

EARNINGS UPDATE Q3FY16



JANUARY 2016

SKS Microfinance Limited

BSE: 533228 • NSE: SKSMICRO

Corporate Identity No. L65999MH2003PLC250504

www.sksindia.com

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HIGHLIGHTS OF Q3FY16

- Reduced interest rate charged to borrowers from 20.75% to 19.75% on income-generating loans extended on or after 7th Dec 2015. With this reduction, SKS continues to charge the lowest rate among private MFIs in the world.
- Availed Rs.100 Crs refinance from MUDRA at 10% per annum.
- Incremental drawdowns of Rs.1,478 Crs. in Q3FY16 (Rs. 931 Crs in Q3FY15), excluding origination under managed loans. SKS also originated Rs.260 Crs. loans under managed portfolio in Q3FY16 .
- Completed securitization transactions of Rs.616 Crs rated as 'AA (SO)' and issued commercial paper of Rs.100 Crs. rated as 'A1+'.
- Loan disbursement of Rs. 2,980 Crs. in Q3FY16 (growth of 93% YoY and 12% QoQ).
- Non-AP Portfolio grew by 93% (YoY) and 13% (QoQ) to Rs.6,177 Crs. as of Dec 31, 2015.
- Marginal Cost of Borrowings* for Q3 FY16 at 9.98% and Weighted Average cost of Borrowings# (historical) at 11.5% for Q3FY16.
- The un-availed deferred tax benefit of Rs. 389 Crs. and MAT credit of Rs. 71 Crs. will be available to offset tax on future taxable income.
- PAT of Rs.79.5 Crs. in Q3FY16 (growth of 94% YoY and 2% QoQ).
- Networth of Rs.1,292 Crs. and capital adequacy at 23.9% as of Dec 31, 2015.
- Cash & Cash equivalent^ of Rs.886 Crs.

Note:

^ Excluding security deposit.

including processing fee of Rs. 1.3 Crs paid on Loans on Balance sheet in Q3FY16.

* Includes on and off b/s borrowings, excluding processing fees.

Figures rounded off to the nearest digit across the presentation. Figures and ratios have been regrouped wherever necessary.

BUILDING BLOCKS OF TURNAROUND POST AP MFI CRISIS

INR crore

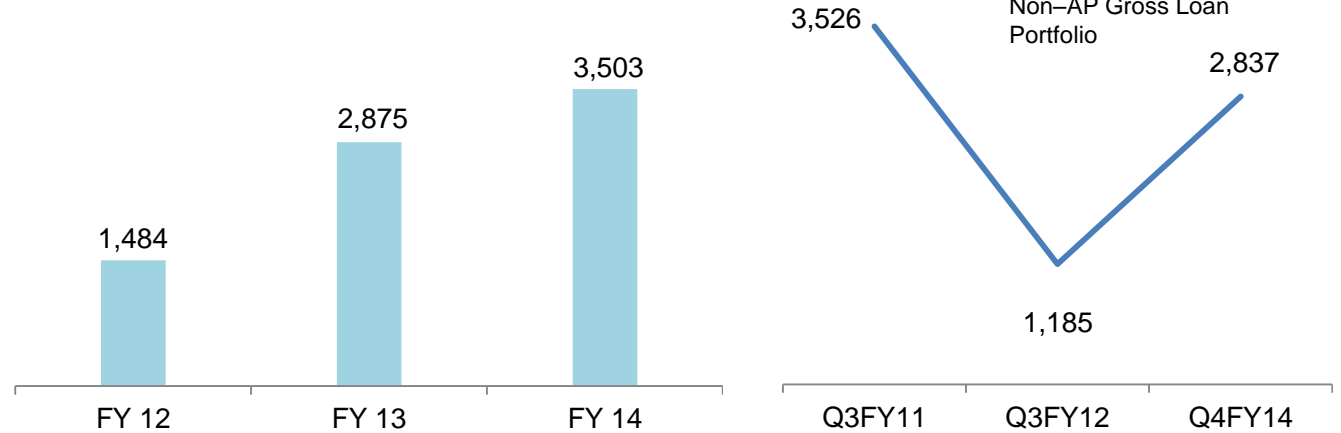
Balance Sheet Cleansed

Supply-side Shock Managed

Credit Growth Resumed

Drawdowns

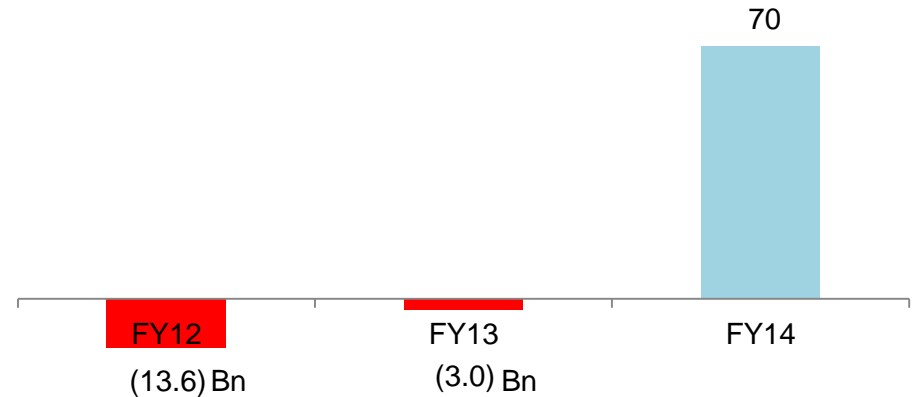
AP exposure of Rs. 1,360 crore written off/ provided for



Cost Structure Optimization

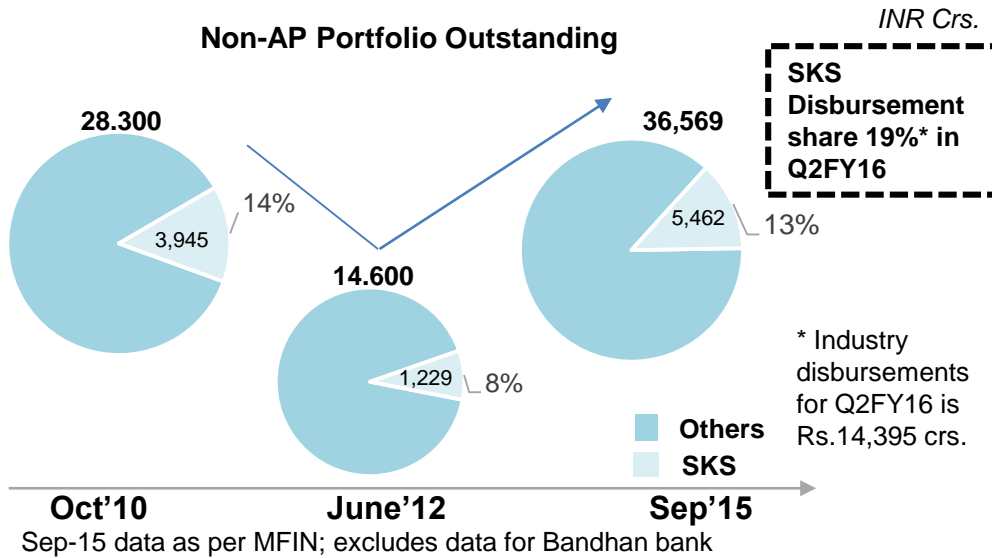
	Q3FY11	Q4FY14	Var.
Branches	2,403	1,255	-48%
Other Opex (INR crore)	51	21	-60%
Headcount	25,735	8,932	-65%
Personnel Cost (INR crore)	89	43	-52%

Return To Profitability



DURABLE FOUNDATION FOR SUSTAINABLE GROWTH (1/2)

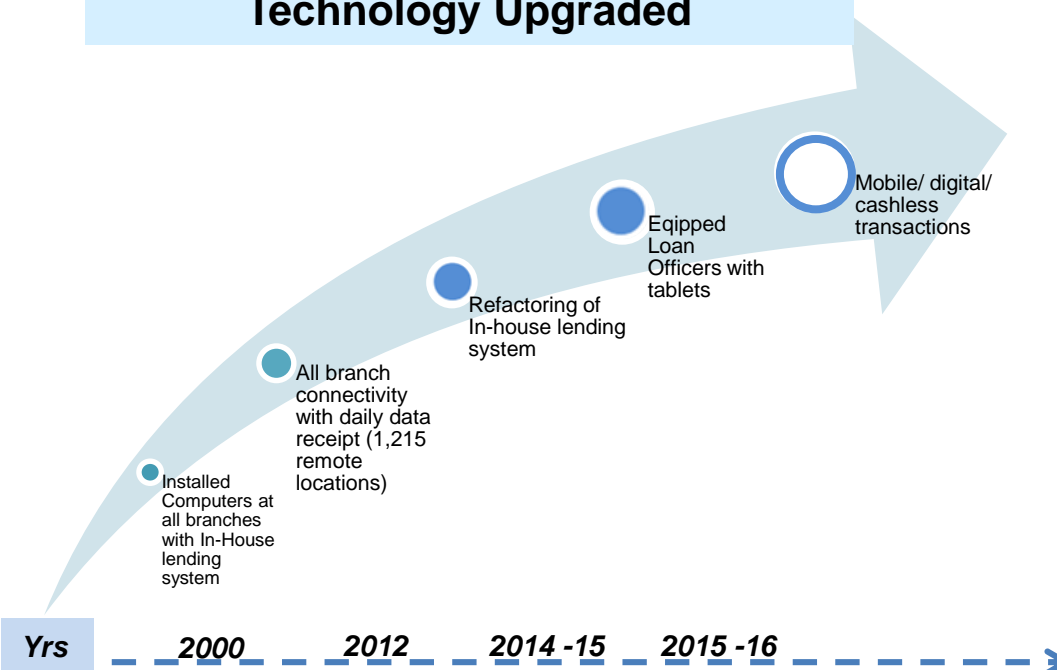
Market Share Regained



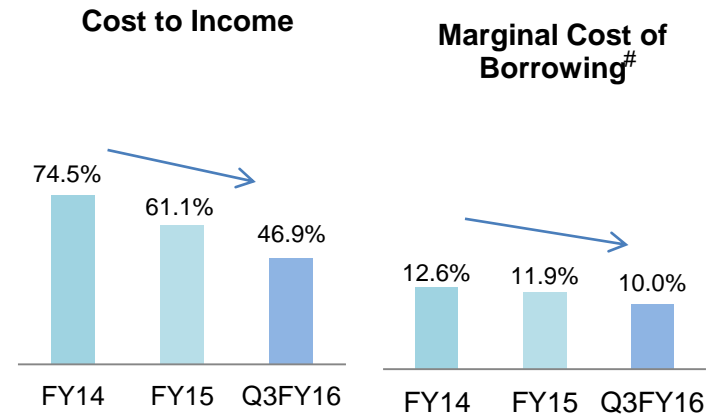
Capital Reinforced

- Net worth - Rs. 1,292 crs
- CAR - 23.9% (RBI Requirement 15%)

