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Report Dated: 11th June 2005

Value Pick: Consolidated Finvest & Holdings Ltd.

BSE Code	500226	NSE Code: CONSOFINVT	EQ
Reuters Code	500226.BO		
Promoter Holding	68.90%		
Free Float	31.10%		
CMP Rs.	42.60		
Market Capitalisation (Rs. In crores)	138		

HISTORICAL BACKGROUND:

- A part of the Rs.1500 crore B.C. Jindal Group, a 50-year old industrial group, the present Consolidated Finvest & Holdings Ltd. (CFHL) is a result of the restructuring of the erstwhile Jindal Photo Ltd. last year.
- The photographic films business of the erstwhile Jindal Photo Ltd. was demerged to its wholly-owned subsidiary Consolidated Photo Products Ltd. (CPPL) w.e.f. April 1, 2004. CPPL was then renamed as Jindal Photo Ltd. (JPL) and the resulting company was renamed as Consolidated Finvest & Holdings Ltd.
- The restructuring was aimed at enhancing shareholder value and enable focus on the core business.

BUSINESS PROFILE:

- Subsequent to restructuring, the company is now a NBFC and focuses on maximizing returns from its investment portfolio.
- The company holds investments in all the companies under the B.C. Jindal Group as well as in mutual funds and other quoted securities. Its income is primarily from investments.

FINANCIALS:

- FY05 was the first year of the company's operations, post restructuring. The company has reported revenues of Rs.15 crores and after tax profits of Rs.12 crores.

- On an equity base of 3.23 crore shares, EPS stood at Rs.3.91.
- The company is **debt-free,** both on a standalone and a consolidated basis. This is one of the reasons for the high net margins of 91%.
- The company's wholly-owned subsidiary Jindal Photo Investments Ltd. (JPIL) had reserves of Rs.107.38 crores as on March 31, 2004 and reported after-tax profits of Rs.7.6 crores.

  Its profits for FY05 are expected to be significantly higher, as dividend income is expected to rise.

  CFHL's consolidated revenues for FY05 are estimated to be around Rs.24 crores and profits are estimated at Rs.21 crores, translating into a consolidated EPS of Rs.6.5. Consolidated numbers for FY05, however, have not been published as of this date.

HOLDINGS IN GROUP COMPANIES:

- Based on the latest available shareholding patterns of various companies under the B.C. Jindal group and the Draft Prospectus filed with SEBI by Jindal Polyfilms Ltd. (JPFL) in connection with its proposed public issue, CFHL effectively owns sizeable stakes in JPFL., JPL and itself.
- The B.C. Jindal group holding structure is extremely complex and deeply inter-woven with cross-holdings at each level. Based on the information available, the structure has been portrayed in the form of a flowchart as shown in **Annexure I**.
- A closer look at the structure shows that the B.C. Jindal group's investments revolve mainly around three investment companies, Soyuz Trading Company Ltd. (Soyuz), Rishi Trading Company Ltd. (Rishi) and Consolidated Photo & Finvest Ltd. (CPFL). Control of these entities, in turn hinges around JPIL (a wholly-owned subsidiary of CFHL), which owns roughly 40% stake in each of them.

  Further, Annexure I shows that Soyuz, Rishi & CPFL own varying stakes in each other. When these are considered, the effective stake of CFHL in these three entities goes up to 62%. These entities hold stakes in the group's flagship companies, JPFL and JPL, which are listed on the bourses, as well as in CFHL.
- The entire holding structure though has been carved out in such a manner so as to keep all the above-mentioned entities out of the consolidation. Besides, promoters' shareholding held in their individual names carries higher voting rights than those held through these investment companies. Consequently, CFHL's control over the group's flagships is lower as compared to its stake in them.
- Based on the group shareholding structure, it can be concluded that **CFHL directly and indirectly owns 42.04% of Jindal Photo Ltd., 68.82% of Jindal Polyfilms Ltd. and 36.01% of itself.**
- **Accordingly, the market value of the above (as on June 4, 2005) work out to Rs.430 per share of CFHL.**

