

## Shareholders Value Creation through Value Added Reporting- A Case Study of Cipla Ltd.

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### **Abstract**

*Shareholders value creation plays an important role in today's scenario. Creating the value of shareholders is the responsibility of every concern. In this paper we analyze the shareholders creation of Cipla Ltd. In this study statement of value added ratios such as gross margin ratio, stock turnover, fixed assets turnover, labour productivity, capital productivity and rate of investment ratios are used. Every ratio has its own importance to show how Cipla Ltd. enhances the shareholders value through value added reporting. Under this study coefficient of correlation and student t-test are used to show the significant contribution in value addition from income. Statement of generation and application of value added is used to show the value added by the company.*

**Keywords:** Value Creation, Shareholders, Ratios

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### Introduction

Shareholders value creation may be defined as a creating more value to the shareholders, through the use of strategic cost management technique brand images, flow of fund etc. It becomes very important for the company to maintain shareholders value in today's scenario. From the companies' point of view, it is essential to evaluate the value of shareholders year by year. By doing this, a company can easily access the past decisions and make a newly decisions for the futures growth and development. Basically value creation means difference of current year of shareholders value minus previous year shareholders value. After the 1991, liberalization of trade and commerce plays a key role in the performance of a company. In the cut throat competition, a company should add the value of shareholders by doing so a company can easily formulate business strategies to increase their profit margins and individual strength to uplift the shareholders value. Shareholders value is created only if revenue of a company is more than the costs including a capital change. Cost of a company comes from different sources like- employee wages and benefits, cost of material and supplies, economic depreciation of physical assets and taxes. Shareholder value added is a measure and examine of the incremental value of a company to those interested parties who have

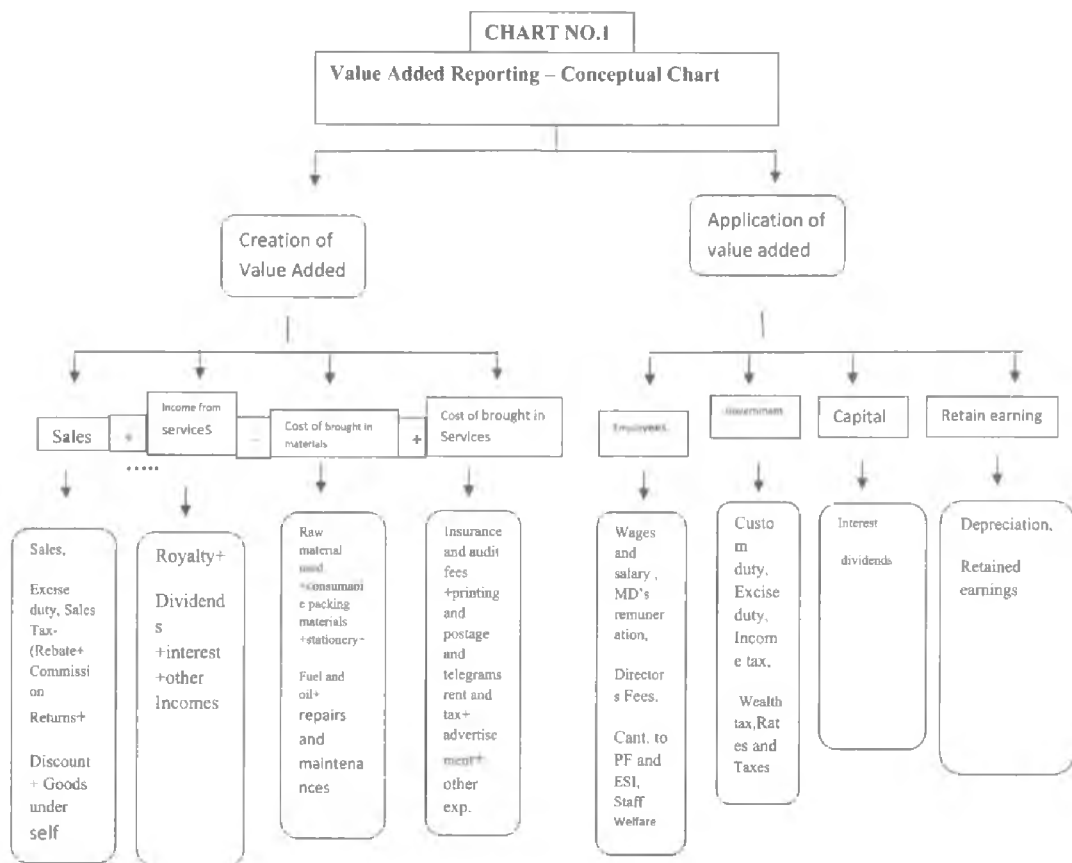
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invested in it. It is designed to show the amount of additional earnings that a company is generating for its investors that is in excess of its cost of funds. Every company prepares a financial statement in the end of the financial year. Balance sheet and profit & loss account are the traditional method to show the data related to financial performance of a company. It only provides information relates to financial position to the users. These statements do not show the extent of the value statement created by a company during the period. In the present scenario, it is needed to modify the existing accounting and financial reporting system so that a company can easily access the value generated by it.