Technology Upgraded



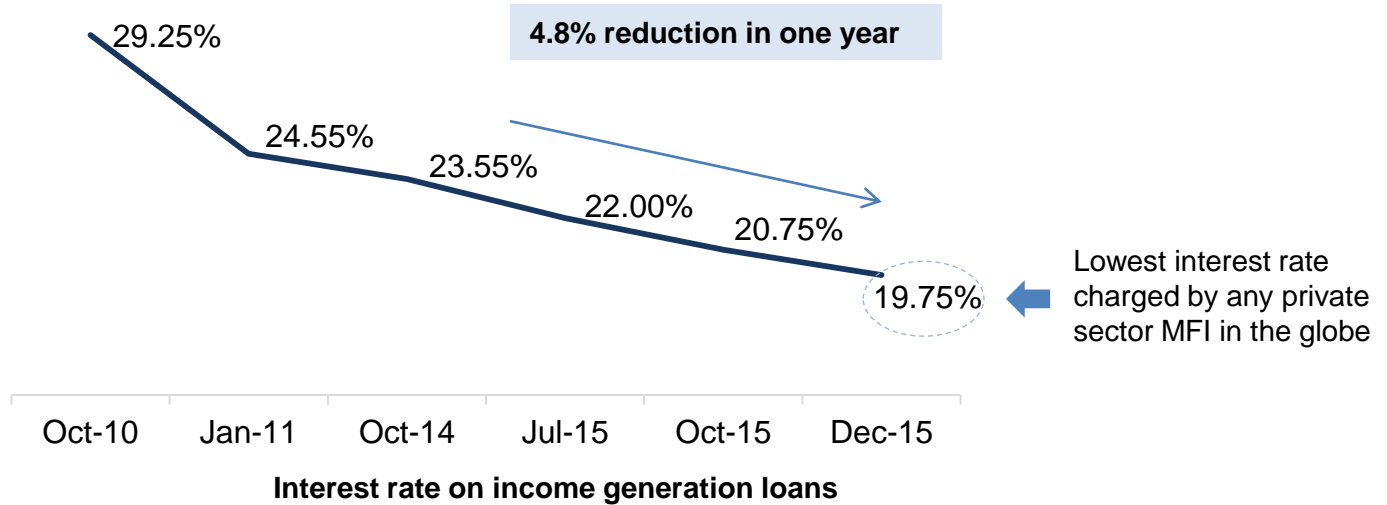
Efficiency Gains



On and Off balance sheet loans including processing fee

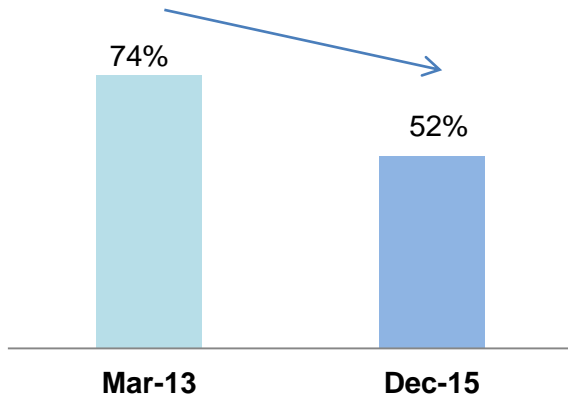
DURABLE FOUNDATION FOR SUSTAINABLE GROWTH (2/2)

Political Risk Mitigation through interest rate reduction



Reduced Borrowing Dependence

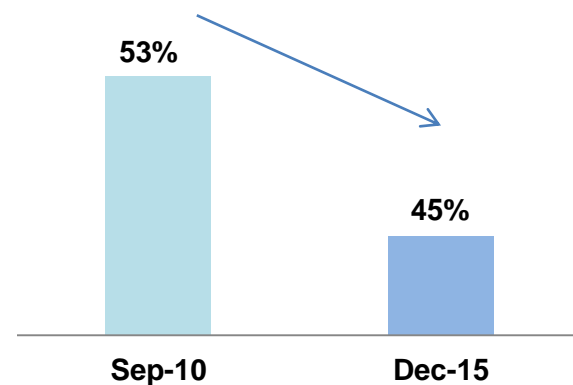
Share of borrowing from top 5 banks



Term loan and cash credit facilities

Lower State Concentration

Top three states share in GLP



GLP: Gross Loan Portfolio

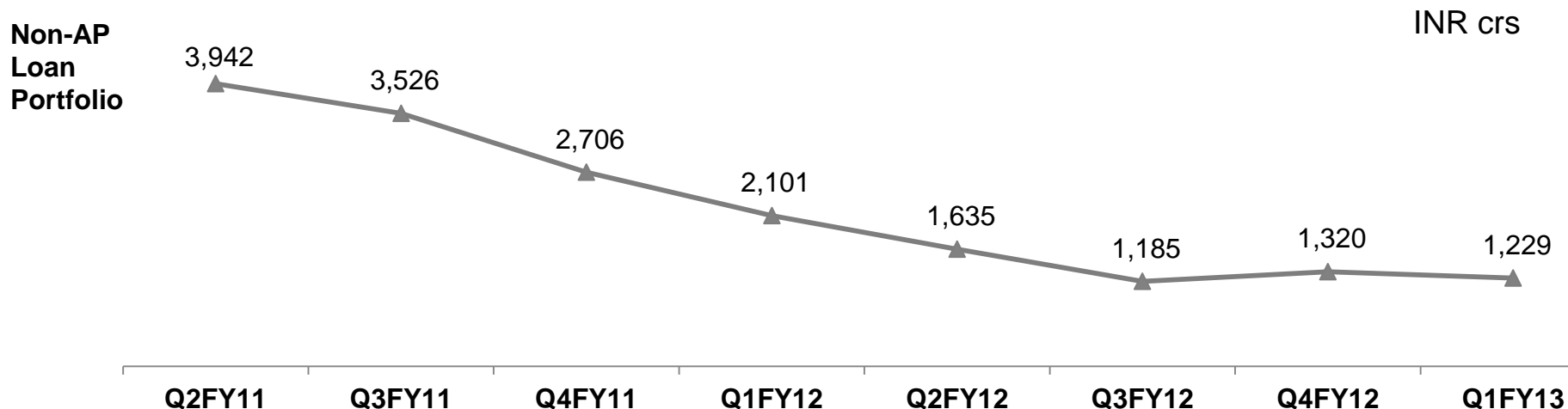
CLARITY ON MAJOR UNCERTAINTIES POST AP MFI CRISIS

WHAT DOESN'T KILL YOU, MAKES YOU STRONGER - POSITIVE DEVELOPMENTS POST AP MFI CRISIS

Concerns	Clarity
Will there be multiple regulators?	<ul style="list-style-type: none">▪ Regulatory clarity – RBI to be the sole regulator
Funding uncertainty?	<ul style="list-style-type: none">▪ Priority sector status continues▪ MFIs are the only indirect priority sector dispensation
Will there be contagion?	<ul style="list-style-type: none">▪ No contagion▪ Since past 5 years no other state has followed suit
Has the operating model been challenged?	<ul style="list-style-type: none">▪ Collection efficiency maintained despite disbursements being a fraction of collections during the wind-down mode i.e. Oct'2010 to June'2012.▪ No alternative credit delivery model has gained currency.
What will be the economics under regulated interest rate regime?	<ul style="list-style-type: none">▪ RoA of 3-4% on a steady-state basis

OPERATING MODEL VAILIDITY ESTABLISHED

Collection efficiency of 97% during wind-down mode dispels ever greening myth



1.9 million borrowers repaid loans without incremental lending

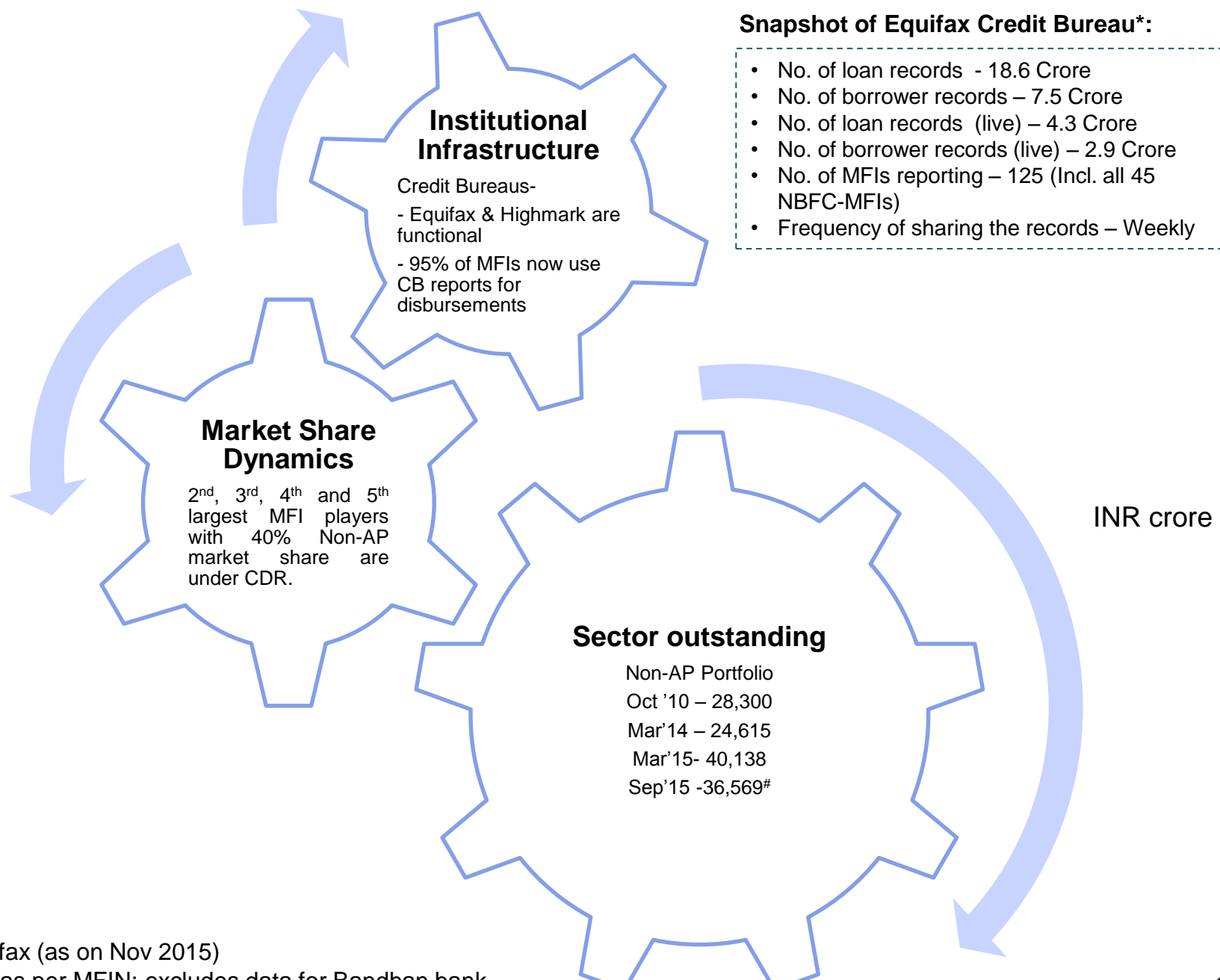
in Millions

No. of non-AP borrowers who repaid on-time during this period	5.2
No. of non-AP members who availed loans during this period	3.3
No. of non-AP members who didn't receive any incremental credit from SKS during this period	1.9