- Similarly, **CFHL also owns 30.29% stake in Jindal (India) Ltd.** (JIL), a very valuable company under the B.C. Jindal Group, involved in the manufacture of MS pipes black and galvanized and cold rolled coils and galvanized plain and corrugated sheets. JIL had a book value of Rs.452 per share as on March 31, 2004, topline of Rs.321.7 crores and after-tax profits of Rs.5.8 crores for the year then ended. (EPS of Rs.49.43) On a conservative basis, we have valued CFHL's direct stake in JIL only and that too at cost. (Rs.101 per share)

  The enterprise value of JIL is expected to much higher.
- CFHL also owns 20.2% of Bazaloni Group Limited (BGL), which owns two tea estates in Assam and grows premium quality of black tea. BGL had a book value of Rs.30.59 per share as on March 31, 2004, topline of Rs.16.2 crores and posted an after-tax loss of Rs.0.1 crores for the year then ended. However, as this stake is held indirectly, on a conservative basis, we have excluded BGL from our calculations.
- CFHL owns 77.06% of Jindal Thermal Power Ltd., whose power project is yet to go on-stream. On a conservative basis, these investments have been altogether excluded from our calculations.

OTHER POINTS TO CONSIDER:

- JPIL owns stakes in Soyuz, Rishi and CPFL, for whom balance sheets are not publicly available. However, based on the information available in JPFL's public issue RHP, Soyuz and Rishi are profitable and have book values of Rs.188 and Rs.40 as on March 31, 2004. CHFL has incurred losses for FY04, however its book value as on March 31, 2004 stood at Rs.86 per share. Information is not available about the quantum of debt on the books of these entities' books.

  However, it would be safe to assume that the intrinsic value of these entities would be significantly higher than their book values stated above. **To put things in perspective, their investments in JPFL alone are worth Rs.411.2 crores and they are sitting on a mark-to-market gain of Rs.351.6 crores on them. Their investments in JPL and CFHL are worth Rs.260.2 crores. However, corresponding mark-to-market gain figures are not available.**

  The total cost of CFHL's stake in these 3 entities is just Rs.134.8 crores. (**Refer Appendix C**)
- **As on March 31, 2004, CFHL also had a liquid investment portfolio (worth Rs.45.1 crores as on June 12, 2005) (cost Rs.26.4 crores), which translates into Rs.14 per share. (Refer Appendix E)**
- **CFHL had investments in preference shares of JPFL aggregating to Rs.231.6 crores at cost as on March 31, 2004.**

Based on available information, in February 2005, JPFL has redeemed most of them and CFHL would have received a sum of Rs.133.5 crores. This alone translates into cash and cash equivalents of Rs.41.3 per share. This amount, even if deployed into liquid mutual funds at an average return of 5.5% would add Rs.2.3 crores p.a. to the bottomline.

However, information as regards actual deployment made is not available.

CFHL continues to hold 6.6 crore 2% RCPS of JPFL, which are redeemable on or before December 31, 2008 and are expected to fetch at least Rs.66 crores (excluding premium), as and when redeemed. This translates into Rs.20 per share.

INVESTMENT RATIONALE:

