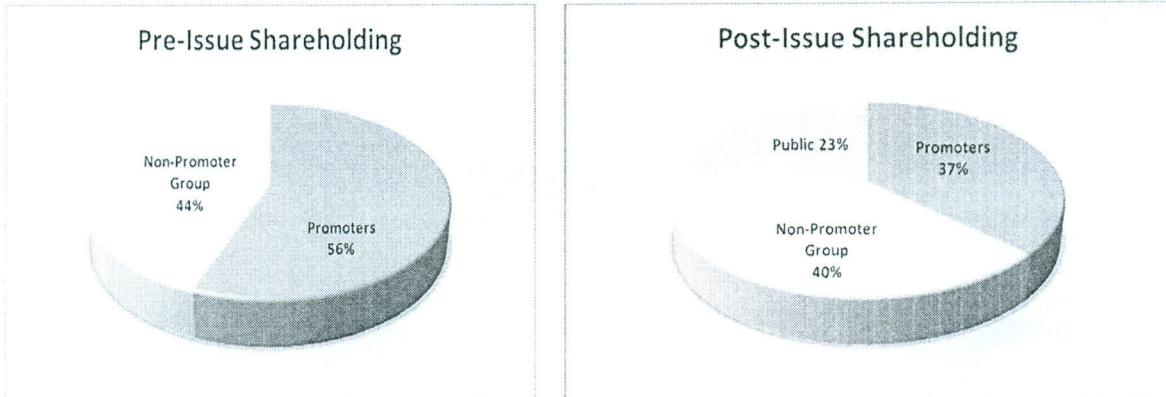


IPO issue details

Public Issue	16.79 million shares
Fresh Issue	7.44 million shares
Offer for Sale	9.35 million shares



The company is proposing to issue 1,67,91,579 equity shares including an Offer for Sale by selling 93,46,256 equity shares and the balance constituting fresh equity. SKSML will not receive any proceeds from the Offer for Sale. The activities for which funds are being raised by SKSML through the fresh issue are to augment capital base to meet future capital requirements arising out of growth in business.

Financial Results

The grading considers the strong financial position with healthy margins including good asset quality, comfortable capital adequacy ratio, comfortable liquidity position and access to diverse sources of institutional funding.

(Rs Cr)

Year ended / As on March 31	2007	2008	2009	2010
Interest income on portfolio loans	39.64	133.08	450.47	756.54
Total income	45.67	170.01	554.00	958.93
Operating expenses	25.24	80.39	222.10	351.10
Provisions and write off	2.03	4.21	13.42	51.72
PBIT	18.39	85.41	318.49	556.11
Financial expenses	13.85	56.47	194.43	288.41
PAT	2.21	16.66	80.22	173.95
Net worth	67	205	654	935
Secured loans	249	790	2097	2580
Unsecured loans	0	0	39	115
Loans and advances	264	781	1418	2937
Total assets	331	1086	3028	4033
Debt / Equity (gearing) (times)	3.70	3.86	3.27	2.88
Reported Capital Adequacy Ratio (%)	NA	24.77	39.04	28.55
Interest coverage before provisions (times)	1.47	1.59	1.71	2.11
Operating expenses/average capital employed	12.71	12.26	11.74	10.94
NIM	12.36	11.46	13.48	13.76
ROCE	9.26	13.03	16.83	17.32
Cost of Capital	6.62	7.96	9.16	8.43
Net Spread	2.64	5.07	7.66	8.89
ROTA	1.03	2.36	3.90	4.93
Gross NPA / Gross Advances (%)	0.12	0.20	0.34	0.33

SKSML's financial results reflect the strong growth witnessed by the company along with health margins. Income of SKSML has grown at a rapid pace in last couple of years with exponential increase in scale of business. On account of high yield on advances, NIM has been maintained around 12% to 13% in the past few years. Operating expenses formed around 10.94% of average total capital employed due to higher transaction costs and rapid branch expansion. It reported income of Rs.958 crore and net profit of Rs.174 crore for FY10.