Internal generation -- and not incremental debt -- aids prompt repayment

MFI Industry non- AP Portfolio Outstanding (Rs Cr)	
Oct'10	28,300
June'12	14,600

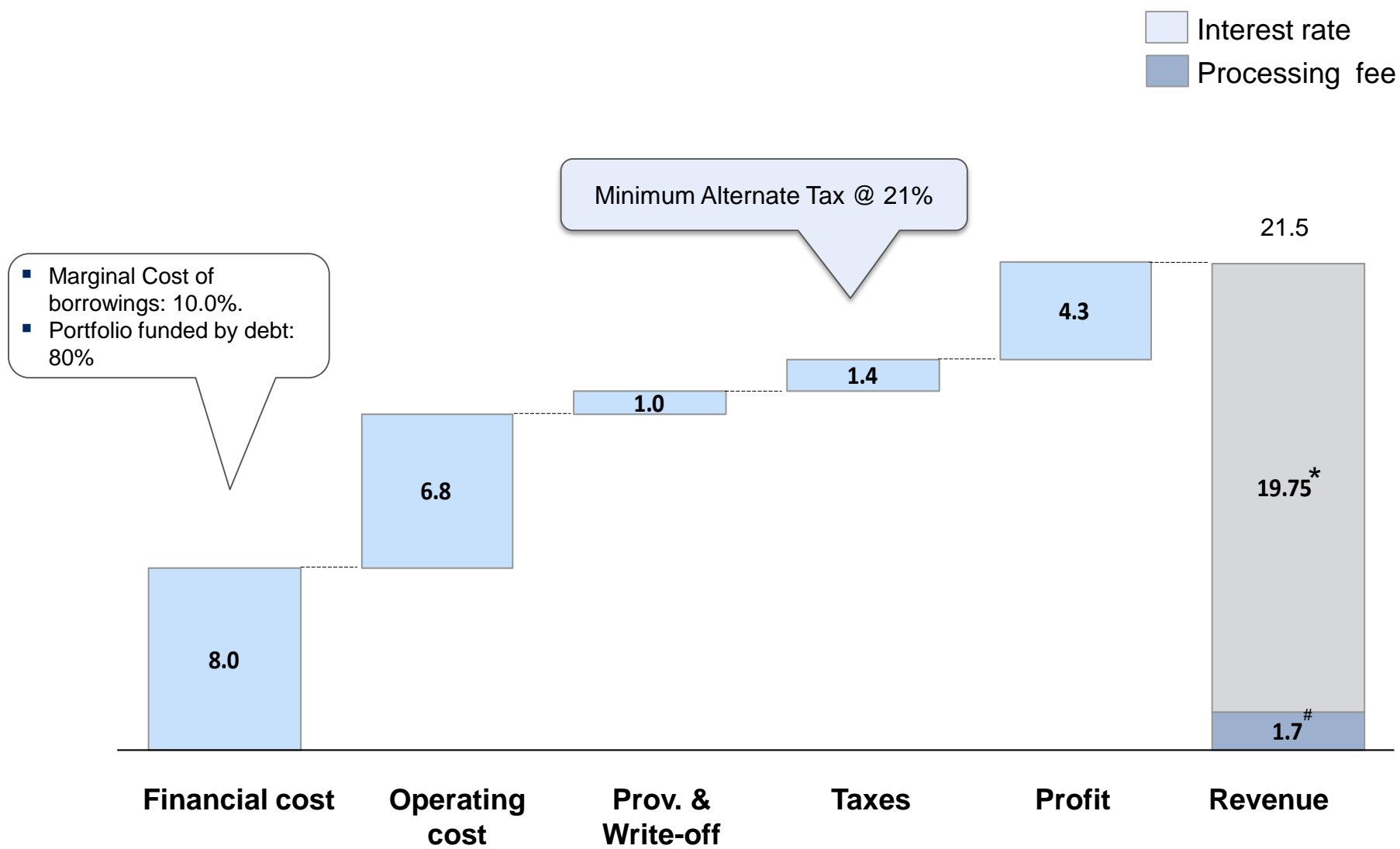
COMPETITIVE LANDSCAPE CHANGES TO SKS' ADVANTAGE



* Source: Equifax (as on Nov 2015)

Sep-15 data as per MFIN; excludes data for Bandhan bank

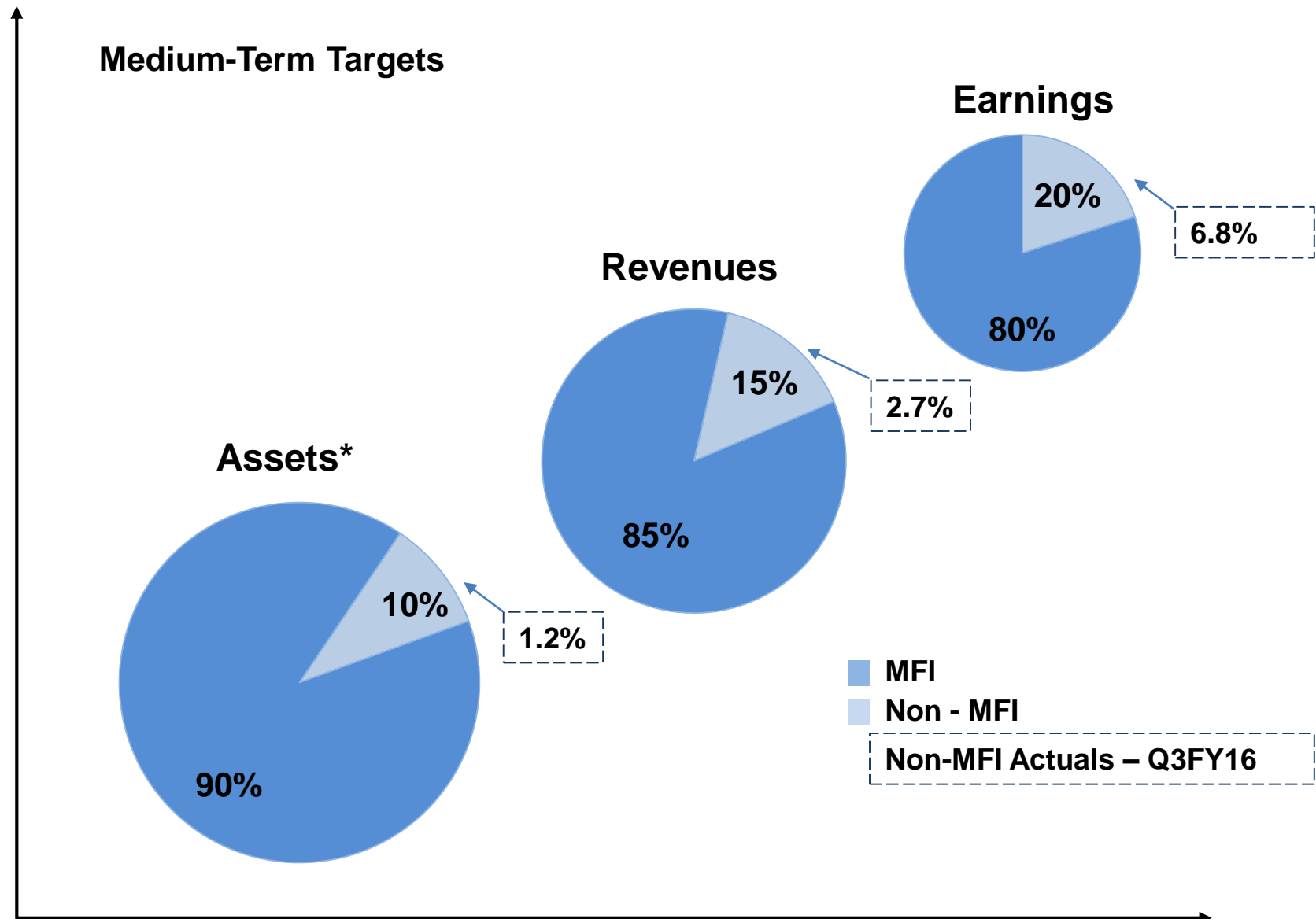
STEADY-STATE ROA OF 4% CAN BE TARGETED



*interest rate charged is 19.75% for new loans effective from 7th Dec'15

#Processing fee is calculated based on weighted average portfolio mix of 65% IGL(1 Yr. loan) and 35% LTL (2 Yr. loan).

