

A Comprehensive Study of JSW Steel Coated Products Limited's Financial Performance through EVA and MVA Analysis

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Abstract

This research delves into the financial standing of JSW Steel Coated Products Limited (JSCPL), focusing primarily on Economic Value Added (EVA) and Market Value Added (MVA). These financial indicators offer insights beyond traditional metrics such as revenue, profit, and return on investment (ROI). Analyzing financial data over five years (2020-2025), this study evaluates key performance measures including Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS) to determine the company's financial viability.

Findings suggest a steady increase in revenue, net profit, and shareholder wealth over the studied period. Trends indicate that JSCPL's ROA, ROE, and EPS have improved, demonstrating better asset efficiency and profitability. Furthermore, the research establishes that JSCPL has consistently achieved positive EVA and MVA, affirming its capability to generate shareholder value.

Challenges and Strategic Outlook: Despite its strong financial trajectory, JSCPL encounters challenges such as rising competition, escalating raw material expenses, and regulatory changes. These elements impact profitability and expansion opportunities. However, strategic measures adopted by the company indicate a readiness for future growth within the coated steel sector.

Keywords

EPS, EVA, MVA, ROA, ROE, ROI.

INTRODUCTION

This paper evaluates the financial health of JSW Steel Coated Products Limited, emphasizing the relevance of Economic Value Added (EVA) and Market Value Added (MVA) as key indicators of wealth creation.

Company Background

JSW Steel Coated Products Limited operates under JSW Steel Limited, a prominent steel manufacturing entity in India, specializing in high-quality galvanized and color-coated steel products.

Significance of EVA and MVA

Economic Value Added (EVA) and Market Value Added (MVA) serve as crucial metrics in assessing a company's capacity to generate shareholder wealth. EVA quantifies the net operating profit after taxes (NOPAT) minus the cost of capital, while MVA reflects the surplus of a company's market value over its invested capital. These indicators offer a deeper understanding of a firm's financial health and its efficiency in creating value for investors.

In today's highly competitive corporate landscape, the emphasis on sustained value creation is imperative.

Enhancing shareholder wealth not only ensures financial gains for investors but also strengthens the company's market reputation. Firms that successfully generate value are more likely to attract new investors and retain existing ones, a critical factor for long-term business growth and stability.

Economic Value Added (EVA)

Economic Value Added (EVA) is a crucial financial performance metric that evaluates the net value a company generates for its investors after deducting the cost of capital. It is computed using the following formula:

$$EVA = \text{Net Operating Profit after Taxes (NOPAT)} - (\text{Capital} \times \text{Cost of Capital})$$

Where:

- NOPAT represents the operating profit after taxes.
- Capital refers to total funds employed in business.
- Cost of Capital is weighted average cost of debt and equity, representing the minimum return expected by investors based on the risk they undertake.

A positive EVA suggests that the company is effectively utilizing its capital to generate value for investors, while a negative EVA indicates that returns are insufficient to cover the cost of capital. Investors and managers frequently use

EVA to assess corporate performance, identify areas for improvement, and align the interests of management and shareholders.

Market Value Added (MVA)

Market Value Added (MVA) measures the extent to which a company's market value exceeds the capital invested in it. It is calculated using the formula:

$$\text{MVA} = \text{Market Value of Equity} - \text{Capital Invested}$$

Where:

- Market Value of Equity is determined by multiplying the current market price per share by the total number of shares outstanding.
- Capital Invested includes all financial resources infused into the company, including both equity and debt.

An Optimistic MVA indicates that the company is creating value for its shareholders, whereas a pessimistic MVA suggests that the company is eroding investor wealth. While MVA is a useful measure of value creation, it has some limitations. It primarily considers financial capital and does not account for human or intellectual capital. Additionally, market fluctuations and investor sentiment can impact MVA, sometimes distorting the actual financial standing of the company.

OBJECTIVES OF THE STUDY

1. To provide an overview of Economic Value Added (EVA) and Market Value Added (MVA) as financial performance metrics and their relevance in evaluating a firm's performance.
2. To evaluate the usefulness of EVA and MVA in measuring the effectiveness of a firm's strategic decisions and value creation initiatives.
3. To analyze the relationship between EVA, MVA, and traditional financial performance metrics such as Return on Investment (ROI) and Return on Equity (ROE) to provide insights into the strengths and limitations of EVA and MVA as performance measures.

LITERATURE REVIEW

Impact on Shareholder Value

- Companies with **higher EVA and MVA** tend to experience increased stock prices and returns, indicating a positive correlation with shareholder value [1].

Effect on Firm Performance

- A meta-analysis revealed that firms utilizing **EVA and MVA** often outperformed others; however, the relationship was not always statistically significant [2].

