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TREND AND GROWTH IN MARKET VALUE ADDED AND TOBIN'S Q MODEL OF SELECTED COMPANIES IN TAMIL NADU

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ABSTRACT
From the trend and growth analysis of two proxies, MVA and Tobin's Q, for firm values, it is identified that the valuation of shares of automobile, cement and non-banking finance companies' was higher than their book value and kept increasing overtime. For the companies under other sectors, there has been marginal decline in the valuation of shares relative to book value. It is concluded that investors have considered the investments in the shares of automobile, sugar, chemical, cement, pharmaceutical and non-banking finance companies as opportunity and increased valuation of shares relative to replacement cost in the market. However, there has been significant decline in such valuation in respect of sugar, cement and pharmaceutical sectors over the period which might be due to other economic status of the country.

KEYWORDS
Market value added, Firm value, Tobin's Q and Firm size

INTRODUCTION
Generally, the financial characteristics of any firm not only play the role to increase their market value but also lead towards the growth of the whole industry which ultimately leads towards the overall prosperity of the economy. Further, any firm to grow further, its financial characteristics should be sufficient enough to attract more investors to come forward for making investments in the firm. But investors normally tend to the choose the firm with high book value to market value or market value relative to replacement cost. Hence, an attempt is made to measure status of valuation and how firm characteristics affect the valuation of selected companies by six sectors, viz., Automobile, Sugar, Cement, Chemical, Pharmaceutical and Finance, under study in this chapter.

STATEMENT OF THE PROBLEM
For many years the link between capital structure and the firm value has been the subject of intense global debate and research in the academic circle, but no conclusive evidence has been arrived yet. After more than fifty years of studies, economists have not reached an agreement on how and to what extent the capital structure of firms' impacts value creation to their shareholders. The famous "irrelevance" propositions by Modigliani and Miller (1958), which state that "the overall market value of any firm is completely independent of its capital structure". However, Bradley *et al*. (1984) have widely claimed that Modigliani and Miller propositions are impractical due to the existence of some imperfections in the capital market. Hence the present study entitled "Trends and growth of firm value in market value added and Tobin's Q model of selected companies in Tamil Nadu".

OPERATIONAL VARIABLES
The present study is consists of two important operational variables, viz

MARKET VALUE ADDED (MVA)

Market Value Added (MVA) is the difference between the equity market valuation of a listed / quoted company and the capital contributed by the investors. A high MVA is better as it indicates the company has created substantial wealth for the shareholders. On the other hand, a negative MVA indicates that the company has destroyed value to its shareholders.

TOBIN'S Q

The Tobin's Q ratio is a measure of firm assets in relation to a firm's market value. That is, it is the market value of a firm's existing shares (share capital) to the replacement cost of the firm's physical assets (thus, replacement cost of the share capital). If q is greater than one (q > 1), additional investment in the firm would make sense because the profits generated would exceed the cost of firm's assets. If q is less than one (q < 1), the firm would be better off selling its assets instead of trying to put them to use. The ideal state is where q is approximately equal to one denoting that the firm is in equilibrium.

FIRM VALUE

In the present study, Market Value Added (MVA) and Tobin's Q are used as the proxies for firm value as adopted in many earlier researches. MVA, measured as the difference between market value of equity and book value of equity, is the best external performance measure as it indicates the market assessment of the effectiveness with which a company's managers have used the scarce resources under their control. Tobin's Q, measure of firm assts in relation to firm's market value (total market value of firm / total asset value of the firm), widely used proxy for firm value. When the Tobin's Q ratio is between 0 and 1, it costs more to replace a firm's assets than the firm is worth. A Tobin's Q of above one means that the firm is worth more than the cost of its assets. Because Tobin's premise is that firms should be worth what their assets are worth, anything above 1.0 theoretically indicates that a company is overvalued. The results of the trend and growth analysis by sector levels are reported from Table 1 to 6 along with discussion of the results.

OBJECTIVES OF THE STUDY
1. To study the conceptual frame work of value of the firm and firm characteristics of capital structure in India.
2. To examine empirically the trends and growth in firm value in terms of market value added (MVA) and Tobin's Q of selected companies in Tamilnadu.
3. To offer viable suggestions based on the study.