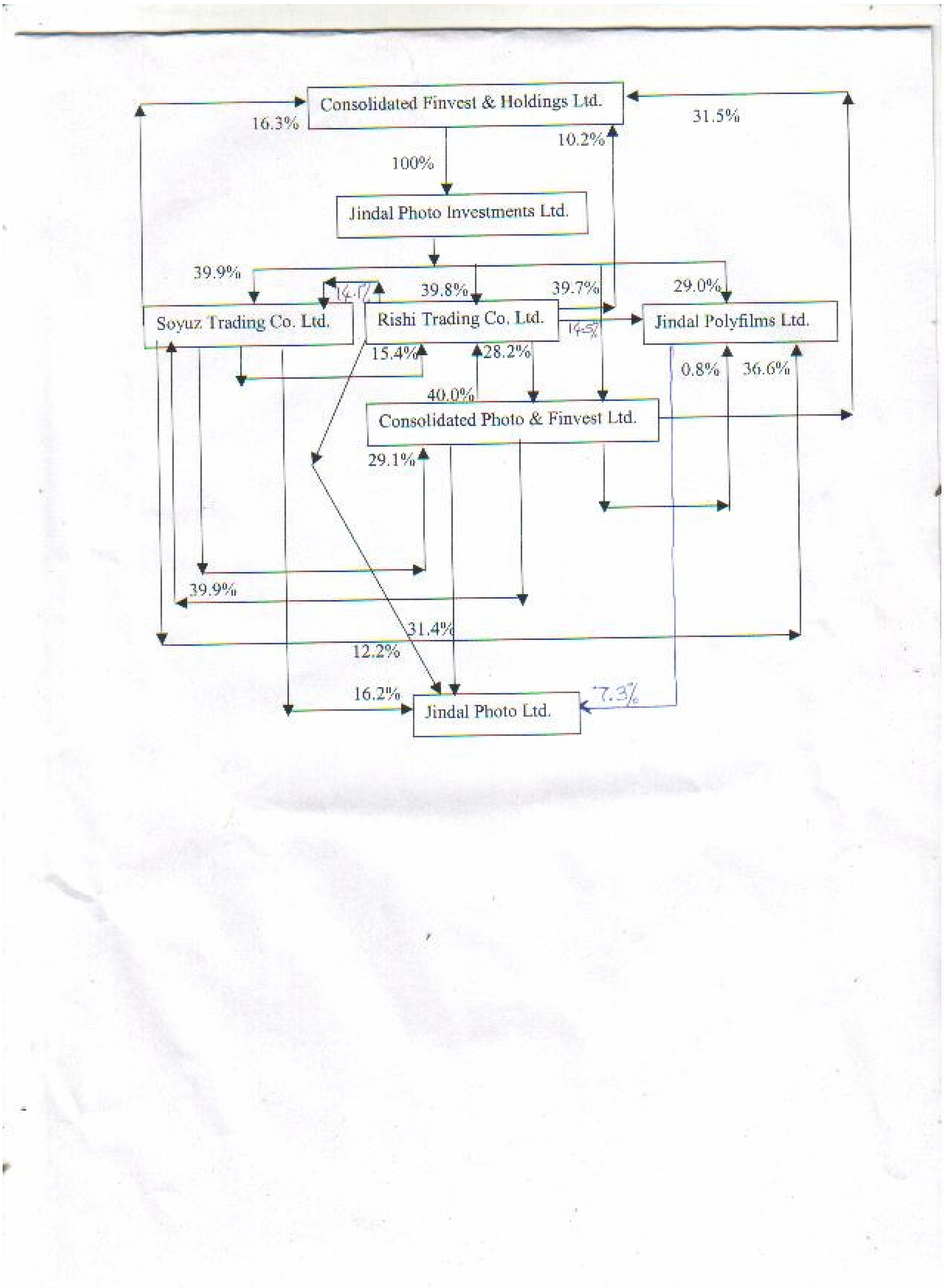
- The company is **quoting much below its intrinsic value**.
  Based on the current market price of Rs.42.60, the stock **trades at less than 10% of the realizable value of its investments (Rs.465 – Refer Appendix D)**, as discussed in the previous section.
  This is without considering any investments, resulting from the deployment of the Rs.133.5 crores mentioned in the previous section.
  This is at time when the medium to longer term outlook for both Jindal Photo and Jindal Poly remains robust. Sustainability of current valuations is not too much of a concern.
  It is noteworthy that **globally, investment holding companies trade at much lower discounts** to the market value of their investment holdings.
  Vedanta, the holding company for the Sterlite group, which is most closely comparable to JSL, quotes on the London Stock Exchange (LSE) at just 34% discount. The stock is listed on 6 stock exchanges, namely London, Berlin, Frankfurt, Munich, Stuttgart and VTX with the discount being similar in all these markets.
- **In fact, CFHL trades at a fraction of the mark-to-market gains per share as demonstrated in case of holdings in JPFL earlier.**
- The stock is available at a fraction of the estimated cash and cash equivalents on the company's balance sheet. (Refer Para 1 and 2 on the previous page)
- The stock trades at a PE multiple of around 6.5 times its expected FY05 consolidated earnings, which is fairly attractive.
- Even if we assume a discounting of 80% for CFHL's indirect investments through Soyuz, Rishi and CHFL and a 60% discounting for CFHL's direct investments (including investments through its wholly-owned subsidiary), (excluding preference shares held in JPFL, which can be reasonably valued at 100%), we arrive at a fair price of Rs.138.6 per share.
  This is without considering possible upsides from the cash and cash equivalents referred to earlier.

