

# SKS Microfinance

BSE SENSEX  
24,188

S&P CNX  
7,351

**CMP: INR478**
**TP: INR589 (+23%)**
**Buy**


## Stock Info

Bloomberg	SKSM IN
Equity Shares (m)	126.3
52-Week Range (INR)	590 / 369
1, 6, 12 Rel. Per (%)	5/5/16
M.Cap. (INR b)/(USD b)	61.1/0.9
12M Avg Val (INR M)	868
Free float (%)	93.7

## Financials Snapshot (INR b)

Y/E March	2016E	2017E	2018E
NII	5,521	7,613	10,322
PPP	4,295	5,828	7,871
PAT	3,094	4,269	5,641
EPS (INR)	24.5	33.8	44.7
BV/Share (INR)	107.4	141.2	175.4
RoA on AUM (%)	5.5	5.6	5.5
RoE (%)	25.8	27.2	28.2

## Valuations

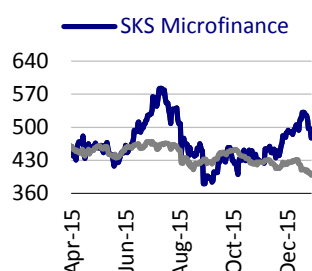
P/E (x)	19.5	14.1	10.7
P/BV (x)	4.5	3.4	2.7

## Shareholding pattern (%)

As on	Sep-15	Jun-15	Sep-14
Promoter	6.3	9.2	9.3
DII	16.7	18.4	15.3
FII	47.8	42.7	44.7
Others	29.2	29.6	30.8

FII Includes depository receipts

## Stock Performance (1-year)



## Clouds of uncertainty cleared

### RBI to be the sole regulator of the MFI sector

- Government clarifies that RBI would regulate MFIs under the NBFC-MFI category and MUDRA Bank would not regulate the sector, as commonly perceived. The same views were echoed by RBI governor in a recent interaction.
- Move provides regulatory stability and continuity to the MFI sector. Any fear of drastic change in regulations and change in stance towards the sector now abates.
- Huge positive for SKSM, as the company is in sweet spot to capitalize on the growth given the reduced competitive intensity, regulatory continuity, supportive regulations, strong balance sheet, and best-in class operating metrics. Re-iterate Buy.

### RBI would be the sole regulator of MFIs

There was an air of uncertainty around who would regulate the MFI sector since the announcement of MUDRA Bank in the general budget. This was further complicated by the fact that MUDRA bill stated that it would regulate the MFI sector, but the media articles quoting different people from the government and industry stated otherwise. However, the central government has now categorically clarified that RBI would remain the sole regulator of the sector and MUDRA Bank will not regulate the MFIs.

### RBI governor echoed the same view

RBI governor, Dr. Raghuram Rajan, in a recent interaction (not widely reported though) echoed the same view that the central bank would continue to be the regulator of the MFI space. Now, that the RBI and government both are on the same page we expect that there is no further ambiguity in this regards and this step would provide regulatory continuity and stability the fledgling MFI sector.

### Regulatory continuity for MFIs

Post introduction of the NBFC-MFI category in 2011 (RBI as regulator for NBFC-MFI) with various safeguards, the uncertainty on regulations had ended and political risk was no longer a major issue for the sector. RBI in its MFI regulations has introduced various checks and balances to de-risk the sector and greatly reduced risk of political backlash.

### Positive for SKSM; Re-iterate Buy

In our view, clarity on continuation of regulatory regime is a big positive for SKSM and reaffirms our faith in the company that has witnessed an impressive turnaround post the AP-crisis, led by strong performance across operating parameters. We expect SKSM to continue to grow at a healthy pace, driven by vast geographic presence, experienced management and efficient operating metrics. With most of its peers busy turning themselves into SFBs, the competitive intensity would reduce, regulatory continuity, supportive regulations, strong balance sheet, and best-in class operating metrics have put SKSM on a high growth path. **Re-iterate Buy with a TP of INR589 (3.5x FY18E BV).**

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## Exhibit 1: Valuation matrix

