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# 21. Capital Infusion (CI) - A Non-Conventional parameter to Identify Growth and Value Companies

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## Abstract

The present study examines the impact of Capital Infusion (CI) as a parameter to identify and distinguish between growth and value companies.

Identification of growth and value companies is crucial as the appropriate selection of these companies affects the portfolio returns substantially. (Basu, 2010). There are several Conventional and Non- conventional measures to identify growth and value companies. The objective of the study is to understand how effectively CI, a non - conventional parameter help in suich identification. The study focuses on the CAGR of Capital Infusion (CI), to understand the impact. The data is collected from secondary sources. For analysing the data, CAGR of CI is calculated from the year 2003 to 2014. The findings are depicted in the form of tables. The study concludes that CI can be relied upon as an effective parameter to identify whether the company is Growth or Value.

Key words: Capital Infusion (CI), Growth, Value

## 1. Introduction

There are two investment strategies prevailing in the financial market viz. Growth and value. These two strategies are seen to have been seesawing in and out of favour during different economic scenarios and market phases. Growth and value companies have distinctly different qualities due to which the investors can make the appropriate selection of either or both, depending on their goals.

During the upswing of the market almost all companies perform sound so selecting companies under investment portfolio becomes relatively easy. However, such selection becomes crucial during the down swing of the market as they may turn to be devastating in terms of return on investment. (John, 2004). Picking up Growth and Value companies as per the phases of the market may help to manage the risk of return on investment.

So identifying Growth and Value companies is an indispensable exercise while selecting appropriate companies in the investment portfolio. There are several influential Conventional criteria to identify growth and value viz. EPS, P/E Ratio, P/B Ratio, DPO etc. Apart from the conventional criteria, there are Non- conventional criteria viz. Free Cash Flow(FCF), Interest Coverage Ratio (ICR) and CI.

CI is an influential factor which is discussed in the present research to identify growth and value. CI is introduced in the business, either through equity or debt route. So CI is either in the form of Owned fund or Borrowed fund. Further, the Compound Annual Growth Rate (CAGR) of CI is worked out and applied in the present study for the convenient comparison.

## 1.1CAGR of Capital Infusion (CI)

Capital Infusion refers to the inflow of cash in the business. It can be either in the form of further capital introduced, i.e. owned capital or in the form of borrowed capital

CI in the present study is considered as Capital Employed which comprises of capital plus debt. The cut off percentage decided for a CAGR of CI for the current study is 15%. Companies below 15% CAGR are taken as the value and taken as growth, if above the same.

This cut off is decided with an understanding that the value company requires less cash as they are assumed to have a huge cash surplus (positive FCF). The reason is that they operate with an established and stable business, having saturated revenue growth. Due to excess cash, they pay higher dividends. As against this growth companies require a capital infusion for the rapid future growth. They normally show negative FCF. Therefore, the CAGR of CI is assumed as more than 15% in the case of growth companies.

## 2. Objectives

- 1) To understand the relevance of a Non Conventional parameter -CI.
- To observe and analyse the impact of selecting CI as a measure to identify Growth and Value companies.

## 3. Methodology

The present study is analytical in nature. It is a comparative analysis and it is based on the case study approach.

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#### 3.1 Source of Data

The data is collected through secondary sources like Annual Reports, Journals, Newspapers, company websites, professional Data base viz. Capitaline and other relevant links.

#### 3.2 Sample

26 sample companies, listed on BSE Sensex have been selected and analysed w.r.t CAGR-CI, from the year 2003 to 2014. The sample companies in the current study belong to FMCG, Pharmaceuticals, IT, Automobile, Telecom services, Metal and steel, Oil and Gas, Energy and Finance sectors.

### 3.3 Period

The period under study is selected from 2003 to 2014. This period covers both the swings of the financial market. The data is collected in respect of the financial performances comprising of Equity and Debt for all the companies from 2003 to 2014.

## 3.4 Analysis

Analysis of the data is done by working out the CAGR (Compound Annual Growth Rate) of CI (Capital Infusion) and comparing the same through relevant table.

## 4. Limitations

- The study is limited only to one of the Conventional and Non-Conventional parameters for identifying the companies i.e. CI, no other parameters are analysed and compared.
- This study may not be applicable in the extreme conditions of cash crunch or bouts of liquidity.
- The scope of the study is limited to the sample companies only.

#### 5. Need

The present study is necessary as in the current market situation; it is difficult for the investors to get the steady returns on their investments. Adopting the most rewarding strategy without much of risks is a matter of major consideration for the investors. For this identifying Growth and Value may become very crucial. The appropriate selection may help them to get the consistent returns irrespective of the up and down swings of the market. The present study is proposed to help the investors in identifying and selecting growth or value for having optimum investment portfolio.

The focus of the study therefore is on understanding and analysing the impact of CI to identify whether the company shows growth or value traits.