- I believe there is strong case for re-rating of the stock. Once Tata Sons gets listed, which I expect to happen in a year's time, its valuations will provide a benchmark for valuation of all investment holding companies and all of them, including CFHL should get re-rated. *For a detailed discussion on the valuation of holding companies and relevant case studies, refer to my research report dated March 16, 2005, which is available on www.valuenotes.com*
- My stand on the imminent re-rating in holding company stocks has been vindicated by the re-rating of **SRF Polymers Ltd. (SRFP)**, recommended at Rs.66 per share on March 16, 2005 (Report available on www.valuenotes.com) achieved my revised 12-month price target of Rs.175 in less than 2 months and now trades at Rs.196 per share. **Vindhya Telelinks Ltd.** (VTL) recommended at Rs.83 per share on May 8, 2005 achieved my 12-month price target of Rs.145 per share in less than a month and now trades at Rs.171.

  My outlook on SRFP remains positive in view of the upsides to SRF Ltd. from its CDM project. Accordingly, I am upgrading my 12-month price target on the stock to Rs.250 per share. For further details, refer update at the end of this report. Although VTL has reported an operational turnaround in FY05, investors are advised to book profits at current levels and re-enter the stock at lower levels. The VTL report is not available on www.valuenotes.com, hence the same is annexed at the end of this report, for reference.

- CFHL is rated as a strong buy and a **12-month price target of Rs.140/-** is placed on the counter.

ANNEXURE I



Consolidated Finvest & Holdings Ltd.
16.3%
31.5%
10.2%
100%
Jindal Photo Investments Ltd.
39.9%
14.1%
39.8%
39.7%
29.0%
Soyuz Trading Co. Ltd.
Rishi Trading Co. Ltd.
14.5%
Jindal Polyfilms Ltd.
15.4%
28.2%
0.8%
36.6%
40.0%
Consolidated Photo & Finvest Ltd.
29.1%
39.9%
31.4%
12.2%
16.2%
7.3%
Jindal Photo Ltd.

Appendix A

Particulars	% Stake			% Control		
	Direct	Effective	Indirect	Direct	Effective	Indirect
Soyuz Trading Company Limited	39.90	61.34	21.44	20.71	31.34	10.63
Rishi Trading Company Limited	39.78	61.81	22.03	20.39	31.37	10.98
Consolidated Photo & Finvest Ltd.	39.68	62.50	22.82	19.45	31.22	11.77

Appendix A above shows the stake and control held by CFHL in the three key holding companies of the B.C. Jindal Group.

Appendix B

Effective stake of Consolidated Finvest & Holdings in listed entities

Particulars	% Indirect Stake	% Indirect Control	
Jindal Photo Limited	42.04	23.67	
Jindal Poly Films Ltd.	68.82	53.18	
Consolidated Finvest & Holdings Limited	36.01	18.16	
Other entities	% Direct Stake	% Indirect Stake	Total
Jindal Thermal Power Limited	39.62	37.45	77.06
Jindal (India) Limited	12.87	17.42	30.29
Bazaloni Group Limited	-	20.20	20.20

Appendix B above shows the stake and control held by CFHL in various listed and other operational entities of the group.

Appendix C

Particulars	No. of shares	Cost
Soyuz Trading Company Limited	1,705,769	373,538,410
Rishi Trading Company Limited	5,385,833	398,504,706
Consolidated Photo & Finvest Ltd.	5,663,500	576,215,254
	TOTAL	1,348,258,370

Appendix C above shows the investments of CFHL (through JPIL) in the three holding companies at cost.

Appendix D

Consolidated Finvest & Holdings Limited (CFHL)

Share Capital (No. of shares)	32,323,266

Investments held:

Particulars	No. of shares	Mkt. Pr.	Value per shr.	Cost	Mark-to-market
Jindal Photo Investments Ltd.	8,610,000				
Jindal Thermal Power Limited	649,700	-	-	6,498,000	(6,498,000)
Jindal Photo Ltd.	50,000	370	18,502,500	500,000	18,002,500
Jindal Poly Films Ltd.	49,400	511	25,243,400		
TOTAL			43,745,900		
Value per share			1		

Jindal Photo Investments Ltd.

