



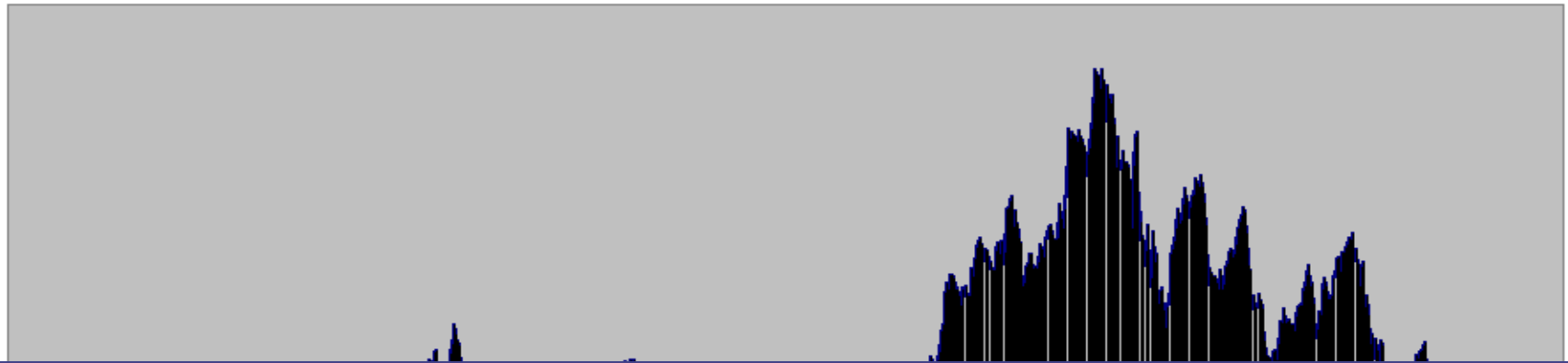
Value Creation Framework

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What is Value?

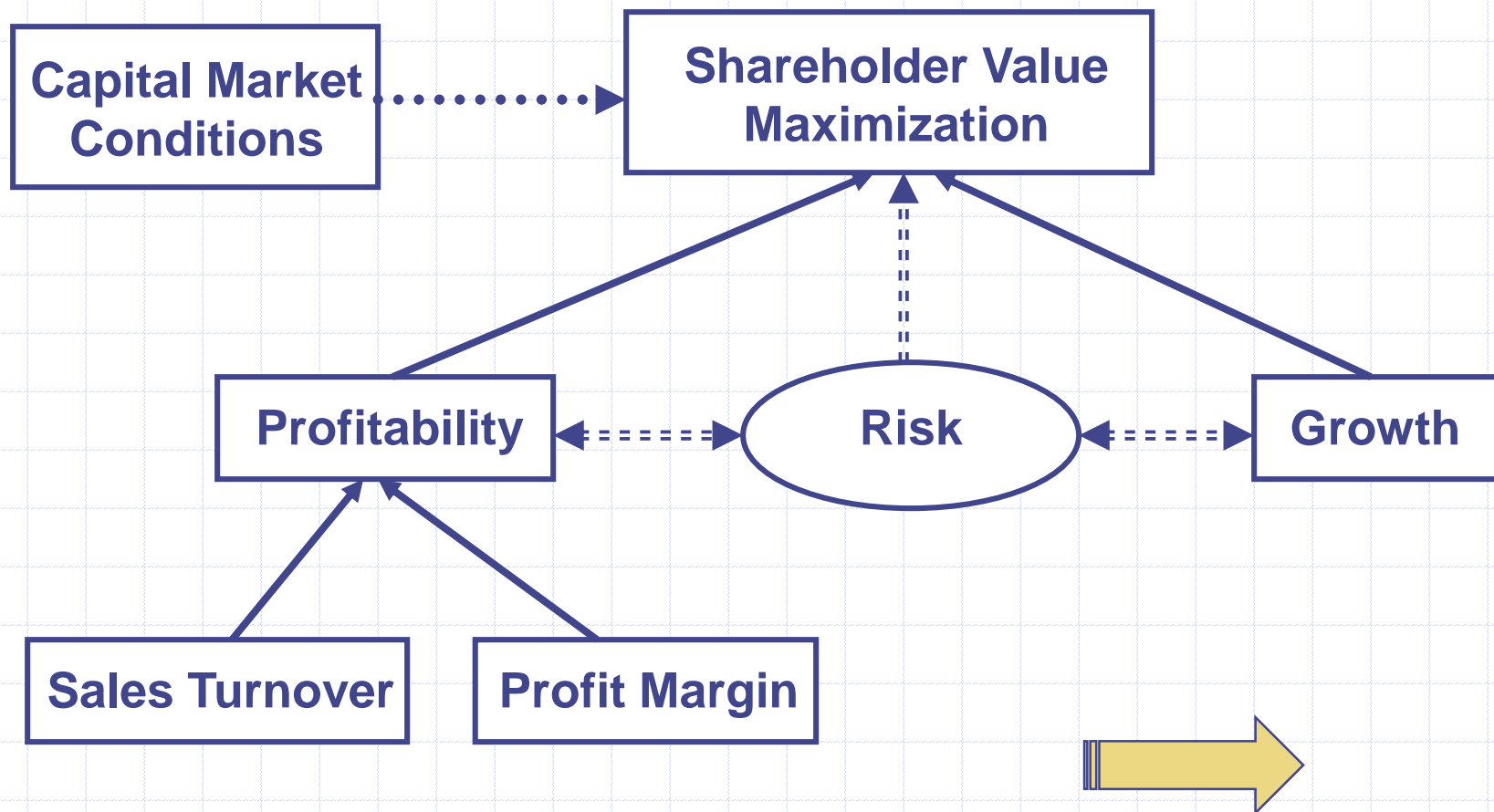
- ◆ Liquidation Value
- ◆ Operational (Going Concern) Value
- ◆ Historical Value
- ◆ Replacement Value
- ◆ Others Methods (Interlinked to the above)
 - Relative Value
 - Contingent Claim Valuation (... will explain later ... please ask)



