

Assessing Economic Value Added (EVA) as A Metric For Financial Performance: A Decadal Analysis of Maruti Suzuki India Limited

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Abstract: *The Economic Value Added (EVA) metric, a thorough assessment of long-term value enhancement, is utilised in the study to conduct a financial performance analysis of Maruti Suzuki India by measuring tax-adjusted operating profit in relation to the minimum required rate of return. This study finds trends in EVA and resource utilisation by analysing archival data from financial disclosures covering the fiscal years 2011–12 to 2021–22. The results show consistently high EVA values, suggesting that shareholders effectively generate wealth. Strategic management success led to EVA's 2017–18 peak; however, the disruptions caused by the COVID – 19 crises caused a brief downturn in 2019–20. The company's tenacity was demonstrated by subsequent recovery. The study finds that Maruti Suzuki Limited is a good option for long-term investment because of its sound financial management and consistent EVA performance. These findings highlight the efficacy of EVA as an indicator for gauging effectiveness and expansion potential, offering investors in the automotive industry valuable insights.*

Keywords: Economic Value Added , Earnings Per Share, Financial Statement Analysis, Return on Equity, Return on Debt

INTRODUCTION

Economic Value Added is a profitability standard that approximates the true residual income of a firm by accounting for the cost of capital against net operating profit after taxes. EVA examines whether a firm yields or loses value, depending on its capacity to earn more than the cost of the funds invested. A positive EVA reflects value creation for shareholders, whereas a negative EVA implies value destruction. It is also extensively applied to measure management performance and guide value-based decision-making in firms (Tortella et al., 2003). Economic Value Added (EVA) is a quantitative performance parameter that examines how successful a company is in generating additional value over the cost of capital. It shows the company's capability to generate returns over the cost of capital, thus generating shareholders' wealth. This positive EVA reflects good financial management and value added to shareholders (Fauziah et al. 2023).

NEED OF THE STUDY - SELECTION OF MARUTI SUZUKI INDIA LIMITED FOR FINANCIAL STATEMENT ANALYSIS

Maruti Suzuki is India's largest automobile company, and its figures are helpful in providing industry trends and consumer behaviour. As a well-established company with a robust financial record, analysing Maruti Suzuki's financial statements offers a comprehensive case study in effective financial management. Maruti Suzuki's performance significantly influences the automotive sector and broader economy, making it relevant for understanding market dynamics. Maruti Suzuki has a large market share in India's automobile sector and is thus a leading player with the capacity for steady returns on investment. Maruti Suzuki has a history of rewarding investors through dividends, attracting income-oriented investors. Maruti Suzuki's well-known brand and reach position it for future growth as the Indian automobile market expands, offering long-term investment potential. In conclusion, Maruti Suzuki's market leadership, strong financials, and strategic position make it ideal for analysis, offering valuable insights for investors.

THEORETICAL BACKGROUND AND RESEARCH OBJECTIVES

Economic Value-Added measures value-driven corporate performance and total shareholder value. The consulting firm Stern Stewart & Co. developed Economic Value Added (EVA), a financial indicator that gauges a business's ability to generate profits, in the early 1990s. Alfred Marshall first put forth the idea of EVA in the early

1800s. In his book *The Quest for Value*, published in 1991, G. Bennett Stewart III transformed the assessment of corporate performance by introducing the concept of Economic Value Added (EVA), a tool that addresses the limitations of accounting-based metrics and more accurately determines whether management increases shareholder value. Stewart acknowledged that traditional accounting favours lenders over owners and proposed EVA as a more economically accurate tool, later refining it through *Eva Dimensions LLC* and presenting the updated framework in *Best-Practice EVA* (Moy, 2017).

Stewart (1990) defined Economic Value Added (EVA) as both a financial performance measure and a decision-making tool. As a measure, it is grounded in the concept of value, and as a tool, it assists in making investment decisions. Furthermore, EVA serves as a performance metric that reflects the total value created by shareholders.

Since the 1990s, maximising shareholder value has been a key corporate goal. EVA helps firms manage performance and strategy by ensuring that returns exceed capital costs and guiding decisions on budgeting, investments, and resource allocation (Geyser & Liebenberg, 2003). EVA aligns managerial incentives with shareholder interests by accounting for the capital cost, correcting overstated profits, and highlighting true profit or loss each period, encouraging managers to consider all costs in decision-making (Loyato et al., 2002; Vasilescu & Popa, 2011; Pramanik & Sahoo, 2016). EVA measures the economic profit a company generates after covering all costs, including capital costs, by subtracting the cost of capital from NOPAT. This indicates whether the firm is truly creating value and is a trademarked concept by Stern Stewart.

The following goals aim to improve financial decision-making and align managerial incentives with shareholders' interests.