Value Added Reporting is Divided in to Two Parts that is Creation of Value Added and Application of Value Added



**Rationale of the Study**

Value added reporting is a part of financial reporting that shows value addition by firm during the specific period and their application towards employees, Government, capital providers and retained by the firm himself for development and expansion activities. As disclosure norms and transparency of accounting increases, their importance has been

increases especially after globalization and WTO agreements, now it become necessary for society as well employees point of view to disclose the value creation and their disbursement. A separate statement, value added statement will require to show the wealth generation by the firm and their disposal towards employees, government, capital providers and what part of the profit retained by the company for their expansion and development activities.

### **Justification of the Study**

Value added reporting is an important criterion of reporting. The reason behind to take this topic is that, shareholders value creation played an important role in the affairs of the company. Normally it depends upon the profitability of the firm. If a company wants to survive for a longer period, it is essential to focus on the shareholders creation. In the end of the year every company discloses the annual report to its stakeholders through balance sheet and profit and loss account. But it will not make discloser about the creation of wealth because profit and loss account is prepared with the view of shareholders and creditors, not for the social reporting and social wealth creation point of view. This paper highlights how the Cipla Ltd Company creates the value of shareholders.

### **Review of Literature**

- The concept of value added reporting has been a subject which has received mixed response.
- In early 70s, the popularity of this concept started to grow in Europe, Mainly in the United Kingdom U.S.
- Corporate report' by (Accounting standard steering committee, the corporate report (London: Account standards steering committee, 1975), 48).
- These recommendations were widely accepted. By 1980 more than one fifths of largest U.K. companies prepared value added statement.( SJ Grag & KT Maunders, value Added Reporting : Use & Measurement (London: Account standard certified Accountants, June, 1980).
- This concept was also widely supported by trade Unions. A document of trade Union goes in details about encouraging the use of added value as a north so that the managers can understand the financial atmosphere within which the decisions related to human resources are taken (Engineering Employers Federation, Business performance and industrial relations (London: Koan page, 1977).
- The value added report were considered an effective method to form a basis for determining wages and incentives which was called value added incentive payment scheme (VAIPS)( M. Woodman say, Added value: An Introduction of Productivity Schemes (London: British Institute of Management, 1978).

### **Profile of the Company**

Cipla Ltd. is a leading global pharmaceutical company, dedicated to high-quality, branded and generic medicines. We are trusted by healthcare professionals and patients across geographies. Over the last 8 decades, we have strengthened our leadership in India's pharmaceutical industry and fortified our promise of 'Caring for Life'. They are now strengthening our global focus by consolidating and deepening our presence in the key markets

of India, South Africa, the US, and other economies of the emerging world. Cipla's state-of-the-art manufacturing facilities are CGMP compliant in conformity with national and international standards. Several dosage forms and APIs manufactured at these facilities continue to be approved by major international regulatory agencies including the US FDA, MHRA (UK), TGA (Australia), Federal Ministry of Health-Germany, MCC (South Africa), the Department of Health (Canada), INVIMA (Columbia) ANVISA (Brazil), the Danish Medical Agency, WHO and Ministry of Health of various countries.

