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CORPORATE ECONOMIC VALUE ADDED ANALYSIS ON PUBLIC SECTOR UNDER TAKING : A CASE STUDY ON NEYVELI LIGNITE CORPORATION LIMITED, (NLC L.TD)NEYVELI.TAMILNADU, INDIA.

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Abstract:

The current paper aims to study the Economic value Added analysis(EVA) on Neyveli Lignite Corporation Ltd.(NLC Ltd).. The study was made by extracting data for a period of 6 Years from 31st March 2007 to 2012 from the published financial statements of the company. The important parameters like Profit after tax, Overall cost of capital, various specific cost of capital, Market price , were considered to find out the EVA of NLC Ltd.. From the analysis the PSU under study reveals that the company has negative EVA and shows correlation between EVA and Profit.

KEY-WORDS:

Market Price, Net profit after tax, Overall cost of capital..

INTRODUCTION

Economic value Added analysis (EVA) concept can be used to assess organizational performance known as economic profit it can be applied to the Private Sector Organisations, public sector organisations and non-profit making organisations. The profit can be calculated by determining the company's cost of equity, the weighted average cost of capital of the firm and adjusted operating income of the company.

NEED FOR THE STUDY:

The consumption of electricity goes on increasing day by day which create a heavy demand. The global growth in power production is only 2.4% but the demand is more than 20%, this difference is due to increase in electrical appliances. The World electricity production is

(Billion KWH)

Year power	2007	2008	2009	2010	2011	2012	Growth rate
Production	17400	18960	19020	19250	19120	20250	2.4%
Consumption	16330	16880	17480	17930	17780	19090	22%

Sources: www.oecd-library.com

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India's contribution to power supply

(Billion KWH)

	2007	2008	2009	2010	2011	2012
production	630.6	665.3	665.3	723.8	723.8	835.50

Sources: www.oecd-library.com

	INDIA	
	1971	2012
Coal	40.1 %	68.56 %
oil	20.9 %	2.40 %
Natural gas	13.3 %	12.13 %
Nuclear	2.1 %	2.7 %
Hydro	22.9 %	11.85 %
Others	0.7 %	2.22 %

Sources: www.oecd-library.com, www.indexmundi.com

On taking it into account, in what way India can contribute further to satisfy the current demand, it can be done only through production. In this analysis a public sector undertaking is which is using coal as a raw material is analysed with special reference to finance to enhance its operation as because finance is the life blood of any organisation.

METHODOLOGY

Objectives of the study:

The study has been carried out to fulfill the following objectives.

- i) To compute the EVA under different methods
- ii) To measure the extent to which the firm has increased shareholders value through EVA.
- iii) To test statistically the degree of association between various constituents of EVA.

Company profile.

Neyveli lignite corporation limited (NLC Ltd) was registered on 14th November 1956 as a public sector undertaking, wholly owned by Government of India for a commercial exploitation of vast reserve of lignite occurring around Neyveli situated 200 km south of Chennai. It had started its operations with 6.5 million tones presently mining 24 MT of lignite and has an installed capacity of 2490 MW of electricity per year and now the Gross power generation for 2011-2012 is around 18,789.44 million units, power export is 15810.67 million units, and the lignite production is 245.90 lakhs tones. It had attained 'Navarathna' Status from April 2011 from 'mini rathna'

LIMITATION OF THE STUDY

The following are the limitations of the study

The study covers only 6 years period i.e. 2007 to 2012 for computing EVA of NLC Ltd.

The Secondary data used in the study has been taken from the published annual reports only.

As per the requirement and necessary some data have been grouped and sub grouped. For assessing the behavior of above ratios Statistical Technique like Correlation has also been used.

