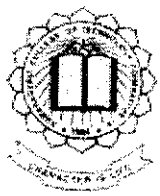

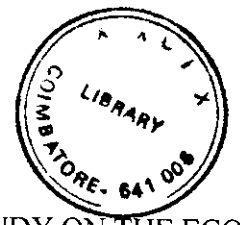

AN INTROSPECTIVE STUDY ON THE ECONOMIC VALUE ADDED TO SHAREHOLDERS, WITH SPECIAL REFERENCE TO HCL INFOSYSTEMS LIMITED

By

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Department of Management Studies
Kumaraguru College of Technology
Coimbatore

A PROJECT REPORT
Submitted to the

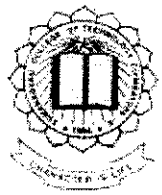
FACULTY OF MANAGEMENT STUDIES

In partial fulfillment of the requirements
for the award of the degree

of

MASTER OF BUSINESS ADMINISTRATION

July, 2007



DEPARTMENT OF MANAGEMENT STUDIES

KUMARAGURU COLLEGE OF TECHNOLOGY

COIMBATORE

BONAFIDE CERTIFICATE

Certified that this project report titled "AN INTROSPECTIVE STUDY ON THE ECONOMIC VALUE ADDED TO SHAREHOLDERS, WITH SPECIAL REFERENCE TO HCL INFOSYSTEMS LIMITED" is the bonafide work of Ms.M.SRIISOUBARNIKAA (71206631052) who carried out the research under my supervision. Certified further, that to the best of my knowledge the work reported herein does not form part of any other project report or dissertation on the basis of which a degree or award was conferred on an earlier occasion on this or any other candidate.

Faculty Guide

Director

Evaluated and vice-voce conducted on .....

Examiner I

Examiner II

DECLARATION

I, hereby declare that this project report entitled as "An Introspective Study On The Economic Value Added To Shareholders, With Special Reference To Hcl Infosystems Limited", has undertaken for academic purpose submitted to Anna University in partial fulfillment of requirement for the award of the degree of Master of Business Administration. The project report is the record of the original work done by me under the guidance of Mr. A.Senthil Kumar during the academic year 2007-2008.

I, also declare hereby, that the information given in this report is correct to the best of my knowledge and belief.

Place: Coimbatore

Date:

.....

(M.SRIISOUBARNIKAA)

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SUMMER INTERNSHIP PROJECT COMPLETION CERTIFICATE

This is to certify that Ms. Sriisoubarnikaa.M (Roll No.06MBA52) a student of KCT Business School, Kumaraguru College of Technology, had undergone a Project between 19.06.07(date of Joining) and 01.08.07 (date of Leaving) entitled "An Introspective Study on the Economic Value Added to Shareholders, with Special Reference to HCL Infosystems Ltd" .

During the tenure her performance was very Good.

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Signature of the Origanisational Guide.

HCL INFOSYSTEMS LTD.

R. SRIKANTHAN
Manager-Account

ACKNOWLEDGEMENT

It is inevitable that thoughts and of other people tend to drift into the subconscious when one feels to acknowledge helping derived from others. I acknowledge to all those who have helped me in the preparation of this project work.

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EXECUTIVE SUMMARY

Traditional measures of corporate performance are many in number. Measures using common bases are Net Profit Margin, Operating Profit Margin, Return on Investment (ROI), Return on Net Worth (RONW), Earning Per Share (EPS) etc. Among these, again ROI is recognized as the most popular yardstick of overall performance. But it is often argued that, in general, these traditional measures fail to identify the true surplus. Economic Value Added (EVA) is advocated as a new measure of corporate performance that focuses on clear surplus in contrast to the traditionally used profit based indicators.

For evaluation of the efficiency of any decision, value creation or value addition aspect is of utmost importance in the present backdrop of corporate governance. Although adopting a holistic approach safeguarding the interests of all stakeholders is being emphasized and rightly so, it should be kept in mind that value creation or value addition aspect is of prime consideration in the assessment of the corporate policy guidelines. If that is not satisfied, wrong signals will be emitted from securities market and the continuance of the operations of the entity will be at stake.

In view of the above considerations, in the present paper an attempt has been made to analyse the financial performance of HCLINFOSYSTEMS by using EVA.

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Chapter I
Introduction

CHAPTER 1

INTRODUCTION

1.1BACKGROUND:

EVA MEANING:

The Term 'Economic Value Added (EVA)' is a registered trademark of Stern Stewart & co. New York City (USA). Bennett Stewart in his book, "The Quest for value", used the term EVA with a symbol ^{Tm} as super script, which is the normal practice of referring to any registered trademark whenever the term is used. Thus EVA is actually Stern Stewart & co.'s trademark for the specific method of calculating economic profit. "The Quest for value" was published in 1991. Peter Drucker claimed that he discussed EVA in 1964 in his book "Managing for Results". It cannot be denied, however, without going into argument as to who invented EVA first that the concept became popular only after Stern Stewart & co. marketed it.

It deals with calculation of gain earned by the shareholders by investing in a company.

The Economic Value Added (EVA) is a measure of surplus value created on an investment.

EVA is net operating profit minus an appropriate charge for the opportunity cost of all capital invested in an enterprise. As such, EVA is an estimate of true "Economic" profit, or the amount by which the earnings exceed or fall short of the required minimum rate of return that shareholders and lenders could get by investing in other securities of comparable risk.

Economic Value Added is a financial performance measure that comes closer than any other to capturing the true Economic profit of an enterprise. EVA also is the performance measure most directly linked to the creation of shareholder wealth over time. Stern Stewart &

co. guides client companies through the implementation of a complete EVA- based financial management and incentive compensation system that gives managers superior information and superior motion to make decisions that will create the greatest shareholder wealth in any publicly owned or private enterprise.

"EVA = NOPAT – (capital x cost of capital)"

1.2 ABSTRACT OF REVIEW OF LITERATURE:

Easton, P. Harris, T. and Ohlson, J (1992)[1] observed that Economic Value Added (EVA) is an increasingly popular corporate performance measure one that is often used by companies not only for evaluating performance, but also as a basis for determining incentive pay. Like other performance measures, EVA attempts to cope with the basic tension that exists between the need to come up with a performance measure that is highly co-related with shareholders wealth, but at the same time somewhat less subject to the random fluctuations in stock prices. This is a difficult tension to resolve and it explains the relatively low correlation of all accounting based performance measures with stock returns at least on a year to year basis.

Stewart (III), and Bennett, G. (1994)[2] observed that "EVA is a powerful new management tool that has gained growing international acceptance as the standard of corporate governance. It serves as the centerpiece of a completely integrated frame-work of financial management and incentive compensation." In essence, EVA is a way both to legitimize and to institutionalize the running of a business in accordance with basic microeconomics and corporate finance principles. The experience of a long list of adopting companies throughout the world strongly supports the notion that an EVA system, by providing such an integrated

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[1]Easton, P., Harris, T. & Ohlson, J. (1992), "Aggregate Earnings can explain most security returns", *Journal of Accounting and Economic*, June – September.

[2] Stewart, G. Bennett (1994), "EVA TM: Fact and Fantasy", *Journal of Applied Corporate Finance,* Summer, Vol. 7, No. 2, 1994, pp. 71-84.

decision making framework, can refocus energies and redirect resources to create sustainable value for companies customers, employees, shareholders and for management.

Ray, Russ (2001)[3] observed that the missing link between EVA and improved financials is actually productivity. EVA can be a powerful tool. When properly applied, it allows a firm to ascertain where it's creating value and where it's not. More specifically it allows a firm to identify where the return on its capital is outstripping the cost of that capital. For those areas of the firm where the former is indeed greater than the latter EVA analysis then allows the firm to concentrate on the firm's productivity in order to maximize the value created of the firm. Finally, as investors buy more shares in the firm in order to have more claims on its increased value, they automatically bid up and eventually maximize the firms share price. And as any good capitalist knows, maximizing share price is the name of the game in a free market economy. Thereafter marginal increases in value added can be attained by either decreasing the firms cost of capital or by increasing its productivity.