RO1: To determine Maruti Suzuki's Economic Value Added to assess its financial performance.

RO2: Examine how EVA reflects Maruti Suzuki's ability to create value for shareholders.

RO3: To assess the effectiveness of Maruti Suzuki's use of resources based on its EVA results.

REVIEW OF LITERATURE

EVA provides a simple method for evaluating value creation by emphasising how effectively resources are used to generate returns. EVA measures value creation by factoring in the cost of capital, guiding efficient resource use, and better explaining stock returns than conventional metrics such as EPS, ROA, and ROE in the Indian manufacturing sector.

Zafiris et al., (1999) propose a modified EVA model that uses market-based valuations to determine equity's opportunity costs, improving on conventional EVA by better reflecting firm performance and the effects of financial leverage. When applied to UK companies financial and market data, this market-based EVA proves to be a reliable tool for evaluating performance and guiding managerial and investor decisions.

Sudebi et al. (2020) find that EVA motivates better decision-making in Chinese Public Organisations, improving efficiency and value creation, based on 2,274 firm-year observations and analysis before and after the SASAC-mandated EVA implementation in 2010.

Sengupta et al. (2022) show that EVA measures value creation above the cost of capital, aligning managerial decisions with shareholder interests, although its complexity and implementation challenges limit its use in Indian firms.

Hasanti (2023) evaluated that Indonesian banks (2014-2018) were financially stable with strong liquidity, showed variable profitability, and created shareholder value, as indicated by positive EVA results.

Chen et al. (2023) found that EVA strongly aligns with long-term total shareholders returns, simplifies performance assessment, and supports strategic, sustainable executive decision-making in the Australian market.

Sura et al. (2023) find that in the Indian manufacturing sector, conventional metrics such as EPS, ROA, and ROE explain shareholder returns better than EVA, showing that EVA offers little additional insight over traditional accounting measures.

While prior studies have examined EVA's link to stock returns, public sector performance, and corporate or banking contexts, no research has specifically explored its insights and applicability in the automotive industry. To address this gap, this study assesses EVA as a financial performance metric for Maruti Suzuki India Limited, filling a research gap in the automotive sector and highlighting how the company creates shareholder value and manages resources in a dynamic industry.

STUDY HYPOTHESIS

H₁: Maruti Suzuki's Economic Value Added (EVA) has been consistently positive, indicating that the company created economic value for shareholders during the period 2011–2022.

H₂: Maruti Suzuki's financial performance, as measured by EVA, ROE, and WACC, reflects the business strategic vision for growth and its ability to generate outcomes for shareholders.

METHODOLOGY

Economic Value Added (EVA) is tracked over time to evaluate Maruti Suzuki India Limited's financial outcomes. Maruti Suzuki's annual financial statements for the fiscal years 2011–12 through 2021–22 have been the source of secondary data used to accomplish this. These annual reports offer thorough details on financial indicators such as operating profit after taxes, capital invested, and cost of financing, all of which are crucial for determining EVA. This study examines trends in EVA and how well Maruti Suzuki creates value for shareholders by examining data from this ten-year period.

ECONOMIC VALUE-ADDED ANALYSIS OF MARUTI SUZUKI INDIA LIMITED

EVA measures management performance: a positive EVA shows value creation, zero EA indicates break-even, and a negative EVA means the firm fails to meet source: Annual reports of Maruti Suzuki India Limited

shareholders and creditors expectations. To measure the economic value added the following formula has been used: Economic Value Added = EBIT * (1-Tax rate) (Return on Operating capital – WACC)

Table 1: Economic Value Analysis of Maruti Suzuki India Limited for the period from 2011-12 to 2020-21.

Variables	2021 - 22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011 - 12
Property in equipment	5,78,621	527384	551871	515960	523184	431625	328656	257822	168578	163416	118573
Net operating working capital	-2,301	24238	-28648	-17878	-75185	-44388	-40558	-2860	63227	43040	45650
Operating capital	5,76,320	551622	523223	498082	447999	387237	288098	254962	231805	206456	164223
EBIT * (1-Tax rate)	36873.3	42497	55826.4	75380.6	77652.5	73825.6	46511.6	37945.9	28367.2	24527.4	16446.6
Return on Operating capital	6.4	7.7	10.7	15.1	17.3	19.1	16.1	14.9	12.2	11.9	10
WACC	5.3	6.5	10.7	14	15	18	12.5	12.6	9.5	9.8	7.2
Economic Value Added	632833.35	673838.41	1307.69	571591.59	1043086.55	430145.82	1040065.39	593016.2	633564.96	435643.53	463959.32

Source: Annual reports of Maruti Suzuki India Limited

To analyse the economic value, the following values must be calculated: Property in equipment comprises the total value of fixed assets, and net operating working capital reflects the amount by which a company's current resources exceed its current debts. The total operating capital of a firm is the sum of property in equipment and net operating working capital. The return on operating capital is calculated by dividing after-tax EBIT by operating capital.