CREATIVE DISTURBANCE TO ASSET-REVENUE-EARNING CORRELATION



*Note: Core microfinance will continue to be more than 90% of credit assets

FUTURE STRATEGY

A COMPARATIVE STUDY OF STRUCTURAL OPPORTUNITIES & CHALLENGES

↑ OPPORTUNITIES

↓ CHALLENGES

SFB

- ✓ Access to low cost funds/deposits
- ✓ Bank accounts to customers
- ✓ Political risk mitigation

- × CASA can be competitive only in the long term
- × CRR and SLR drag
- × No PSL benefit on bank borrowings
- × Interbank borrowings capped at 3x Net Worth
- × Cannot act as Business Correspondent (BC) to other banks
- × Investment in technology, infrastructure and functional capabilities for banking
- × Huge domestic capital raise /dilution

NBFC-MFI

- ✓ Generate Agri-allied/ PSL for banks
- ✓ Leverage Business Correspondent (BC) model to offer bank accounts and saving products to customers without CRR and SLR drag

- × Political risk beyond a size
- × Cannot access deposits

SFB - MISSED OPPORTUNITY BUT NOT A SETBACK

Rationale for SFB application Mitigants / Counter Strategies

1	Political Risk mitigation	Sub-20% interest rate mitigates political risk <ul style="list-style-type: none">• SKS becomes the lowest cost lender with 19.75% interest rate
2	Access to refinance	Access to refinance is now available to NBFCs also <ul style="list-style-type: none">• SKS has accessed Rs.100 Cr refinance from MUDRA @ 10%
3	Bank accounts for customers <ul style="list-style-type: none">• Migration to cashless regime to reduce opex	<ul style="list-style-type: none">• Seed Jan-Dhan accounts of members• Open bank accounts for members as BC for other banks
4	Downward adjustment of risk premium to reduce cost of borrowings	<ul style="list-style-type: none">• Lowest borrowing cost in the sector• Highest rating in the MFI sector - A1+ for short term and A+ for long term• Strong Balance Sheet : Strong solvency and sufficient liquidity• Relationship premium from credit grantors

THE MOST EFFICIENT MFI IN THE GLOBE

Medium Term Strategic Priorities:

Target %	10	20	30	40	50
Metric	<ul style="list-style-type: none"> ▪ Marginal cost of Borrowing 	<ul style="list-style-type: none"> ▪ Sub-20 Interest Rate to Borrower 	<ul style="list-style-type: none"> ▪ Cumulative next 2 years salary increase to field staff 	<ul style="list-style-type: none"> ▪ Cost to Income Ratio 	<ul style="list-style-type: none"> ▪ Annualised earnings growth
Drivers	<ul style="list-style-type: none"> ▪ Balance sheet strength ▪ Stellar repayment record ▪ Judicious sources mix 	<ul style="list-style-type: none"> ▪ Low marginal cost of borrowing ▪ Scale & Efficiency 	<ul style="list-style-type: none"> ▪ Productivity & Efficiency 	<ul style="list-style-type: none"> ▪ Technology initiatives ▪ Scale 	<ul style="list-style-type: none"> ▪ AUM growth ▪ Operating leverage ▪ Non-Loan revenue

OPERATIONAL HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

Particulars	Dec-14	Dec-15	YoY%	Sep-15	QoQ%
Branches#	1,268	1,300	3%	1,268	3%
Centers (Sangam)	2,29,172	2,27,214	-1%	216,723	5%
- Centers in non-AP States	1,58,451	1,56,341	-1%	145,938	7%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	9,089	11,086	22%	10,782	3%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	8,812	10,794	22%	10,490	3%
– Sangam Managers* (i)	5,104	6,415	26%	6,066	6%
– Sangam Manager Trainees(ii)	446	654	47%	736	-11%
– Branch Management Staff (iii)	2,185	2,537	16%	2,506	1%
– Area Managers (iv)	90	144	60%	137	5%
– Regional Office Staff (v)	987	1,044	6%	1,045	0%
• Head Office Staff (vi)	277	292	5%	292	0%
Members in non-AP States (in '000)	4,274	4,957	16%	4,592	8%
– Members added (in the quarter) (in '000)	200	540	170%	537	1%
Active borrowers in non-AP States (in '000)	3,540	4,158	17%	3,821	9%
– Active borrowers added (in the quarter) (in '000)	272	537	98%	552	-3%
No. of loans disbursed (in '000)	1,271	1,899	49%	1,988	-4%
Disbursements (for the quarter) (INR Crs.)	1,544	2,980	93%	2,665	12%
Gross loan portfolio – Non-AP (INR Crs.) (A+B+C)	3,195	6,177	93%	5,462	13%
• Loans outstanding (A)	2,725	5,035	85%	4,753	6%
• Securitized (B)	289	557	93%	179	212%
• Managed loans (C)	181	586	223%	531	10%
Operational Efficiency – Non-AP :					
Off-take Avg (Disbursements/ No of Loans disbursed) (INR)	12,152	15,701	29%	13,414	17%
Gross loan portfolio/ Active Borrowers (INR)	9,024	14,857	65%	14,295	4%
Gross loan portfolio/ No. of Sangam Managers (Rs. '000)	7,196	10,611	47%	10,011	6%
Active borrowers / No. of Branches	3,111	3,563	15%	3,367	6%
Active borrowers / No. of Sangam Managers	797	714	-10%	700	2%

*Sangam Managers are our loan officers who manage our centers (also called Sangams). As of December'15, we had 5,822 Sangam Managers in Non-AP States # Incl. 44 Gold branches

PRODUCTIVITY GAINS & COST EFFICIENCY ENABLE SKS TO LEVERAGE THE CONDUCTIVE ENVIRONMENT

	Best before AP during AP MFI crisis	Worst MFI crisis	FY14	FY15	Q1FY16	Q2FY16	Q3 FY16
<u>Productivity – Non-AP:</u>							
Borrowers/ SM	489*	287	721	787	733	700	714
Gross Loan Portfolio/ SM ('000)	3,640*	1,320	6,275	8,994	9,544	10,011	10,611
Offtake Avg.	10,299*	9,237	11,849	12,273	13,378	13,414	15,701
<u>Cost Efficiency:</u>							
Financial Cost % ^{\$}	6.6%	9.8%	8.3%	8.3%	9.0%	9.1%	9.1%
Cost of borrowings % (without processing fees)	9.7%	12.9%	12.7%	12.1%	11.7%	11.6%	11.3%
Cost of borrowings %	10.3%^	16.0%^	13.6%#	12.8%#	11.9%#	12.1%#	11.5%#
Opex/ Gross Loan Portfolio %	10.4%	21.7%	9.6%	9.5%	8.5%	7.6%	6.8%
Cost to Income Ratio	52.4%	275%	74.5%	61.1%	52.3%	47.0%	46.9%
<u>Credit Quality - Non-AP:</u>							
Gross NPA%	0.20%*	5.5%	0.1%	0.1%	0.1%	0.2%	0.1%
Net NPA%	0.16%*	2.9%	0.1%	0.1%	0.1%	0.1%	0.1%
Collection Efficiency %	99.8%*	94.9%	99.9%	99.8%	99.7%	99.7%	99.8%

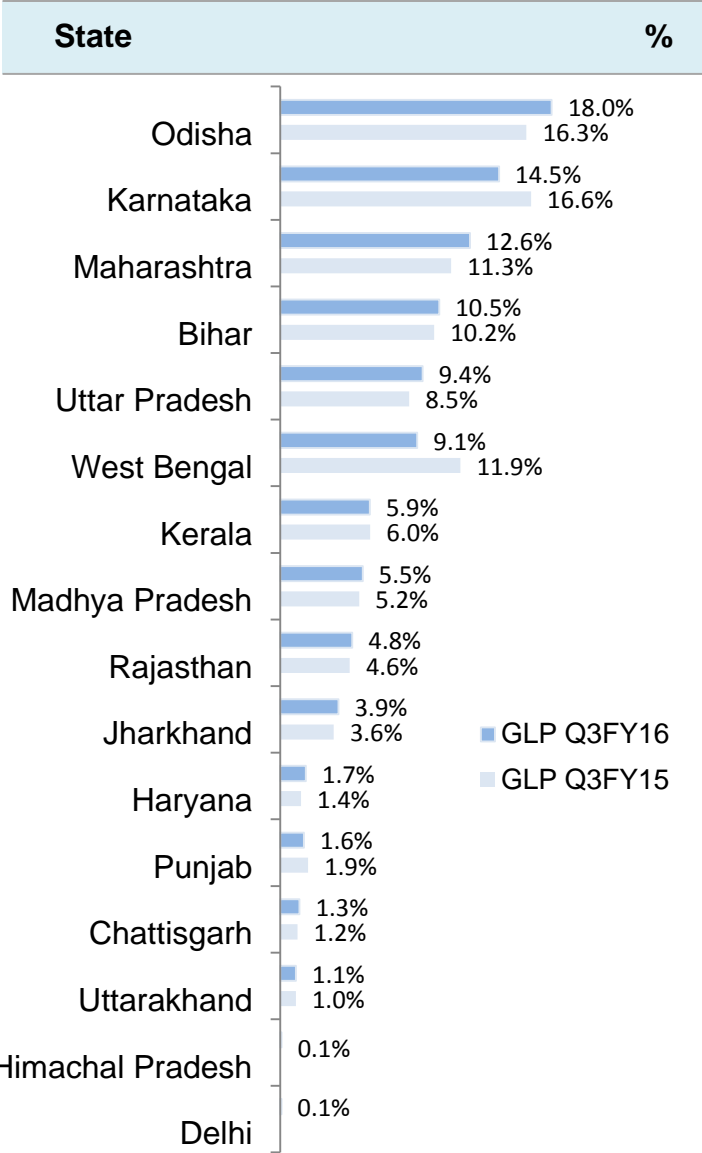
*Enterprise figures - includes figures from AP state

\$ Financial expenses to Avg. Gross Loan Portfolio

^Includes processing fee for on and off balance sheet (b/s) funding

Includes processing fee for on b/s funding only, for FY 14 Rs. 13 Crs, FY15 Rs. 14.3 Crs. for Q1FY16 Rs. 1.0 crs & for Q2FY16 Rs. 5.7 crs, & for Q3FY16 Rs. 1.3 Cr

PORTFOLIO MIX



CONCENTRATION NORMS

Metric	% Cap on Disbursement*	POS % Cap of Network*
State	<ul style="list-style-type: none"> <15% (20% for Karnataka & Odisha) 	<ul style="list-style-type: none"> 50% (75% for the state of Odisha, Karnataka and Maharashtra)
District	<ul style="list-style-type: none"> <3 % (4% for Karnataka & Odisha) 	<ul style="list-style-type: none"> 5% (Only 5% of total operating districts can go up to 10% of Network)
Branch	<ul style="list-style-type: none"> <1 % (1.25 % for Karnataka & Odisha) 	<ul style="list-style-type: none"> 1% (Only 5% of the total operating branches can go up to 2% of Network)
NPA	<ul style="list-style-type: none"> No disbursement to a branch with NPA > 1 % 	
Collection efficiency	<ul style="list-style-type: none"> No disbursement to a branch with on-time collection efficiency of < 95% 	

**Subject to tolerance of 10%
 Odisha, Karnataka and Maharashtra exposure are at 86%, 69% and 60% respectively of our network.*

Note: Portfolio percentage are based on proportion of gross loan portfolio of respective states.

VINTAGE OF NON-AP BRANCHES IS 7.0 YEARS

State	No. of Branches	Wt. Avg. Vintage (in Yrs.)*
Karnataka	169	8.0
Odisha	149	7.5
Uttar Pradesh	130	6.0
Bihar	128	7.0
West Bengal	126	7.2
Maharashtra	119	7.3
Madhya Pradesh	69	7.4
Rajasthan	59	7.1
Kerala	48	5.8
Jharkhand	47	6.2
Chhattisgarh	23	6.8
Haryana	21	4.8
Punjab	18	6.4
Uttarakhand	12	5.2
Himachal Pradesh	3	1.1
Delhi	1	6.4
Non-AP	1,122	7.0

As of Dec 2015

* Excludes 44 Gold Loan Branches.