Debdas Rakshit(2006)[4]*, Faculty Member, department of commerce,* The EVA based performance measurement system is the basis on which the company should take appropriate decisions related to the choice of strategy, capital allocation, merger & acquisitions, divesting business and goal setting. While deciding resource allocation it becomes necessary to appreciate the EVA impact of such decision. Management Accountants have the full knowledge about the company that would create value. They are in a position to guide a company in its restructuring mission for value creation. So a Management Accountant is expected to successfully transform traditional management system into value based management system.

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[3] Ray, Russ (2001), "Economic Value Added: Theory Evidence, A Missing Link", *Review of Business*, Vol. 22, No. 2, Summer 2001.

[4] Debdas Rakshit (2002),"EVA based performance measurement: a case study of Dabur India limited" *Vidyasagar University Journal of Commerce, Vol.11, March 2006.*

Novak, Frank S. (03/24/97)[5], According to him "EVA views a company or one of its operations through the eyes of an owner. It measures the amount of capital entrusted to management to invest and then adjusts accounting statements for true economic results. Conventional accounting statements reflect nonrecurring gains, which give the appearance of increasing profit and capital. However, they also reflect reserves and nonrecurring write-offs, both of which lend the appearance of decreasing profit and capital. In addition, accountants treat certain investments -- such as research and development, long-term marketing, advertising, engineering or similar expenditures -- as expenses rather than as investments intended to create value in the future. Net profits under Generally Accepted Accounting Principles may not truly reflect the economic results of ongoing operations. For instance, a company investing heavily in its future may be expensing items that truly are economic investments."

Pettit, Justin,[6], Focuses on corporate governance systems in relation to economic value added (EVA). Shortcomings which could infiltrate the system; Definition of EVA; Implications of EVA; Information on the use of EVA in business organizations; How economic value added facilitates integrated corporate governance systems. INSET: Key Success Factors to Implementing EVA.

Fiordelisi, Franco,[7], This paper advances the studies of [Hughes, J.P., Lang W.W., Mester L.J., Moon C.G., Pagano M.S., 2003. Do bankers sacrifice value to build empires? Managerial incentives, industry consolidation, and financial performance. Journal of Banking and Finance 27, 417–447] by developing a new measure of bank performance which we refer to as "shareholder value efficiency" – a bank producing the maximum possible Economic Value Added (EVA), given particular inputs and outputs, is defined as "shareholder value

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[5] Novak, Frank S. (03/24/97)[5], "*EVA helps business owners to keep score*", Crain's Cleveland Business;, *Vol. 18 Issue 12, p36, 2/5p, 1bw.*

[6] Pettit, Justin,[6] "Governing for Value", Ivey Business Journal; Autumn98, Vol. 63 Issue 1, p49, 5p,

[7] Fiordelisi, Franco, "Shareholder value efficiency in European banking" Journal of Banking & Finance; Jul2007, Vol. 31 Issue 7, p2151-2171, 21p.

efficient". This new efficiency measure is estimated using the stochastic frontier method focussing on the French, German, Italian and UK banking systems over the period 1997–2002 and includes both listed and non-listed banks. We find that European banks are, on average, 36% shareholder value inefficient. Shareholder value efficiency is found to be the most important factor explaining value creation in European banking, whereas cost and profit efficiency only have a marginal influence.

Kyriazis,Dimitris Anastassis, Christos,[8], This study investigates the relative explanatory power of the Economic Value Added (EVA) model with respect to stock returns and firms' market value, compared to established accounting variables (e.g. net income, operating income), in the context of a small European developing market, namely the Athens Stock Exchange, in its first market-wide application of the EVA measure. Relative information content tests reveal that net and operating income appear to be more value relevant than EVA. Additionally, incremental information tests suggest that EVA unique components add only marginally to the information content of accounting profit. Moreover, EVA does not appear to have a stronger correlation with firms' Market Value Added than the other variables, suggesting that – for our Greek dataset – EVA, even though useful as a performance evaluation tool, need not necessarily be more correlated with shareholder's value than established accounting variables.

Griffith, John M.[9], The article discusses the study that determines whether market value added, economic value added or future growth reliance should be the basis to make investment decisions. This is a database for analysis from the Stern Stewart and Co. used by portfolio managers, investors and corporate managers to forecast stock performance. Investors using these determinants in forecasting would experience significant losses which means that these are poor indicators but maximize shareholders' wealth.

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[8]Kyriazis,Dimitris Anastassis, Christos, "The Validity of the Economic Value Added Approach: an Empirical Application." European Financial Management; Jan2007, Vol. 13 Issue 1, p71-100, 30p, 8 charts.

[9] Griffith, John M. "EVA and Stock Performance." Journal of Investing; Summer2006, Vol. 15 Issue 2, p75-78, 4p,

Cheng, Julian Ming-Sung Tsao, Show-Ming Tsai, Wen-Hsien Tu, Hill H.-J.[10] The emergence of the Internet has forced firms to add eChannels to their existing channel system. Nevertheless, empirical studies failed to provide direct evidence on whether eChannel addition could enhance the financial performance of the firm. In this research, an attempt was made to fill in this literature gap from three financial measure perspectives, i.e., Event Study methodology, Economic Value Added (EVA) measure and Market Value Added (MVA) measure. Empirical data were collected from Taiwan"s financial service sector. The finding revealed that eChannel addition announcement could increase a firm"s accumulative abnormal returns, EVA value and MVA value. We therefore concluded that eChannel addition could help increase the financial performance of the firm.

1.3 STATEMENT OF THE PROBLEM:

- An investor evaluates an organization based on the value created by it for him.
- Hence the Economic Value Added by an organization toward its shareholders is focused by the researcher as a problem to be studied upon.

1.4 OBJECTIVES OF THE STUDY:

- To examine the extent of value created by HCL Infosystems to its equity share holders.
- To analyse the growth and consistency of the firm in the share holders value creation process.

[10] Cheng, Julian Ming-Sung Tsao, Show-Ming Tsai, Wen-Hsien Tu, Hill H.-J. "Will eChannel additions increase the financial performance of the firm?" Industrial Marketing Management; Jan2007, Vol. 36 Issue 1, p50-57, 8p

1.5 SCOPE OF THE STUDY:

An investor evaluates an organization based on the value created by it for him. The behavior of the stock returns will enable the investors to make appropriate investment decision. The fluctuations in shareholders wealth maximisation may be due to several economic and non economic factors.

This study helps the company to analyze how far they are better than their competitors.

1.6 RESEARCH METHODOLOGY

1.6.1 TYPE OF THE STUDY:

There are three types of research design, they are:

- Exploratory research,
- Descriptive,
- Analytical research design.

This study comes under analytical research.

Meaning:

Under this research, the researcher goes into the researching stage with a specific topic about which he have not made any kind of conclusions. Often it is called as question. The researcher surveys the information and views already out there--both before and during research. That will require reading, plus evaluation of the resources handled by the researcher. By the end of the research the researcher will be able to contribute his own thoughts to the academic discussion by drawing some conclusions about the topic he has chosen. Hence this study comes under analytical research.

1.6.2 METHOD OF DATA COLLECTION:

Data can be collected through two methods, they are:

- Primary data collection method:

Primary data's are collected through direct interview with the interviewee etc...

- Secondary data collection method:

Secondary data's are collected through magazines, news papers, websites etc...

- **Primary Data:**
  - Unstructured Interviews with the finance controllers in the organization.

- **Secondary Data:**
  - Audited and published annual reports of the organization.

- **Data Source:**
  - www.hclinfosystems.com.

1.6.3 TOOLS FOR ANALYSIS:

- EVA Model = NOPAT – (CAPITAL X THE COST OF CAPITAL)
- TREND ANALYSIS;

FORMULA:

$Y = a + bx,$

$\sum y = na + b\sum x$

$\sum xy = a\sum x + b\sum x^2$

1.6.4 VARIABLES FOR THE STUDY

- Net operating profit after tax (Nopat)
- Capital
- Cost of equity
- Cost of debt

- Weighted average Cost of capital
- Compound growth

1.6.5 PERIOD OF STUDY:

- The period of study focuses on three financial years (2003-2006).

