

Kama Holdings

₹ 1505

*Promoters are Holding are You too ?***Buy**

May 20, 2016

Company Background

KAMA Holdings Ltd. (KAMA), previously known as SRF Polymers Ltd. (SRF Poly), was incorporated in the year 2001 and is a key company of the SRF Group which is promoted by the Bharat Ram (BR) Family through various small realty and investment companies (mainly BFPL & NFPL) owned by Bharat Ram Group. SRF Poly, itself was formed by the demerger of 3 businesses - Engineering Plastics, Fishnet Twines and Polyester Films from SRF Ltd. with effect from Jan 01, 2001. SRF Poly was engaged in the manufacture and sale fishnet twines and engineering plastics in India It was renamed to Kama Holding Ltd. in 2010. The company has become essentially an investment company, with discontinuing of its core businesses mentioned above. Today, Kama Holdings Ltd. does not have significant operations. But operates through its various subsidiaries which are in Chemical, Realty, Hotel and NBFC.

Key Highlights

- ➔ When the Clean Development Mechanism of United Nation Foundation Convention of Climatic change was functional SRF has earned a lot of revenue by selling off carbon credits. SRF had undertaken 2 major Clean Development Mechanism (CDM) projects; for which it was awarded 3.9 mn of carbon credits per year for a period of 15 years. Valuing one CER at around 15 euros SRF has supposedly earn free cash flows to the tune of Rs. 3500 mn per year from the projects apart from SRF's regular operating income. SRF has probably used these revenues to reorganise the balance sheet and invested in expansion which is now reaping benefits. Since KAMA holds ~52 % shares of SRF, it would get the major chunk of this un-locked value.
- ➔ After the restructuring of SRF group in around 2010 all the Promoters now hold shares in Kama and in turn Kama holds shares in other entities. This signifies that even the promoters are bullish on the price of Kama.
- ➔ SRF Market Cap is Rs. 69 bn. Now since Kama has 52% shares of SRF the net value Market Cap of its investment in SRF is Rs. 35 bn. Now since its a Holding Company even if you discount the same by 40% it comes to Rs.18 bn while Kama's current Market Cap is just Rs 9.86 bn.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	333.9	302.0	301.6
Rev. growth (%)	(17.49)	(9.55)	(0.13)
EBITDA (INR mn)	319.5	294.7	295.8
Net profit (INR mn)	319.5	294.7	295.8
Shares outstanding (mn)	6.5	6.5	6.5
EPS (INR)	49.5	45.7	45.9
EPS growth (%)	(16.91)	(7.76)	0.37
P/E (x)	6.49	8.76	19.81
RONW (%)	95.78	98.38	98.08
ROA (%)	6.99	6.92	6.56

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Info Codes

Reuters	: KAMH.BO
Bloomberg	: KHL@IN
NSE	: -
BSE	: 532468

Market Data

52 Wk Range (₹)	: 978 / 1588
Shares in Issue (mn)	: 2.9
Mkt. Cap (₹ bn)	: 9.8
BSE 2 Wk Avg Vol	: 1582

Share Holding Pattern (%)

Promoters	: 75.00
Public	: 25.00
Others	: 00.00

Past Performance

Kama Holdings was recommended as a Buy on Nov 04, 2010. It gave a return of 21.19% in a period of 8 days. Further the price has appreciated by nearly 3x since then.

Investment Theme

Slowly and steadily the Promoters of the SRF group have consolidated their holding in all their group companies into 1 company Kama Holdings. Over the last 3 to 4 years not only has the promoter holding increased in the company but also the price of the company has tripled. We had initiated a report in Nov 2010 about the inherent hidden value in the scrip and Kama has currently proved it right with an appreciation of 3x in the last 5 years, we still think with the appreciated value of SRF, there is a lot more to come in Kama and the Share is still undervalued by more than 50% of its should be price. We therefore recommend a Buy at the current prices.

**Some value Uncovered...
but a some still Hidden !**

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Income Fin. Ser	293.5	301.7	2.8	301.5	(0.1)
Other Income	0.0	0.3	-	0.1	(66.7)
Fin.Ser.Expenses	0.0	0.0	-	0.0	-
Employee Exp.	2.9	2.5	(13.8)	3.0	20.0
Indirect Taxes	0.0	0.1	-	0.1	0.0
Other Expenses	3.3	4.4	33.3	1.2	(72.7)
Net Expenses	4.2	4.6	9.5	4.3	(6.5)
Operating Profit	289.3	297.4	2.8	297.3	0.0
Total Interest	0.0	0	-	0.0	-
Gross Profit	289.3	297.4	2.8	297.3	0.0
Net Dep.	0.0	0.0	-	0.8	-
Total Taxation	8.2	0.3	(96.3)	0.7	133.3
Prior Period Income	38.4	-2.4	(106.3)	0.0	(100.0)
Net Profit/Loss	319.5	294.7	(7.8)	295.8	0.4

