

SKS Microfinance : Leader in fast growing MFI

**Note: Revenue and Net Profit grew at a CAGR of 176% & 223%
Rating : *****

Issue details

Price band (Rs)	Rs.850-985
IPO Opening Date	28-07-2010
IPO Closing Date	02/08/10
Issue Size	Rs.1427.28 - 1653.97 Crore

Valuations & Recommendation

SKS Microfinance's EPS for FY'10 on post-issue equity works out to Rs 24.3. At the price band of Rs 850 to Rs 985, P/E works out to 35.0 to 40.5 times. Post-issue Book Value comes out to Rs 218 and Rs 232 at issue price of Rs 850 and Rs 985 respectively. P/BV at both the bands works out to be 3.9 and 4.2 times, respectively.

The only comparable listed entity in microfinance is SE Investments with sales of Rs 88.36 crore and net profit of Rs 26.34 crore in FY'10 almost one-tenth of size of SKS Microfinance. It is currently trading at P/BV of 3.4. **The valuations are extremely high compared at which banks and other NBFCs are traded. However, Gross revenue and net profit has grown at a CAGR of 176% and 223% respectively in last 4 years ended March 2010. The company being one of the leader in Microfinance industry has high growth potential. Looking to its growth and prospects and the fancy towards the sector, it could give listing gains. Hence we recommend investor to subscribe the issue.**

Highlights

- ◆ **Leader in Microfinance industry has high growth potential.**
- ◆ **The company had 2,029 branches in 19 states across India with no state accounting for more than 28.8% of its outstanding loan portfolio.**
- ◆ **Retail investors will get discount of 5%**
- ◆ **Gross NPA and Net NPA are just 0.33% and 0.16% respectively at the end of FY'10.**
- ◆ **MFIs typically charge high interest rate to its customers ranging between 26% to as high as 31%. As the costs and risks in this business are also high, any unreasonable cap will severely impair the business prospects.**

Company Introduction

Promoters

SKS Microfinance, promoted by Dr. Vikram Akula, was originally founded as Swayam Krishi Sangam or SKS Society in 1997 and functioned as a non-governmental organization (NGO) that provided microfinance in Andhra Pradesh. SKS Society transferred its business and operations to SKS Microfinance as a newly incorporated private limited company in India in 2003. SKS Microfinance is the largest Microfinance Institution (MFI) in India in terms of total value of loans outstanding, number of borrowers (called members) and number of branches.

Business Activities

SKS Microfinance is a non-deposit taking non-banking finance company (NBFC-ND), registered with and regulated by the Reserve Bank of India (RBI). It is engaged in providing microfinance services

to individuals from poor segments of rural India.

Core Business

The company's core business is providing small loans exclusively to poor women predominantly located in rural areas in India. These loans are provided to such members essentially for use in their small businesses or other income generating activities and not for personal consumption.

The Company utilizes a village centered, group lending model to provide unsecured loans to its members. This model ensures credit discipline through mutual support and peer pressure within the group to ensure that individual members are prudent in conducting their financial affairs and are prompt in repaying their loans. Failure by an individual member to make timely loan payments will prevent other group members from being able to borrow from it in the future; therefore the group typically make the payment on behalf of a defaulting member or, in the case of willful default, use peer pressure to encourage the delinquent member to make timely payments, effectively providing an informal joint guarantee on the member's loan.

IPO & Proceed

The company is coming with an IPO to raise around Rs 1427 crore at the lower band of Rs 850 per share (Rs 633 crore from fresh issue) and Rs 1654 crore at the upper band of Rs 985 per share (Rs 733 crore from fresh issue) consisting of a fresh issue of 7,445,323 equity shares and an offer for sale of 9,346,256 equity shares by Sequoia Capital India II LLC, SKS Mutual Benefit Trust - Narayankhed, SKS Mutual Benefit Trust - Jogipet, SKS Mutual Benefit Trust - Medak, SKS Mutual Benefit Trust - Sadasivapet, SKS Mutual Benefit Trust - Sangareddy, Kismet Microfinance and Mauritius Unitus Corporation.

The company intends to utilize the net proceeds to augment its capital base to meet its future capital requirements arising out of growth in the business and to achieve the benefits of listing on the stock exchanges.

Financial Summary

Particulars	0803 (12)	0903 (12)	1003 (12)
Total Income	170.01	554.00	958.93
Gross Profit	38.26	148.41	332.02
Net Profit	16.64	80.22	174
EPS (Rs)	2.3	11.1	24.3

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

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