

A Study of Success of First IPO of SKS Microfinance

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Abstract

The micro finance in India developed with the objective to provide loan facilities to the weaker section people. SKS (Swayam Krishi Sangam) microfinance came in India in 1996 with the objective to uplift the weaker section of the society. It provides tiny loan facilities to the poor woman who wants to be self dependent. SKS launched 1st IPO in 28th July 2010 with capital of Rs 1.69 crores and expected to raise fund in the range of Rs 1000 to 1500 crores through IPO. From one perspective, the IPO was a great success. It was 13 times oversubscribed, the company valuation reached at the top of the offer band price (valuing the company at \$1.5 billion), and the share price rose 42% in the first five weeks of trading. In the process SKS raised \$155 million in fresh capital that allowed it to grow and serves far more people than it reaches now. That creates a type of curiosity among the people or investor who wanted to purchase the share. This research paper consists, what are the reason behind success of 1st IPO in India. This paper provides competitive analysis of different aspect of SKS's IPO with different micro finance institution. This research paper is based on secondary data.

Keywords: IPO, ROE ratio, Debt/Equity, CAGR, MBTs.

1. Introduction

1.1 Microfinance

Microfinance can be defined as any activity that includes the provision of financial service such as credit, savings, and insurance to low income individuals which fall just above the nationally defined poverty line, and poor individuals which fall below that poverty line, with the goal of creating social value. The creation of social value includes poverty alleviation and the broader impact of improving livelihood

opportunities through the provision of capital for micro enterprise, and insurance and savings for risk mitigation and consumption smoothing.

1.2 SKS Microfinance

SKS Microfinance Ltd was incorporated on September 22, 2003 as a private limited company with the name as SKS Microfinance Pvt Ltd. In January 20, 2005, the company obtained a certificate of registration from the RBI to commence the business of a non-banking financial institution without accepting public deposits. In May 2, 2009, the company was converted into a public limited company and the name was changed to SKS Microfinance Ltd. In January 18, 2010, SKS Microfinance Ltd is engaged in providing microfinance services to women in the lower income segment predominantly located in rural areas in India. The company's core business is providing small loans exclusively to poor women predominantly located in rural areas in India. These loans are provided to such members essentially for use in their small businesses or other income generating activities and not for personal consumption. The company has designed and deployed a web-based Business Intelligence portal using state-of-art technology and a highly flexible and scalable platform to support the business growth and operations.

According to a CRISIL Report on Top 50 Indian Microfinance Institutions (MFIs), SKS Microfinance is the largest MFI in India with more borrowers, more branches and more loans as of 30 September 2008. SKS was founded in 1996 by **Vikram Akula**, who also served as its executive chair till November 2011. As on December 31, 2010, SKS had 7.7 million clients and 2,403 branches across the country.

SKS charges an annual effective interest rate between 26.7% and 31.4% for core loan products. At the end of financial year 2010 on 31 March 2011, the company listed a gross loan portfolio of US\$925,844,433 with 6,242,266 female active borrowers.

SKS IPO

- **Date of the IPO:** 28 July to 2 August 2010
- **First day of Trading:** 16 August 2010
- **Issue Size:** US\$350 million, of which US\$155 million were fresh equity shares and US\$195 million, were stock sales from existing shareholders representing a combined total of 23.3 percent of post-IPO shares.
- **Market Capitalization of SKS:** US\$1,525 million (as of IPO close on 2 August 2010)
- **Structure:** 60 percent of shares sold to institutional investors (qualified institutional buyers [QIBs]), 30 percent to retail investors, and 10 percent to non institutional investors, primarily high net worth individuals.
- **Promoters:** MBTs, Kismet, Sequoia Capital and Unitus
- **Anchor Investors:** SKS secured an initial US\$64 million from a group of 18 anchor investors who agreed to buy 18 percent of the offering at the top of the offering window of INR 985 per share. The anchors included JP Morgan,

Morgan Stanley, India ICICI Prudential, Reliance Mutual Fund, and George Soros' Quantum Fund. They are required to hold the shares for at least 30 days.

- **Underwriters:** Citigroup Inc., Credit Suisse Group AG and Kotak Mahindra Capital Co.
- **Stock Exchanges:** Bombay Stock Exchange (BSE) and National Stock Exchange (NSE)
- **Trading Symbol:** SKSMICRO

On 28 July 2010 SKS, India's largest microfinance institution with 5.8 million clients, became the first MFI in India to float its shares through an initial public offering. The IPO was successful by any financial market standard; the offering was 13 times oversubscribed and attracted leading investment groups, such as Morgan Stanley, JP Morgan, and George Soros' Quantum Fund. The company valuation reached the top of the offer band price at US\$1.5 billion, and five weeks after trading began, the share price rose 42 percent.