	Rating	CMP (INR)	Mcap (USDb)	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
				FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17	FY16	FY17
ICICI* <sup>*</sup>	Buy	223	19.6	20.7	24.8	7.1	5.4	131	149	1.12	0.90	1.49	1.54	14.1	15.0
HDFCB	Buy	1,029	39.1	49.1	59.3	21.0	17.4	285	331	3.61	3.11	1.88	1.86	18.4	19.3
AXSB	Buy	374	13.4	33.9	40.8	11.0	9.2	216	249	1.73	1.50	1.61	1.65	16.7	17.5
KMB*	Neutral	667	18.5	19.2	26.0	34.7	25.6	183	209	3.64	3.20	1.11	1.40	13.9	14.5
YES	Buy	656	4.2	57.3	74.5	11.4	8.8	325	385	2.02	1.71	1.60	1.70	18.9	21.0
IIB	Buy	896	8.0	39.0	50.1	23.0	17.9	293	337	3.05	2.66	1.92	2.04	16.7	15.9
DCBB	Under Review	73	0.3	5.9	6.9	12.4	10.6	61	68	1.20	1.08	0.95	0.93	10.2	10.8
FB	Neutral	48	1.3	3.9	4.7	12.3	10.1	48	52	1.00	0.93	0.77	0.83	8.4	9.5
JKBK	Neutral	69	0.5	16.2	18.0	4.3	3.8	138	152	0.50	0.45	1.00	1.02	12.3	12.4
SIB	Buy	18	0.4	2.5	3.1	7.1	5.9	29	31	0.63	0.58	0.55	0.58	9.4	10.3
<b>Private Aggregate</b>			<b>105.1</b>			<b>16.5</b>	<b>13.6</b>			<b>2.41</b>	<b>2.12</b>				
SBIN (cons)*	Buy	181	21.3	23.2	31.0	7.3	5.4	229	254	0.74	0.66	0.67	0.78	10.9	12.7
PNB	Under Review	91	2.7	15.9	22.8	5.8	4.0	215	235	0.43	0.39	0.50	0.64	7.8	10.1
BOI	Neutral	93	1.1	-21.1	9.3	-4.4	10.0	341	350	0.27	0.26	-0.26	0.10	-6.3	2.7
BOB	Buy	127	4.4	11.6	19.3	10.9	6.6	176	191	0.72	0.66	0.36	0.55	6.9	10.5
CBK	Under Review	178	1.4	34.8	57.3	5.1	3.1	566	610	0.31	0.29	0.31	0.46	6.5	9.8
UNBK	Buy	112	1.2	32.1	43.1	3.5	2.6	308	344	0.36	0.33	0.55	0.66	11.2	13.2
OBC	Under Review	105	0.5	36.4	50.0	2.9	2.1	467	505	0.23	0.21	0.45	0.56	8.0	10.3
INBK	Buy	90	0.7	20.2	29.5	4.5	3.0	277	300	0.32	0.30	0.48	0.62	7.5	10.2
CRPBK	Neutral	38	0.1	12.6	18.7	3.0	2.1	137	152	0.28	0.25	0.42	0.57	9.5	12.9
ANDB	Buy	51	0.5	17.8	22.8	2.9	2.2	180	196	0.28	0.26	0.55	0.62	10.3	12.2
IDBI	Neutral	55	1.3	5.3	8.5	10.4	6.5	146	153	0.38	0.36	0.23	0.34	3.7	5.7
DBNK	Neutral	35	0.3	1.5	10.0	24.1	3.5	120	128	0.29	0.28	0.06	0.38	1.2	8.0
<b>Public Aggregate</b>			<b>35.5</b>			<b>8.5</b>	<b>5.5</b>			<b>0.57</b>	<b>0.53</b>				
HDFC*	Under Review	1,134	27.1	35	41	19.9	14.9	165	188	4.18	3.23	2.42	2.51	23.6	22.3
LICHF	Buy	463	3.5	34	42	13.8	11.0	182	216	2.55	2.15	1.48	1.54	19.9	21.2
DEWH	Buy	191	0.8	26	33	7.3	5.8	179	204	1.07	0.94	1.27	1.29	15.6	17.2
IHFL	Buy	657	4.2	53	68	12.3	9.7	274	302	2.40	2.17	3.73	3.85	24.9	23.6
GRHF	Buy	234	1.3	7	8	35.2	28.2	24	28	9.93	8.29	2.13	1.98	28.3	27.8
REPCO	Buy	580	0.5	24	35	24.6	16.8	151	182	3.84	3.19	2.08	2.28	16.8	20.7
RECL	Under Review	185	2.8	63	57	2.9	3.2	301	345	0.62	0.54	3.21	2.45	22.8	17.6
POWF	Under Review	162	3.2	54	52	3.0	3.1	285	323	0.57	0.50	3.08	2.63	20.5	17.2
SHTF	Buy	765	2.6	62	73	12.3	10.5	457	515	1.67	1.49	2.08	2.29	14.0	15.0
MMFS	Buy	216	1.8	12	15	17.9	14.1	109	120	1.98	1.80	1.93	2.22	11.5	13.3
BAF	Buy	5,496	4.4	224	276	24.5	19.9	1,351	1,582	4.07	3.47	3.12	2.92	19.9	18.8
MUTH	Buy	175	1.1	19	24	9.4	7.4	140	155	1.25	1.13	2.60	2.85	14.0	16.1
SKSM	Buy	478	0.9	25	34	19.5	14.1	107	141	4.45	3.38	5.55	5.59	25.8	27.2
<b>NBFC Aggregate</b>			<b>55.4</b>			<b>12.7</b>	<b>11.8</b>			<b>2.20</b>	<b>1.95</b>				

