

September 6, 2013

**SKS MICRO FINANCE LTD.**

BSE Code: 533228 NSE Code: SKSMICRO Reuters Code: SKSM.BO Bloomberg Code: SKSM:IN

SKS Microfinance Ltd (SKS) is a non-banking finance company (NBFC), involved in providing financial services to low-income households. SKS has its presence across 16 states of India with a total number of branches stood at 1,261 as of FY'13. They include: Andhra Pradesh, Karnataka, Maharashtra, Odisha, Madhya Pradesh, Bihar, Uttar Pradesh, Rajasthan, Uttaranchal, Haryana, West Bengal, Jharkhand, Chhattisgarh, Kerala, Punjab and Delhi. SKS maintains a healthy Capital adequacy Ratio of 45.39%.

### Investor's Rationale

**Revenue grew 21% YoY; non-AP portfolio surged 63% YoY to ₹20.03 bn** – SKS Microfinance registered 21% growth in total revenue to ₹1,226.1 mn in Q1FY'14 as against ₹794.5 mn in Q1FY'13. The net interest income rose 26% to ₹0.63 bn in Q1FY'14 from ₹5 mn in Q4FY'13 driven by rise in loan disbursements. Consequently, the non-Andhra Pradesh portfolio grew by 63% to ₹20.03 bn in Q1FY'14 from ₹12.29 bn in Q1FY'13. The average portfolio outstanding increased by 14% between Q4FY'13 and Q1FY'14.

**Four-fold increase in operating profit in Q1FY'14** – The operating profit rose four-fold to ₹168.5 mn in Q1FY'14 from ₹40.8 mn in Q4FY'13. The company had incurred a net loss of ₹388.4 mn in Q1FY'13. The micro-lender had a net worth of ₹3.95 bn and a capital adequacy of 30.2% on June 30, 2013. Further, the cash and bank balances stood at ₹3.10 bn. However, there has been no tax provision during the quarter, given the carried forward losses.

**Posted third consecutive quarter of net profit at ₹50 mn in Q1FY'14** – SKS posted a PAT of ₹49.7 mn in Q1FY'14, its third consecutive quarter of profit post its turnaround in Q3FY'13 with a profit of ₹12 mn and a profit of ₹27 mn in Q4FY'13. The lender swung to profit in Q3FY'13 after reporting losses for even consecutive quarters. Provision and write-offs rose 10% to ₹110 mn in Q1FY'14 from ₹100 crore in Q1FY'13. The company attributed the higher provisioning to RBI's new standard asset provisioning norms for NBFC-MFIs that came into effect from April 2013.

**51% YoY rise in loan disbursements to ₹8.30bn in Q1FY'14** – The loan disbursements grew 51% to ₹8.30 bn in Q1FY'14 from ₹5.50 bn in Q1FY'13. The collection efficiency stood at 99.9%. Besides, the company plans to raise debt of ₹34 bn over the next nine months, of which ₹12.50 bn will come from securitization and the rest ₹21.50 bn from term loans.

### Market Data

Rating	BUY
CMP (₹)	129.6
Target Price	148
Stop Loss	120
Duration	Short-term
52-week High-Low (₹)	198.7/95.5
Rise from 52WL (%)	35.7
Correction from 52WH (%)	34.8
Beta	1.1
1 year Average Volume (mn)	0.5
	3M- 5.8
Stock Return (%)	6M- (11.2)
	1Y- 23.8
Market Cap (₹bn)	14.0
Book Value (₹)	15.6

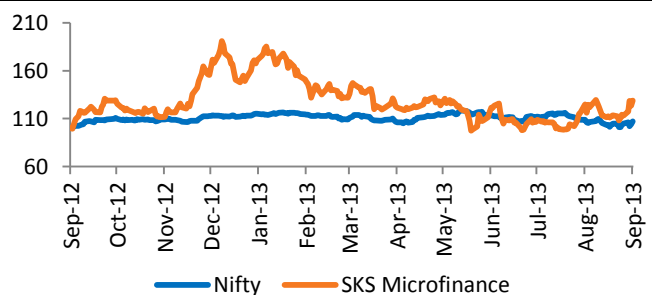
### Shareholding Pattern

	Jun'13	Mar'13	Chg
Promoters (%)	27.09	26.03	4.07
FII (%)	35.83	35.94	(0.31)
DII (%)	5.08	6.01	(15.47)
Public & Others (%)	32	32.02	(0.06)

### Quarterly Performance (Standalone)

(₹mn)	Q1 FY'14	Q1 FY'13	Q4 FY'13	YoY Change(%)	QoQ Change(%)
Revenue	1,226.1	794.5	1,019.8	54.3	20.2
Op. exp	1,057.6	1,165.5	979.0	(9.3)	8.0
EBITDA	168.5	(370.9)	40.8	(145.4)	313.4
OPM (%)	13.7	(46.7)	4.0	6043	974.5
Net profit	49.7	(388.4)	27.0	(112.8)	83.8
NPM (%)	4.1	(48.9)	2.7	5,293.4	140.2
EPS (₹)	0.5	(5.3)	0.3	-108.6%	84.0%

### One Year Price Chart





Indbank Merchant Banking Services Ltd.  
I Floor, Khiviraj Complex I,  
No.480, Anna Salai, Nandanam, Chennai 600035  
Telephone No: 044 – 24313094 - 97  
Fax No: 044 – 24313093  
[www.indbankonline.com](http://www.indbankonline.com)

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