1.7 LIMITATIONS:

Though utmost care was taken to do the research articulately, it is liable to certain limitations, viz.

- This analysis is made using secondary data only.
- The period of study focuses only on three financial years (2003-2006).
- This study is applicable only to HCL Infosystems.

1.8. CHAPTER SCHEME:

The FIRST CHAPTER is introductory in nature. This chapter tells about the objectives and scope of the study and its limitations.

The SECOND CHAPTER conveys about the history of the HCL INFOSYSTEMS LTD., highlights the origin and development, objectives and production, financial and working of the company, development programmes and plan of the company.

The THIRD CHAPTER gives the macro and micro scenario with respect to the hardware industry.

The FOURTH CHAPTER presents the data analysis and interpretation.

The FIFTH CHAPTER gives summary of findings and concludes the study with relevant suggestions.

Chapter II
Organization Profile

CHAPTER 2

ORGANISATION PROFILE:

2.1 HISTORY OF THE ORGANISATION:

HCL Infosystems ltd is one of the pioneers in the Indian it market, with its origins in 1976. for over quarter of a century, they have developed and implemented solutions for multiple market segments, across a range of technologies in India. They are in the forefront in introducing new technologies and solutions. In the year 2005 they had launched pc for India, a fully functional pc priced at Rs.9, 990/-The company employees are motivated and perform to their potential through Individual Training Plans, Job Rotations, Training and Development Programmes, seminars and Workshops for staffs at various levels, both internally and as well as at various reowned institutions.

HIGHLIGHTS
- Foundation of the Company laid - Introduces microcomputer-based programmable calculators with wide acceptance in the scientific / education community
- Launch of the first microcomputer-based commercial computer with a ROM - based Basic interpreter - Unavailability of programming skills with customers results in HCL developing bespoke applications for their customers
- Initiation of application development in diverse segments such as textiles, sugar, paper, cement , transport
- Formation of Far East Computers Ltd., a pioneer in the Singapore IT market, for SI (System Integration) solutions
- Software Export Division formed at Chennai to support the bespoke application development needs of Singapore
- HCL launches an aggressive advertisement campaign with the theme ' even a typist can operate' to make the usage of computers popular in the SME (Small & Medium Enterprises) segment. This proposition involved menu-based applications for the first time, to increase ease of operations. The response to the advertisement was phenomenal. - HCL develops special program generators to speed up the development of applications
- Bank trade unions allow computerisation in banks . However , a computer can only run one application such as Savings Bank, Current account , Loans etc. - HCL sets up core team to develop the required software - ALPM (Advanced

Ledger Posting Machines) . The team uses reusable code to reduce development efforts and produce more reliable code . ALPM becomes the largest selling software product in Indian banks - HCL designs and launches Unix- based computers and IBM PC clones - HCL promotes 3rd party PC applications nationally
- Zonal offices of banks and general insurance companies adopt computerization - Purchase specifications demand the availability of RDBMS products on the supplied solution (Unify, Oracle). HCL arranges for such products to be ported to its platform. - HCL assists customers to migrate from flat-file based systems to RDBMS
- HCL enters into a joint venture with Hewlett Packard - HP assists HCL to introduce new services: Systems Integration, IT consulting, packaged support services (basicline, teamline) - HCL establishes a Response Centre for HP products, which is connected to the HP Response Centre in Singapore. - There is a vertical segment focus on Telecom, Manufacturing and Financial Services
- HCL acquires and executes the first offshore project from IBM Thailand - HCL sets up core group to define software development methodologies
- Starts execution of Information System Planning projects

- Execution projects for Germany and Australia - Begins Help desk services
- Sets up the STP (Software Technology Park) at Chennai to execute software projects for international customers - Becomes national integration partner for SAP
- Kolkata and Noida STPs set up - HCL buys back HP stake in HCL Hewlett Packard
- Chennai and Coimbatore development facilities get ISO 9001 certification
- Acquires and sets up fully owned subsidiaries in USA and UK - Sets up fully owned subsidiary in Australia - HCL ties up with Broadvision as an integration partner
- Sets up fully owned subsidiary in Australia - Chennai and Coimbatore development facilities get SEI Level 4 certification - Bags Award for Top PC Vendor In India - Becomes the 1st IT Company to be recommended for latest version of ISO9001:2000 - Bags MAIT's Award for Business Excellence

- Rated as No. 1 IT Group in India
-Launched Pentium IV PCs at below Rs 40,000 -IDC rated HCL Infosystems as No. 1 Desktop PC Company of 2001
-Declared as Top PC Vendor by Dataquest -HCL Infosystems & Sun Microsystems enters into a Enterprise Distribution Agreement - Realigns businesses, increasing focus on domestic IT, Communications & Imaging products, solutions & related services
- Became the first vendor to register sales of 50,000 PCs in a quarter - First Indian company to be numero uno in the commercial PC market - Enters into partnership with AMD - Launched Home PC for Rs 19,999 - HCL Infosystems' Info Structure Services Division received ISO 9001:2000 certification - Launches Infiniti Mobile Desktps on Intel Platform - Launched Infiniti PCs, Workstations & Servers on AMD platform
- 1st to announce PC price cut in India, post duty reduction, offers Ezeebee at Rs. 17990

- IDC India-DQ Customer Satisfaction Audit rates HCL as No.1 Brand in Desktop PCs

- Maintains No.1 position in the Desktop PC segment for year 2003

- Enters into partnership with Port Wise to support & distribute security & VPN solutions in India

- Partners with Microsoft & Intel to launch Beanstalk Neo PC

- Becomes the 1st company to cross 1 lac unit milestone in the Indian Desktop PC market

- Partners with Union Bank to make PCs more affordable, introduces lowest ever EMI for PC in India

- Launched RP2 systems to overcome power problem for PC users

- Registers a market share of 13.7% to become No.1 Desktop PC company for year 2004

- Crosses the landmark of $ 1 billion in revenue in just nine months

- Launch of HCL PC for India, a fully functional PC priced at Rs.9,990/-

- Rated as the No.1 Desktop PC company by IDC India -Dataquest

- 'Best Employer 2005' with five star ratings by IDC India -Dataquest.

- 'The Most Customer Responsive Company 2005'

-IT Hardware Category by The Economic Times -Avaya Global Connect.

-Top 50 fastest growing Technology Companies in India' & 'Top 500 fastest Growing Technology Companies in Asia Pacific' by 'Deloitte & Touche'. by 'Deloitte & Touche'

-'7th IETE -Corporate Award 2005' for performance excellence in the field of Computers & Telecommunication Systems by IETE.

-'Best Bhoomi Brand 2005' by 360 magazine
-in the PC category
-in the LCD Monitor category.

-India 's 'No.1 vendor' for sales of A3 size Toshiba Multi Functional Devices for the year '04 -'05 by IDC.

-Toshiba'Super Award 2005 towards business excellence in distribution of Toshiba Multifunctional products,

-Strategic Partners in Excellence' Award by Infocus Corporation for projectors.

-'Most valued Business Partner' Award for projectors by Infocus Corporation in 2005

- 75, 000+ machines produced in a single month

- HCL Infosystems in partnership with Toshiba expands its retail presence in India by unveiling 'shopToshiba'

- HCL Infosystems & Nokia announce a long term distribution strategy

- HCL the leader in Desktops PCs unveils India's first segment specific range of notebooks brand - 'HCL Leaptops'

- IDBI selects HCL as SI partner for 100 branches ICT infrastructure rollout

- HCL Infosystems showcases Computer Solutions for the Rural Markets in India

- HCL Support wins the DQ Channels-2006 GOLD Award for Best After Sales Service on a nationwide customer satisfaction survey conducted by IDC

- HCL Infosystems First in India to Launch the New Generation of High Performance Server Platforms Powered by Intel Dual - Core Xeon 5000 Processor

- HCL Forms a Strategic Partnership with APPLE to provide Sales & Service Support for iPods in India

- **TOTAL NUMBER OF SHARE HOLDERS:**

  As on June 30, 2006 – 37874.