The following are the Workings has been carried out for Computation of Weighted Average Cost of Capital (WACC):

$$WACC = (1-L) r_e + L (1 - T) r_d$$

R_e - return on equity; R_d - return on debt; L - percentage of debt; T - tax rate percentage

Table 2: Calculation of WACC

Variables	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011 - 12
Profit after Tax	38,795	43891	56760	76491	78800	75099	46988	38074	28529	24692	16810
Equity	5,53,335	525006	494322	471097	425755	370905	277631	243318	215086	190384	156745
Debt	1,93,220	187821	141955	168590	176729	148700	125068	101451	99028	84786	74248
Tax	8177	9319	14252	29732	32862	26162	19987	11854	9022	6215	5115
Return on Equity (R_e)	7.01	8.36	11.48	16.24	18.51	20.25	16.92	15.65	13.26	12.97	10.72
Return on Debt (R_d)	20.08	23.37	39.98	45.37	44.59	50.5	37.57	37.53	28.81	29.12	22.64
% of Tax (T)	18.03	18.09	20.41	28.4	29.86	26.28	30.15	23.82	24.16	20.24	23.85
% of Debt (L)	25.88	26.35	22.31	26.36	29.33	28.62	31.06	29.43	31.53	30.81	32.14
% of Equity	74.12	73.65	77.69	73.64	70.67	71.38	68.94	70.57	68.47	69.19	67.86
WACC	5.3	6.5	10.7	14	15	18	12.5	12.6	9.5	9.8	7.2

Source: Annual reports of Maruti Suzuki India Limited

Return on equity is the earnings of the company's shareholders. The profitability of shareholders equity is obtained by dividing earnings after tax by the total equity capital of the enterprise. The peak equity profitability was achieved by the firm during 2016-17 and in the year 2020-21 the lowest return on equity was recorded due to a decline in sales and profit. Return on debt measures the use of borrowed funds that contribute to profitability. The highest return on debt occurred in 2016 -17, with a dip in the last year due to lower sales. The firm paid the highest corporate

tax of 30.15% in 2015-16. WACC peaked at 18% in 2016-17, reflecting the average return required by debt and equity holders.

The Economic Value Analysis (EVA) of Maruti Suzuki Motors revealed positive value creation across all years, guiding managerial decisions and investor choices. EVA peaked in 2017-18. Dipped in 2019-20 to Rs. 1,307 million, but management efforts raised it to Rs. 673,838 million.

Table 3: Computation of Return on Equity Ratio (ROE) and Return on Debt

Period	Profit after Tax	Total equity	Total Debt	Return on Equity (%)	Return on debt (%)
01.04.2021 - 31.03.2022	38795	5,53,335	1,93,220	7.01	20.08
01.04.2020 - 31.03.2021	43891	525006	187821	8.36	23.37
01.04.2019 - 31.03.2020	56760	494130	141955	11.49	39.98
01.04.2018 - 31.03.2019	76491	470921	168590	16.24	45.37
01.04.2017 - 31.03.2018	78800	425594	176729	18.52	44.59
01.04.2016 - 31.03.2017	75099	370751	148700	20.26	50.5
01.04.2015 - 31.03.2016	46988	277487	125068	16.93	37.57
01.04.2014 - 31.03.2015	38074	243184	101451	15.66	37.53
01.04.2013 - 31.03.2014	28529	214964	99028	13.27	28.81
01.04.2012 - 31.03.2013	24692	190278	84786	12.98	29.12
01.04.2011 - 31.03.2012	16810	156745	74248	10.72	22.64

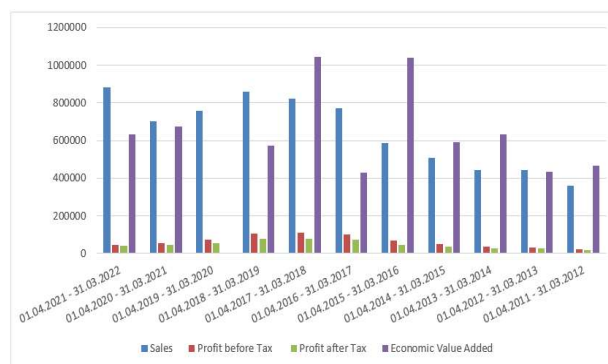
Source: Annual reports of Maruti Suzuki India Limited

Return on Net worth or equity is the link between a firm's earnings and its equity. This ratio reveals the productivity of shareholders' funds and provides an idea of the return on their funds. The standard net profit to net worth ratio is approximately 13%. If the actual return on equity is higher than the ideal level, it indicates that the firm generates a good return on shareholders' funds. By looking into the financial data of Maruti Suzuki, the firm's return on net worth gradually increased from 2011 -12 financial onwards. The increasing percentage of return is not static, but it crosses the ideal level. The firm does not reach the standard level of return on net worth during the year 2019-20 and 2020-21. During the year 2016 -17, the firm reached the highest return on net worth of 20.26%, followed by 18.52% in 2017-2018.