\*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

## Financials and valuations

INCOME STATEMENT					(INR Million)		
Y/E MARCH	2012	2013	2014	2015	2016E	2017E	2018E
Interest Income on books Port.	3,589	2,200	3,930	5,665	8,934	12,259	16,557
Interest Expense	2,001	1,427	2,142	2,790	4,225	5,802	7,874
<b>Net Financing income</b>	<b>1,587</b>	<b>773</b>	<b>1,788</b>	<b>2,874</b>	<b>4,709</b>	<b>6,458</b>	<b>8,684</b>
Change (%)	-76.7	-51.3	131.4	60.7	63.8	37.1	34.5
Income from assignment of loans	346	580	557	668	812	1,155	1,638
<b>Net Income (Incl Secur)</b>	<b>1,933</b>	<b>1,353</b>	<b>2,345</b>	<b>3,542</b>	<b>5,521</b>	<b>7,613</b>	<b>10,322</b>
Change (%)	-75.9	-30.0	73.4	51.0	55.9	37.9	35.6
Other operating income	422	542	702	907	1,106	1,502	1,928
Other Income	366	204	258	791	1,591	1,691	1,791
<b>Net Income</b>	<b>2,722</b>	<b>2,098</b>	<b>3,306</b>	<b>5,240</b>	<b>8,218</b>	<b>10,806</b>	<b>14,041</b>
Change (%)	-70.4	-22.9	57.6	58.5	56.8	31.5	29.9
<b>Operating Expenses</b>	<b>4,224</b>	<b>2,626</b>	<b>2,462</b>	<b>3,204</b>	<b>3,922</b>	<b>4,979</b>	<b>6,170</b>
Change (%)	-17.6	-37.8	-6.2	30.1	22.4	26.9	23.9
<b>Operating Profits</b>	<b>-1,503</b>	<b>-527</b>	<b>844</b>	<b>2,036</b>	<b>4,295</b>	<b>5,828</b>	<b>7,871</b>
Change (%)	-136.9	-64.9	-260.1	141.2	111.0	35.7	35.1
<b>Total Provisions</b>	<b>11,735</b>	<b>2,444</b>	<b>146</b>	<b>100</b>	<b>378</b>	<b>424</b>	<b>731</b>
% to operating income	-781.0	-463.7	17.3	4.9	8.8	7.3	9.3
<b>PBT</b>	<b>-13,237</b>	<b>-2,971</b>	<b>699</b>	<b>1,936</b>	<b>3,917</b>	<b>5,404</b>	<b>7,140</b>
Tax	369	0	0	59	823	1,135	1,499
Tax Rate (%)	-2.8	0.0	0.0	3.0	21.0	21.0	21.0
<b>PAT</b>	<b>-13,606</b>	<b>-2,971</b>	<b>699</b>	<b>1,877</b>	<b>3,094</b>	<b>4,269</b>	<b>5,641</b>
Change (%)	-1,318.9	-78.2	-123.5	168.7	64.9	38.0	32.1
Proposed Dividend	0	0	0	0	0	0	1,128
<b>BALANCE SHEET</b>							
Y/E MARCH	2012	2013	2014	2015	2016E	2017E	2018E
Equity Share Capital	724	1,082	1,082	1,263	1,263	1,263	1,263
Reserves & Surplus	3,623	2,822	3,510	9,202	12,296	16,565	20,886
<b>Networth</b>	<b>4,347</b>	<b>3,904</b>	<b>4,592</b>	<b>10,465</b>	<b>13,559</b>	<b>17,828</b>	<b>22,149</b>
<b>Borrowings</b>	<b>10,213</b>	<b>16,186</b>	<b>15,313</b>	<b>32,800</b>	<b>46,925</b>	<b>65,732</b>	<b>88,651</b>
Change (%)	-54.3	58.5	-5.4	114.2	43.1	40.1	34.9
<b>Other liabilities</b>	<b>2,245</b>	<b>5,024</b>	<b>5,067</b>	<b>3,722</b>	<b>4,094</b>	<b>4,504</b>	<b>4,954</b>
Change (%)	-27.5	123.8	0.9	-26.5	10.0	10.0	10.0
<b>Total Liabilities</b>	<b>16,805</b>	<b>25,115</b>	<b>24,972</b>	<b>46,987</b>	<b>64,578</b>	<b>88,063</b>	<b>115,754</b>
<b>Loans</b>	<b>9,496</b>	<b>15,654</b>	<b>17,528</b>	<b>29,584</b>	<b>44,578</b>	<b>62,445</b>	<b>84,219</b>
Change (%)	-74.0	64.8	12.0	68.8	50.7	40.1	34.9
<b>Investments</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net Fixed Assets	206	113	112	102	93	85	77
Other assets	7,101	9,346	7,330	17,299	19,907	25,533	31,458
<b>Total Assets</b>	<b>16,805</b>	<b>25,115</b>	<b>24,972</b>	<b>46,987</b>	<b>64,578</b>	<b>88,063</b>	<b>115,754</b>
<b>Assumptions</b>							
AUM (INR b)	16,689	23,590	31,128	41,710	62,230	88,305	121,194
AUM Growth	-59.4	41.4	32.0	34.0	49.2	41.9	37.2
Borrowings Growth	-54.3	58.5	-5.4	114.2	43.1	40.1	34.9
Dividend per share	0.0	0.0	0.0	0.0	0.0	0.0	8.9

