditional measurements like EPS, ROACE, ROANW, and PAT as well as value based measures like EVA and Share price of company. This study has taken Infosys an Indian company as a sample company for the period of 24 years starting from 2000 to 2023. The wide range of period will help us to analyse the performance of the company very deeply. Another highlight of this study is to take a note that this company has stopped giving EVA statement in its annual report as additional information. Does this make any difference in the quality of disclosure in annual report that is also one of the concerns of this study. Finally this study concluded that Infosys has shown tremendous growth in terms of profit as well as value creation.

**Keywords:** EVA, ROACE, ROANW, EPS, PAT

### **INTRODUCTION**

Infosys Ltd. is one of the Indian company which has shown its potential not only in Indian market but also in the globally. Infosys has also achieved the best annual report award for many years. Infosys has shown Economic Value Added statement in its annual report along with other traditional performance measurements. EVA is not a part of compulsory disclosure but it's a part of additional disclosure. EVA is providing an additional performance to its investors, customers, Shareholders, management and other stakeholders. In Infosys EVA is used as value delivered to customers in terms of the payment made by customers. Ultimately here EVA is used as a measurement of Customer satisfaction and customers are not supposed to worry about only price of the product. But Infosys has stopped producing EVA after 2011 and here this research paper highlights this issue and trying to show that whether traditional performance measurements are good option of EVA. As an additional information disclosure EVA is used if there is positive correlation between EVA and other traditional performance measurements then this conventional methods are good option of EVA.

### **ABOUT THE COMPANY**

Infosys is established by N. R. Narayanamurthy and six engineers in Pune, India, with an initial capital of US\$ 250. In 1994 it moves corporate headquarters to electronic city, Bangalore. Infosys is a global leader in consulting, technology and outsourcing solutions. Established in 1981, Infosys is a NYSE listed global consulting and IT Services Company with more than 193000 employees from a capital of US\$ 250, grown to become a US \$ 9.21 billion company with a market capitalization of approximately US\$ 38.5 billion. Infosys is a pioneered the global delivery model and become the first IT Company from India to be listed on NASDAQ. In 2006 Infosys celebrates its 25 years

### **OBJECTIVES**

- 1) To study the financial performance of the company through Traditional measures like EPS, ROACE, ROANW, PAT
- 2) To study the financial performance of the company through Modern Techniques like EVA and Share price of company.
- 3) To check that whether EVA is a substitute of Traditional performance measurements or not.
- 4) To analyze that not producing EVA statement after 12 years of publishing it will harm the financial performance of the company or not.

### **DATA**

Only secondary data is used in this research paper which is available from the annual report of the Infosys. Here 24 years data have been used to analyse the growth of the company. Infosys is the first Indian company which provides Economic Value Addition in its annual report from 1994 to 2012. Infosys is an Indian company which gives maximum details or information to the shareholders. In this study Infosys is taken as a sample company to analyses its value addition to shareholders wealth and comparison with traditional performance.

### **METHODOLOGY**

Statistical method Correlation has been used to analyse the Correlation between EVA and other traditional performance measurements like PAT, ROANW, ROACE, EPS and Share Price of a company.

## HYPOTHESIS

H0: There is a no relation between EVA and ROANW, ROACE.

H0<sub>1</sub>: There is no relation between EVA and Share price.

H0<sub>2</sub>: There is no relation between EVA and EPS.

## LITERATURE REVIEW

Sharma P. and Grover A. (2015) study the shareholder value creation in Indian Companies as measured by EVA and to determine the key factors that have an impact on EVA. This study has taken 30 SENSEX Companies for a period of five years from 2009-2013 and examines EVA as a measure of Shareholder Value Creation. The study concluded that most of all sample companies have positive EVA in this period and that indicates that companies are efficient enough to create profit but also focusing on wealth maximization.

Altaf N. (2016) this paper is to test the claim made by Stern Stewart and Company that Economic Value Added is a better metric than traditional earning-based measures in explaining market value. This study has taken 325 Indian companies as a sample which divided into manufacturing as well as service sector. The result of the study does not support the claim made by Stern Stewart and Company but it can be said that traditional earning-based measures better explain Market value Added.

