

28th July, 2010

Issue Details	
Issue Period	Jul 28 - Aug 02, 2010
Offer Price Band	₹850 - ₹985
Issue Size	₹14.3 - ₹16.5 bn
Market Cap	₹61.2 - ₹70.9 bn
Listing on Exchanges	BSE & NSE
IPO Grading	Care (4/5)
Lead Managers	Kotak, Citi, Credit Suisse
Listing on Exchanges	BSE & NSE
Issue Break-up	
Fresh Issue	7,445,323 shares
Offer For Sale	9,346,256 shares
QIB	10,074,948 shares
Non-Institutional Retail	1,679,157 shares 5,037,474 shares

Shareholding Pattern

Particulars	Pre-Issue	Post-Issue
Promoter & Group	55.8%	37.1%
Non-Promoter Group	41.6%	37.3%
Others	2.6%	2.3%
Public	-	23.3%
Total	64,527,219	71,972,542

Key Financials

Y/E (₹, mn)	'08	'09	'10
NII	1,060	3,116	5,852
Net Income	1,135	3,596	6,705
Opex	804	2,221	3,511
PAT	166	797	1,748
RoAA (%)	2%	4%	5%
RoAE (%)	12%	18%	22%

Note: SKS is offering a discount of ₹50 to retail investors

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Swayam Krishi Sangam Microfinance Ltd (SKS) is a microfinance institution (MFI) providing small loans exclusively to poor women located in the rural areas. The loans are provided for use in income generating purpose (IGL) & not for personal consumption. SKS is registered as a NBFC-ND with RBI. SKS currently has 2,029 branches spread across 19 states in India. Currently, they serve ~6.78 mn members.

Objects of The Issue

Augment the capital base to meet the future capital requirements arising out of growth in business.

Investment Argument

- SKS is the largest MFI in India with a total outstanding loan book of ~₹43.0 bn (including assigned loans). Without assigned loans, this stood at ~₹29.4 bn.
- SKS has a diversified product basket. Apart from providing direct loans for IGL, they also provide other services like home loan (in tie-up with HDFC); insurance (in tie-up with Bajaj Allianz); innovative loans (tie-up with NOKIA for loans against purchase of mobile phones & tie-up with Metro Cash & Carry & Future Agrovet Ltd for providing goods on credit to *kirana* stores); agent for distribution of mutual funds.
- SKS's asset quality is one of the best seen in the industry with GNPA of 0.33% & NNPA of 0.16% for FY10. This has been mainly on account of the joint group lending business model that they follow, good presence across the country, technology-driven solutions & good risk mitigating techniques.
- The opportunity for players like SKS in India is immense given the demand-supply gap. Demand for microfinance in FY08 stood at \$51.4 bn & supply at \$4.3bn. The demand is expected to go up to \$72 bn by FY11.
- SKS grew at a CAGR of 214.2% in topline, 211.9% in net interest income & 221% in its PAT between FY06 - FY10. On a y-o-y basis, the bank has grown by 72.6% in its topline, 87.8% in NII & 119.4% in its PAT from FY09 to FY10.

Investment Concerns

- Any downgrading of the credit ratings of the firm will increase pressure on borrowing capacity at cheaper rates for the firm.
- The political unrest surrounding a particular state may hamper the profitability of the firm (as this was evident from KGF issue in Karnataka last year).

Valuations

The shares of SKS are priced at price to book value of 3.1x & 3.6x on the lower & upper band of the issue price of its FY11E book value. As it scales up further in the coming period, maintenance of asset quality will be a key issue for the firm. The pricing looks a bit on the steeper side than most of the listed banks & NBFC's, but then the growth scalability, margins & return ratios shown by the firm is superior to any other listed player in this space. SKS is the market leader in its sector. SKS has a strong & proven business model and we expect the supply-demand gap to help strong growth in the coming period for the firm. Historically, we have seen such unique business model and sound earning companies commanding premium in the market. Hence we recommend "Subscribe" to the issue for long term gains.

Financial Statements

Income Statement				
₹,mn	FY07	FY08	FY09	FY10
Interest Income	445	1,625	5,061	8,736
Interest Expenses	139	565	1,944	2,884
Net Interest Income	306	1,060	3,116	5,852
Other Income	12	75	479	854
Gross Income	318	1,135	3,596	6,705
Operating Expense	252	804	2,221	3,511
Profit Before Provisions	66	332	1,375	3,194
Provision & Other Exp	20	42	134	517
Profit Before Tax	45	289	1,241	2,677
Profit After Tax	22	166	797	1,748

Balance Sheet				
₹,mn	FY07	FY08	FY09	FY10
Assets				
Net Fixed Assets	21	79	124	189
Cash In Hand and bank	565	2,752	15,470	9,735
Deferred Tax Assets	9	9	42	95
Intangible assets	31	66	66	55
Sundry Debtors	1	-	21	30
Advances	2,713	7,932	14,349	29,747
Investments	-	-	-	2
Other Current Assets	11	49	316	623
Total Assets	3,350	10,888	30,389	40,475
Liabilities				
Share Capital	266	443	479	645
Reserves & Surplus	448	1,679	6,069	8,858
Preference share capital	-	-	92	-
Networth	714	2,122	6,640	9,503
Secured Loans	2,490	7,898	20,971	25,796
Unsecured Loans	-	-	394	1,151
Current Liabilities	82	769	2,224	3,684
Provisions	64	98	160	341
Deferred Tax Liability	-	-	-	-
Total Liabilities	3,350	10,888	30,389	40,475

Key Ratios				
Particulars (%)	FY07	FY08	FY09	FY10
Yield on Advances	16.4%	20.5%	35.3%	29.4%
Cost of Funds	5.6%	7.1%	9.1%	10.7%
Spread (Yield - Cost)	10.8%	13.3%	26.2%	18.7%
Opex / Assets	7.5%	7.4%	7.3%	8.7%
Prov / Assets	0.6%	0.4%	0.4%	1.3%
RoAA	1.0%	2.3%	3.9%	4.9%
RoAE	5.1%	11.7%	18.2%	21.7%
CD Ratio	108.9%	100.4%	67.2%	110.4%
Cost to Income Ratio	79.3%	70.8%	61.8%	52.4%
GNPA	0.1%	0.2%	0.3%	0.3%
NNPA	0.1%	0.2%	0.2%	0.2%
Capital Adequacy Ratio	24.7%	24.7%	39.0%	28.3%
Growth Matrix				
Income	396.7%	265.1%	211.5%	72.6%
NII	395.9%	245.9%	194.0%	87.8%
PAT	33.9%	651.4%	380.8%	119.4%
Credit	244.0%	192.4%	80.9%	107.3%
Loans	259.8%	217.2%	170.5%	26.1%

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|---|--------------------|
| 1. Name of the analyst | : Abhishek Kothari |
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