SKSML has been able to manage asset quality at comfortable levels that is comparable to the microfinance industry. While the seasoning of industry loan portfolio (including SKSML) is relatively less compared to conventional retail loans, these loans observe faster loan cycles due to their shorter (<1 year) tenure. Gross NPA ratio for SKSML stood at

0.33% as on Mar.31, 2010 (based on SKSML classification which is more conservative than regulatory requirements).

The company has achieved fairly high level of diversification in terms of sources of (institutional) borrowing and has borrowing from 48 banks & financial institutions thereby reducing its dependence on any single lender. In terms of type of financial instruments, while bank loans remain the primary source of funding, it is gradually diversifying into other sources of funding. During FY09, SKSML for the first time approached capital market for raising funds and successfully issued various short term debt instrument including Commercial Paper and Non Convertible Debentures. It has also explored assignment route for raising funds which forms around 32% of the total asset under management (AUM) as on March 31, 2010. It has plans of mobilizing funds through initial public offering (IPO) in the current financial year which will make it the first MFI to be listed in India and the third pure MFI in the world¹ to mobilize funds through IPO. Reported capital adequacy ratio was comfortable at 28.5% as on March 31, 2010. SKSML has been able to raise funds (both equity and debt) at regular intervals during the last few years.

SKSML also benefits from the strong balance sheet liquidity due to the structural nature of its loan portfolio (with maturity < 1 year) and active liquidity management by the company. ALM profile for the company has substantial cumulative positive mismatch upto 1 year. In addition the company also manages liquidity very actively and keeps contingency buffer for new disbursements and for loan repayments (to mitigate risks of a market wide liquidity crunch).

Industry Outlook & Prospects

According to the 2008, 'Inverting the Pyramid' Report by 'Intellicap', an independent industry research firm, the total estimated demand for micro-credit in India was approximately \$51.4 billion (Rs. 2,399.35 billion). This demand is currently being addressed by the two largest microfinance models in India, MFIs and SHGs. The same report estimated the 2008 total loan disbursements for these two models at approximately \$4.30 billion (Rs. 200.72 billion). As per Bharat Microfinance Report, for-profit MFIs (NBFCs) have obtained a majority of the market share both in terms of clients (62%) and in terms of total outstanding loan portfolio (75%).

¹ "...with only two pure microfinance IPOs to date (Compartamos Banco and Equity Bank) and another expected in India in 2010 (SKS)" source : CGAP and JP Morgan report "All eyes of asset quality: microfinance global valuation survey 2010" dated March 2010

Banks are a major source of funding for MFIs since loans to MFIs qualify for mandatory priority sector lending that banks in India are subject to. Larger MFIs have also started accessing traditional capital markets with listed bonds, debentures and similar instruments. More recently, MFIs have securitized assets and sold their loans to banks. These transactions also often meet mandatory bank priority sector lending requirements. The policy of the Government of India has long favoured the continued development of the microfinance industry in India. The RBI, SIDBI and NABARD are the largest and most active government affiliated entities regulating and supporting the industry.

Indian microfinance sector reached out to 86.2 million clients and had a portfolio outstanding of Rs.351 billion (including MFI channel and SHG Bank Linkage). The micro finance industry is estimated to show high growth in coming years and SKSML has emerged as a leading microfinance institution in India with rapid growth in the business during last few years and this growth is expected to continue in the near future. With a professional management, SKSML has been successful in raising resources in order to fund the exponential growth in the past and has maintained strong asset quality and high collection efficiency.

However, given the increase in competition there are concerns of microfinance clients being overleveraged by borrowing from multiple lenders. The sector also faces risk of political intervention and the risk that any slowdown in disbursements may affect borrowers' incentive to repay as they may not get additional loans for growth in future. While these risks have not significantly affected the sector yet and there is no clear evidence corroborating or negating these risks, their impact is yet to be seen on the large portfolio growth in the last few years. SKSML has managed these risks by gradually reducing geographical concentration.

SKSML's continued ability to manage these risks, retain management professionals, maintain high corporate governance standards, attract capital and maintain collection efficiency and asset quality on the back of a fast growing portfolio would remain the key grading sensitivities.

DISCLAIMER:

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.