



IPO / FPO - NOTE

| | |
|---|----------------|
| Issue Size (in crs) | ~1427-1654 |
| No. of shares (in crs) | 1.68 |
| Bid/Issue opens on | 28th July 2010 |
| Bid/Issue closes (for Institutional buyers) | 30th July 2010 |
| Bid/Issue closes (for others) | 2nd Aug 2010 |
| FV | 10 |
| Price Band | Rs. 850-985 |

Object of the Issue

- to augment the capital base to meet future capital requirements arising out of growth.
- to achieve the benefits of listing on exchange

Book Running Lead Managers

- Kotak Mahindra Capital Company
- Citigroup Global Markets India
- Credit Suisse Securities Pvt Ltd

Registrar to the Issue

- Karvy Comptershare Pvt. Ltd

Capital Structure

Authorized capital

| | Amt in crs |
|--------------------------------|-------------------|
| - Equity Shares | 82.00 |
| - Preference Shares | 13.00 |
| Issued, Subscribed and paid up | 64.50 |
| Present Issue | 16.70 |
| - Fresh Issue | 7.5 |
| - Offer for sale | 9.3 |
| Equity after the issue | 72 |

Shareholding Pattern

| | Pre-Issue | Post-Issue |
|--------------------|------------------|-------------------|
| Promoter and group | 55.80 | 37.10 |
| Non promoter | 44.20 | 39.60 |
| Public | - | 23.30 |
| Total | 100.00 | 100.00 |

Company Description

SKS Micro finance is a leading MFI providing loans to individual members (women) in a **group lending model** of business. It started with an NGO Swayam Krishi Sangam (SKS) Society and later got converted to a public limited company.

(Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and micro insurance. They are characterized as simple quick and easy to access, with flexible interest rates and low lead time for loans.)

SKS for more than 10 years has been distributing small loans that begin at Rs. 2,000 to Rs. 12,000 (about \$44-\$260) **to poor women** so they can start and expand simple businesses and increase their incomes.

The **sector wise disbursements** as on March 2010 saw trade (small retails) at 29%, followed by livestock 26% and services 20% of the total revenues.

Highlights

They are the **largest and fastest growing MFI** in India in terms of 5.3 million members, 1,627 branches, a presence in 19 states and loans outstanding of Rs. 28,011.08 million.

They constantly evaluate and form new **strategic business alliances** to strengthen the market share and product offerings. They also have entered into **strategic alliances with Nokia, Airtel, BALICL, HDFC and METRO.**

As of September 30, 2009 **the net NPA's, was 0.15%** of the loans outstanding which inherently **reduces high credit risk.**

The **CAR** of the company stands at a healthy **~25%** which is well above the RBI limit.



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Historical Financials (Rs. in cr.)

| Particulars | H1FY10 | FY09 |
|--------------|--------|--------|
| Total Income | 384.60 | 553.90 |
| Total Exp | 299.00 | 429.90 |
| PBT | 85.61 | 124 |
| Tax | 30.05 | 43.80 |
| PAT | 55.90 | 80.10 |
| Equity | 48.3 | 47.9 |
| EPS | 11.57 | 17.04 |

The company is also for a **big time expansion plans**, apart from expansion in branches from current 2000 branches; it is also doubling its head count to 42000 by the end of this fiscal.

Further going the margins can improve as it can leverage its **branch network to cross sell the products**.

Micro finance models cater to the **tailored models** for the poor, with improved financing and favorable regulatory policy.

Company's presence in the **under penetrated micro financing segment**, offers immense **growth potential going forward**.

Concerns

These companies inherently have **high operational and funding costs** associated with rural lending activities and small loan sizes.

Recommendations

Looking to the growing demand in the under penetrated segment of MFI, as well the huge size of the market segment long term outlook for the business is robust. As current valuations are full and fair we suggest for a **Long Term Subscribe** only.

Peer Group Valuations

| | FY10 | | Latest | | 26/07/10 | |
|-------------------|--------|-------|--------|------|----------|---------|
| | Sales | PAT | Equity | EPS | P/E | CMP |
| SE Investments | 88.36 | 26.34 | 40.56 | 1.88 | 28.32 | 53.25 |
| Capital Trust | 3.26 | 0.22 | 7.50 | 0.75 | 90.00 | 67.50 |
| SKS Microfinance* | 384.60 | 55.90 | 64.50 | 8.67 | 98.04 | 850-985 |

Note - * latest results (H1FY10)

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