Shah A. (2020) analyses the superior impact of Economic Value Added or traditional accounting measures for value maximization. This study considers 190 listed companies selected from BSE for the period of five years. This study has used different statistical methods to explain this objective and finally concluded that traditional accounting measures are better to explain the financial performance of the company. This study is useful for the stakeholders who need financial performance of the various companies for the different purpose.

Rasool N., Ullah S., Hussain M., Usman M. (2021) the purpose of this study is to examine the comparative relationship of Value Added and conventional financial performance indicators with stock returns of listed companies of Pakistani stock exchange. Here this study consists of 107 companies for the period of 2011 to 2018. The study concluded that stock returns are more influenced by the value that is created by listed companies for their shareholders than the accounting profit. That will lead to providing useful information.

Suraj J., Panchal R., Lather A. (2023) The main aim of this research paper is to test the superiority of PAT, EPS, ROA, ROE, and ROI over the EVA in the Indian manufacturing companies. This paper uses 534 BSE companies for the period 2000-2018 by using different statistical techniques. This paper revealed that traditional accounting-based measures such as EPS, ROE, and ROA are performed better than EVA in explaining returns of Indian manufacturing companies. Information content of EVA adds little contribution to information content above traditional measures.

Malhotra A. (2018), The purpose of this paper is to provide an overview and analysis of the Economic Value Added metric. This paper also highlights advantages and disadvantages of its proponents and critics also. A case of Infosys has been taken for the consecutive five years to analyze the relationship between EVA indicator and investor behavior. The result of the paper shows that there is a value creation by Infosys for this period and also EVA has a significant relationship with the shareholder's value creation.

Goel K., Oswal S. (2020), this paper examining the claim that economic value added (EVA) is superior performance indicator than the traditional performance indicator like ROCE, NOPAT, EPS, OCF and RONW. This study investigates the relative explanatory power of EVA measure of non-financial Indian companies with respect to two measures, market value added and stock returns used as a proxy for shareholder value. This analysis is performed for a sample of 46 Indian companies for the period of 2009-2019. Overall, the findings do not support the superiority of EVA over the accounting variables in association with market value or stock market returns of the firm. It is concluded that that non-financial variable such as research and development, customer satisfaction, innovation, employee satisfaction, CSR, product quality apart from financial drive market value and should be considered by investors in developing their investment strategies.

Bantwa, Ashok, Bhuva, Dr. Kunal (2021) this paper measures corporate performance of selected Indian companies by using EVA and other conventional measures. An attempt has been made to analyze the effectiveness of EVA over traditional performance measurements. In this paper an attempt has been made to analyze the effectiveness of EVA over conventional performance measurement. This paper concluded that HUL is the best performing company as per EVACE, ROCE, and RONW and also found that RONW and EVACE are highly correlated and RONW and ROCE significant affect EVACE.

## Economic Value Added

$EVA = NOPAT - (WACC \times IC)$ ,       $NOPAT = \text{Net Operating Profit after Tax}$

$WACC = \text{Weighted Average cost of capital}$ ,       $IC = \text{Invested Capital}$

To find out cost of equity (ke), Capital Asset Pricing model (CAPM) has been used. Ke is the shareholder's expected rate of return, which can find out by using this equation:

$$K_e = R_f + \beta (R_m - R_f)$$

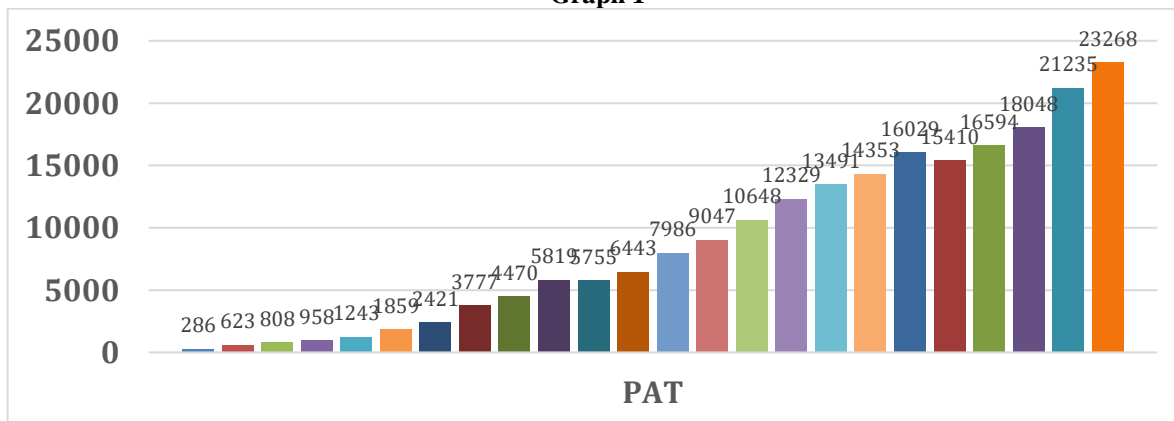
ANALYSIS

Table 1

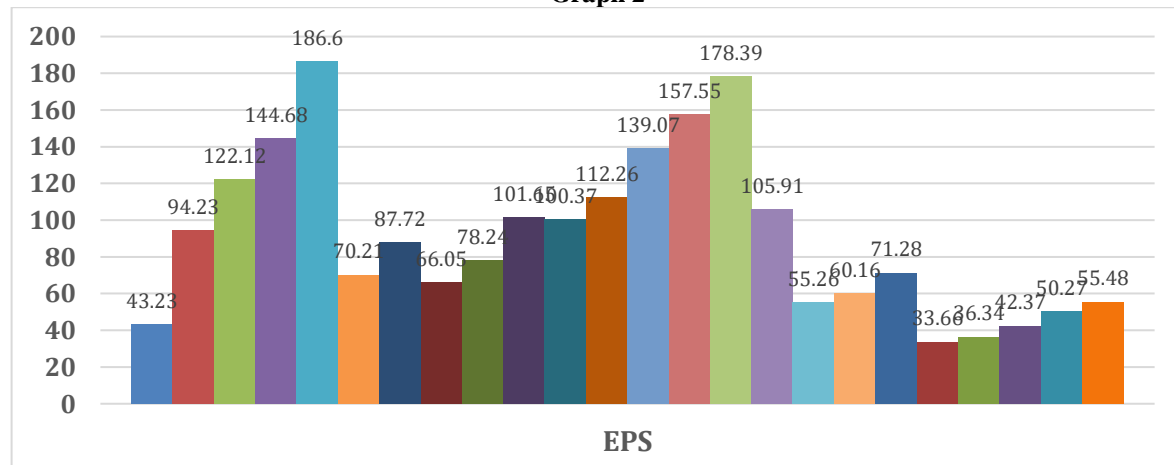
YEAR	PAT	EPS	ROACE	ROANW
2000	286	43.23	40.63	40.63
2001	623	94.23	56.08	56.1
2002	808	122.12	54.37	46.6
2003	958	144.68	46.91	38.8
2004	1243	186.6	48.1	40.7
2005	1859	70.21	51.4	43.8
2006	2421	87.72	44.9	39.9
2007	3777	66.05	45.7	41.9
2008	4470	78.24	41.4	36.3
2009	5819	101.65	42.9	37.2
2010	5755	100.37	37.2	28.9
2011	6443	112.26	37.6	27.7
2012	7986	139.07	40.9	29.4
2013	9047	157.55	37.3	27.5
2014	10648	178.39	24.21	22.9
2015	12329	105.91	25.29	24.1
2016	13491	55.26	20.75	22.7
2017	14353	60.16	27.8	21.4
2018	16029	71.28	31	24.1
2019	15410	33.66	32.51	23.8
2020	16594	36.34	34.03	25.46
2021	18048	42.37	35.3	25.46
2022	21235	50.27	40.55	29.58
2023	23268	55.48	45.09	32.32