Particulars	No. of shares	Mkt. Pr.	Value per shr.	Cost	Mark-to-market
Jindal Poly Films Ltd.	5,725,151	511	2,925,552,161	291,180,000	2,634,372,1
Jindal (India) Ltd.	178,300	101	18,024,040	18,024,040	
TOTAL			2,943,576,201	309,204,040	2,634,372,1
No. of shares held			8,610,000		
Share Capital (No. of shrs.)			8,610,000		
Prop. value of shrs. Held			2,943,576,201		
Value per share			91		

Soyuz Trading Company Limited

Particulars	No. of shares	Mkt. Pr.	Value per shr.	Cost	Mark-to-market
Jindal Photo Limited	1,662,391	370	615,167,790		
Jindal Poly Films Ltd.	5,674,133	511	2,899,481,963	190,850,000	2,708,631,9
Consolidated Finvest & Holdings Limited	5,264,242	39	205,831,862		
Rishi Trading Company Limited	2,087,990	525	1,096,307,356		
Consolidated Photo & Finvest Ltd.	4,145,600	802	3,326,809,699		
TOTAL			8,143,598,669		
Share Capital (No. of shrs.)			4,235,094		

% Stake held			61
Prop. value of shrs. Held			4,995,068,595
Value per share of CFHL			155

Rishi Trading Company Limited

Particulars	No. of shares	Mkt. Pr.	Value per shr.	Cost	Mark-to-market
Jindal Photo Limited	1,247,321	370	461,571,136		
Jindal Poly Films Ltd.	2,249,528	511	1,149,508,808	218,190,000	931,318,808
Consolidated Finvest & Holdings Limited	3,309,852	39	129,415,213		
Soyuz Trading Company Limited	604,250	1,116	821,175,750		
Consolidated Photo & Finvest Ltd.	4,029,300	802	1,378,020,600		`
TOTAL			3,939,691,507		
Share Capital (No. of shrs.)			13,407,859		
% Stake held			62		
Prop. value of shrs. Held			2,435,222,443		
Value per share of CFHL			75		

Consolidated Photo & Finvest Ltd.

Particulars	No. of shares	Mkt. Pr.	Value per shr.	Cost	Mark-to-market
Jindal Photo Limited	3,216,421	370	1,190,236,591		
Jindal Poly Films Ltd.	123,114	511	62,911,254	186,310,000	(123,398,74
Consolidated Finvest & Holdings Limited	10,185,335	39	398,246,599		
Rishi Trading Company Limited	5,417,321	525	1,603,527,016		
Soyuz Trading Company Limited	1,704,236	1,192	2,367,183,804		
TOTAL			5,622,105,264		
Share Capital (No. of shrs.)			14,122,035		
% Stake held			63		
Prop. value of shrs. Held			3,513,863,240		
Value per share of CFHL			109		

2% RCPS of Jindal Polyfilms Ltd.			

	66,000,000	10	660,000,000
Value per share of CFHL			20

Total Value per share		451

Appendix D above shows the detailed calculations.

Appendix E

Particulars	No. of shares	Mkt. Pr.	Val. In Rs.
ONGC Ltd.	177,047	901.60	159,625,575
ITC Ltd.	76,589	1,561.40	119,586,065
Asian Hotels Ltd.	234,808	325.00	76,312,600
HLL	514,140	145.40	74,755,956
GSK Cons. Health. Ltd.	36,884	380.00	14,015,920
HLL Debentures	760,133	6.00	4,560,798
Godrej Cons. Prod. Ltd.	5,875	331.20	1,945,800
Ester Inds. Ltd.	17,808	21.15	376,639
PNB Gilts Ltd.	16,400	18.70	306,680
Others			58,806
			451,603,646
Value per share of CFHL			**14**

Appendix E above shows the present market value of investments held by CFHL as on March 31, 2004.