Valuation of a asset or resource or organization depends on two key issues:

- (a) Whose perspective are you looking at?
- (b) What is the purpose of valuation?

Valuation Framework ...



Source: Ram Kumar Kakani, Doctoral Dissertation 'Financial Performance and Diversification Strategy of Indian Business Groups', Indian Institute of Management Calcutta, 2001.

Shall we value some firms ...

13-Jul-15	Price	BV	P/BV	EPS	P/EPS
Infosys Technologies	950	415	2.3	53.7	18
Colgate Palmolive (India)	2011	57	35.5	41.1	49
Tata Steel	284	696	0.4	66.3	4
Bata India	1181	163	7.3	29.8	40
Relaxo Footwear	510	32	16.1	8.6	59
Lawreshwar Polymers	42	24	1.8	1.6	27
Kaushalya Infrastructure	7	24	0.3	0.0	233

Shall we value some firms ...

◆ Zee Tele (during years 1999, 2002, and 2015)

- Year 1999 was period when stock market was on a bull run especially for IT and Media sectors ... then (?)
- Profitability (+, −, and 0)
- Growth (+, −, and 0)
- Risk (−, −, and 0)
- Capital Market Conditions (+, −, and +)

◆ Result: Prices moved from 1900 to 70 to 220-240

◆ P/BV moved from 22 to 0.7 to 13

◆ *Note: After FY2006, Zee Tele has been split into Zee Entertainment, Zee News, and Zee Learning*

Shall we value some firms ...