- **TOTAL NUMBER OF SHARES:**

  As on June 30, 2006 – 16, 87, 29,255

- **TOTAL NUMBER OF EMPLOYEES:**

  The company strengthened its employee force from 3879 in 2005 to 4323 in 2006.

2.2 MANAGEMENT

VISION STATEMENT:

"TOGETHER WE CREATE THE ENTERPRISE OF TOMORROW"

HCL is India's original IT start up founded by Shiv Nadar and Ajai Chowdhry and other entrepreneurs in the year 1976.

CHAIRMAN & CHIEF EXECUTIVE OFFICER:

- Mr. Ajai Chowdhry.

REGISTERED OFFICE:

- New Delhi.

CORPORATE OFFICE:

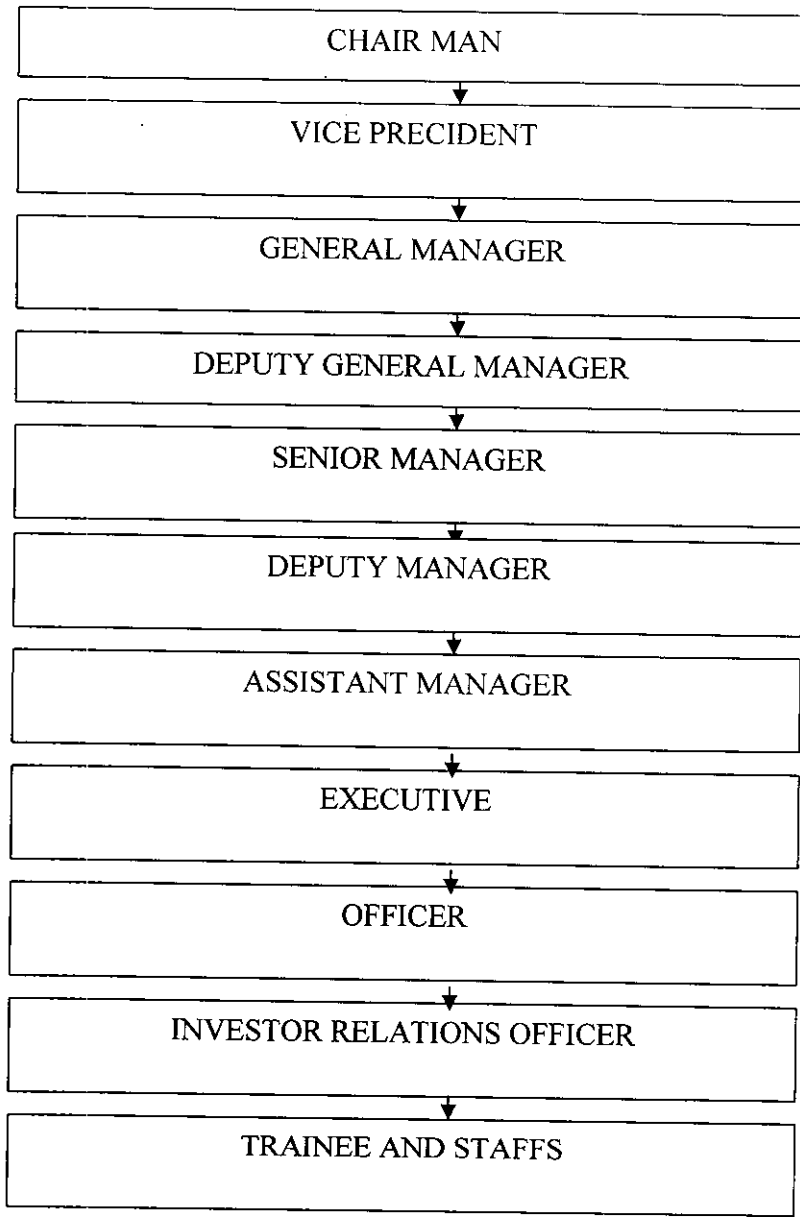
- Noida, Uttar Pradesh.

2.4 PRODUCTS:

- Desktops & notebook
- Workstations
- Servers
- Infiniti xcel line servers
- Thin clients
- Display products
- Networking Product
- Security products
- Toshiba notebooks
- Solutions
- Software Licenses

2.3ORGANISATION CHART:

TABLE 2.1



2.5 COMPETITIVE STRENGTH OF THE COMPANY:

- The company retains it leadership position in the commercial PC segment for the fifth year in the row.
- The company continues to bag large precious orders from their existing clients like SBI, Canara Bank, ACC, Department of Posts, Sun Pharmaceuticals, Seimens, Hindustan aeronautics Ltd, HDFC Standard Life Insurance etc...

2.6 FUTURE PLAN:

- Their Extensive pan – India support infrastructure, with capabilities of to effectively reach out to the remotest corners of the nation, and to retain the competitive advantage.
- Their aim is to make every Indian Technologically equipped with new, exiting, ever – evolving global future.

Chapter III
Macro Micro Analysis

CHAPTER 3

MICRO AND MACRO STUDY:

As we've noted 10 years ago, the PC revolution and the Internet are returning man back to nature, paving the way for a re-fusion of arts and sciences. The new CCO position would embody that concept and extend it even to the corporate world.

Powering Indian Hardware & Networking Towards $62 Billion," organized by MAIT, the apex body of the hardware industry in India. The $62 billion refers to the level of revenues the Indian hardware industry could reach by 2010, according to a MAIT-Ernst & Young study.

The Hardware in academics:

Whatever the advances in software, it is the computer itself—the actual hardware—that remains the focus of much of the attention given to the changing classroom. The machines themselves provide the momentum for their own integration into the academic environment.

The most successful hardware manufacturer in the educational marketplace is Apple Computer. Apple was among the first hardware manufacturers to perceive the importance of the education market, and to approach that market aggressively. As a result of its ongoing and intensive effort, there are more than one million Apple-II series computers in the nation's schools.

Pace says the company has achieved an educational penetration comparable to the penetration of MS-DOS in the business environment. To preserve that market share, the company has worked closely with educators from the very beginning, creating a separate educational marketing division and maintaining a high profile at

educational conferences, symposiums, and conventions. In the higher education marketplace, the company achieved a large success with its Macintosh line.

The annual International Consumer Electronics Show (CES) this year will focus more on technologies that support current trends rather than those that promise to break new ground for consumers.
CES will feature exhibits, industry heavyweights such as Microsoft, Intel, and Hewlett-Packard, as well as about 2,700 other companies large and small hoping to showcase the next device that will win over consumers in 2007. IBM will have a large presence at the show for the first time in 10 years.

Companies from Australia will for the first time attend CES, which draws participants from more than 135 countries, including the U.S., Canada, Mexico, and the U.K. CES also is celebrating its 40th anniversary and will mark the occasion with a special celebratory event on the first day of the show.

An analysis about hardware with Government:

"That's just eight years away. The reality in 2001-02, ironically, is that we have witnessed an 11 percent *decline* in PC shipments over the previous year—an announcement from MAIT. To reach the projections, we'd need to grow over twelve times the current size.

Over the years the government has given the hardware industry short shrift to the extent that one gets the feeling that it wishes to wipe out manufacturing in the country. For instance, Wipro ePeripherals gives an example of how, because of wonky levies, it pays Rs 500 more to the government for every printer it manufactures in India, as compared to every printer it imports! While software has been need of policy makers because of its early forex earnings, the hardware industry, as one manufacturer lamented, has been literally "tortured" all these years.

The government, on its part, says it's still 'learning' about complex industry. Adding to the confusion is the lack of a uniform policy across the country. Oftentimes, what the Centre gives, the states take away. So you may have duty concessions announced at the Union Budget, and then, increases in other taxes and retrograde levies like octroi at the state level, sometimes varying even from city to city.

Will this ever happen?

Perhaps more than for any other industry, the government has a massive role to play here. Apart from a single-minded, unified policy promoting computer hardware manufacture whole hog, with all the concessions, incentives, infrastructure development, that go with it, the government at the same time needs to catalyse deployment through sponsored and mandatory hardware purchase and computerization in every sphere of governance and public life.