Hypothesis for study

This study is based on the following Null Hypothesis

H01 as no significant relationship between EVA and MP,
H02 as no significant relationship between EVA and PAT
H03 as no significant relationship between PAT and MP

Analysis of data

The present study analyses two approaches to EVA computation were taken for analysis. It includes Net Operating Profit After Tax (NOPAT) method and Return On Invested Capital ROIC with help of Weighted Average Cost of Capital (WACC)

In NOPAT method EVA is computed as

$$EVA = NOPAT - (WACC \times INVESTED \text{ CAPITAL})$$

In ROIC method EVA is computed as

$$EVA = (ROIC - WACC) \times INVESTED \text{ CAPITAL}$$

The results have been arrived from the Table I as in Table II

Table I

(Rs in crores)

VARIABLES/YEAR	2007	2008	2009	2010	2011	2012
SALES	2743.77	3593.1	4075.7	4690.24	4867.64	5615.21
PROFIT BEFORE INTEREST AND TAX	1360.39	1887.24	1486.37	1889.16	2193.17	2485.46
DEPRECIATION	447.34	454.49	424.50	253.89	412.87	430.18
INTEREST	43.28	8.80	8.15	33.58	112.77	149.54
PROFIT BEFORE TAX	874.66	1421.29	1046.01	1604.56	1684.55	1983.89
TAX	307.88	319.72	224.92	357.40	386.22	572.56
PROFIT AFTER TAX	566.78	1101.57	821.09	1247.46	1298.33	1411.53
DIVIDEND	201.33	335.54	335.54	335.54	385.87	469.76
MARKET PRICE	54.75	124.77	77.50	154.95	102.63	87.50
EQUITY	1677.71	1677.71	1677.71	1677.71	1677.71	1677.71
RESERVE	6652.80	7362.57	7791.52	8646.96	9496.82	10362.18
DEBT	1505.70	2790.68	4057.70	4077.36	4583.42	4235.13
EQUITY SHAREHOLDERS FUND	8330.51	9040.28	9469.23	10324.67	11174.53	12039.89
TOTAL LONG TERM FUND	9836.21	11830.96	13526.93	14402.03	15757.95	16275.02

Sources: Published Annual Reports of NLC LTD., from 31st March 2007 to 31st March 2012

Table II- COMPUTATION OF EVA

(Rs in crores)

VARIABLE	2007	2008	2009	2010	2011	2012
NOPAT=PBIT(1-t)	884.25	1472.05	1159.37	1473.54	1710.67	1938.66
Ko	11.29	17.02	16.65	16.84	18.88	23.01
Ke	12.00	20.00	20.00	20.00	23.00	28.00
KD	7.35	7.35	8.83	8.83	8.83	8.83
ROIC	8.99	12.44	8.57	10.23	10.86	11.91
I METHOD-NOPAT						
EVA	-226.10	-541.11	-1092.76	-951.41	-1264.16	-1806.48
II METHOD-ROIC						
EVA	-226.10	-541.11	-1092.76	-951.41	-1264.16	-1806.48

FINDINGS AND CONCLUSION:

It is observed that the EVA has a negative value in both the methods it indicates that the corporation is destroying the share holders wealth. EVA can be increased by improving the operating efficiency, more amount of debt can be utilised as because it is cheaper compared to cost of other capitals, value adding investments can also be made, and the corporation under study have to reduce the overall cost of capital.

STATISTICAL TECHNIQUE:

It is proved that the null hypothesis is accepted in all case, there is no significant relationship between EVA and PAT, PAT and MP and EVA and M.P.. The correlation between EVA vs PAT and EVA vs MP is negatively correlated. It reflects that the corporation is destroying the share holders wealth. Therefore EVA focuses on managerial effectiveness in a given years and also it gives an idea to the mangers of NLC Ltd how to develop its economic value added as a performance measure of the corporation under study.

	EVA	PAT	MP
MP	-0.097	0.615	1
PAT	-0.646	1	0.615
EVA	1	-0.646	-0.097
SALES	-0.956**	0.897*	0.356

** correlation is significant at 0.01 level(2 tailed)

* correlation is significant at 0.05 level(2 tailed)

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