SKS is among a handful of MFIs globally to have gone public. SKS is also the first to list its shares in the competitive and fast-growing Indian microfinance market. Over the past four years Indian MFIs have grown from 10.5 million to 26.7 million clients and for the past three years SKS has stood at the top of this market in terms of size and access to capital. Globally, SKS has been among the fastest growing MFIs in the world, with a compound annual portfolio growth rate of 165 percent since 2004.

2. Objective of the Study

- To understand the reason behind the success of first IPO launch by SKS microfinance.

3. Scope of the Study

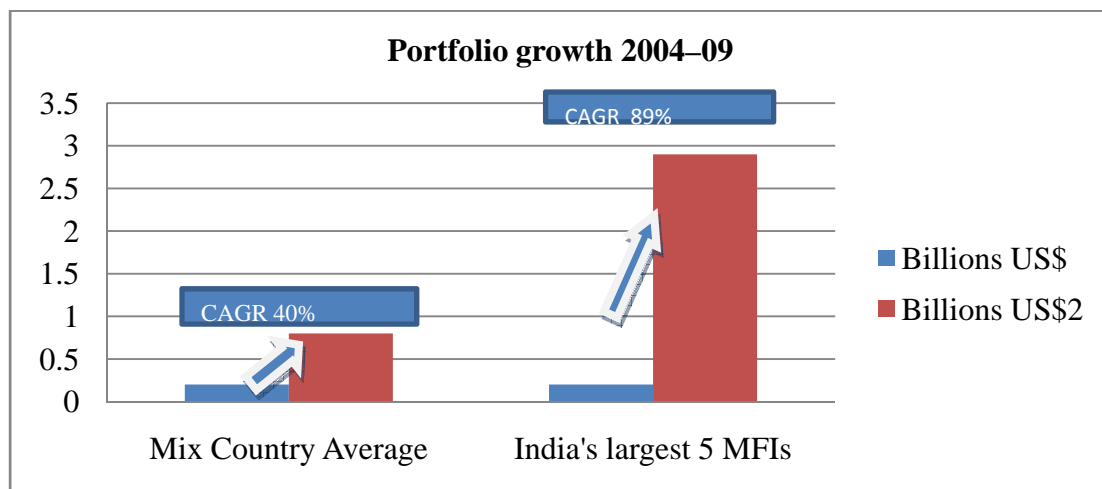
This study provides a comparative study in the field of microfinance because the main objective behind the establishment of microfinance companies is to provide the finance facilities to the weaker section of the society. Questions arise here that to bring an IPO in the field of microfinance is a right decision or not. This study provides the future scope & growth opportunities to other companies.

4. Analysis of IPO launch by SKS microfinance

- During the final months of preparations of the IPO a number of notable stock transactions were completed. In January 2010 SKS sold a 1.5 percent stake to Catamaran Fund, which was created by the well-known Infosys founder Narayana Murthy. This stake was sold at the bargain price of Indian rupees (INR) 300 per share, less than half the price of other private equity sales by

SKS at that time. Murthy was also named chairperson of a new advisory board of SKS, putting the name of one of the most respected investors in India behind SKS and bolstering the company's credentials leading into the IPO.

- This was the 38th and the fourth largest IPO on BSE in 2010. The timing was also favorable as the IPO took place at the two-year peak of the BSE Sensitive Index. The BSE IPO index, which tracks the performance of newly listed stocks, was also at a two year high.
- **Comparative Portfolio Growth of Mix Country and India's Largest 5 MFIs:-**

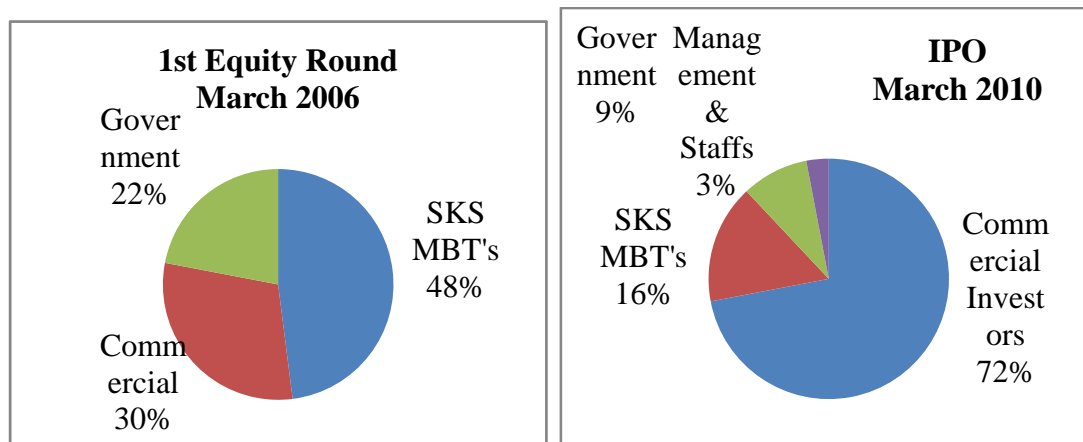


Source: MIX Market. CAGR 5 years compound annual growth rate.