In India we most certainly need Indian-designed and manufactured hardware products with Indian language interfaces and relevant local applications and content. MAIT's newly instituted Consortium on Innovation and Language Technology (COILTech) will tie things together in this sphere.

Future of India is lying in totally 'disruptive' innovation. Sasken's Internet access device Aparate, the Simputer, Skorydov's PC Slate, etc, are examples of this innovation. For more of these to surface, we need far more investment in R&D and many more microelectronics engineers in this country. And if the government-funded Media Lab Asia can distance itself from controversy and get its act together, India may well find next wave of computing.

A prediction that the Indian IT industry at the end of 10 years would in fact touch $200 billion—split equally between hardware and software.

- Val Souza, Editor, Indian Express.

Need for updation:

Every so many years, computer industry gurus are asked to go search for a new technology. Usually that happens when the old guideposts outlive their usefulness, and the marketplace gets as confusing and foggy to the client.

Will the trend in hardware increases the cost of software?

Emerging trends in IT hardware could force software licensing costs up by more than 50 per cent over the next year unless businesses renegotiate existing contracts new, according to analyst Gartner.

Gartner claims the move to multi-core chip architectures, virtualized hardware and utility computing threatens existing capacity or processing (CPU)-based licensing agreements offered by the major software vendors.

Andy Butler, research director at Gartner, said that the software industry is failing to reflect the hardware changes in its licensing policies

The other two main hardware trends that will force software prices up are "capacity on demand" and "rapid provisioning" tools to move software between servers with more or less capacity based on workload requirements.

The computer hardware market, as defined by a Market Report, comprises three main sectors: client computers, servers and peripherals/add-ons.

The computer hardware market is increasingly competitive and the constant need to launch new products and develop new technologies is intensifying. Although the market has always been driven by successful new products, which require significant investment in production and marketing, the amount of investment needed is growing, primarily as a result of the rising costs associated with the development and marketing of new products. Consequently, the availability of significant financial

resources is becoming an increasingly competitive, discriminating factor in the industry.

In order to generate the required volume sales, major vendors are focusing on the small- and medium-sized enterprise (SME) market. Vendors are also introducing lower-cost servers and storage systems aimed at the SME sector. Although businesses are now spending more on IT products, selling into this market has become more difficult. Organizations are taking a more hard-headed and systematic approach to buying hardware. Fashion and the desire to have the latest products have given way to buying tried and tested products with a track record on delivery, return on investment and improvement in operations.

Hardware market enters a matured phase:

The computer hardware market is entering into a mature phase of growth, in which consolidation and a struggle for market share will be key features. New product development (NPD) costs are set to rise and this will result in a growing pressure on companies to gain in either scale or niche focus. The big will get bigger, while the small will either go out of business or target specific niches.

Embedded hardware growth will be at the aggregate rate of 14.2% to reach $78.7 billion in 2009, while embedded board revenues will increase by an aggregate rate of 10%.

High performance computing hardware trends:

Two important recent developments in commodity hardware have important consequences for software development with commodity clusters.

The first of these is the proliferation (and rapid acceptance) of processor hardware that supports 64-bit memory addressing. Examples include the Intel Pentium Xeon 64EMT [INTEL], American Micro Devices (AMD) Opteron [AMD], and IBM's Power PC G5

[IBM], processors. Each of these architectures supports 64-bit Linux kernels, and also Apple Mac OSX 10.4 (in the case of the G5).

The second recent development is the availability of multi-core processors. At this time (2006) these are dual core CPU's with separate GPR's, functional units and cache hardware. While dual core processors are already in the market place and examples of third party vendors offering such solutions with AMD dual core processors are Microway [MICRO], HPC Systems [HPCS] and SUN Microsystems [SUN].

The ratio of CPU speed to memory speed in current high-performance computers is growing rapidly, with significant implications for the design and implementation of algorithms in scientific computing.

We have a feeling that old Leonardo would be smiling about our discoveries on the latest technology of hardware. The Renaissance man is back...

Chapter IV
Data Analysis & Interpretations

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

4.1 CALCULATION OF COST OF DEBT:

FORMULA: Kd = I (1- T)

Here, Kd represents – cost of debt,

I = interest rate provided by banks,

T = effective tax rate.

Effective tax rate = income tax rate + (income tax rate x surcharge x educational cess)

TABLE 4.1

YEAR	COST OF DEBT FOR LOAN FUND	COST OF DEBT FOR PUBLIC DEPOSITS
2004	5.97%	18.77%
2005	5.97%	18.82%
2006	5.97%	11.11%

4.1.1 CALCULATION OF WEIGHTED AVERAGE COST OF DEBT:

TABLE 4.2

YEAR	WEIGHTED AVERAGE COST OF DEBT
2004	6.10%
2005	6.10%
2006	6.02%
CADR	0.0043%

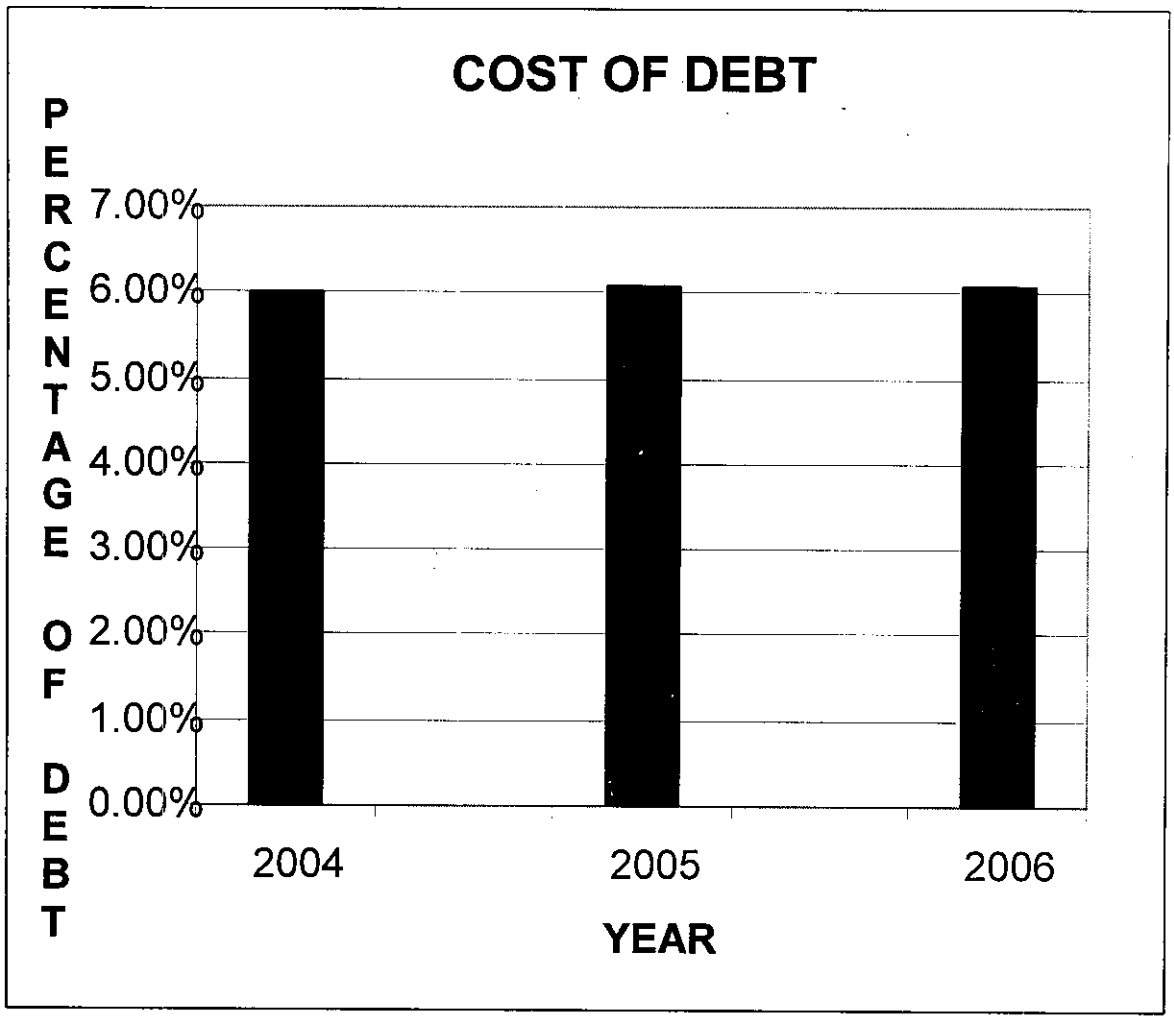
INTERPRETATION:

The above table 4.2 shows that, the Cost of debt of the firm is stable and not attained much change over the three year period. The cost of debt for the year 2004 and 2005 is same, 6.10%. cost of debt for the year 2006 is 6.02%.