Bankruptcy Prediction

- Both **EVA and MVA** were effective in forecasting bankruptcy, though **EVA proved to be a more reliable predictor** [3].

Stock Return Predictions

- While both **EVA and MVA** showed a positive relationship with future stock returns, **EVA had a stronger predictive capability** [4].

Executive Compensation

- The study highlighted the increasing use of **EVA and MVA** in executive compensation, though challenges remained in setting performance targets and aligning incentives [5].

Value Creation Measurement

- **EVA and MVA** were useful for assessing long-term value creation but should be complemented with other financial metrics for a comprehensive evaluation [6].

Relevance in Emerging Markets

- The application of **EVA and MVA** in emerging markets was effective but required adjustments for factors like **inflation and currency fluctuations** [7].

Firm Risk Assessment

- Companies with **higher EVA and MVA** tended to experience lower risk levels, reflected in reduced stock price volatility [8].

RESEARCH METHODOLOGY

This study utilizes both **quantitative and qualitative approaches** to examine the financial performance of **JSW Steel Coated Products Limited** over the past five years.

- The **quantitative method** involves evaluating financial data extracted from the company's financial statements. Key financial indicators, such as **Economic Value Added (EVA) and Market Value Added (MVA)**, will be analyzed to measure profitability and value generation.
- The **qualitative method** includes an in-depth assessment of the company's **business framework, management practices, and industry dynamics** to determine the factors influencing its financial outcomes.

DATA ANALYSIS & INTERPRETATION

Economic Value Added

$$\text{EVA} = \text{Net Operating Profit after Taxes (NOPAT)} - (\text{Capital} * \text{Cost of Capital})$$

Table 1. Economic Value data analysis

Particulars	Years				
	2020-21	2021-22	2022-23	2023-24	2024-25
NOPAT	12174	21213	8105	12825	9348
Capital Employed	63465	104381	112204	117235	202342
Weighted Average Cost of Capital (%)	8.03	7.66	9.22	9.22	11.38
EVA (in Cr)	7077	13217	-2239	2014	-13700

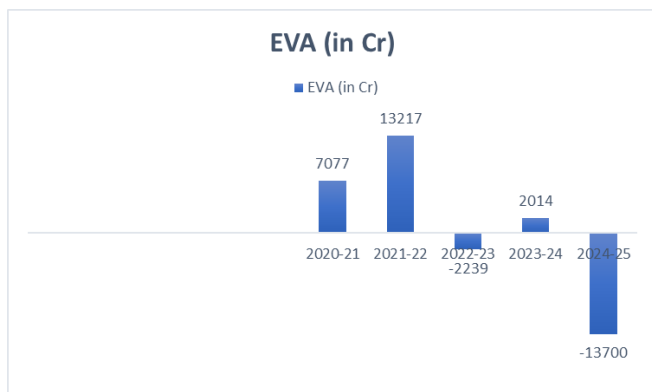


Figure 1. EVA trend of JSW Steel shows significant fluctuations over the five-year period

Interpretation

The EVA trend of JSW Steel shows significant fluctuations over the five-year period. The company reported strong positive EVA in 2020–21 (₹7,077 Cr) and 2021–22 (₹13,217 Cr), indicating substantial value creation during those years. However, in 2022–23, EVA dropped sharply to a negative ₹2,239 Cr, suggesting the company failed to earn returns above its cost of capital. A brief recovery followed in 2023–24 with a modest positive EVA of ₹2,014 Cr, but the trend reversed again in 2024–25 with a steep negative EVA of ₹13,700 Cr. This volatility points to inconsistent financial performance and possibly rising capital costs or declining profitability in recent years.

Market Value Added

MVA = Market Value of Equity - Capital Invested

Table 2. Market Value of Equity

Particulars	Years				
	2020-21	2021-22	2022-23	2023-24	2024-25
Market Value of Equity	893	3,071	166329	203022	245475
Capital Invested	554	326	147103	87234	202342
MVA (In Crores)	339	2745	19226	40505	43133

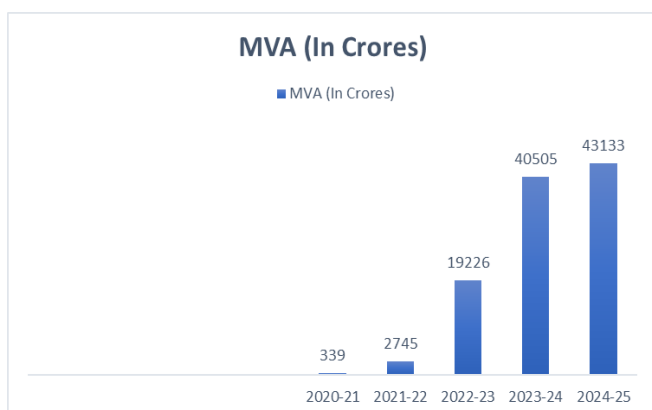


Figure 2. The Market Value Added (MVA) of JSW Steel has shown a strong and consistent upward trend