HYPOTHESES

Ho[1] There is no impact of liquidity, efficiency, profitability, firm growth and firm size on market value added.
Ho[2] The valuation of the shared in the market relative to replacement cost is unrelated to the liquidity, efficiency, profitability, firm growth and firm size of the companies.
Ho[3] There no significant relationship between Market Value Added of firm value and firm characteristics of the companies.

METHODOLOGY

The present study is mainly based on secondary data. The study has both analytical and descriptive type of methodology. The study is confined to public and non financial companies across six sectors established in Tamilnadu, which are listed in National stock exchange continuously for 10 years from 2003-04 to 2013-14.. The sample sizes of the sectors are 1. Automobile 2. Sugar, 3. Cement 4. Chemical 5. Pharmaceutical and Non banking financial companies. The secondary data were collected from annual financial reports of six sectors i.e., balance sheet and profit and loss account, articles, published and unpublished reports, journals, magazines and information gathered online from various websites. The reports were collected from BROWESS database. The statistical techniques used for the study namely linear growth rate and annualized compound growth rate, the descriptive statistics such as Mean, Standard deviation and co efficient of variation. Financial analysis such as Market value added (MVA), and Tobin's Q in firm value also used for the study.

RESULT AND DISCUSSIONS

TABLE 1: TREND AND GROWTH IN MVA AND TOBIN'S Q OF SELECT COMPANIES UNDER AUTOMOBILE SECTOR (Rs. in crores)

Year	Market Value Added (MVA)	Tobin's Q Ratio (QRAT)
2004-05	1379.76	3.3745
2005-06	1962.46	3.9973
2006-07	1429.80	3.0956
2007-08	447.57	2.1765
2008-09	2488.20	2.6816
2009-10	4784.33	3.7197
2010-11	1213.01	2.5571
2011-12	3559.24	3.4842
2012-13	4752.14	3.6575
2013-14	22046.45	7.7752
Mean	4406.30	3.6519
SD	6374.38	1.5584
CV	144.67	42.67
CAGR	26.92*	5.15
t-Value	(2.68)	(1.39)
LGR	1337.9856*	0.2506
t-Value	(2.33)	(1.58)
Regression Equation for Linear Growth Rate (Time Trend)		
MVA	-2952.62 + 1337.99 t	
QRAT	2.2736 + 0.2506 t	

Figures in brackets are t-values; *Significant at 5% level; **Significant at 1% level.
Table value @5% = 2.31 and @1% = 3.36

Table 1 reports the results of trend and growth analysis for MVA and Tobin's Q of Automobile sector companies under study. As reported in the table, Rs.1379.76 in 2004-05 had dropped to Rs.447.57 in 2007-08 before hovering between Rs.1213.01 (2010-11) and Rs.4752.11 (2012-13) from 2008-09 to 2012-13. Surprisingly there has been a sudden jump to Rs.22046.45 in 2013-14 from Rs.4752.14 in previous year. The MVA, Rs.4406.30 on the average, has grown at significant and linear rate of Rs.1337.99 on an average every year during the period under study.

In the table, Tobin's Q is 3.31745 in 2004-05 and dropped to lowest level of 2.1765 in 2007-08. It has reached to as high as 7.7752 in 2013-14 after oscillating between 2.5571 and 3.7197 during previous five years. These values along with average of 3.6519 indicate that the share prices of selected automobile companies are overvalued in the market. Further, there has been a marginal uptrend and percentage growth in such valuation during the period (CAGR and LGR is positive but insignificant). Overall, it is concluded that the investors have highly valued the shares of automobile companies in the market.

Table 2 is given with the results of the analysis identifying the trend and growth in value of selected sugar companies in respect of MVA and Tobin's Q. As given in the table, the MVA has been highly volatile (Coefficient Variation = 135.02) for sugar companies under study. The MVA Rs.117.13 in 2004-05 jumped to Rs.1235.73 in 2005-06 again going down to Rs.232.70 and touching the negative value of -58.89 after oscillating from Rs.443.06, Rs.162.81, and Rs.337.15 to Rs.70.53 between 2007-08 and 2010.11. It has stayed at Rs.60.14 in the end year after reaching at Rs.123.02 in previous year.

Overall, it has exhibited a declining trend but not at significant level. The Tobin's Q, 4.6877 in 2004-05, 9.2949 in 2005-06, 7.6617 in 2006-07 and 6.8746 in 2007-08 dropped to 2.7271 in 2008-09 and stayed finally at 1.9651 in 2013-14 after hovering between 1.9551 and 3.3235 during last four years.