INFERENCE:

The above table 4.2 inference that, the Cost of debt has been reduced, this is a good sign that the company is working well, but there is no much reduction in the three year period. The cost of debt should be low to earn more profit, the company has to consider it. Compound annual growth rate is (0.0043%).

CHART 4.1


COST OF DEBT
PERCENTAGE OF DEBT
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
2004
2005
2006
YEAR

4.2 CALCULATION OF COST OF EQUITY:

FORMULA: $Ke = (D_1/P_0) \times g$,

Ke = cost of equity,

D_1 = Expected Dividend paid per share in the next year,

$D_1 = D_0 (1 + g)$,

P_0 = (Equity share capital + Reserves and surplus) / number of paid up shares,

g = Dividend growth rate,

TABLE 4.3

YEAR	COST OF EQUITY
2004	13.70%
2005	10.11%
2006	9.02%
CADR	-0.13%

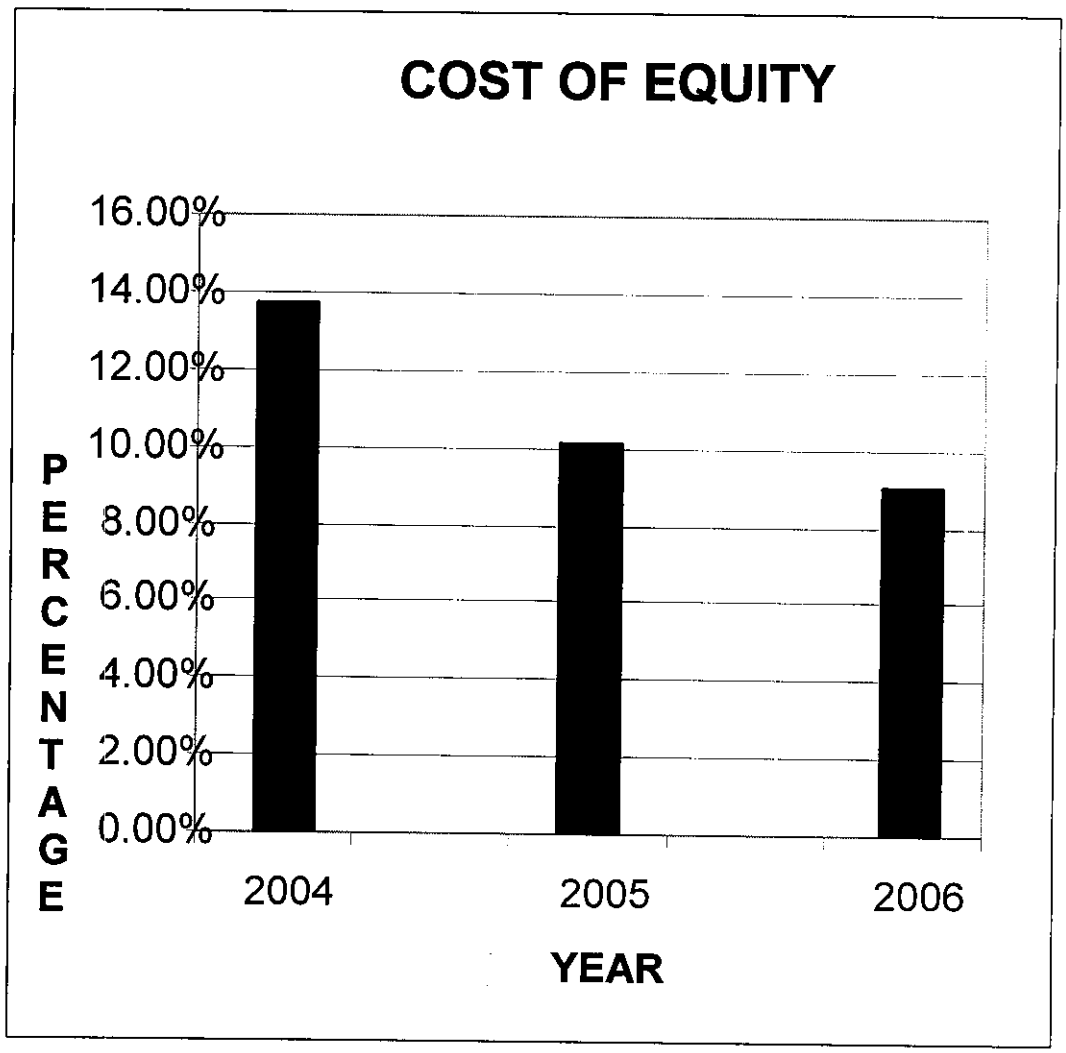
INTERPRETATION:

The above table 4.3 shows that, in the year 2004 the cost of equity is 13.07%, and there is a major reduction in the years 2005 and 2006, in the year 2005 it is 10.11% and in 2006 it is 9.02%.This may be due to share split.

INFERENCE:

The above table 4.3 inference that, the Cost of equity has been reduced, this is a good sign that the company is working well. There is a major change in cost of equity, this is due to the share split. The company has splited the shares from Rs.10 to Rs. 2. The Compound growth rate is (0.13%).

CHART4.2



4.3 CALCULATION OF WEIGHTED AVERAGE COST OF CAPITAL:

Weighted Average Cost of Capital (WACC):

According to The Chartered Institute of Management Accountants, London (CIMA) terminology the Weighted Average Cost of Capital "as the average cost of the company's finance, equity, debentures, bank loans weighted according to the proportion each element bears to the total pool of capital, weighting is usually based on market valuations, current yields and costs after tax." But for EVA calculation purpose the WACC is computed by applying book value weights to cost of debt, cost of equity and cost of preference shares (if any).

In other words, initially, cost of each source of capital is calculated separately.Then a weightage, representing the proportion of a particular source on the total invested capital is applied to compute overall cost of capital.

TABLE 4.4

YEAR	COST OF EQUITY	COST OF DEBT	WEIGHTED AVERAGE COST OF CAPITAL
2004	13.70%	6.10%	12.13%
2005	10.11%	6.10%	7.29%
2006	9.02%	6.02%	6.47%
CAGR	0.0043	0.13	0.189%