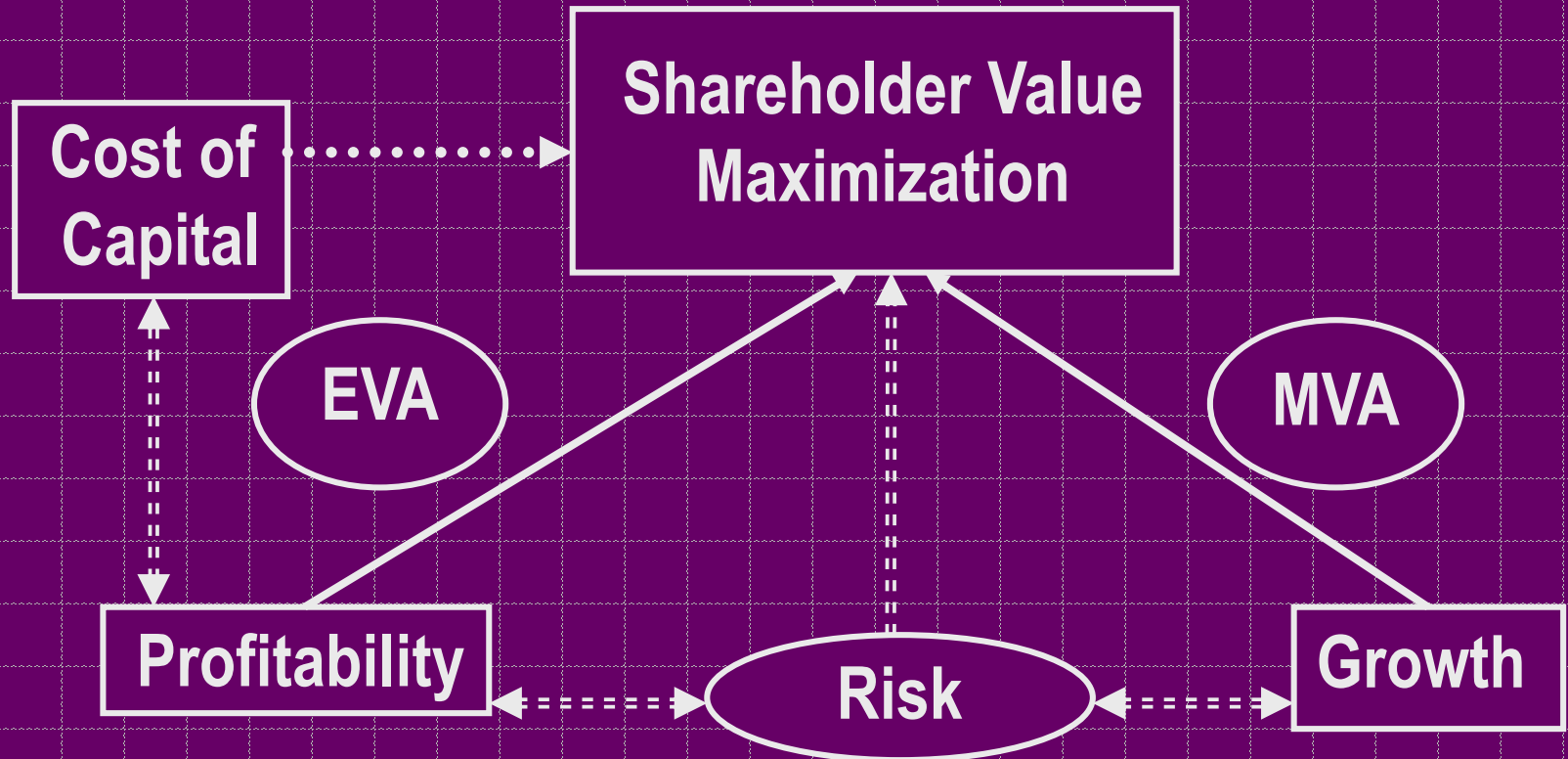
Conclusions:

- (a) The relationship between value and the underlying financial factors works;
- (b) The relationship is stable over time; and
- (c) It is important to fully understand the business dynamics

Indian Tyre Sector

Performance Measure	APOLLO	GOVIND	TVS	BIRLA
Growth Measure (CAGR _{TA})	12.56	11.10	18.72	32.43
Profitability Measure (ROA)	9.80	9.48	15.58	7.90
Profit Margin Measure (NPM)	3.36	2.51	5.30	2.83
Asset Utilization Measure (STA)	1.53	1.97	2.15	1.44
Risk Measure (VROA)	0.11	0.22	0.11	0.33
Market-to-Book Value Ratio	1.03	0.40	1.44	0.83
Tobin's Q Ratio (approximate)	0.84	0.62	1.05	0.77

Can you connect this to Costs or EVA ...



➔ **Market Capitalization = EVA + Present Value
(of Future EVAs) ...**

➔ **Market Capitalization = EVA + MVA ...**

The Four Different Categories		Example
EVA Positive	MVA Negative	?
EVA Positive	MVA Positive	?
EVA Negative	MVA Positive	?
EVA Negative	MVA Negative	?

		Remarks
EVA Positive	MVA Negative	Firms not able to adjust to environment changes
EVA Positive	MVA Positive	
EVA Negative	MVA Positive	Firms with value accumulation or future dependent
EVA Negative	MVA Negative	Organizations with a different goal (not SVM)

Figure 1.1: A Simple View of a Firm

Assets		Liabilities	
<div>Assets in Place Existing Investments Generate cashflows today</div>	Investments already made	Debt	<div>Borrowed money</div>
<div>Growth Assets Expected Value that will be created by future investments</div>	Investments yet to be made	Equity	<div>Owner's funds</div>

Purpose of this discussion includes ...

- ◆ Perspectives of Valuation vis-à-vis the unit of our analysis i.e., the firm
- ◆ Understand the factors driving Market Capitalization; and the way they do it
- ◆ Link EVA, MVA, NPV, and Capex type jargons to the Valuation of the Organization
- ◆ Introduce ourselves to a simple valuation illustration
- ◆ Appreciate key financial numbers / ratios (+ related aspects) of the three financial statements