### **Data and Methodology**

This research study is based on the secondary data collected from the annual report of Cipla Ltd. Company. To analyze the value added reporting data, we evaluate the value added statement and value added ratios with the help of financial statements of a company. In this study the data taken of Cipla Ltd Company for the year from 2008-2009 to 2017-2018 has been used in this study. This study is empirical in nature. For the analysis of value added reporting data are analyze in a following ways.

#### **1. Value Added Statement. 2. Value Added Ratios.**

For assessing the behavior of data statistical techniques has been also used e.g. Mean, Coefficient of Correlation, Growth Rate, Student T-Test in this study.

### **Objectives of the Study**

This research study has the following objectives which are as follows:

- To understand the concept of the Shareholders value creation through value added reporting.
- To, Evaluate performance of the sample company with value added accounting and value added ratios and analyze how value added reporting is better way rather than traditional method of reporting.
- To, study intra firm comparison of last 10 years' performance and social responsibility of the sample company.

### **Hypothesis of the Study**

- Generation of value added and application of value added are even and similar during the study period.
- Value added reporting is better method for evaluation of performance analysis of sample company during the last 10 years.

### **Limitations of the Study**

- This research paper is a micro nature research based in the sample company Cipla Ltd. This research paper is based on the 10 years financial performance of the sample company from 2008-2009 to 2017-18.
- For the analysis of financial data, as per the requirement data's are grouped and sub grouped.

### Analysis of Value Added Reporting

To analyze the concept of shareholders value creation, accounting procedure has been used in the form of generation of value added and application of value added.

- **Generation of Value Added-** this statement shows the increases in the market value brought by an alteration in the form of location and availability of a product or services by minus the cost of brought material or services . In a nut shell value added is the excess of turnover plus income from other sources minus cost of brought material and supplies. Here, turnover includes (gross sales + sales tax and duties-(rebate +returns +commission + discount + goods used for self consumption whereas, income from services includes income in the form of rent, dividend commission etc. ( $Va = S+ I - C$ )

Here, Va means value addition, S means sales, I mean Income from services and C indicates the cost of brought in material and services.

- **Application of Value Added:**

Application of value added includes payment to employees, payment to governments, and payment to capital providers such as interest of lenders and dividends of shareholders and re-investment in business which includes depreciation and retained earnings of the company. The employee comprises all human resources for an example workers and staff, the share available them in the form of salary and gratuity contribution to the P.F. bonus and remuneration to the top management persons. Payment to government includes the custom duty, excise duty, sales and wealth tax. In the real sense, shareholders are the ultimate claimant of the value added by a company. On the other hand providers of capital by outsiders' agencies include bank financial institution and debenture holders will be given interest to them.

**Table 1. Value Added Statement of Cipla Ltd. (Amount in Crore Rupees.)**

Value Added statement by Cipla Ltd.										
Rs.....in Crore										
Years	2017-2018	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
<b>Generation of value Added</b>										
Revenue from operations	11444.81	10974.6	12034.1	10131.8	9380.29	8202.42	6977.5	6331.09	5359.5	4960.6
other incomes	334.88	129.85	259.14	147.91	280.28	229.13	148.3	91.64	353.72	355.22
<b>Total Earnings(A)</b>	<b>11779.69</b>	<b>11104.4</b>	<b>12293.2</b>	<b>10279.7</b>	<b>9660.57</b>	<b>8431.55</b>	<b>7125.8</b>	<b>6422.73</b>	<b>5713.2</b>	<b>5315.82</b>
Cost of Material Consumed	7379.9	7488.48	8030.07	6510.25	5945.43	4953.42	4506.85	4309.48	3815.6	3802.99
<b>Value Addedby Co.</b>	<b>4399.79</b>	<b>3615.95</b>	<b>4263.13</b>	<b>3769.44</b>	<b>3715.14</b>	<b>3478.13</b>	<b>2618.95</b>	<b>2113.25</b>	<b>1897.6</b>	<b>1512.83</b>
<b>Application of value Added</b>										
Payment to Employees	1785.94	1728.97	1789.65	1499.63	1284.75	969.28	728.21	540.33	318.87	271.33
Payment to Government	442.88	212	341.5	358.88	430	504.75	297.5	191		124.5
Payment to Capital Providers										
a. Lenders (Interest)	11.9	39.2	132.52	136.05	127.86	33.38	26.63	12.92	22.95	32.94
b.Shareholders (dividends)	160.94	160.87	160.62	160.59	160.58	160.58	160.58	160.58	160.58	155.46
<b>Reinvestment in Business</b>										
a. Depreciation	529.61	499.97	440.81	433.2	323.61	303.03	282.07	248.03	165.25	151.79
b. Retained Earnings	1468.52	974.94	1398.03	1181.09	1388.34	1507.11	1123.96	960.39	1230	901.31
<b>Disposal of value addition</b>	<b>4399.79</b>	<b>3615.95</b>	<b>4263.13</b>	<b>3769.44</b>	<b>3715.14</b>	<b>3478.13</b>	<b>2618.95</b>	<b>2113.25</b>	<b>1897.6</b>	<b>1512.83</b>