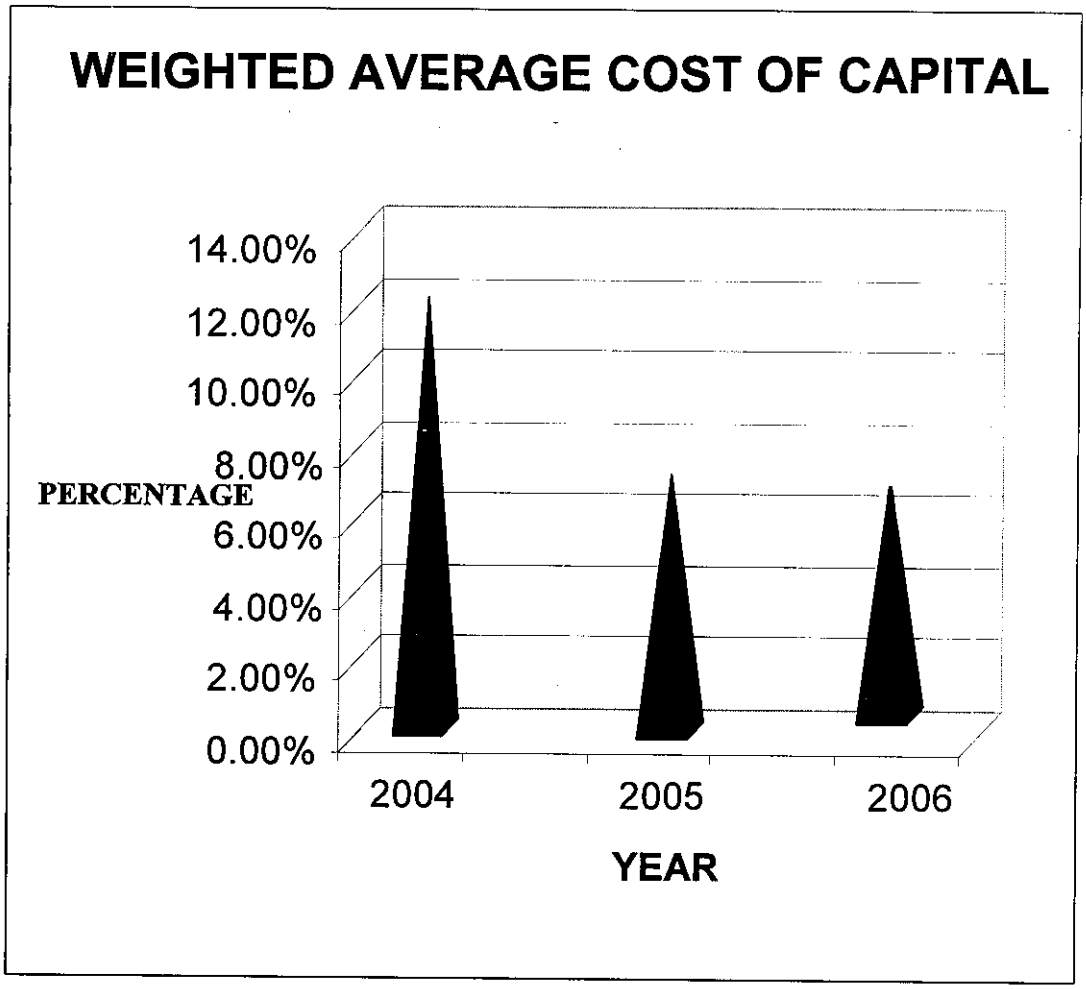
INTERPRETATION:

The above table 4.4 shows that, in theYear 2004 the weighted average cost of capital is 12.13%, and there is a drastic change in the years 2005 and 2006 this is mainly due to the decline in the cost of equity and not much because of cost of debt.

INFERENCE:

The above table 4.4 inference that, the Cost of capital has been reduced, this is a good sign that the company is working well. There is a major change in cost of equity, this is due to the share split. The company has splited the shares from Rs.10 to Rs.2. the cost of debt has not much reduced and it is stable over the three year period. The company should take care to reduce the cost of capital. The compound growth rate is Rs.(0.189).

CHART 4.3


WEIGHTED AVERAGE COST OF CAPITAL
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
PERCENTAGE
2004
2005
2006
YEAR

4.4 ECONOMIC VALUE ADDED:

FORMULA:

E V A = NOPAT – (Capital – Cost of capital),

Here, E V A = Economic value added,

NOPAT = net operating profit after tax.

TABLE 4.5

YEAR	ECONOMIC VALUE ADDED
2004	Rs.81333330
2005	Rs. 1307301600
2006	Rs. 1110363750
CAGR	Rs.1.3898

$$CAGR = ((ENDING\ VALUE / BEGINNING\ VALUE)^{1/n\ no\ of\ years}) - 1$$

$$= ((1110363750 / 81333330)^{1/3}) - 1$$

= Rs.1.3898

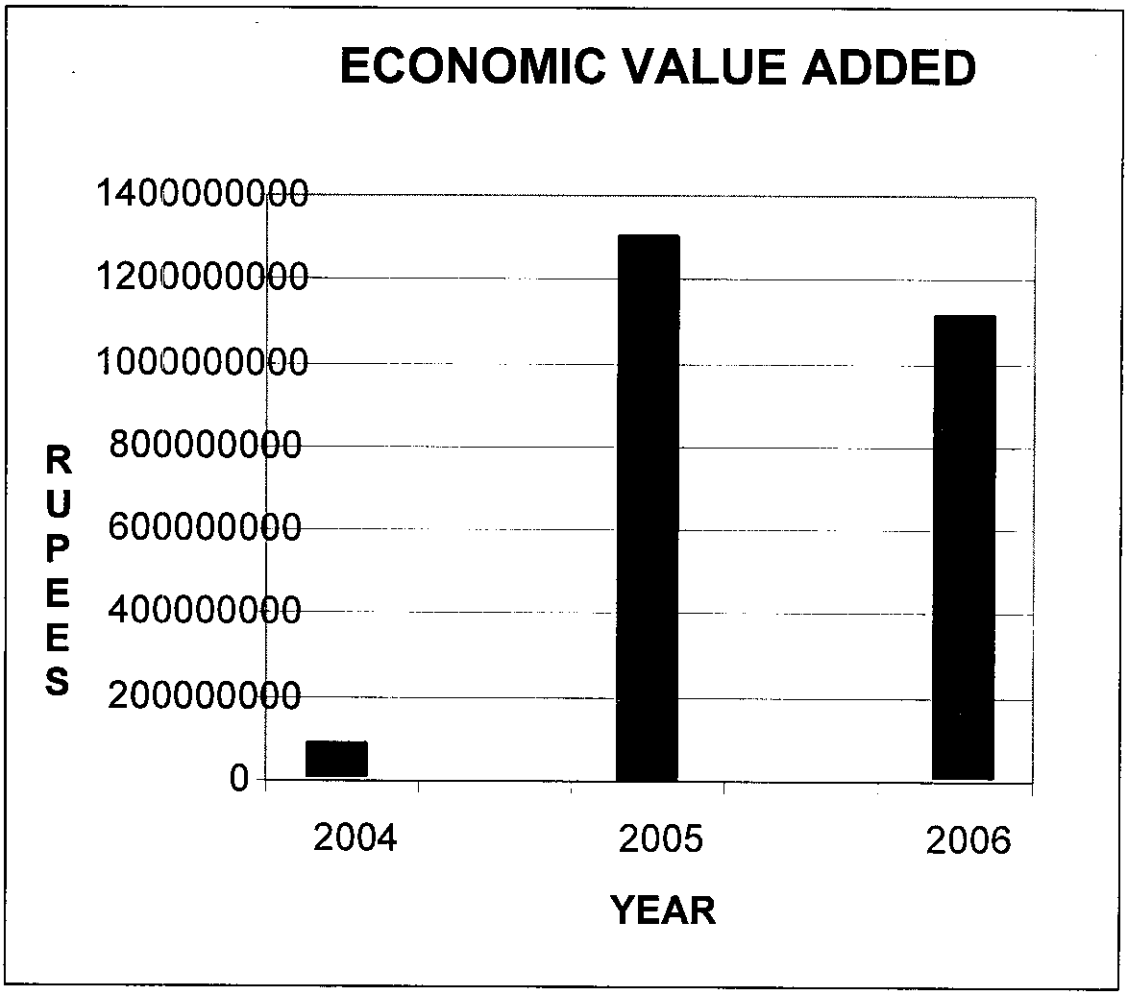
INTERPRETATION:

The above table 4.5 shows that, EVA for the year 2004 is Rs.81333330 and there is a great increase of EVA in the years 2005 and 2006 that is Rs.1307301600 and Rs.1110363750, respectively. This is due to reduction in cost of capital.