TABLE 2: TREND AND GROWTH IN MVA AND TOBIN'S Q OF SELECT COMPANIES UNDER SUGAR SECTOR (Rs. in crores)

Year	Market Value Added (MVA)	Tobin's Q Ratio (QRAT)
2004-05	117.13	4.6877
2005-06	1235.73	9.2949
2006-07	232.70	7.6617
2007-08	443.06	6.8746
2008-09	162.81	2.7271
2009-10	337.15	3.3235
2010-11	70.53	2.2869
2011-12	-58.89	1.9551
2012-13	123.02	2.0876
2013-14	60.14	1.9651
Mean	272.34	4.2864
SD	367.71	2.7152
CV	135.02	63.34
CAGR	-15.96	-15.72**
t-Value	-(2.01)	-(4.70)
LGR	-64.87	-0.7070**
t-Value	-(1.79)	-(3.62)
Regression Equation for Linear Growth Rate (Time Trend)		
MVA	629.11 - 64.87 t	
QRAT	8.1749 - 0.7070 t	

Figures in brackets are t-values; **Significant at 1% level.
Table value @5% = 2.31 and @1% = 3.36

The Tobin's Q ratio has also exhibited volatility but not to the extent of MVA. Over the years, the ratio has declined significantly at CAGR of 15.72 (t value = -4.70, $p < 0.01$) per cent and LGR of 0.7070 (t value = -3.62, $p < 0.01$). In sum, it is found that the valuation of the selected sugar companies, though positive, has been highly inconsistent over the period.

TABLE 3: TREND AND GROWTH IN MVA AND TOBIN'S Q OF SELECT COMPANIES UNDER CEMENT SECTOR (Rs. in crores)

Year	Market Value Added (MVA)	Tobin's Q Ratio (QRAT)
2004-05	-185.77	2.6810
2005-06	-97.35	8.6540
2006-07	-316.48	7.8103
2007-08	-539.04	7.0772
2008-09	19.40	3.3846
2009-10	73.07	4.1738
2010-11	9.24	2.7363
2011-12	62.23	3.1287
2012-13	117.04	2.4946
2013-14	57.79	1.8239
Mean	-79.99	4.3964
SD	210.14	2.4851
CV	-262.72	56.53
CAGR	5.26	-11.09*
t-Value	(1.91)	-(2.51)
LGR	44.15*	-0.5241*
t-Value	(2.33)	-(2.35)
Regression Equation for Linear Growth Rate (Time Trend)		
MVA	-322.81 + 44.15 t	
QRAT	7.2788 - 0.5241 t	

Figures in brackets are t-values; *Significant at 5% level. Table value @5% = 2.31 and @1% = 3.36

It is observed from the table 3 shows that the MVA was negative between 2004-05 and 2007-08 and negative value was very high in 2007-08, in turn indicating that under-reaction of the market to the cement companies. But during the same period, the Tobin's Q was well above one, in turn envisaging the fact the investors have made investments in the cement companies expecting that the cement companies have high potential for growth. From 2008-09, the market has reacted positively to the cement positive and created value in excess of book value. Though the MVA has been negative at 79.99 on the average, there has been significant increase at Rs.44.15 on an average every year (LGR = 44.15, t value = 2.33, $p < 0.05$) during the period.

On the other hand, there has been significant decline in perceiving the cement companies as better for investments as Tobin's Q, 4.3964 on the average, 1.8239 in 2013-14, has declined significantly at CAGR of -11.09 per cent (t value = -2.51, $p < 0.05$) and LGR of -0.5241 (t value = -2.35, $p < 0.01$). Overall, it is found that the cement companies were observed as the best for investment but there has been notable decline such observation. Further, the investors have valued the shares below the book value and started valuing positively later on during the period of study.

