The survivor

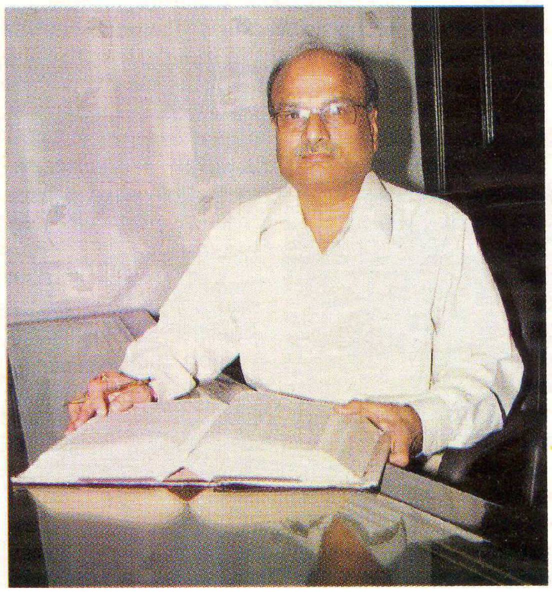
VLS Finance, a still active NBFC, has a healthy balance sheet

About 12 years ago, India saw over hundreds of promoters flooding the market with non banking finance companies (NBFC). Later, almost all of them - CRB, JVG Finance, Prudential, *et al* - caved in and vanished from the scene, leaving investors with plain paper. But a handful of them are still around, drawing new strategies to survive. One company that has kept its head above water and has some hidden jewels in its balance sheet is the Delhi based VLS Finance Ltd.

On 15 October 2007, VLS Finance came out with its scorecard for the second quarter ended September 2007 and the first half of the current year. For the second quarter, the company has posted a net profit of Rs7.2S crore, as compared to Rs1.29 crore for the same period last year. The net profit has grown by 5.6 times on the back of recovery of bad debts and loans to the extent of Rs2 crore. Together with the first quarter, the net profit for the first half works out to Rs9.01 crore, as compared to Rs5.40 crore for the half year ended September 2006, registering an increase of 67 per cent.

"The strong performance has been the result of the effective risk management systems put in place by the company. The company would be actively pursuing the private equity route, even while maintaining its position in the arbitrage business for a sustained growth of the company's business," explains S.K. Agarwal, MD, VLS Finance, whose strategic investments in listed and unlisted companies have been really paying rich dividends. The company has survived on the basis of the strategic investments it had done earlier in the companies like TV I8, Ansals, Relaxo, Apollo Hospitals, etc. At one point of time, VLS Finance was holding more than 15 per cent stake of TV 18. In the company's existing investment portfolio, the top four scrips of original investment worth Rs5.73 crore, now have a market value of Rs29.11 crore, at current prices.

"In the 1990s, most NBFCS had to pull their shutters down, mainly on account of the cost of funds. They could not compete with banks and financial institutions, which availed of low-cost funds and lent them at better terms. As a result, the riskier customers alone went to NBFCS, which pulled them down," observes Anand Desai, a veteran merchant banker and MD of the Mumbai-based Multi Consult Pvt Ltd. Quite a few NBFCS were soon out of lending business.



Agarwal: VLS has an effective risk management system

Risk-neutral business

"As a strategy, we moved out of lending to do risk-neutral investment business. We started the arbitrage operations in the cash-to-futures markets and between the BSE and NSE, which then did not have a uniform settlement system. Once they (BSE and NSE) started working out a uniform settlement system, we could not do that also. At the same time, the asset lending and borrowing mechanism (ALBM) window was also closed," adds Agarwal. He now gainfully looks at arbitrage opportunities in futures and spot markets, besides dabbing in private equity investment.

"We are also exploring investing in real estate - not as a developer, but through a special purpose vehicle (spv) that develops commercial real estate in and around Delhi. When the rental income stabilises, we will exit the spv and make a profit. We have earmarked Rs50 crore investment for this and, can, with the partners, leverage for projects worth Rs300-400 crore," adds Anurag Bhatnagar, vice-president, investment banking, VLS Finance.

In 1995, the company invested in Sun air Hotel. For Rs7 crore, VLS Finance got a 25 per cent stake in this single- property-owned five-star hotel in Delhi, which runs the Metropolitan Nikko, located at Connaught Place in the capital. The balance Rs22 crore was brought in by the promoters, the Gupta family, while a Singapore-based hotel chain, Accor Asia, was to bring in Rs 1 crore at a premium of Rs90. VLS Finance also agreed to mobilise loans of Rs85 crore for the project, manage the public issue and give Sun air a security deposit of Rs10 crore, at an interest rate of 20 per cent.

"But things took an ugly turn. Within a year, Accor withdrew from the project. We were also piqued at Sunair for not paying the quarterly interest on the deposit," adds Agarwal. Now, VLS Finance and the Guptas are mired in a legal battle over the property which, at current rates, is" worth close to Rs 800 crore. The company claims that, according to the agreement, it would become the majority shareholder (87 per cent) in Sun air. This case is likely to be settled soon and, hence, the spurt in VLS share price, which has, risen from Rs12 to Rs32 in the last bne month and is now hovering around Rs27.