Source: Annual report of Infosys

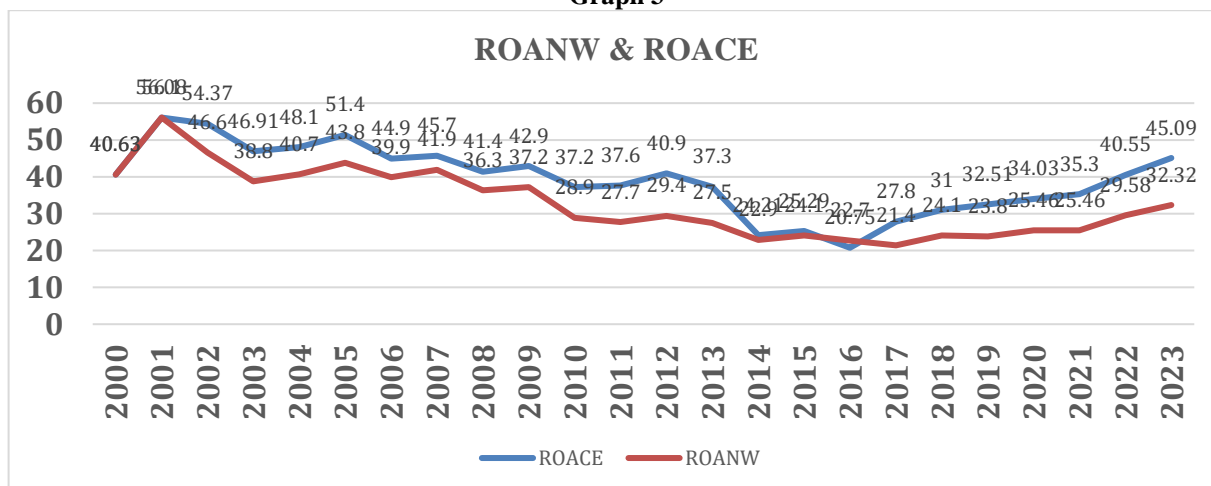
Graph 1



Graph 2



Graph 3



**Result and Discussion**

Table 1 shows the traditional performance measurements like PAT, EPS, ROANW and ROACE from the year 2000 to 2023. This shows consistent growth of the company from 2000 to 2023. Table 2 shows the result of correlation which interprets that there is a positive correlation between ROACE and ROANW. There is a negative relationship between EVA and ROACE same as EVA and ROANW. Table 3 shows the result of correlation between EVA and Share Price which shows that there is a partial positive correlation between EVA and Share Price. Table 4 shows that EPS and EVA from the year 1997 to 2011. Here company has stop producing EVA after 2011. So this research paper has shown the correlation between EPS and EVA up to 2011. This interprets that there is a very low correlation between EVA and EPS. Ultimately all three null hypotheses are rejected and alternative hypothesis is accepted. That there is a relationship between traditional measurements and value based measurements.

Table 2

	ROACE	ROANW	EVA
ROACE	1		
ROANW	0.917507	1	
EVA	-0.76861	-0.86247	1

Table 3

	EVA	Share Price
EVA	1	
Share Price	0.580333	1

Table 4

YEAR	EPS	EVA
1997	46	5.85
1998	18.25	21.85
1999	20.1	70.78
2000	43.23	129.06
2001	94.23	389.02
2002	122.12	510.06
2003	144.68	454.65
2004	186.6	689.63
2005	70.21	1132
2006	87.72	1540
2007	66.05	2122
2008	78.24	2286
2009	101.65	3379
2010	100.37	2936
2011	112.26	2732

Table 5

	EPS	EVA
EPS	1	
EVA	0.25935	1

## CONCLUSION

This research paper concluded that there is very low or negative correlation between EVA as a value based measure and Traditional measurements. Infosys has stopped producing EVA after 2011 and other traditional measurements cannot replace EVA because there is negative or low correlation between EVA and other traditional measures. So for additional information disclosure EVA has its own importance and company has to continue with this detailed information disclosure. Otherwise company has shown tremendous growth during these years.

## SUGGESTIONS

Traditional performance measurements are easy to calculate while easy to understand for the normal people who are not having commerce background. But EVA is one of the value based measure which is necessary for the additional disclosure. And traditional measurements are not the substitute of EVA. EVA shows the value generation by company for its shareholders. The main concept of EVA is also about excess of EVA over total cost of capital including cost of equity and cost of debt. Definitely to include EVA in Annual report will generate extra cost burden and need experts who can calculate EVA with lots of accounting adjustments.

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