Source: Compiled from the Cipla Company I.e. (From 2009 - 2018)

- As per **Table I** sales revenue of Cipla Ltd. has been increases from Rs. 5315 crore to Rs. 11779 crore between 2008-09 to 2017-18. Total value addition by the company during the study period is significantly increases from Rs.1512.83 crore to Rs 4399.79 crore between 2008-09 to 2017-18.
- Simple reason is being company had expanded their activities during the study period, some new product i.e Liposome Injection, Pre-filled Syringe , Inhalation Technology , Ophthalmic Solutions , Hormone Injection , Nasal Drug Delivery . These capacity has been utilized by Pune, Mumbai , Indore and Sikkim that shows a positive contribution towards the society , Highest contribution is made in the year 2017-18 Rs. 4399.7cr from 1512cr in 2008-09

- **Application of Value Added**

**Payment to employees** are increases gradually from Rs.271.33 crore to Rs.1785.94 crore, but in term of percentage with disposal of value addition, highest in the year 2017-18

- **Contribution to Government**

In case of payment to government it includes excise duty, local taxes, income tax, wealth tax, etc. As per table 1 company contributed a large amount during the last six years for 124.5 to 442.88 of the value added. Highest contribution is in the year 2017-18 (442.88 crore)

**Payment to Capital Providers**

- It contains two major factors, interest to moneylenders and dividend to the shareholders. In case of interest provided to the money lenders, interest liability has been decreases significantly during the study period in both respect amount as well as percentage with total value addition. It has been decreases from Rs.32.94 crore to Rs. 11.9 crore between 08-09 to 2017-18

**Shareholders**

- As far as shareholders point of view amount of dividend will increases regularly from Rs.155.46 crore to Rs.160.94 crore between 2008-09 to 2017-18. Amount of dividend in term of rupees and percentage in both the respect increases gradually year by year, simple reason is interest liabilities are decreases and more funds and profits are available to the shareholders.

**Re-Investment in Business**

Retained earnings are very important for development activities as well as shareholders wealth creation point of view. Retained earnings have been increases from 901.31 to 1468.52 crores between 2008-09 to 2017-18. One of the trends which are observed that in the second half of the study period retained earnings are increases sharply as compare to the I st half of the study.

**Analysis of Value Added Ratios:** To examine the value added trends of the company, certain ratios were used through which we easily evaluate the performance of the company, whether it is satisfactory or not. Ratios are one of the important tools for analysis of financial statement, but traditional ratios are not relevant for the analysis of value addition by the company.

Therefore, few new value added ratios are developing to signify the value added reporting in modern era.

**Gross Margin Ratio:** Generally, this ratio measures the profitability of the firm. Gross margin ratio shows the firm's contribution towards the earning capacity of the firm. This ratio is calculated by value added divided by sales.

**Stock Turnover Ratio:**

This ratio measures the efficiency of the firm. It is calculated by gross output divided by inventory. Stock turnover ratio also indicates how effectively a firm is managing its inventory levels.

**Fixed Assets Turnover Ratio:**

This ratio is calculated with the help of value added and fixed assets of the firm. Fixed assets turnover ratio also explains the relationship between net values added to fixed assets of the firm. Fixed Assets includes buildings, plant and machinery, water supply and drainage system, furniture and fixtures, vehicles and computer software. Net fixed assets are calculated by deducting the amount of depreciation from it.