Table 4: Profitability and EVA of Maruti Suzuki Motors Limited for the study period

Period	Sales	Profit before Tax	Profit after Tax	Economic Value Added
01.04.2021 - 31.03.2022	883298	43734	38795	632833.3
01.04.2020 - 31.03.2021	703720	53210	43891	673838.41
01.04.2019 - 31.03.2020	756600	71028	56760	1307.69
01.04.2018 - 31.03.2019	860685	106238	76491	571591.59
01.04.2017 - 31.03.2018	820411	111669	78800	1043086.55
01.04.2016 - 31.03.2017	773164	101272	75099	430145.82
01.04.2015 - 31.03.2016	586120	66975	46988	1040065.39
01.04.2014 - 31.03.2015	508014	49928	38074	593016.2
01.04.2013 - 31.03.2014	444506	37551	28529	633564.96
01.04.2012 - 31.03.2013	443044	30907	24692	435643.53
01.04.2011 - 31.03.2012	360899	21925	16810	463959.32

Source: Annual reports of Maruti Suzuki India Limited

Figure 1: Economic Performance Analysis of Maruti Suzuki Motors Limited

Source: Author Calculation

The above figure establishes that during the last two years 2019-20 and 2020-21 there was a fluctuation in revenue from operations. Maruti Suzuki achieved the highest economic value added during the year 2015-16 and 2017-18. In the year 2019-20 due to pandemic the sales of the company get down and which in turn effect the earnings of the company and during that timeframe in which operating capital returns equals capital costs. As per Walter's model of dividend, the firm is considered as normal firm during 2019-20. In the year 2020-21, though the sales were less, Maruti Suzuki improved their economic value added, and in this period, the investment generated a return above the capital cost and thus achieved the status of a growth firm.

DISCUSSIONS

H1: Maruti Suzuki has continuously produced economic value, as evidenced by the fact that its EVA remained positive over the ten-year period. To increase shareholder wealth, a company must make more money than it spends on capital, which is indicated by the positive EVA. The positive trend and management decisions that successfully created value are demonstrated by the high EVA values observed in 2015-16 and 2017-18. The company worked hard to restore economic value, as shown by the recovery in EVA in 2020-21, even though the pandemic caused a drop in EVA in 2019-20. This illustrates a company's tenacity and capacity to generate value in the face of adverse external circumstances.

H2: The positive EVA figures and high ROE seen in most years show that Maruti Suzuki has consistently been able to create value in its financial performance over the study period. The business continuously beat the industry average of 13% for return on equity, supporting the notion that Maruti Suzuki maximised shareholder wealth through its growth strategy and management choices. Notwithstanding external obstacles, the consistently positive EVA indicates that Maruti Suzuki's long-term value creation strategy has been effective in providing shareholders with steady returns.

FINDINGS

The financial performance analysis reveals several important conclusions about Maruti Suzuki Motors Limited's profitability, effective use of borrowed funds, tax liabilities, and economic value creation during the chosen fiscal years. The strong earnings for shareholders in 2016-

17 marked Maruti Suzuki's highest return on equity (ROE), whereas a drop in sales and profits in 2020–21 resulted in the lowest ROE. The company's return on debt, which shows how borrowed money contributes to profitability, peaked in 2016–17 and 2018–19 but has since fallen, most likely because of smaller sales. The company had a range of tax obligations; in 2015–16, the highest tax rate paid was 30.15%. Additionally, in 2016–17, Maruti Suzuki's average cost of financing reached a peak of 18%.

CONCLUSION

Maruti Suzuki has produced economic value for shareholders in each of the chosen years, based on Economic Value Added (EVA) analysis, which continuously displays positive values. EVA reached its highest point in 2017–18, highlighting management's initiatives to increase shareholder wealth. Although strategic management measures raised EVA to Rs. 673,838 million in the following period, the pandemic's effect on sales caused the 2019–20 EVA to drop to Rs. 1,307 million. According to Walter's dividend policy model, Maruti Suzuki's improved EVA in the latter year demonstrates strong operational resilience, earning a "growth firm" designation with a return rate higher than its capital costs despite revenue swings in 2019–20 and 2020–21. All of these outcomes point to Maruti Suzuki's solid performance, perseverance, and consistent value creation, making it a desirable choice for investors seeking long-term growth.

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