PORTFOLIO OUTSTANDING BY ECONOMIC ACTIVITY

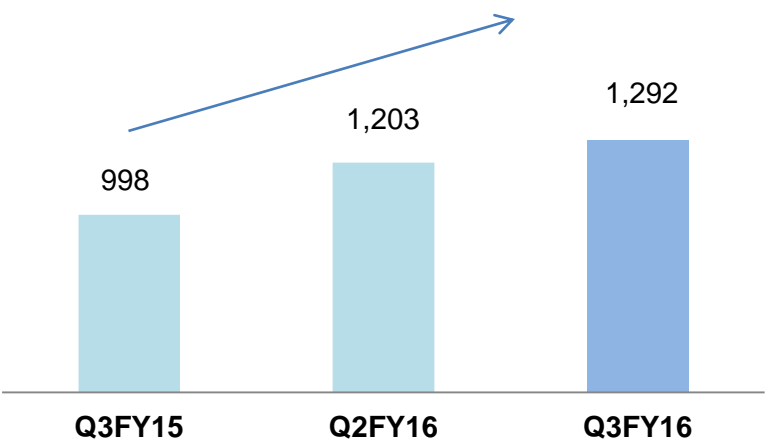
Purpose	% Mix
Livestock	30%
Tailoring, Cloth weaving	11%
Grocery stores and other retail outlets	10%
Masonry, Painting, Plumbing, Electrician, Carpenter and related	7%
Trading of Vegetable & fruits	7%
Agriculture	7%
Vehicle repairs	5%
Eateries	5%
Trading of Agri-commodities	4%
Garments & Footwear retailing	2%
Trading of Utensils, Plastic items	1%
Scrap business	1%
Bangles shop	1%
Other income generating activities	9%

REVIEW OF FINANCIALS

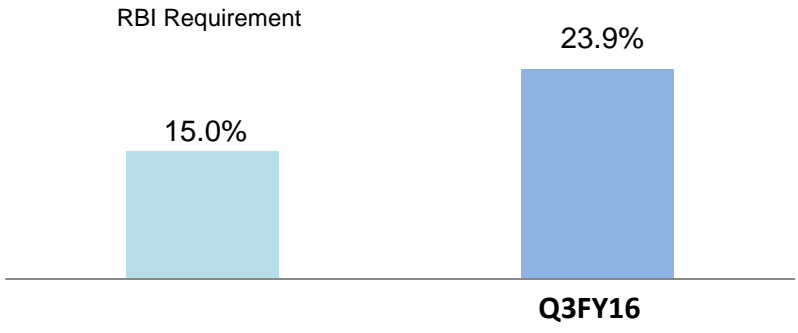
STRONG SOLVENCY AND SUFFICIENT LIQUIDITY

INR Crs.

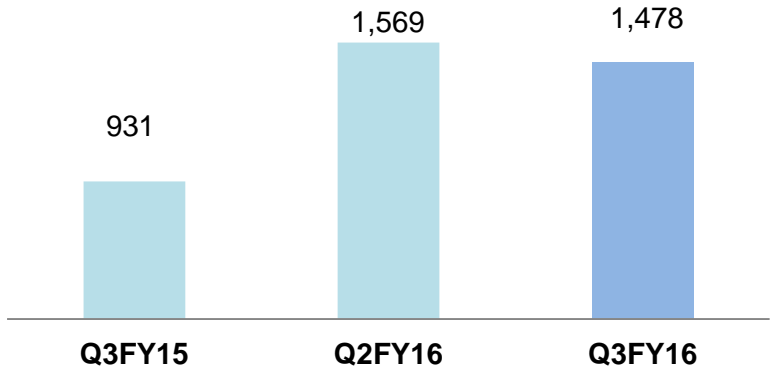
Networth



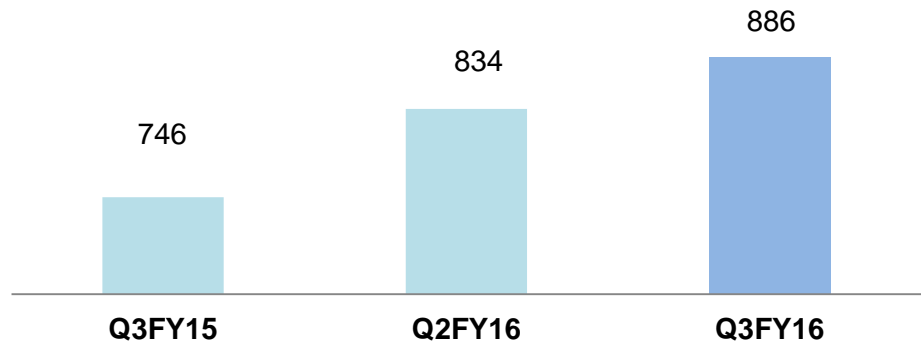
Capital Adequacy



Drawdowns



Cash and Cash Equivalent[^]



[^] Excluding security deposit

SKWEVED DISBURSEMENTS RESULTS IN FLAT NII GROWTH QOQ

INR Crs.

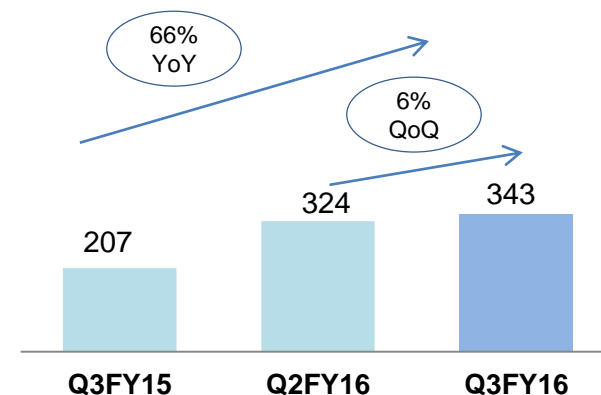
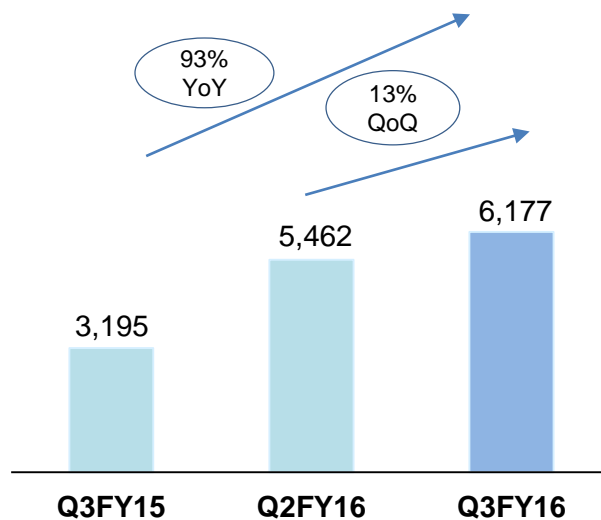
Disbursements Pattern

Non-AP Gross Loan Portfolio

Gross Revenue

Q3FY16

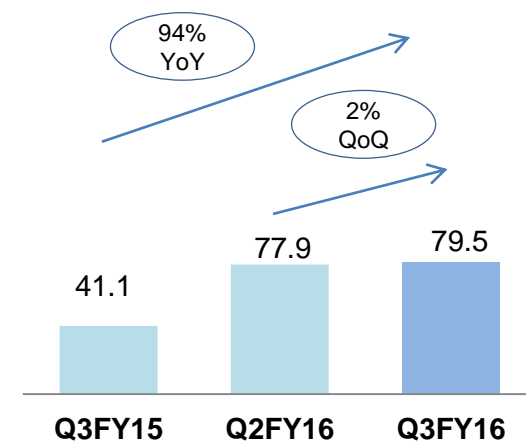
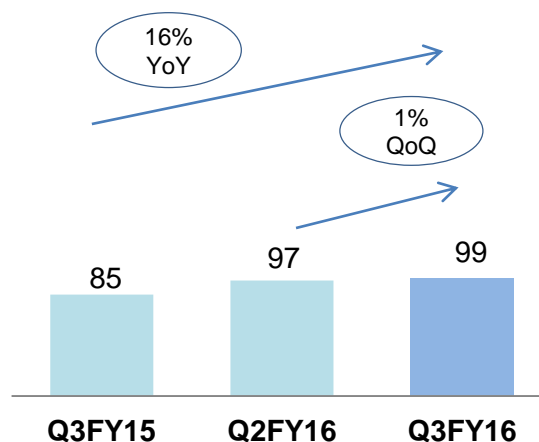
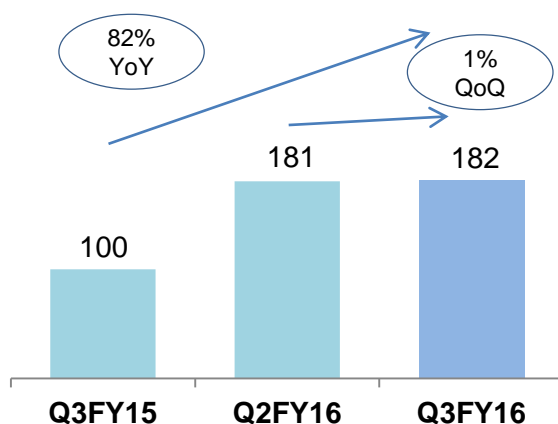
Month	Disbursement	% Total
Oct-15	726	24%
Nov-15	915	31%
Dec-15	1,338	45%
	2,980	



Net Interest Income*

Operating Cost

PAT



*Interest income on Portfolio loans + Excess interest spread on securitization + Loan processing fees + BC Fee – Financial Cost

Tax Exp: Nil Rs. 23 Crs Rs. 24 Crs

PAT GROWTH OF 94% YoY

INR Crs.

Particulars	Q3FY15	Q3FY16	YoY%	Q3FY16 As % of Total Revenue	Q2FY16	QoQ%
<u>Income from Operations</u>						
Interest income on Portfolio loans	154	263	71%	77%	256	3%
Excess interest spread on securitization	10	17	75%	5%	11	57%
Loan processing fees	11	19	63%	5%	16	16%
<u>Other Income</u>						
Income on investments	14	14	-	4%	9	63%
Recovery against loans written off	5	4	-28%	1%	4	-13%
Facilitation fees from Cross-sell	8	9	12%	3%	13	-27%
BC fees	4	16	-	5%	16	2%
Other miscellaneous income	0.2	1.1	-	0.3%	0.2	-
Total Revenue	207	343	66%	100%	324	6%
Financial expenses						
	79	133	69%	39%	117	14%
Personnel expenses	63	72	13%	21%	70	2%
Operating and other expenses	21	25	18%	7%	26	-4%
Depreciation and amortization	1	3	137%	1%	2	47%
Total Operating Cost	85	99	16%	29%	97	1%
Provision & Write-offs	2	9	-	3%	9	-
Total Expenditure	166	240	45%	70%	223	8%
Profit before Tax	41	103	151%	30%	101	2%
Tax expense	-	24	-	7%	23	1%
Profit after Tax	41.1	79.5	94%	23%	77.9	2%

9MFY16 PROFIT INCREASES BY 49% YoY

INR Crs.