**Labor Productivity Ratio:**

This ratio is calculated by value addition divided by the number of employees working in the firm. The labor productivity ratio is one of the simplest ratios to find out the production as the firm needs. Use this ratio on a regular basis; the company will remain aware of your employees' productivity.

**Capital Productivity Ratio:**

This ratio shows the utilization of capital employed. Capital employed shows the difference between fixed assets and total liabilities. Capital productivity ratio is calculated by value added divided by capital employed. Greater the ratio, higher will be their social contribution.

**Rate of Investment:**

This ratio measures the profitability of the firm. Rate of investment shows the utilization of capital expenditure per employee during the financial year of the firm. Generally this ratio is calculated by capital expenditure divided by number of employees.

Table 2 Statement of Value Added Ratios (in crore)

Years	Gross Margin Ratio (in %)	Stock Turnover Ratio (in times)	Fixed Assets Turnover Ratio (in times)	Labour Productivity (in times)	Capital Productivity (in %)	Rate of Investment Ratio (in times)
2017-18	37.35	2.43	1.29	0.19	30.63	6.9
2016-17	32.56	2.82	1.2	0.16	27.71	7.64
2015-16	34.68	2.75	1.29	0.18	32.95	7.27
2014-15	36.67	1.98	1.19	0.16	32.46	7.41
2013-14	38.46	2.37	1.23	0.16	35.36	7.71
2012-13	41.25	2.14	1.81	0.15	37.69	12.03
2011-12	36.75	2.47	1.7	0.11	33.39	14.9
2010-11	32.9	2.29	2.24	0.09	29.08	24.14
2009-10	33.21	2.52	2.84	0.08	31.12	34.15
2008-09	28.46	2.72	2.67	0.07	27.73	38.66
Mean	35.23	2.45	1.75	0.14	31.81	16.08
AGR	-2.38	1.19	10.70	-6.32	-0.95	46.03

\*\*Compiled from the annual report of Cipla Ltd. from

### Testing of Hypothesis:

H01 : There is no significant contribution in value addition by income.

- $r = 0.87$
- $t = 0.62$
- $t_{0.05} = 2.20$  at 5 % level of significance,
- Hence  $t_{0.05} > t$
- The calculated student t- test value is less than the critical value. Thus null hypothesis is accepted and there is significant contribution in value addition from income. It is clear that there is a significant relationship between income and value addition.
- Null hypothesis (Ho): There is no significant relation between sales and value addition.
- Alternative hypothesis (H1): There is significant relation between sales and value addition.

### Conclusion

- Gross margin ratio of Cipla Ltd. is fluctuating during the study period. Due to an average increase in sales was 12.15% but gross margin has been increased by 19.08%, it is a positive impact on the business. This ratio indicates that a company has good control on their direct expenses or in the material consumed.
- Stock turnover ratio analyses the operating efficiency of a company. It has been seen, this



ratio is less fluctuating during the study period. It result; company is not achieving good sales or not able to increase the more sales during the study period. On average sales is 12.15% which is only up to satisfactory level.

- During the study period it has been found company have huge amount of stock in their storage which is not worthwhile for a company. This situation is very risky because there may be great chance of expiry of stock.
- Fixed assets turnover ratio shows the efficiency of the business. In this study it is found fixed assets turnover ratio has been declining due to huge amount of investment in fixed assets. This situation is not good for a company because capital of a company may be blocked in fixed assets.

### Suggestions

- It is suggested to a company to enhance more sales, this ratio indicates a company is in good position and the profit of the company is continuously increasing.
- A company should focus on stock turnover ratio and try to achieve more sales for future expansion.
- It is essential for a company not to block capital in fixed assets. A company should diversify their business.
- Labour productivity ratio has been continuously increasing of the company. A company should adopt more new technology to enhance the ratio of labour productivity.
- A company should more focus on capital productivity ratio. It should be benefitted not only for shareholders but also for the company.
- The growth of Cipla ltd. has been continuously increasing, it is essential for the company to enhance the rate of investment ratio.

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