

 www.hksecurities.co.in e-mail: info@hksecurities.co.in	<p style="text-align: right;">BUY</p> <p style="text-align: right;">CMP Rs. : 205</p> <p style="text-align: right;">Date: 18 February, 2008</p> <p style="text-align: right;">BSE Code: 511243</p>
--	--

Cholamandalam DBS Finance

Investment Summary

We rate Cholamandalam DBS Finance (CholaDBS) as “Buy” for its unique and diversified business model spanning across Lending (Vehicle, Corporate, Retail), IPO/MF Distribution, AMC (DBS Chola MF) and Broking. CholaDBS is play on India’s Retail Financial Services and emerging Retail customer. Currently, More than 90% of revenue of CholaDBS comes from Lending where we feel company has the scalability potential to increase its Gross Asset Base to \$ 2 Billion in next 1 year. Also, Going forward we expect CholaDBS’ Branch Network (200 Branches) to be its biggest asset driving Non-Lending Businesses growth and contribute significantly in Results. Growing competition, Slowdown in Economy and rising NPA remains risks to our Buy Call.

Valuation

We expect EPS for 07-08 to be Rs. 14 on expanded equity of 52.24 Cr post rights. 08-09 EPS could be 22. Expected BV for 07-08 is 114 and 08-09 could be 136. At CMP of 205 Forward PE for 07-08 is 15 and Forward P/BV for 07-08 is 1.8 which becomes 9.3 and 1.5 for 08-09. We find it attractive given Strong Promoters with excellent track record, Huge Potential for Financial Services due to changing demography and growth Company is showing in all businesses.

Current Market Cap is around 1070 Cr. We see hidden value in its Non-lending Businesses considering Branch Network in IPO/MF Distribution (Revenue of 13.30 Cr), Securities Broking (Revenue of 9.49 Cr) and AMC (AUM of 3000 Cr).

NBFC Industry

Non-Banking Finance Companies (NBFCs) are an integral part of the India’s financial system complementing the services of commercial banks. The main reason attributed to the growth of NBFCs is the complex regulatory reasons in banking (CRR/SLR, Priority Lending Requirement etc) and Reach. Other factors include higher level of customer orientation, lesser pre / post sanction requirements and higher rates of interest on deposits being offered by NBFCs. India remains under-penetrated in various areas like Mortgage, Auto Loans, Retail Loans. Ratio of all these to GDP is very low even compared to its Asian Counterparts. Rising GDP and Consumerism leads to higher demand for Loans by Consumers as economy grows additionally, Organised players are replacing Un-organised players.

Company Background:

CholaDBS was incorporated on August 17, 1978, as a public limited company under the name of “Cholamandalam Investment and Finance Limited”, by Murugappa Group. In the year 2006 pursuant to acquisition of 37.48% stake by DBS Bank Limited, Singapore name was changed to Cholamandalam DBS Finance Limited. The company has an unbroken track record of dividend payment for over 25 years.

Current Shareholding Pattern:

Promoters	No. Shares	%
Murugappa Group	19555234	37.48
DBS Bank Singapore	19555229	37.48
Non-Promoters	13065952	25.04
Total	52176405	100

CholaDBS Business Divisions:

A. Fund Based Businesses:

<u>Loan Area</u>	<u>Description</u>	<u>Margin</u>	<u>Share in Rev (2007)</u>
1. Vehicle – New / Used	1. New Vehicles (42% of Total Vehicles) 2. Used Vehicles (58% of Total Vehicles)	Low High	55%
2. Corporate / Mortgage	Working Capital Loans to Corporates, Finance against Shares/Property	-	28%
3. Consumer /Personal	1. Prime (Loan amount between Rs. 1 Lakh to Rs. 20 Lacs) 2. Mid Ticket (Loan amount between Rs. 50,000 to Rs. 2 Lacs) 3. Sub Prime (Loan amount between Rs. 10,000 to Rs.75,000)	Low - High	7%

B. Fee Based Businesses:

<u>Business</u>	<u>Description</u>	<u>Revenue / AUM</u>
1. Distribution	IPO/MF/Insurance Products Distribution	13.30 Cr
2. Broking	BSE/NSE Corporate Member	9.49 Cr
3. AMC	DBS Chola Mutual Fund	AUM - 3000 Cr

Financials (Consolidated):

Particulars (Rs. In Lacs)	A2006	A2007	Q12008	Q22008	Q32008
1. Income from operations	24265	43412	17507	22692	26231
2. Other income	169	353	7	6	7
3. Proportionate share of income in JV	57	0	0	0	0
4. Total Expenditure					
a) Staff cost	2758	5357	2096	2523	2885
b) Business origination outsourcing	1740	6142	2788	3141	3851
c) Other operating expenses	2586	4518	1819	2300	2650
d) Proportionate share of expenses in JV	44	0	0	0	0
5. Interest	9924	18895	7741	8885	9278
6. Depreciation	534	708	178	660	259
7. Provisions, loan losses and other charges	2131	3590	1852	2623	4059
8. Profit before tax (1+2+3-4-5-6-7)	4774	4555	1040	2566	3256
9. Provision for taxation					
Current	1315	1837	885	1027	1419
Deferred	-96	-21	-383	0	0
10. Net profit (8-9)	3555	2739	538	1539	1837
11. Loss on disinvestment of Associate Company & JV	-20	0	0	0	0
12. Minority interest in profit -	0	0	0	0	0
13. NP after loss on disinvestment of Asso Co & JV and MI	3535	2739	538	1539	1837
14. Paid-up equity share capital (Rs.10/- per share)	3801	3801	3801	3801	5224
15. Reserves excluding revaluation reserves	26338	27085			
Ratios					
16. Growth in Disbursements Over corresponding Period	15%	96%	132%	120%	88%
17. Basic EPS (Rs)	9.11	7.22	1.42	4.06	3.77
18. Book Value	79.29	81.25	81.25	81.25	100
19. NPA	0.61%	0.41%			
20. Debt-Equity Ratio	5.57:1	10:1			
21. Gross Asset Base	230900	447400			
22. Capital Adequacy Ratio	14.90%	12.12%			

Peer Comparison:

Company	EPS 2007	BV	CMP	PE	P/BV
Cholamandalam DBS Finance Limited	7.22	100	205	28.39	2.05
Shriram City Union Finance	16.48	81.9	363	22.03	4.43
Sundaram Finance Limited	50.48	316	675	13.37	2.14
IndiaBulls Financial Services	22.84	113.6	673	29.47	5.92
Shriram Transport Finance Limited	11.01	57.9	394	35.79	6.80

Disclosure of interest statement:

As on day of writing this Report Analyst, Firm and its clients own the above Stock.

Disclaimer:

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature.

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment.

Analyst, Firm, its directors, employees, agents or representatives shall NOT be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.