Investment Strategy

As you sow

Capital expenditure and expansion plans can be indicators to gauge the growth prospects of businesses

In the equity market, financial performance and outlook matters a lot. Robust numbers and a promising future is the ideal combination that investors and the stock market like to bet on. As the business expands and reaches newer heights, the shareholders' wealth will multiplies accordingly. Now when it comes to crystal-gazing, one of the key sources to judge the prospects of any company is to listen to what the top managers have to say.

However, the core job of any management is to be optimistic about tomorrow. Thus, what a company says about its businesses needs to be taken with a pinch of salt. As action speaks louder than words, investors should focus on the ground-level initiatives. Capital expenditure and expansion plans indicate that the management is practicing what it is preaching. If a company is confident about demand, it will be investing in new capacities. Fresh capital commitment is a prime indication to gauge the growth prospects of businesses.

Capital Market glanced through various sources of information such as corporate announcements, press releases, annual reports, presentations and the notes to accounts published along with the quarterly results to pick companies that have invested in recent times and/or planning to invest in future. Many companies are committing serious quantum of money to ensure future growth.

Greenlam Industries completed expansion of manufacturing capacity of laminate at its Nalagarh unit in Himachal Pradesh. Additional capacity of two million laminate sheets per annum became operational in September 2015. With this, the installed capacity for laminate has increased to 12.02 million laminate sheets. The expanded capacities have the potential to generate revenue of Rs 120 crore per annum based on full capacity utilization.

In September 2015, commercial production commenced of a new product line of engineered door sets and door leaf at the manufacturing unit at Behror, Rajasthan, with an installed capacity to manufacture 1.2 lakh engineered door sets and door leafs per annum in various sizes, thicknesses, designs and specifications. Greenlam has become the first organized company to launch engineered, factory finished door solutions in the country. The new products will be marketed under the brand Mikasa. In 2014, engineered wood flooring was launched, the first by an Indian company.

Also, lately, production has commenced of laminated melamine face chipboards used in the organized manufacture of modular furniture and kitchens. The unit has an installed capacity of two million square metres.

In October 2014, the business of high pressure laminates, decorative veneers and compact laminates of Greenply Industries was hived off into Greenlam. Greenlam is the third largest in the world and the Asia's largest laminate manufacturing company. Also, it is the country's largest decorative veneer manufacturer. Products are marketed in over 100 countries. It owns two manufacturing units and has established distribution network of 1.2 lakh comprising distributors, dealers and retailers.

A large part of Greenlam's capital expenditure (capex) program is over. The expansion has been mainly financed through debt. It had debt of Rs 392.7 crore and a debt-to-equity ratio of 1.79 times end March 2015. In the three years to FY 2015, the company invested Rs 200 crore to build capacities and portfolio. Mutual funds are gung-ho about the stock, with a stake of 7.62 as of September 2015.

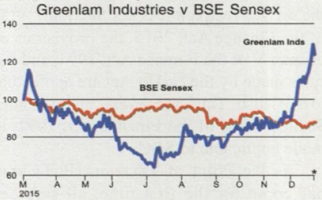
Sanghvi Movers has decided to add more cranes to its fleet. The company is optimistic about the business going forward, considering the orders on hand and the flow of enquiries. Capex plans of around Rs 380 crore have been drawn for the current fiscal. A mix of new and second-hand cranes, ranging from 80 tonnes to 800 tonnes, will be brought. Accordingly, orders for new and old cranes have been planned. The proposed capex is significant considering the net worth of Rs 654.4 crore end March 2015 and market capitalization of Rs 1538 crore on 18 December 2015.

The capital spend will be funded partly out of debt and partly out of internal accruals. Necessary term loans from banks have been tied up to fund the capex at an

Booster dose

Greenlam Industries's expansion has the potential to generate revenue of Rs 120 crore per annum based on full capacity utilization

Relative performance of Greenlam Industries v BSE Sensex



Base=100 as on 02 March 2015 *24 December 2015
Face Value of Rs 5.