Particulars	9MFY15	9MFY16	YoY%	9MFY16 As % of Total Revenue
<u>Income from Operations</u>				
Interest income on Portfolio loans	415	714	72%	75%
Excess interest spread on securitization	42	50	19%	5%
Loan processing fees	33	50	52%	5%
<u>Other Income</u>				
Income on investments	30	44	45%	5%
Recovery against loans written off	22	12	-45%	1%
Facilitation fees from Cross-sell	19	35	81%	4%
BC fees	15	44	-	5%
Other miscellaneous income	1	2	63%	0.2%
Total Revenue	577	950	65%	100%
Financial expenses	194	350	81%	37%
Personnel expenses	172	212	24%	22%
Operating and other expenses	62	74	20%	8%
Depreciation and amortization	3	6	61%	1%
Total Operating Cost	237	291	23%	31%
Provision & Write-offs	(1)	25	-	3%
Total Expenditure	430	667	55%	70%
Profit before Tax	147	284	93%	30%
Tax expense	-	65	-	7%
Profit after Tax	147	219	49%	23%

STRONG CAPITAL BASE AND ROBUST LIQUIDITY DRIVE SKS BALANCE SHEET

Particulars	Q3FY15	Q3FY16	YoY%	Q2FY16	QoQ%
Equity share capital	126	127	1%	127	-
Stock options outstanding	24	25	4%	26	-5%
Reserves and surplus	848	1,140	34%	1,050	8%
Capital & Reserves	998	1,292	29%	1,203	7%
Loan funds	2,545	4,651	83%	4,452	4%
Payable towards Securitisation	52	57	9%	68	-16%
Expenses & other payables	23	29	28%	23	26%
Provision for Taxation	5	3	-30%	8	-59%
Unamortised loan processing fees	24	48	101%	40	21%
Employee benefits payable	15	20	34%	16	27%
Interest accrued but not due on borrowings	15	52	241%	33	55%
Provision for leave benefits & gratuity	14	20	43%	15	29%
Statutory dues payable	3	7	107%	5	36%
Unrealized gain on securitization transactions	9	54	-	12	-
Provision for standard and NPA -- Non-AP	32	63	93%	56	12%
Provision for standard and NPA -- AP	8	0.1	-98%	0.2	-8%
Liabilities	2,745	5,004	82%	4,728	6%
Total Liabilities	3,743	6,295	68%	5,932	6%
Fixed assets	4	13	182%	14	-11%
Intangible assets	5	5	3%	5	-6%
Investment	0.2	0.2	-	0.2	-
Cash and bank balances	904	1,085	20%	1,039	4%
Trade receivable	10	2	-81%	10	-82%
Interest accrued and due on loans	1	1	-55%	1	-10%
Interest accrued but not due on loans	10	12	25%	13	-6%
Interest accrued but not due on deposits with banks	8	11	39%	11	-1%
Interest strip on securitization transactions	10	54	-	12	-
Portfolio loans -- Non-AP	2,708	4,984	84%	4,736	5%
Portfolio loans -- AP	24	14	-41%	15	-8%
Loans placed as collateral	16	51	220%	17	196%
Security deposits for rent and other utilities	4	4	2%	4	1%
Advances for Loan Cover Insurance	1	1	63%	2	-51%
Loans to SKS employee benefit trust	5	5	-4%	5	-
Advance Income Tax	19	14	-27%	14	-
Prepaid insurance	4	5	32%	4	26%
Other advances	9	34	-	28	20%
Total Assets	3,743	6,295	68%	5,932	6%
Note:1 Non-AP Securitized/Managed Portfolio	470	1,142	143%	709	61%
2. Non-AP Gross Loan Portfolio	3,195	6,177	93%	5,462	13%

OPERATING AND FINANCIAL LEVERAGES PLAY OUT

Particulars		Q3 FY15	Q2 FY16	Q3 FY16
Spread Analysis (as % of Avg. Gross Loan Portfolio)				
Gross Yield	(I)	25.4%	25.2%	23.5%
Portfolio Yield		20.1%	20.7%	19.2%
Financial Cost	(a)	9.7%	9.1%	9.1%
Operating Cost	(b)	10.5%	7.6%	6.8%
Provision and Write-offs	(c)	0.2%	0.7%	0.6%
Taxes	(d)	0.0%	1.8%	1.6%
Total Expense	II = (a+b+c+d)	20.4%	19.2%	18.1%
Return on Avg. Gross Loan Portfolio	(I) - (II)	5.0%	6.1%	5.5%
Efficiency:				
Cost to Income		66.4%	47.0%	46.9%
Asset Quality – Non-AP:				
Collection Efficiency		99.8%	99.7%	99.8%
Gross NPA		0.1%	0.2%	0.1%
Net NPA		0.1%	0.1%	0.1%
Gross NPA (INR Crs.)		2.6	7.5	6.3
Net NPA (INR Crs.)		1.8	3.9	3.0
Leverage:				
Debt : Equity		2.5	3.7	3.6
Debt : Equity (Incl. Securitised & Managed Loans)		3.0	4.3	4.5
Capital Adequacy:				
		34.6%	24.6%	23.9%
Profitability:				
Return on Avg. Assets (Incl. Securitised & Managed Loans)		4.0%	5.0%	4.5%
ROE		16.9%	26.9%	25.5%
EPS - Diluted (INR) (Not Annualised)		3.2	6.1	6.2
Book Value (INR)		79.2	94.9	101.6

OPERATING AND FINANCIAL LEVERAGES PLAY OUT ... CONTD.

Particulars		9M FY15	9M FY16
Spread Analysis (as % of Avg. Gross Loan Portfolio)			
Gross Yield	(I)	24.4%	24.5%
Portfolio Yield		19.3%	19.7%
Financial Cost	(a)	8.2%	9.0%
Operating Cost	(b)	10.0%	7.5%
Provision and Write-offs	(c)	-0.03%	0.6%
Taxes	(d)	-	1.7%
Total Expense	II = (a+b+c+d)	18.1%	18.9%
Return on Avg. Gross Loan Portfolio	(I) - (II)	6.2%	5.6%
Efficiency:			
Cost to Income		61.8%	48.6%
Asset Quality – Non-AP:			
Collection Efficiency		99.8%	99.7%
Gross NPA		0.1%	0.1%
Net NPA		0.1%	0.1%
Gross NPA (INR Crs.)		2.6	6.3
Net NPA (INR Crs.)		1.8	3.0
Leverage:			
Debt : Equity		2.5	3.6
Debt : Equity (Incl. Securitised & Managed Loans)		3.0	4.5
Capital Adequacy:		34.6%	23.9%
Profitability:			
Return on Avg. Assets (Incl. Securitised & Managed Loans)		5.0%	4.5%
ROE		23.8%	25.0%
EPS - Diluted (INR) (Not Annualised)		11.9	17.0
Book Value (INR)		79.2	101.6

FINANCIAL ARCHITECTURE

FINANCIAL ARCHITECTURE (1/2)

Lenders Mix

On Balance Sheet*	Q3FY15	Q2FY16	Q3FY16
Yes Bank	15%	13%	14%
State Bank Group	5%	12%	12%
Dena Bank	5%	11%	10%
SIDBI	3%	4%	9%
IDFC Bank	3%	6%	7%
Bank of Maharashtra	8%	6%	6%
Kotak Mahindra Bank	6%	7%	5%
Andhra Bank	4%	4%	5%
HDFC Bank	5%	3%	4%
ICICI Bank	11%	8%	4%
Ratnakar Bank	3%	4%	3%
IDBI Bank	1%	4%	3%
Bank of India	8%	3%	3%
Mudra	-	-	3%
HSBC Bank	2%	3%	2%
Standard Chartered Bank	0%	2%	2%
Citi Bank	1%	2%	2%
Axis Bank	7%	2%	1%
Union Bank of India	-	1%	1%
South Indian Bank	3%	2%	1%
Others	10%	3%	2%
Grant Total	2,375	3,604	3,748

* Includes Term loan and cash credit facilities

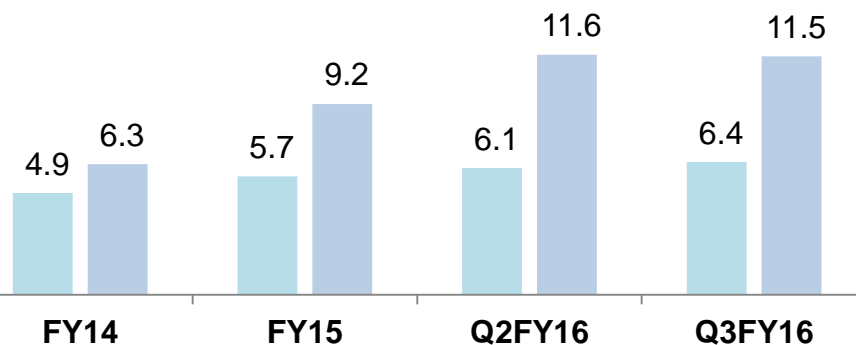
Sources Mix

INR Crs.