E: MOSL Estimates

## Financials and valuations

### RATIOS

Y/E MARCH	2012	2013	2014	2015	2016E	2017E	2018E
<b>Spreads Analysis (%)</b>							
Avg. Yield - on Financing portfolio	16.9	22.0	29.2	26.4	25.0	23.5	23.0
Avg. Cost of funds	12.3	10.8	13.6	12.8	10.6	10.3	10.2
Interest Spread on Financing portfolio	4.6	11.2	15.6	13.6	14.4	13.2	12.8
Net Interest Margin (incl Securitization)	6.7	6.7	8.6	9.7	10.6	10.1	9.9
Net Interest Margin (Excl Securitization)	7.5	7.7	13.3	13.4	13.2	12.4	12.1
<b>Profitability Ratios (%)</b>							
RoE	-122.8	-72.0	16.4	24.9	25.8	27.2	28.2
RoA	-45.3	-14.2	2.8	5.2	5.5	5.6	5.5
Op. Exps./Net Income	155.2	125.1	74.5	61.1	47.7	46.1	43.9
Empl. Cost/Op. Exps.	61.8	65.8	67.2	72.4	73.9	75.7	76.3
<b>Asset-Liability Profile (%)</b>							
Net NPAs to Adv.	32.1	0.4	0.1	0.1	0.0	0.0	0.0
Debt/Equity (x)	2.3	4.1	3.3	3.1	3.5	3.7	4.0
Average leverage	1.5	3.2	3.7	3.2	3.3	3.6	3.9
CAR	35.4	33.9	27.2	31.7	30.4	26.0	23.9
<b>Valuations</b>							
Book Value (INR)	60.1	36.1	42.4	82.9	107.4	141.2	175.4
Price-BV (x)	8.0	13.2	11.3	5.8	4.5	3.4	2.7
EPS (INR)	-188.0	-27.5	6.5	14.9	24.5	33.8	44.7
EPS Growth (%)	-1,318.3	-85.4	-123.5	130.2	64.9	38.0	32.1
Price-Earnings (x)	-2.5	-17.4	74.1	32.2	19.5	14.1	10.7
E: MOSL Estimates							

## NOTES

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