TABLE 4: TREND AND GROWTH IN MVA AND TOBIN'S Q OF SELECT COMPANIES UNDER CHEMICAL SECTOR (Rs. in crores)

Year	Market Value Added (MVA)	Tobin's Q Ratio (QRAT)
2004-05	-56.65	1.8470
2005-06	-14.30	2.0920
2006-07	-19.94	1.4258
2007-08	-18.00	1.1308
2008-09	-30.33	0.4850
2009-10	-15.27	1.1911
2010-11	-21.47	1.1169
2011-12	-21.30	1.1308
2012-13	-12.43	1.3375
2013-14	-10.12	1.7951
Mean	-21.98	1.3552
SD	13.45	0.4625
CV	-61.19	34.13
CAGR	4.14	-2.21
t-Value	(2.00)	-(0.48)
LGR	2.60	-0.0398
t-Value	(2.05)	-(0.76)
Regression Equation for Linear Growth Rate (Time Trend)		
MVA	-36.30 + 2.60 t	
QRAT	1.5739 - 0.0398 t	

Figures in brackets are t-values; Table value @5% = 2.31 and @1% = 3.36

It is vivid from the table 4 shows that the MVA has been negative in all years under study but the negative MVA has come down marginally (CAGR and LGR are positive at 4.14 per cent and Rs.2.60 on an average per annum respectively but not insignificant remarkably (t-values just below the required level). This picture has shown that the market under-reacted to shares of chemical companies during the period of study.

The Tobin's Q ratio is more than one in all study years except in 2008-09. The Q ratio of above one, on the average of 1.3552, reveals that the investors have seen that investments in chemical companies as opportunity for wealth creation. However, the negative CGR and LGR, though not significant, have indicated a negligible decline in positive mood of the investors. On the whole, it is found that the investors have considered the chemical companies for better investment opportunity but overall market has refrained from creating value in excess of book value during the period.

Table 5 displays the trend and growth analysis results for MVA and Tobin's Q of Pharmaceutical companies selected for the study. As displayed in the table, added value to the shareholders of selected pharmaceutical companies was negative in four out of 10 years. The MVA has been as high as Rs.313.26 in 2005-06 followed by Rs.241.55 in 2006-07 and Rs.156.09 in 2010-11. Though, the MVA was Rs.77.33 on the average over the period, it was very highly inconsistent during the period (CV = 120.35). Moreover, the trend and growth in MAV has been negative but not at mentionable level. The Tobin's Q, though volatile (CV = 77.05) but not to the extent of MVA, positioned at below one in last two years after reaching at highest level of 12.0640 in 2005-06 from 4.5299 in 2004-05.

TABLE 5: TREND AND GROWTH IN MVA AND TOBIN'S Q OF SELECT COMPANIES UNDER PHARMACEUTICAL SECTOR (Rs. in crores)

Year	Market Value Added (MVA)	Tobin's Q Ratio (QRAT)
2004-05	-9.87	4.5299
2005-06	313.26	12.0640
2006-07	241.55	7.4409
2007-08	55.14	3.6834
2008-09	-45.29	1.5141
2009-10	22.82	3.7445
2010-11	156.09	5.9196
2011-12	58.53	3.8140
2012-13	-8.42	0.8489
2013-14	-10.54	0.8298
Mean	77.33	4.4389
SD	120.35	3.4200
CV	155.64	77.05
CAGR	-7.09	-19.05*
t-Value	-(1.03)	-(2.90)
LGR	-16.98	-0.7333*
t-Value	-(1.34)	-(2.41)
Regression Equation for Linear Growth Rate (Time Trend)		
MVA	170.72 - 16.98 t	
QRAT	8.4723 - 0.7333 t	

Figures in brackets are t-values; *Significant at 5% level.
Table value @5% = 2.31 and @1% = 3.36

The Tobin's Q ratio was also high at 7.4409 and 5.9196 in 2006-07 and 2010-11 respectively. On the average, it has been 4.4389, in turn indicating that the investors were keen in making investments in shares of selected Pharmaceutical companies but not at consistent level. Moreover, the CAGR and LGR values are negative and significant at 5 per cent level. This along with Q ratio of below one in last two years have exposed fact that interest shown by investors in making investments in the selected pharmaceutical companies have declined over the period.

Therefore, it is found that the market somewhat created added value to the selected pharmaceutical firms and initially shown interest in making investments. But there has been a notable decline in the interest shown by investors in making investments in the selected pharmaceutical firms over the period.

Table 6 provides the results of trend and growth analysis of MVA and Tobin's Q for selected companies under finance sector. As provided in the table, the MVA, Rs.344.47 on the average, has been Rs.613.47 and Rs.640.53 in the last two years from negative of Rs.46.37 in 2004-05 after reaching at as high as Rs.744.49 in 2010 – 11. Overall, it has exhibited a significant positive growth at annual percentage rate 27.17 per cent (CAGR = 27.17, t = 3.70, $p < 0.01$) and at an average annual rate of 78.50 in actual units (Rs.) (LGR = 78.50, t = 4.55, $p < 0.01$).