INFERENCE:

The above table 4.5 inference that the company has been able to create value for its shareholders but due to change weight, to compute WACC, amount of EVA has materially changed. Selection of weight is a very tricky area, because one can easily manipulate the WACC (%) and also change the amount of EVA. Without any accounting adjustment any company can easily compute basic EVA to know whether the company is creating value to its shareholders. The compound growth rate of EVA is Rs.1.3898

CHART 4.4


ECONOMIC VALUE ADDED
1400000000
1200000000
1000000000
800000000
600000000
400000000
200000000
0
RUPEES
2004
2005
2006
YEAR

ECONOMIC VALUE ADDED MODEL:

Economic Value Added represents value generating power of an organization. There are three factors to compute EVA. (i) Adjusted earning before interest after tax. i) Weighted average cost of capital and (iii) Capital Employed. A change in any of the three factors will change EVA. The various factors affecting the EVA can be put through a chart given above. The chart helps the management in concentrating attention on different factors affecting value. It is clear from the above chart that top management can take appropriate decision to create value in the following way:

Deploy more and more funds to those activities where the amount of NOPAT generated by the activities is greater than the cost of capital. Withdraw fund from those activities wherein the amount of NOPAT is less than the amount of cost of capital unless there is strategic decision to lose in one activity in order to gain in another.

Improve the operating efficiency of the organization to retain the same amount of NOPAT by possible continuous reduction of existing capital or / and continuous increase of the existing NOPAT with existing amount of capital.

Optimize the capital structure through optimum debt equity mix in order to have the lowest possible weighted average cost of capital (WACC).

4.5 TREND VALUE FOR ECONOMIC VALUE ADDED:

FORMULA:

$Y = a + bx,$

$\sum y = na + b\sum x$

$\sum xy = a\sum x + b\sum x^2$

Where, x = years;

Y = EVA;

TABLE 4.6

YEARS	MID VALUE X	EVA Y(Rs IN LAKHS)	x^2	Xy
2004	-1	813.33	1	-813.33
2005	0	13073.01	0	0
2006	1	1110.36	1	1110.36
Total	0	14996.7	2	297.03

$\sum y = na + b\sum x$

$14996.7 = 3a + b(0)$

a=Rs.4998.9.

$\sum xy = a\sum x + b\sum x^2$

$297.03 = 4998.9(0) + b(2)$

B = Rs.148.52

Y = a + bx

TREND VALUES IN LAKHS:

2004:

Y = 4998.9 + 148.52(-1)

=Rs.4850.38

2005:

$Y = 4998.9 + 148.52(0)$

$= Rs.4998.9$

2006:

$Y = 4998.9 + 148.52(1)$

$= Rs.5147.42$

2007:

$Y = 4998.9 + 148.52(2)$

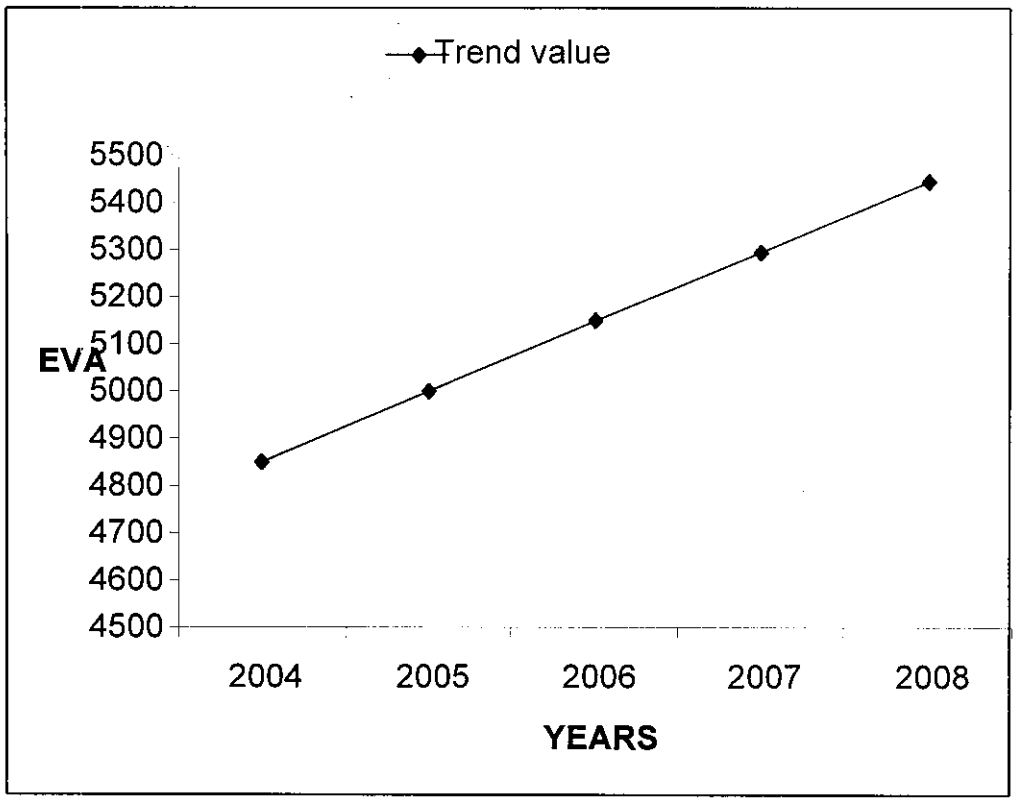
$= Rs.5295.94$

2008:

$Y = 4998.9 + 148.52(3)$

$= Rs.5444.46$

CHART-4.5



INTERPRETATION:

The above Table 4.6 shows that there is a continuous increase in the trend value, this shows that the company is in a better position to create wealth to its share holders.

INFERENCE:

The above table 4.6 inference that, the Trend value for EVA is expected to increase in the next two years, this is a good sign that the company is working well and it shows a clear picture that the company can maximize the wealth of the shareholders in the future periods.

Chapter V
Findings, Suggestions & Conclusions

CHAPTER 5

FINDINGS SUGGESTIONS AND CONCLUSION

5.1 FINDINGS:

The objectives of the study are (1) To examine the extent of value created by HCL Infosystems to its equity share holders.(2)To analyse the growth and consistency of the firm in the value creation process. These objectives are taken into account and EVA is calculated to analyse the sustainity of EVA and following has been found out:

1) Cost of debt has been reduced, this is a good sign that the company is working well, but there is no much deviation in the three year period. The cost of debt should be low to earn more profit, the company has to consider it. Compound annual growth rate of cost of debt is (0.0043%).

2) Cost of equity has been reduced, this is a good sign that the company is working well. There is a major change in cost of equity, this is due to the share split. The company has splited the shares from Rs.10 to Rs. 2. The Compound growth rate is (0.13%).

3) Cost of capital has been reduced, this is a good sign that the company is working well. There is a major change in cost of equity, this is due to the share split. The cost of debt has not much reduced and it is stable over the three year period. The company should take care to reduce the cost of capital. The compound growth rate of cost of equity is (0.189%).

From the above tables it is evident that the company has been able to create value for its shareholders but due to change weights, to compute WACC, amount of EVA has materially changed. Selection of weight is a very tricky area, because one can easily manipulate the WACC (%) and also change the amount of EVA. Without any accounting adjustment any company can easily compute basic EVA to know whether the company is creating value to its shareholders. The compound growth rate of EVA is Rs.1.3898.

5.2 FROM THE FINDINGS THE FOLLOWING SUGGESTIONS ARE MADE:

1. The cost of debt should to be reduced,

2. The present Economic value addition is attractive to the share holders, since the company has taken steps to retain EVA and it is recommended to the company to retain it and also increase it in the future.

Performance measurement systems that were successful in the past are becoming obsolete and in some cases are dysfunctional and obstructive to improvements. A dynamic and more competitive environment requires dynamic benchmarks to get a clear picture of whether the firm is a value generator or a value destroyer.

5.3 CONCLUSION:

This study deals with the valuation of economic value added with special reference to HCL Infosytems. From the above study it is found that the company has created value to its share holders and able to increase the value in future periods also. The EVA based performance measurement system is the basis on which the company should take appropriate decisions related to the choice of strategy, capital allocation, merger & acquisitions, divesting business and goal setting. While deciding resource allocation it becomes necessary to appreciate the EVA impact of such decision. Management Accountants have the full knowledge about the company that would create value. They are in a position to guide a

company in its restructuring mission for value creation. So a Management Accountant is expected to successfully transform traditional management system into value based management system.

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