	Q3FY15	% Mix	Q2FY16	% Mix	Q3FY16	% Mix
Term Loans	2,289	76%	3,497	67%	3,660	62%
Securitisation	299	10%	244	5%	610	10%
Managed Loans	183	6%	533	10%	595	10%
CP	170	6%	448	9%	503	9%
NCD	-	-	400	8%	400	7%
CC	86	3%	107	2%	89	2%
Total	3,027	100%	5,229	100%	5,857	100%

Positive ALM Mismatch

■ Avg maturity of assets ■ Avg maturity of liabilities **No. of months**



ALM data includes securitized loans

FINANCIAL ARCHITECTURE (2/2)

Funding Cost Analysis

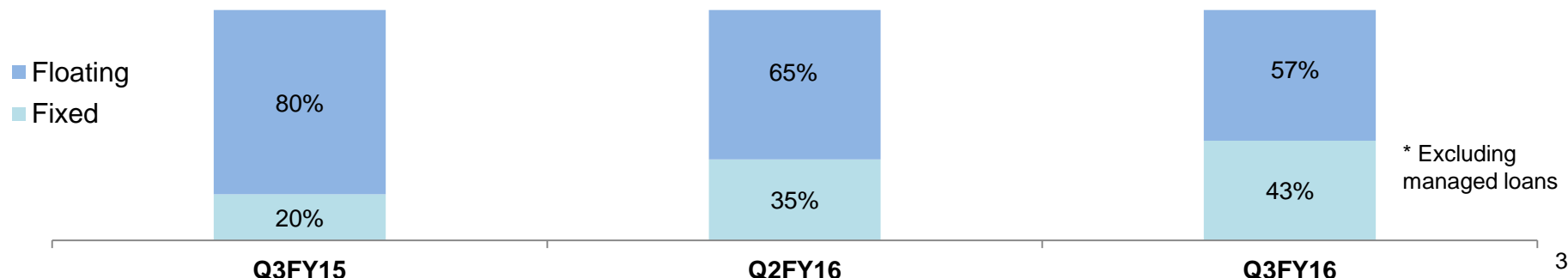
	Metric	FY14	FY15	Q3FY15	Q2FY16	Q3FY16
Marginal cost of borrowing	on and off b/s loans (excluding processing fees)	12.2%	11.7%	11.6%	11.2%	9.98%
	on and off b/s loans (including processing fees)#	12.6%	11.9%	11.7%	11.4%	10.02%
	on b/s loans (excluding processing fees)	12.9%	12.3%	12.0%	11.2%	10.8%
	on b/s loans (including processing fees)#	13.6%	12.6%	12.2%	11.4%	10.9%
Wt. avg. cost of borrowing (on b/s loans) *	excluding processing fee paid & other charges	12.7%	12.1%	12.5%	11.6%	11.3%
	including processing fee	13.6%	12.8%	12.9%	12.1%	11.5%
Loan Processing Fees (INR Crs.)		17.3	16.9	3.6	5.7	1.4
Drawdowns (INR Crs.)		3,503	5,020	931	1,569	1,478
Financial Cost^		8.3%	8.3%	9.7%	9.1%	9.1%

processing fees is amortized for marginal cost calculation.

^ Financial expenses to quarterly Avg. Gross Loan Portfolio.

*The above percentages are based on monthly averages. Expenses towards loan processing fees are recognized upfront whereas loan processing fees received from borrowers are amortized over the period of contract.

Interest Rate Mix of Borrowings*

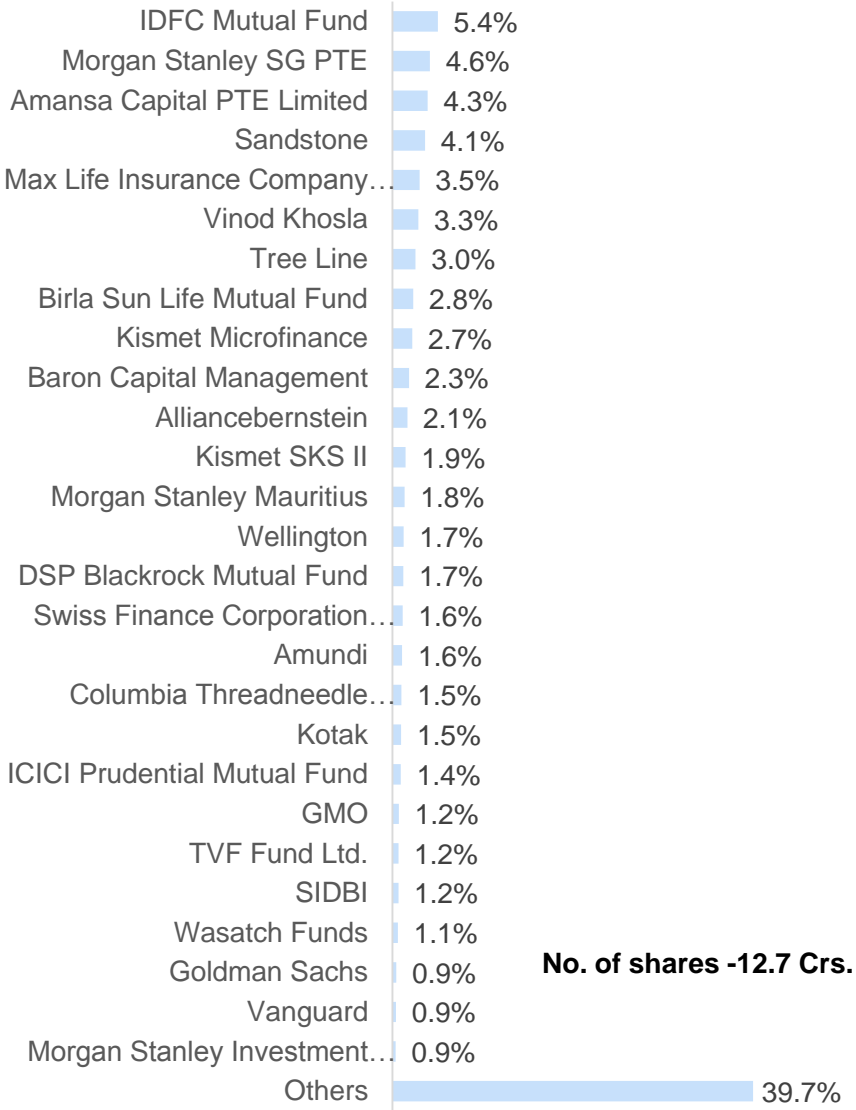


EXTERNAL ASSESMENT

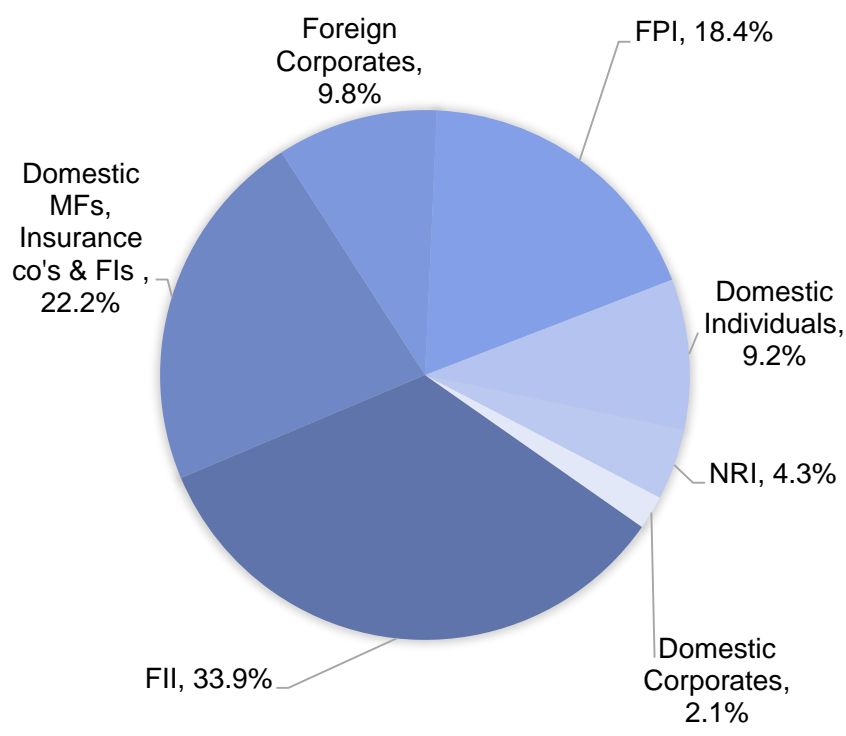
Rating Instrument	Rating	Rating Agency	Rating Amount Limits (Rs. Crs.)	
			Q2Y16	Q3FY16
MFI Grading	MFI 1	CARE Ratings	N/A	N/A
Bank Loan Rating (Long-term facilities)	CARE A+	CARE Ratings	3,300	4,500
Bank Loan Rating (Short-term facilities)	CARE A1+	CARE Ratings		
Long-term Debt (NCD)	CARE A+	CARE Ratings	400	400
Short-term Debt (CP/NCD)	CARE A1+	CARE Ratings	200	200
Long-term Debt	[ICRA] A+	ICRA Limited	750	750
Short-term Debt	[ICRA] A1+	ICRA Limited		
Securitisation Pool	CARE AA (SO)	CARE Ratings	-	243
Securitisation Pool	ICRA AA (SO)	ICRA Limited	-	372

CAPITAL STRUCTURE AND SHARE PRICE MOVEMENT

CAPITAL STRUCTURE AS ON 31ST DECEMBER 2015



SHAREHOLDING PATTERN



Excludes no. of Outstanding ESOPs 0.3 Crs.
 Note: The Investment under different accounts by a fund are clubbed under their respective names

ADJUSTED PRICE TO BOOK COMPUTATION

INR

	Dec-15
Book value per share (A)	102
Present value of DTA per share (B)^	21
MAT per share (C)*	6
Book value per share – Including PV of DTA and MAT (A+B+C)	129
Adjusted Price to Book Ratio (times)	3.9

Note:

^ Estimated Present Value of Deferred Tax Assets(DTA). DTA as on Dec 31, 2015 is Rs. 389 Crs. Discount rate assumed at 12.0% and applied over next 3.25 years' estimated profit.

* MAT credit as on Dec 31, 2015 is Rs. 71 Crs.

SKS Market Price as of January 27, 2016 – Rs. 498

ANNEXURES

OUR PROVISIONING POLICY

Asset Classification

	<u>RBI NBFC-MFI norms</u>	<u>SKS compliance</u>
Standard Assets	0-90 days	0-60 days
Sub-Standard Assets	91-180 days	61-180 days
Loss Assets	>180 days	>180 days

Provisioning Norms

Standard Assets	1% of overall Portfolio reduced by Provision for NPA (If provision for NPA < 1% of overall Portfolio)	0.30-1% depending on NPA or as stipulated by RBI, whichever is higher
Sub-Standard Assets	50% of instalments overdue*	50% of outstanding principal*
Loss Assets	100% of instalments overdue*	100% of outstanding principal/ write-off*

* The aggregate loan provision will be maintained at higher of 1% of overall portfolio or sum of provisioning for sub-standard and loss assets.