Strong Buy on Vindhya Telelinks Ltd. – May 8, 2005

Vindhya Telelinks Ltd. (BSE Code 517015 / NSE Code VINDHYATEL.BE)
Recommended at Rs.83 – 12-month Price Target Rs.145

Contents of detailed report dated May 28, 2005

The MP Birla group company Vindhya Telelinks Ltd. (VTL) holds stake in group companies, **Birla Corporation, Universal Cables and Birla Ericsson**, directly and indirectly through its 3 wholly-owned subsidiaries, August Agents, Insilco Agents and Laneseda Agents.

Based on the current market prices of these companies, the **value of VTL's holdings in them works out to Rs.482 crores, which is equivalent to Rs.407 per share of VTL**.
At the current market price of Rs.120, even after the stock has been re-rated, the stock is available at 29.5% of the market value of its holdings. There is a fair scope for further re-rating.

VTL's effective stake in Birla Corp. is 31.68% and on these investments alone, VTL is sitting on mark-to-market gains of Rs.327 per share.

In addition to the above, VTL has invested Rs.12 crores in an unlisted entity, Punjab Produce Holdings Ltd. (PPHL), which is one of the 7 key investment holding companies of the MP Birla Group.
Based on the information available, the market value of PPHL's holdings in various group companies is Rs.90 crores. However, in the absence of details regarding the share capital of PPHL, we are unable to comment on the proportionate ownership of VTL.
PPHL is an associate company of VTL, which means that VTL owns atleast 20% in it, which means that atleast Rs.22.5 crores out of the above-mentioned Rs.90 crores belongs to VTL.
In FY04 however, PPHL was not consolidated with VTL as an associate company, as in the opinion of the management, VTL did not have 'significant influence' in it.

VTL also holds a stake in a joint venture company with ABB, Universal ABB Power (carrying value Rs.NIL, cost Rs.4.6 crores) and has invested Rs.0.3 crores in Birla Financial Corporation.

We have excluded all the above entities, including PPHL (on a conservative basis) from our calculations.

VTL is a cash-rich company and had cash and cash equivalents of Rs.47 per share as on March 31, 2004.

VTL has reported robust numbers for FY05.
Total income has surged by 78.5% to Rs.101.5 crores.
After tax profits stood at Rs.0.4 crores vis-a-vis a loss of Rs.11.4 crores in the corresponding period last year.
VTL has reported sequential improvement in operational performance for each of the last 4 quarters. PAT for Q4 FY05 stood at Rs.1 crores.

The fortunes of the cable manufacturing industry have turned for the better.
With the company placing more emphasis on optical fibre cables and reducing exposure to the saturated jelly filled cables market and the demand-supply position improving for the former, the company has returned to the black.

The performance of group companies has improved considerably.
FY05 has been a historic year for the MP Birla Group on a number of counts, with the RS Lodha - Birlas battle taking the centrestage.
At the same time, the performance of all the companies under the group has improved significantly and all of them have turned around.

Birla Corporation's EPS for the 9-month period ended December 31, 2004 stood at Rs.5.56 as against Rs.1.07 in the corresponding period last year. Outlook for the cement business remains robust.
Universal Cables' EPS for FY05 stood at Rs.1.96 for FY05 as against negative Rs.2.08 in FY04.
It has returned to the dividend paying companies list.
Birla Ericsson's EPS for FY05 stood at Rs.0.23 as against negative Rs.3.34 in FY04.
In the light of the above, the sustainability of current valuations for these companies should not be too much of a concern.

VTL holds the key to the Birlas-Lodhas saga.
In view of the complex web of interconnected holdings, VTL holds the key to the eventual control of the MP Birla Group's listed entities. VTL along with its subsidiaries and Universal Cable together hold a stake of about 44.7 per cent in Birla Corporation. Universal Cables and VTL also hold together a stake of 29 per cent in Birla Ericcson, in which Ericcson Cables AB of Sweden holds a stake of 27.5 per cent. That is not all. VTL holds 15.7 per cent in Universal Cables. Universal Cables, in turn, holds a 29 per cent stake in VTL. Control of Universal Cables and Vindhya Telelinks is, therefore, essential to gain control of the other two companies.

Consolidation of Birla Corp. into VTL's consolidated results is a possibility.
In FY04, VTL did not consolidate Birla Corp. as in the opinion of the management, VTL did not have 'significant influence' over it. However, if the management decides to consolidate it in FY05, then based on the expected FY05 profits of Birla Corp. of Rs.82 crores, it would add Rs.22 per share to VTL's consolidated EPS. This would mean that **VTL trades at less than 5.5xFY05 consolidated earnings**, which is fairly attractive.

