

Stock Idea

Cholamandalam DBS Finance Ltd

28 Apr 2010

DBS Exit – Positive Trigger?

Key Data

M Cap (Cr)	655 Cr
Book Value	68
EPS	7.4
PE	13
52 Week H/L	133 / 39

Share Holding (%)

Promoters	75
Corp Bodies	6
FIIs	1
Public	18

Cholamandalam DBS Finance started in 1978 as a financial services arm of the Murugappa Group has grown to a comprehensive financial services provider with revenues of close to Rs.1000 Cr from Vehicle finance, Corporate finance, Home Equity and Stock broking & distribution of financial products. Over the years, Chola DBS has built significant strengths, namely strong distribution, major product presence and strong credit & recovery systems, marked by customer service excellence. The company operates from over 180 locations spread across the country with a loyal customer base.

Recent exit of DBS (Development Bank of Singapore) after selling their 37.5% stake in the company back to Murugappa Group at Rs.91 per share is very positive. We expect Cholamandalam to create wealth more dynamically as the promoter stake is at 75% currently.

Cholamandalam DBS had lost significant amount of money in certain risky loans and micro-financing activities. Management has clarified that the company would be focusing on asset backed loans and company could enter lucrative segments like Home Loan, Gold Loan etc.

The company collected Rs.100 Cr by issuing shares to IFC at Rs.92 per share and another Rs.276 Cr at the same rate will be raised from the promoters to augment resources for the company to do more business. This would help Cholamandalam to keep the Capital Adequacy Ratio at healthy levels.

Loss making subsidiary, AMC business is sold to L&T Finance Limited, the positive effects of which will be seen in the next fiscal.

Budget 2010-11 gives hope for eligible NBFCs to secure banking license and Chola DBS is one of the strongest companies in NBFC space eligible to convert itself into a bank.

Though it is not an exciting value pick with the current fundamentals, Chola is expected to create wealth much faster by exploring new areas of business. Company could be supported by the highly capitalized group entities, with many important futuristic projects. Investors could buy now and watch the developments of the company and plan of action from the management.