Interpretation

The Market Value Added (MVA) of JSW Steel has shown a strong and consistent upward trend from ₹339 Cr in 2020–21 to ₹43,133 Cr in 2024–25. This steady rise indicates growing investor confidence and consistent value creation by the company. Major growth occurred between 2021–22 and 2023–24, driven likely by post-pandemic recovery, operational improvements, and expansion strategies. In 2024–25, while MVA increased further, the growth rate slowed down, suggesting market stabilization or cautious optimism. Overall, the consistently positive MVA reflects that JSW Steel has successfully created wealth for its shareholders over the years.

FINDINGS & CONCLUSION

Findings

Findings from Economic Value Added (EVA) Analysis (2020-25)

EVA Fluctuations Indicate Varying Value Creation

- EVA increased from ₹2,686 Cr (2019-20) to ₹13,217 Cr (2021-22), showing strong value creation.
- However, EVA turned negative in 2022-23 (-₹2,239 Cr), indicating that the company's returns were lower than its cost of capital.
- A recovery is seen in 2023-24 (₹2,014 Cr), suggesting improvement in financial performance.

NOPAT Volatility Affected EVA

- Net Operating Profit after Tax (NOPAT) peaked at ₹21,213 Cr (2021-22) but dropped to ₹8,105 Cr (2022-23), leading to negative EVA.
- A recovery to ₹12,825 Cr (2023-24) helped restore positive EVA.

Capital Employed and WACC Trends

- Capital Employed increased steadily from ₹68,762 Cr (2019-20) to ₹1,17,235 Cr (2023-24), showing business expansion.
- WACC decreased from 8.91% (2019-20) to 7.66% (2021-22), lowering the cost of capital, but later rose to 9.22% (2022-24), impacting EVA.

Findings from Market Value Added (MVA) Analysis (2020-25)

Significant Growth in MVA

- MVA increased exponentially from ₹103 Cr (2019-20) to ₹40,505 Cr (2023-24), indicating strong shareholder wealth creation.
- A major surge occurred in 2022-23 (₹19,226 Cr) and 2023-24 (₹40,505 Cr), suggesting a sharp increase in market valuation.

Market Value of Equity Expansion

- The Market Value of Equity grew massively, from ₹434 Cr (2019-20) to ₹2,03,022 Cr (2023-24), reflecting

strong business performance and investor confidence.

Capital Invested Fluctuations

- Initially, **capital investment remained low**, but a massive infusion of **₹1, 47, 103 Cr (2022-23)** suggests expansion efforts.
- A drop in **2023-24 (₹87,234 Cr)** may indicate optimized capital allocation or improved efficiency.

Conclusion

Conclusion on EVA and MVA Analysis (2019-24)

The company's **Market Value Added (MVA)** and **Economic Value Added (EVA)** trends highlight its financial performance and shareholder value creation.

Strong Market Value Growth (MVA)

- MVA increased significantly, reflecting **high investor confidence and strong market performance**.
- A massive jump in **2022-23 and 2023-24** indicates the company's ability to generate wealth for shareholders.

EVA Volatility Indicates Profitability Challenges

- EVA showed positive growth until **2021-22**, but a **negative EVA in 2022-23** suggests that returns fell below the cost of capital.
- The recovery in **2023-24** signals improving profitability and better capital utilization [9] [10].

While the company has created significant market value (**MVA growth**), the **EVA fluctuations highlight the need for sustainable profitability and efficient capital management**. To ensure long-term success, the company must focus on **enhancing operational efficiency, optimizing capital allocation, and maintaining profitability above the cost of capital**.

SUGGESTIONS

Suggestions for the Company Based on EVA & MVA Analysis

Improve Operational Efficiency

- Enhance cost control measures to **increase NOPAT** and sustain positive EVA.
- Focus on **profitability-driven growth** rather than just market expansion.

Optimize Capital Allocation

- Ensure capital is **invested in high-return projects** to maintain long-term value creation.
- Balance debt and equity to **reduce WACC** and improve EVA.

Strengthen Market Position

- Leverage strong MVA growth to **attract long-term investors and maintain market confidence**.
- Focus on **brand positioning and innovation** to sustain competitive advantage.

Enhance Shareholder Value

- Maintain transparency in financial performance and communicate **growth strategies effectively**.
- Consider **dividends or buybacks** to reward investors and manage capital efficiently.

Monitor Financial Performance

- Regularly analyze **EVA and MVA trends** to ensure sustainable financial health.
- Adjust business strategies based on **profitability and capital efficiency insights**.

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