We all know that 65% of the Indian population lives in rural area and depend on agriculture. They required tiny loan and banks generally don't provide such loan because of high transaction cost and processing fee. So the microfinance companies have a great opportunity to serve the loan for these people. Because of this opportunity India's largest 5 MFI's average CAGR is 89% and Mix Country average CAGR is just 40%.

5. Evolution of SKS Ownership:

Above data shows the ratio of the share holding in March 2006, SKS MBT's holding the highest shares 48% so the opportunity for the other investor is less. However in March 2010, SKS MBT's hold only 16% shares and commercial investor had 72% shares. The company leveraged for the commercial investors to invest into the company that lead to huge demand of the IPO.



Source: SKS company data

6. Performance of SKS within Industry

	SKS	Largest 5 Indian MFIs (median)	MIX Largest 150 NBFIs (median)
ROE	22%	40%	11%
Debt/equity	3.2	7.9	4.1
Portfolio growth (08–09)	54%	68%	21%
Portfolio CAGR (5 yrs)	165%	89%	36%
Portfolio yield	25.7%	25.9%	29%
Operating expense ratio	10.2%	6.4%	14.5%

Source: MIX (2010), annual reports for SKS and Indian MFIs (March 2010).

- ROE of the SKS is 22%. A higher ROE show that a company is increasing its ability to generate more profit. It also indicates how well a company’s management is deploying the shareholders’ capital.
- The Debt/Equity ratio of SKS is less than the largest 5 Indian MFIs and MIX Largest 150 NBFC .It indicate that company using less debt so ROE is increase when debt is decrease. It was also the reason of huge demand of IPO.
- SKS have a strong portfolio business with CAGR 165%, however the average CAGR of largest 5 Indian MIF’s is just 89% and average CAGR of largest 150 NBFC is just 36%. Portfolio CAGR shows the performance and growth of the overall company and this is the reason behind the success of the IPO.
- Operating expenses are the cost associated with running a business’s core operation on a daily basis. SKS managed its Operating Expense Ratio at 10.2% however the largest 150 NBFC managed at 14.5%. The less operating expense gives more profitability.

7. Operational Highlights-

Operational Information	Mar - 07	Mar - 08	Mar - 09	Mar - 10	CAGR
Total No. of Branches	276	770	1,353	1,353	94%
Total No. of Districts	103	219	307	354	51%
Total No. of Staff	2,381	6,818	12,814	21,154	107%
Total No. of Members (in millions)	0.6	1.88	3.95	6.78	124%
Amount Disbursed (in USD million)	102	401	1,015	1,646	153%

Source: SKS Microfinance, Annual Report 2009-2010.

The above table show that how the company improve its operational efficiency since Mar 07-Mar10. In increase of amount disbursed was more than the increase of branches and members. SKS recorded a CAGR153% amount distributed in respect to increase the total no. of member's CAGR 124%. It shows that company was growing day by day. So investor attract towards the SKS IPO.

8. Financial Performance of the company

	Mar -08	Mar -09	Mar -10
Net Worth (in crores)	212	665	958
Net Profit (in Crores)	17	80	174
EPS (in Rs.)	3.74	15.56	26.96
Debt/Equity	3.7	3.2	2.8
ROE		18.3%	21.66%

Company Profit increase at a very high rate so it's net worth also increase at a higher rate. Investor mostly wants to invest that company whose net worth is high. ROE & EPS of the company increase very lucrative manner. It means shareholder return increased. Debt/Equity ratio is decreasing, it means company financial leverage is decreasing; company wants to be self dependent by reducing the debt. So may be a reason for success of the SKS IPO.

9. Conclusion

SKS's IPO recorded a great success in the market. It is the first IPO in microfinance sector. SKS has been among the fastest growing MFIs in the world, with a compound annual portfolio growth rate of 165 percent since 2004. This was the 38th and the fourth largest IPO on BSE in 2010. This was the single company in microfinance sector who listed in BSE. SKS's IPO was success because the overall performance of

the company was very good. Demand of the microfinance in India was high and SKS capture 24% market. Growth rate of the company was high. Investor always wants to maximize his return so he invests the money from where he receives a fair EPS. Return on equity of SKS was good; it gives 26.66 Rs.EPS to the investor.

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