Lastly, it is noteworthy that Punjab Produce Trading Co. Ltd. (PPTCL), an investment holding company which holds 14% and 10% respectively in Universal Cables & VTL respectively also holds 25% stake in Pilani Investments, the Birla family's investment holding company.
Pilani holds stakes in various Birla group companies, including blue-chips like Grasim, Indian Rayon, Zuari Industries, Jayshree Tea etc.
According to reports, the net worth of Pilani Investments, going by the market capitalisation of the stakes it holds in the several Birla companies, was around Rs 1,000 crore in September 2004.

Again, the ownership of PPTCL is not known. However, if PPHL owns a stake in PPTCL, this would be another positive for VTL.

To conclude, the battle for control of the MP Birla Group's prized asset, Birla Corp. will centre around VTL and it will remain at the forefront.

Update on SRF Polymers Ltd. (BSE Code 532468)

SRF Ltd. has been in the news of late, in connection with its much-talked about CDM project.

The stock surged last week on hopes that the project would generate huge profits for the company for the next 10 years.

Figures doing the rounds ranged from Rs.55 crores to Rs.310 crores.

Kotak, in its report dated April 2005, had estimated that the amount would range from Rs.55 crores to Rs.80 crores, starting FY07, while based on the current price of carbon credits, (as reduced to Euros 15 on the conservative side), on the assumption that the project would generate the enitre 3.8 million CERs p.a. (maximum capacity of the project), the upside comes to Rs.310 crores per annum.

The press release issued by the company on June 6, 2005 stops short of stating any numbers but confirms the development. It also states that the project is estimated to start generating CERs from early 2006.

The management feels that the market for carbon credit trading is not fully developed yet and current valuations may not be sustainable. Consequently, SRF Ltd. may realise much lower valuations, as and when it decides to encash them.

If one assumes the upside potential to be Rs.100 crores (which is the consensus estimate based on a realization of Euros 5 per CER), or Rs.66.0 crores after tax, then SRF Ltd.'s EPS would be boosted by Rs.10.24 each year.

The additional cash flows from the project could be used to pay off high cost debt, invested in existing core businesses and / or paid to shareholders in the form of higher dividends.

The EPS estimates from the core business would also have to revised marginally upwards for all the relevant years.

Let us consider the impact on the above developments on SRF Polymers Ltd.

The shareholding pattern of SRF Ltd. as on March 31, 2005 shows that SRF Polymers Ltd.'s effective stake in the former has gone up to 33.22% from 32.17%, which was considered in my calculations (as on January 2005).

In view of the favourable developments for SRF Ltd., the stock is in the midst of a re-rating and fair value for the stock could be in the region of Rs.225 per share. (EPS for FY06 and FY07 are expected at Rs.15 and Rs.24 per share on a conservative basis).

This makes the 33.75 lakh share warrants (representing 4.97% of the diluted share capital), which are held by SRF Polymers Ltd. (through its wholly-owned subsidiary) and exercisable within 12 to 18 months from the date of allotment at Rs.85 per share, extremely valuable.

Upon exercise of the same, SRF Polymers Ltd.'s effective stake in SRF Ltd. would go up to 36.54% and its investments in the latter would be worth Rs.659 per share of SRF Polymers Ltd. and the mark-to-market gains per share would be Rs.466 per share.

It trades at a discount of 70%. A Re.1 rise in the price of SRF Ltd. results in a Rs.3.75 rise in the per share value of SRF Polymers Ltd.'s holding in the former.

At the current discount rate of 70%, this means that for every Re.1 rise in SRF Ltd's share price, SRF Polymers Ltd. shares should rise by at least Rs.1.13 in order to maintain the said discount.

All the above would also mean higher consolidated profits for SRF Polymers Ltd.

The SRF Polymers should be in for further re-rating and I am revising my 12-month price target upwards to Rs.275 per share.

Once further clarity emerges about the possible realisations from the CDM project for SRF Ltd., the targets would have to be suitably revised upwards.

- **Additional Information on the securities covered in the above report shall be made available on request.**