The Tobin's Q ratio, ranging between 0.8245 and 1.9664 from 2004-05 to 2008-09, and then hovering from 2.3631 to 3.7848 between 2009-10 and 2011-12, has stood at 7.6474 in 2012-13 and 7.

TABLE 6: TREND AND GROWTH IN MVA AND TOBIN'S Q OF SELECT COMPANIES UNDER FINANCE SECTOR (Rs. in crores)

Year	Market Value Added (MVA)	Tobin's Q Ratio (QRAT)
2004-05	-46.37	1.0443
2005-06	169.93	1.9664
2006-07	93.39	0.8245
2007-08	320.35	1.4077
2008-09	9.76	1.3989
2009-10	406.53	3.7848
2010-11	744.49	3.2192
2011-12	492.66	2.3631
2012-13	613.47	7.6474
2013-14	640.53	7.3336
Mean	344.47	3.0990
SD	279.82	2.4961
CV	81.23	80.55
CAGR	27.17**	24.22**
t-Value	(3.70)	(4.63)
LGR	78.50**	0.6781**
t-Value	(4.55)	(4.09)
Regression Equation for Linear Growth Rate (Time Trend)		
MVA	-87.27 + 78.50 t	
QRAT	-0.6305 + 0.6781 t	

Figures in brackets are t-values; **Significant at 1% level.
Table value @5% = 2.31 and @1% = 3.36

The Q ratio, 3.0990 on the average, has increased gradually at significant annual percentage rate of 24.22 (CAGR = 24.22, t = 4.63, $p < 0.01$) and average annual rate in actual units of 0.6781 (LGR = 0.6781, t = 4.09, $p < 0.01$) during the period. This envisages that the investors have considered the stocks of the selected companies finance sector as investment opportunity and such positive mood among the investors has grown remarkably over the period. The high positive MVA during the last five years has also supported the above fact. Hence, it is found that the selected companies under finance sector were highly valued in the market and investors have considered these companies as better investment opportunity, in turn valuing these finance companies much higher than its replacement cost during the period.

FINDINGS OF THE STUDY

(1) The investors have highly valued the shares of automobile companies in the market.
(2) The valuation of the selected sugar companies, though positive, has been highly inconsistent over the period.
(3) The cement companies were observed as the best for investment but there has been notable decline in such observation over the period. Further, the investors have valued the shares below the book value and started valuing positively later on during the period of study.
(4) The investors have considered the chemical companies for better investment opportunity but overall market has refrained from creating value in excess of book value during the period.
(5) It is found that the market somewhat created additional value to the selected pharmaceutical firms and initially shown interest in making investments. But there has been a notable decline in the interest shown by investors in making investments in the selected pharmaceutical firms over the period.
(6) The selected companies under finance sector were highly valued in the market and investors have considered these companies as better investment opportunity, in turn valuing these finance companies much higher than its replacement cost during the period.

SUGGESTIONS

(1) As the investors tend to value the shares higher than book value when net sales relative to total assets are notably higher in the case of sugar companies, the companies under this sector should keep their turnover at constant level and try increase the turnover every year to keep the investors' confidence.
(2) As the market valuation of companies under cement sector is primarily based on high sales growth and high earning per share, the companies should maintain consistent growth and constant increase in profitability.
(3) The investors of companies under pharmaceutical sectors need not worry about nature of fund in the capital investments as valuation of shares are independent of the use of debt fund in the capital.
(4) As factors determining the firm value vary from one sector to another sector, managers can apply the models that are developed here in order to identify the capital structure ratios and firm characteristics that are important in determining the firm value.

CONCLUSION

It is concluded from the trend and growth analysis that use of debt fund in the capital investment is more than 75 per cent for automobile companies, 65 per cent for Sugar companies and 85 per cent for pharmaceutical companies and it remained stable throughout the study period. At the same time, utilization of debt fund in capital investment of selected listed cement companies functioning in Tamilnadu has declined significantly over the period. On the other hand, the selected chemical and finance companies have been aggressive in financing its growth with debt financing leading to volatile earning due to additional interest expense. Also, the debt financing is significantly determined mostly by firm size, profitability, non-debt tax shield, tangibility and dividend paid for most of the sectors under study.

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