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	4039.5	4301.7	4544.2	4733.1
Equity Share capital	193.7	193.7	193.7	193.7
Share Application Money	0	0	0	0
Preference Share Capital	0	0	0	0
Reserves & Surplus	3804.6	4107.4	4349.8	4538.5
Secured Loans	0	0	0	0
Unsecured Loans	41.2	0.6	0.7	0.9
USES OF FUNDS	4039.5	4301.7	4544.2	4733.1
Gross Block	0.4	0.2	0.2	0
Less : Revaluation Reserves	0	0	0	0
Less : Accumulated Depreciation	0.4	0.2	0.2	0
Net Block	0	0	0	0
Capital Work in Progress	0	0	0	0
Investments	4022.6	4028.2	4143.6	4252.2
Current Assets	30.4	285.1	412.5	492.3
Less : Current Liabilities	13.5	11.6	11.9	11.4
Total Net Current Assets	16.9	273.5	400.6	480.9
Misc. Expenses not writtenoff	0	0	0	0
NOTE				
Bk Val Unquoted Investments	78.6	96.1	102.4	210.1
Mkt Val. Quoted Investments	7,252.50	4,956.90	10,788.00	29,760.90
Contingent Liabilities	498.9	479.4	431.1	501.6
Dividend (%)	0.0	10.0	65.0	150.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 15	Jun 15	Sep 15	Dec 15
Income from Operations	150.00	0.00	150.20	0.00
Operating Expenses	1.70	1.70	1.20	1.50
Operating Profit	148.30	(1.70)	149.00	(1.50)
Other Income	0.20	0.10	0.10	0.40
Adjusted PBDIT	148.50	(1.60)	149.10	(1.10)
Financial Expenses	0.00	0.00	0.00	0.00
Depreciation	0.00	0.00	0.00	0.00
Other Write offs	0.00	0.00	0.00	0.00
Adjusted PBT	148.50	(1.60)	149.10	(1.10)
Tax Charges	0.30	0.10	0.00	0.10
Adjusted PAT	148.20	(1.70)	149.10	(1.20)
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjustments	0.00	0.00	0.00	0.00
Net Profit	148.20	(1.70)	149.10	(1.20)

52 Week Index Relative Percentage Appreciation



Kama vs SENSEX

Risks Associated

➔ Dependency on Dividend Income

KAMA's main source of income would be from SRF, which will come in the form of dividend from SRF. So KAMA is heavily dependent on SRF for source of income.

➔ Illiquidity

The Promoters hold 75 % shares of the company. So the volume for share available in the market is so low that the stock is considered to be illiquid. It may not happen that if one corners a large amount of share from Public Holding, he may be unable to sell them in a single day as traded volumes are very low.

➔ All Risks related to SRF

Since KAMA is the holding company of SRF group and as such does not now have any major core business of its own the risks of SRF cannot be dispersed and KAMA cannot isolate itself from the inherited risks from SRF.

➔ Other Businesses Insignificant

The performance of its other subsidiaries in Education & Realty is not too good.

In a Nutshell

KAMA, previously known as SRF Polymer Ltd., is part of SRF Group. It was into the business of plastic & net etc. It transformed itself by business restructuring into essentially an investment company. Currently KAMA is the main holding company of the SRF group. This will help the promoters, Bharat Ram Family of SRF group to unlock a huge value potential in the subsidiaries mainly SRF & Kama Realty. Currently SRF is quoting at around 1200 Rs. and a Market Cap of Rs. 69 bn. Now since Kama has 52% shares of SRF the net value Market Cap of its investment in SRF is Rs. 65. Now since it's a Holding Company even if you discount the Market Cap of SRF by 40% it comes to Rs. 18 bn while Kama's current Market Cap is just Rs 9.86 bn. Which clearly means that even if we consider only SRF and not any other subsidiary in Kama it is undervalued by 50%. One can see KAMA's fair valuations around Rs. 2500 per share. Since KAMA currently is discounted by ~50% of its investment value, it's a good value pick and one can buy this share with long term investment point of view. One can also consider KAMA share as a discounted entry into SRF Shares. By holding a share of KAMA one is also holding shares in SRF indirectly. This is evident from the fact that both SRF and KAMA prices are making new highs over last few days simultaneously. We therefore recommend to Buy this scrip at current market rates as the share has good growth prospects.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months	Reduce : Expected to depreciate up to 10% over 12-months
Accumulate : Expected to appreciate 10% to 20% over 12-months	Sell : Expected to depreciate 10% or more over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days	Trade Sell : Expected to depreciate more than 10% over 45-days

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