## 6. Background of the Study (Literature Review)

(The world of Investing according to GAARP, 2010)

In the view of Morne Marais, the founder of 'Tantalum Hedge Funds', a share can be characterized as growth if the company is growing faster than the economy or the other companies in the same sector, tends to have high P/E ratio and often a low dividend yield. They are expensive, but investors are ready to pay in the belief that it will continue to offer superior growth. Value stocks, however are lower than the intrinsic value and often have a higher dividend yield. But, these broad definitions are easier to apply to companies listed on the US, British and European exchanges, in the other countries the classifications may become puzzling. There are no clear definitions of what make value or a growth stock. What comprises of value and growth is more in the eyes of an investor or a fund manager.

Often, arbitrary measures are used to categorise the stock into value or growth. For instance, 'Morningstar' classifies all funds with average price-to-earnings and price-to-book ratios 12.5% below those of the S&P 500 Index as value funds.

#### (Chandra, 2012)

The author claims that a company with high dividend yield and a low P/E ratio implies limited growth prospects, so it can be classified as value. Against this a company with low dividend yield and a high P/E ratio implies considerable growth prospects and can be classified as growth.

Along with this the author also suggests a few criteria (ratios) as ancillary indicators. According to him CI, Debt to Equity ratio and ICR reflect a strong financial position and provide sinew for the company to weather a difficult period. He also claims that favourable financial and operating ratios provide an assurance that the company has no structural flaws.

It is understood that P/E, P/B and DPO are considered as important criteria and D/E, CI and ICR as supplementary criteria to identify growth and value.

The present study has considered CI as one of the most important criteria to identify growth and value.

However the most commonly thought of and applied conventional criteria viz. P/E and P/B Ratios, are not considered for identification purposes. Of late it has been observed that the popularity of P/E ratio as a measure to identify growth and value has declined.

(Raghu, 2015) The study reveals that P/E Ratio is not an acid test of an investment. Low P/E Ratio doesn't make a particular company worthy of buying investment just as a high P/E doesn't make a share less attractive. Other factors like quality of management, the break-up value of the share, debt equity ratio, ICR and CI are equally important.

In view of the above studies, the researcher tried to look above conventional parameters and test the Non – conventional criterion such as Capital Infusion.

## 7. Findings and Analysis

From the data collected through secondary sources following table is prepared and analysed as per Table 8.1

Table 8.1 depicts the CAGR of CI for all sample companies from 2003 - 2014.

Table 8.1: CAGR of CI - Value and Growth Companies

Sr. No	Name	CAGR of CI (%) 2003-2014
1	HUL Ltd.	2.03
2	ITC Ltd.	15.59
3	Colgate Ltd.	7.68
4	Nestle Ltd.	9.39
5	Gillette Ltd.	8.05
6	Glaxo Ltd.	13.20
7	L&T Ltd.	28.52
8	Reliance Industries Ltd	18.95
9	TCS Ltd.	33.66
10	Infosys Ltd.	28.27
11	Sun Pharma Ltd.	38.62
12	Bharti Airtel Ltd.	31.10
13	M&M Ltd.	27.59
14	WIPRO Ltd.	24.08
15	HDFC Ltd.	23.57
16	Tata Motors Ltd.	38.13

17	ONGC Ltd.	17.73
18	GAIL (India) Ltd.	18.46
19	BHEL Ltd.	20.74
20	Maruti- Suzuki Ltd.	18.94
21	Hero Moto Corp Ltd.	17.67
22	Hindalco Ltd.	25.33
23	Tata Steel Ltd.	29.76
24	DLF Ltd.	44.08
25	Jindal Ltd.	40.28
26	Tata Power Ltd.	20.96

#### Interpretation

It is seen from Table 8.1 that in the first place it distinguishes the sample companies into two distinct groups which help to create separate portfolios viz. growth and value. Further it is observed that the CAGR of CI is less than 15% for all value companies except one; ITC. In case of ITC the cut off is exceeded with the negligible difference, which is expected in the normal course of business. In any case, it is lower than the growth companies.

In case of Gillette and Nestle, it was less than 10%. The same was just 2% when it came to HUL. All growth companies could manage to stay above the 15% mark.

The rationale of the present study is to understand the significance of applying CI to identify growth and value so that they may be selected as per the moves of the financial market.

This accomplishes objective 1: i.e. 'To understand the relevance of a Non - Conventional parameter -CI.' It also explains how CI, a Non -Conventional parameter helps to test the characteristics of growth and value. Thus, it accomplishes the second objective of the study too i.e. 'To observe and analyse the impact of selecting CI as a measure to identify growth and value companies'.

#### 9. Conclusion

On the basis of the observations and analysis, it is concluded that CI, a Non - conventional parameter, which is not as popularly used as the conventional parameters can be used effectively and relied upon to demarcate between growth and value companies. Such identification may help to form growth oriented and value oriented portfolios to withstand the volatility of the market and get consistent returns on investment.

#### 10. Recommendations

The researcher suggests that; Observing the market and selecting the companies as per the market swings may help to manage the risk of lower portfolio returns (Basu, 2010) For this, identification of the companies is utmost important. For such identification, CAGR of CI may prove an effective parameter to demarcate between growth and value companies.

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