

SKS Microfinance Ltd.

Regulations post AP crisis strengthened microfinance industry

In response to AP crisis, RBI developed regulatory framework for MFIs which though capped spreads has reduced inherent business risks and thus improved perception of the industry amongst lenders and other stakeholders. Subsequently, the advent of credit bureaus improved underwriting practices of players and instilled repayment discipline amongst borrowers. Awaited passage of the MFI Bill 2012 in the parliament would eliminate the risk of another AP-like event as it would constitutionally make RBI the sole regulator for the sector. The microfinance opportunity in India is highly underpenetrated and profitable as a large part of poor population continues to borrow from moneylenders.

SKS well placed in the new operating environment

Having emerged resiliently from the AP crisis and now armed with a diversified regional presence, sizeable scale and robust capitalization, SKS is favourably placed than peers to deliver robust asset growth in coming years. The non-AP portfolio of the company has more than doubled over FY12-14 and is currently growing at 35-40% yoy; AP contribution stands low at 8-9%. Company now works on strict norms to avoid any kind of state concentration. SKS is evolving its product offerings having initiated financing of mobile phones and piloting housing loans (with assistance from HDFC) and financing of water purifiers and solar lamps. With tremendous scope for growth and a strongly capitalized balance sheet (CAR at 40% post QIP of Rs4bn), we expect SKS to deliver AUM CAGR of 26% over FY14-17.

See sustainable RoA at 3.8-4% and RoE at 20%+

As we expect existing operating assets to drive bulk of the incremental asset growth in coming years, operating cost/AUM ratio should fall quite significantly. Asset quality within the industry and particularly for SKS has stabilized over the past couple of years and repayment rates have been above 99%. So going forward, under normal circumstances, credit cost should remain stable at near 1% of AUM. We estimate SKS to deliver average RoA (on managed assets) of 3.9% over FY14-17. Even with comfortable leverage of 5x, long term sustainable RoEs will be at 20-23%. Considering such high profitability, company's valuation at 2.4x FY17 P/ABV is reasonably attractive.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Total operating income	3,306	4,723	6,161	7,691
Yoy growth (%)	57.6	42.9	30.4	24.8
Operating profit (pre-provisions)	844	1,701	2,562	3,474
Net profit	699	1,487	1,668	2,211
yoy growth (%)	(123.5)	112.9	12.2	32.5
EPS (Rs)	6.5	11.8	13.3	17.6
Adj. BVPS (Rs)	42.3	79.7	92.7	109.8
P/E (x)	45.4	24.8	22.1	16.7
P/Adj.BV (x)	6.9	3.7	3.2	2.7
ROE (%)	16.4	20.3	15.3	17.2
ROA (%)	2.6	4.2	3.7	3.9

Source: Company, India Infoline Research

Rating:	BUY
Target (1-3 months):	Rs344
CMP:	Rs293
Upside:	17.4%
Exit Trigger*:	Rs269

* Exit trigger is the price level below which investor should exit position

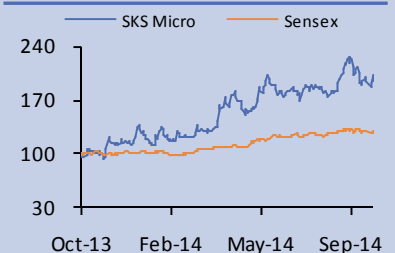
Sector:	Financials
Sector view:	Positive
Sensex:	26297
52 Week h/l (Rs):	348/141
Market cap (Rscr) :	3,688
6m Avg vol ('000Nos):	1,704
Bloomberg code:	SKSM IN
BSE code:	533228
NSE code:	SKSMICRO
FV (Rs):	10

Prices as on Oct 10, 2014

Company rating grid

	Low → High				
	1	2	3	4	5
Earnings Growth					
RoA Progression					
B/S Strength					
Valuation appeal					
Risk					

Share price trend



Share holding pattern

(%)	May-14	Jun-14	Sep-14
Promoter	13.2	10.5	9.3
Insti	55.5	57.4	60.0
Others	31.3	32.1	30.7

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IIFL Research won 3 awards at India's Best Market Analyst Awards 2013 by Zee Business for Banking, Oil & Gas and Pharma.

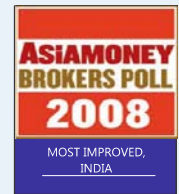
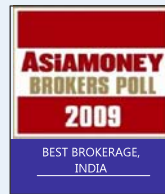
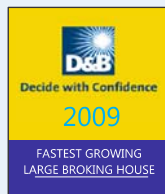
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IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011.

Other awards



An Express Idea is a recommendation based on our view on the sector and / or stock from a near to medium term perspective, typically less than three months. The view can be based on fundamentals and / or technical parameters for the stock and / or our view on the sector on the whole.

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