

CMP: 37.70 Weight - 5%



STOCK DATA

Market Cap(Rs. cr)	150
Debt	0
Cash	1
Enterprise Value	149
Promoters Holding	44.88%
52 week high/low	62.20/28.40
Shares outstanding	3.86

About VLS Finance

VLS Finance Limited is an India-based holding company. The Company provides various services, including investment banking, structured finance, corporate consulting and advisory services, stock broking, privatization and infrastructure finance, and investments and equity research. The Company's subsidiaries include VLS Securities Ltd. and VLS Asset Management Ltd.

VLS FINANCE

Thesis –

Holding companies are formed with an intention of owning securities mostly equity for long periods of time. There are two types of holding companies:-

- 1) Promoter group company holding shares of group companies
- 2) Strategic Equity Investments.

Promoters Group holding Companies are unlikely to sell their shares and hence minority investors never get their true worth. Example JSW Holding, Bajaj Holding.

There are strategic investment companies like Warren Buffet's Berkshire Hathaway where the company invests in other companies with an intention of making money.

This report is about VLS finance, a Delhi based holding company.

History

VLS finance got lucky in early 1990' as it was forced to subscribe shares of Relaxo Footwear Ltd since it was the underwriter of an under-subscribed IPO. They have been holding the stock from last 25 years and lately have started liquidating their holdings.

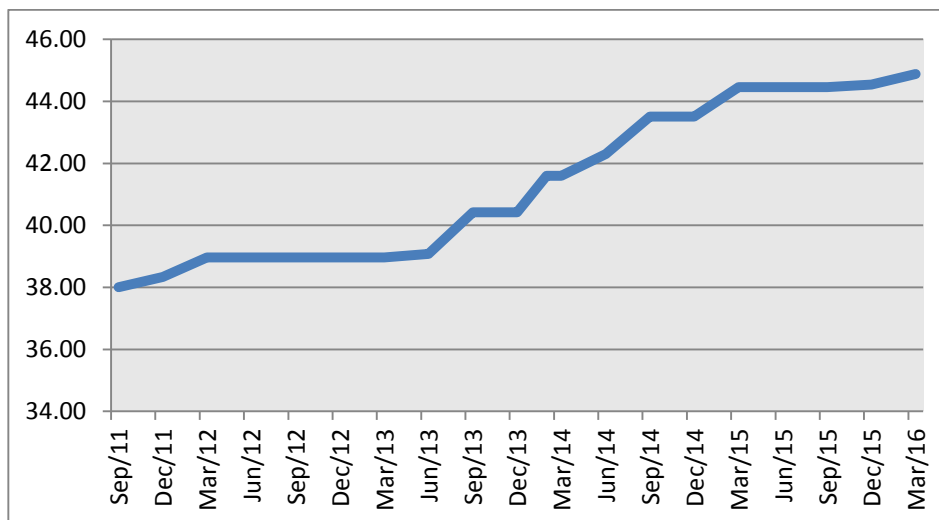
As on 31st March 2016 VLS finance and its 99% subsidiary are holding 13.5% in Relaxo Footwear or 1,62,07,760 shares.

Category & Name of the Shareholders	No. of shareholder	No. of fully paid up equity shares held	Total no. shares held	Shareholding % calculated as per SCRR, 1957 As a % of (A+B+C2)
VLS FINANCE LTD	0	8057760	80,57,760	6.71
VLS SECURITIES LIMITED	0	8150000	81,50,000	6.79

On 5th April VLS finance sold 17.7 Lakh shares at 425/Share for 75.3 Crores. After the transaction VLS finance is left with 1.45 Crores shares worth 732 Crores as on 10-5-2016. VLS is a debt free company with immaterial borrowings. VLS finance has other investments in companies. See Table Below-

SR NO.	STOCK	QUANTITY	CMP	VALUE(in Cr)
1	RELAXO	14500000	510	740
2	ACCELYA KALE SOLUTIONS LTD	300000	1050	32
3	MEGHMANI ORGANICS	7500000	34.8	26
4	KANSAI NEROLAC	735640	294.3	22
5	TECHNOCRAFT INDUSTRIES	511037	220.35	11
6	AMBIKA COTTON MILLS LTD	100000	825.5	8
7	*OTHERS	NA	NA	53
8	CASH			75
	TOTAL			966
*estimated				

Rise in promoters holding – Promoters have increased their stake in the company from 38% in Sept 2011 to 44.88% in March 2016.



The company is trading at discount to market value and this discount has just widened over the years.

Year	Market Value of total investments (Rs. in cr)*	Market Cap of VLS Finance(Rs. in cr)	Discount to market value (%)
March 2013	140	38	72.85%
March 2014	320	51	84.06%
March 2015	641	134	79.09%
March 2016	712	120	83.14%
May 09, 2016	966	150	84.47%

*based on estimates

Margin of Safety

Buying VLS at current juncture is like buying a dollar for 0.15 cents. The cash per share in VLS after sale of 17.7 lakh sales of Relaxo is 19.50 per share i.e. 50% of market cap is cash. The company at current valuations has stocks worth approximately 950 cr which is available for 150 Cr plus 75 crores of Cash.

The Net Asset value is 250 per share as per closing of 9/5/2016.

How will Investor Make money?

There are two way to make money in this trade.

- 1) The discount to market Value narrows
- 2) The Value of Investments Increase.

We believe that markets are giving it, wrong valuations as the markets believe that the management is unethical and they will never return the money to minority shareholders. The Company has never given a dividend in the past. The best case scenario of this investment will be if company gives out 75 Crore as dividend or buy back which will definitely get the stock rerated.

We have made this investment because heads we win, tails we don't lose much. The company was holding its Relaxo shares for last 25 years and only now they have decided to sell it. We believe that this is a no brainer with not a lot of risk.

Risks involved-

Now let's understand the risks involved with the investments. This company has historically never paid dividends hence even if their invested stock performs well the minority shareholders may not benefit unless the value unlocking happens. Moreover, the company's major investment is only in one stock (more than 80%) i.e. Relaxo. Hence any fall in price in the stock will affect the investment value of the company.

Conclusion-

We believe that if the stock does well it can easily be a 3 bagger from these levels and if not then there is not much to lose as the company has as much as Rs. 19.5 cash per share on books after recently selling 17.7 lakh shares of Relaxo Footwear. The value unlocking may take one or two years or more to happen. Whenever it happens, the stock price will get re-rated. It just needs one-two triggers to go higher.

Disclosure: Amit Jeswani and Family has no positions

Analyst Disclosure: No Positions

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