COMPLIANCE WITH RBI NBFC-MFI REGULATORY FRAMEWORK (1/2)

RBI norms for NBFC-MFIs

SKS compliance

NBFC-MFIs

- | | |
|--|--|
| <ul style="list-style-type: none"> ▪ Qualifying assets to constitute not less than 85% of its total assets (excluding cash and bank balances) ▪ At least 50% of loans for income generation activities | <ul style="list-style-type: none"> ▪ Qualifying assets - 96% ▪ Income generation loans 98% |
|--|--|

Qualifying Assets Criteria*

Income of Borrower's Family

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ Rural : <=Rs.100,000 ▪ Non-Rural : <=Rs. 1,60,000 | ✓ |
|--|---|

Ticket Size

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ <= 60,000 – 1st cycle ▪ <= Rs.100,000 – Subsequent cycle | ✓ |
|--|---|

Indebtedness

- | | | |
|---|---|---------------|
| <ul style="list-style-type: none"> ▪ <= Rs. 100,000 | ✓ | <= Rs. 60,000 |
|---|---|---------------|

Tenure

- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ If loan amt. > Rs.30,000, then >= 24 months | ✓ |
|---|---|

Collateral

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ Without collateral | ✓ |
|--|---|

Repayment Model





- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ Weekly, Fortnightly and Monthly | ✓ |
|---|---|

COMPLIANCE WITH RBI NBFC-MFI REGULATORY FRAMEWORK (2/2)

RBI norms for NBFC-MFIs

SKS compliance

Pricing Guidelines

Interest Rate	<ul style="list-style-type: none"> ▪ A. Margin cap – 10% above cost of borrowings ▪ B. Avg. base rate of top 5 commercial banks X 2.75 ▪ Lower of the A and B. 		Interest rate 19.75% w.e.f 7 th December'15 for new loans
Processing Fees	<ul style="list-style-type: none"> ▪ <= 1% of loan amt. 		
Insurance Premium	<ul style="list-style-type: none"> ▪ Actual cost of insurance can be recovered from borrower and spouse ▪ Administrative charges can be recovered as per IRDA guidelines 		
Penalty	<ul style="list-style-type: none"> ▪ No penalty for delayed payment 		
Security Deposit	<ul style="list-style-type: none"> ▪ No security deposit/ margin to be taken 		<ul style="list-style-type: none"> ▪ SKS has never taken security deposit/ margin

SKS LOAN PORTFOLIO QUALIFIES FOR OVERALL PSL TARGET OF 40% AND ALL SUB-TARGETS UNDER NEW PSL NORMS

S.no.	RBI			SKS	
	Sector	Category	Target for Banks %	Qualifying Portfolio of SKS %	Explanation
1	Agriculture	Target	18%	38%	Livestock, Agri & Allied
	- Direct Agriculture*	Sub-target	~13.5%*		
	- Direct Small & Marginal farmers*	Sub-target	7% (Mar'16) 8% (Mar'17)		
2	Weaker	Target	10%	100%	100% Loans are to women beneficiaries (with less than Rs.1 lac). Further, Minority communities constitute 16% and economically weaker sections 71% of loan portfolio.
3	Micro-enterprises	Target	7% (Mar'16) 7.5% (Mar'17)	100%	Loans to MFIs for on-lending to microenterprises.

Note:

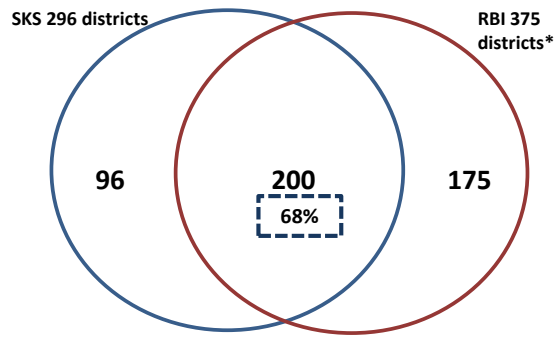
* As per RBI notification dated 16th July 2015 Banks are directed to ensure overall direct lending to non-corporate farmers does not fall below the system wide average of last three years achievement. They should also continue to maintain all efforts to reach the level of 13.5% direct lending to beneficiaries..

Refer Slide no.18 for details on purpose wise loan portfolio outstanding.

SKS FINANCIAL INCLUSION COVERAGE...

Strong reach in under-banked areas

68% of SKS branches are in RBI under-banked districts list

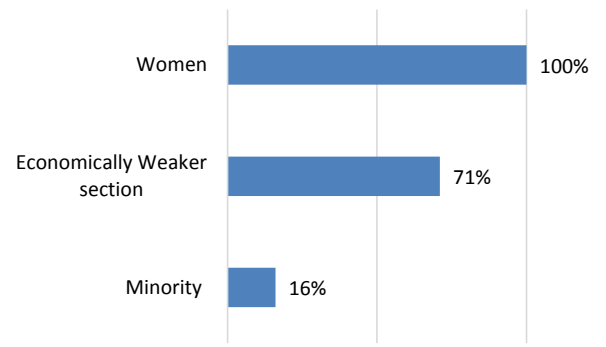


SKS covers 68% of below average & low financial inclusion districts identified by Crisil

CRISIL level of financial inclusion	SKS Coverage of those districts
High	18%
Above average	15%
Below average	51%
Low	16%
Grand Total	100%

68% (Covers Below average and Low categories)

Weaker & Minority section coverage



* Source: RBI under-banked districts data

[1] Source: CRISIL Inclusix: An index to measure India's progress on Financial Inclusion, June 2013

... IS SUPPORTED BY ROBUST CUSTOMER CENTRIC PRACTISES

Doorstep Service



Doorstep delivery (i.e. at Center meetings)

Financial literacy



2 day process consisting of hour-long sessions designed to educate clients on SKS processes and credit discipline.

Dedicated customer service

SKS Toll free Number
1800 300 10000

Call Timings:
 Morning 7:30 AM to Evening 3:30 PM
 (Monday to Friday)

You can call this number from any number FREE of cost.

Toll-free helpline number with seven different vernacular languages

PRODUCT OFFERINGS

	IGL	MTL	LTL	Other product offerings^^	Gold loans
Loan portfolio (INR Crs) / (% Mix)	2,554 (41%)	1,520 (25%)	1,980 (32%)	72 (1%)	52 (1%)
Ticket size range (w.e.f 7 th Dec'15)	INR 9,100 to INR 29,565	INR 9,100 to INR 15,010	INR 30,915 to INR 49,785	INR 1,799 to INR 5,290	INR 2,000 to INR 200,000
Avg. Ticket Size (INR) For Q3FY16	16,729	14,625	31,968	2,211	13,811
Eligibility*	<ul style="list-style-type: none"> ▪ Completion of CGT / GRT ▪ Age limit 18 years to 55 years ▪ Maximum limit of INR. 20,010 for IGL 1 	<ul style="list-style-type: none"> ▪ With IGL - Between 20th to 46th week ▪ With LTL – Between 20th to 96th week 	<ul style="list-style-type: none"> ▪ Minimum Two IGL Loan cycle completed ▪ Maximum limit of INR. 38,635 for LTL 1 	<ul style="list-style-type: none"> ▪ With IGL – Between 4th to 46th week ▪ With LTL – Between 4th to 100th week 	Maximum LTV as % of gold value on disbursement <ul style="list-style-type: none"> ▪ SP3: 68% ▪ SP4: 75%
Tenure	50 weeks		104 weeks	25 weeks	<ul style="list-style-type: none"> ▪ SP3: 0 - 365 days ▪ SP4: 0 - 270 days
Annual effective interest rate	19.75% (w.e.f 7 th Dec'15 for new loans)			<ul style="list-style-type: none"> ▪ 19.60% - 20.20% 	<ul style="list-style-type: none"> ▪ SP3: 15% - 24% ▪ SP4: 19.2% - 26%
Processing fee (Incl. Service Tax)	1.14%			<ul style="list-style-type: none"> ▪ 0.94% -1.14% 	<ul style="list-style-type: none"> ▪ SP3 & SP4: 0.5%

* Eligibility criteria over and above the criteria prescribed by the RBI

^^Loans for Mobile Phones, Solar lamps, Sewing Machines, Bio-Mass Stove, Water-purifier and Bicycle.

HIGHLIGHTS - LONG TERM LOANS (LTL)

Product Details

Purpose	Income generating activity
Ticket Size	Rs.30,915 to Rs.49,785
Tenure	104 Weeks
Eligibility	<ul style="list-style-type: none"> Minimum Two IGL Loan cycle completed Maximum limit of INR. 38,635 for LTL 1
Product design	<p>Equal weekly installment (EWI) similar to IGL Eg.: IGL Rs.15K Ticket size : Rs. 330 EWI LTL Rs. 30K Ticket size : Rs. 360 EWI</p>

Snapshot	LTL			Enterprise			% Mix LTL		
	Q3FY15	Q2FY16	Q3FY16	Q3FY15	Q2FY16	Q3FY16	Q3FY15	Q2FY16	Q3FY16
No. of Loans Disbursed in '000	53	191	226	1,271	1,988	1,899	4.13%	9.60%	11.92%
Avg. Ticket Size INR	28,954	29,677	31,968	12,146	13,404	15,689			
Amount of Loan Disbursed ('In Crs.)	152	567	724	1,544	2,665	2,980	9.85%	21.26%	24.29%
Portfolio Outstanding (in Crs.)	369	1,513	1,980	3,195	5,462	6,177	11.56%	27.70%	32.05%

*Disbursement capped at 25% of overall disbursement

^ Income Generating Loans with ticket size of Rs.9,100 to Rs.29,565 with tenure of 50 weeks

LEVERAGING THE DISTRIBUTION STRENGTH

	FY15	Q1FY16				Q2FY16				Q3FY16			
	Total	Mobile phone	Solar lamp	Others ^	Total	Mobile phone	Solar lamp	Others ^	Total	Mobile phone	Solar lamp	Others ^	Total
No. of Units Facilitated (in Lacs)	8.4	1.8	1.4	0.7	4.0	2.0	1.4	0.7	4.1	1.3	1.2	0.4	2.9
Gross Fees (after service tax) INR Crs.	28.3	6.1	4.6	2.2	12.8	6.0	4.7	2.1	12.8	3.9	4.1	1.3	9.3
Less: Incentives INR Crs.	4.6	1.7	1.3	0.7	3.6	1.9	1.3	0.7	3.9	1.1	1.0	0.3	2.4
Net Fees INR Crs.*	23.7	3.5**	2.7**	1.2**	7.3**	3.2**	2.7**	1.1**	7.0**	2.3**	2.4**	0.7**	5.4**
Loan Portfolio INR Crs.	58.3	40.6	24.8	21.5	86.9	43.8	25.6	23.4	92.8	31.2	22.1	19.2	72.5
Net Fee Income as % of PAT	12.6%	5.7%	4.3%	1.9%	11.9%	4.1%	3.4%	1.5%	9.0%	2.8%	3.1%	0.9%	6.8%
Loan Portfolio Mix	1.4%	0.8%	0.5%	0.4%	1.8%	0.8%	0.5%	0.4%	1.7%	0.5%	0.4%	0.3%	1.2%

*Net fee post the incentive payout and sans transfer pricing of other operating cost. ** Post MAT adjustment
 ^Loans for Sewing Machines, Bio-Mass Stove, Water-purifier and Bicycle.

Penetration Based On Total No. Of Loans

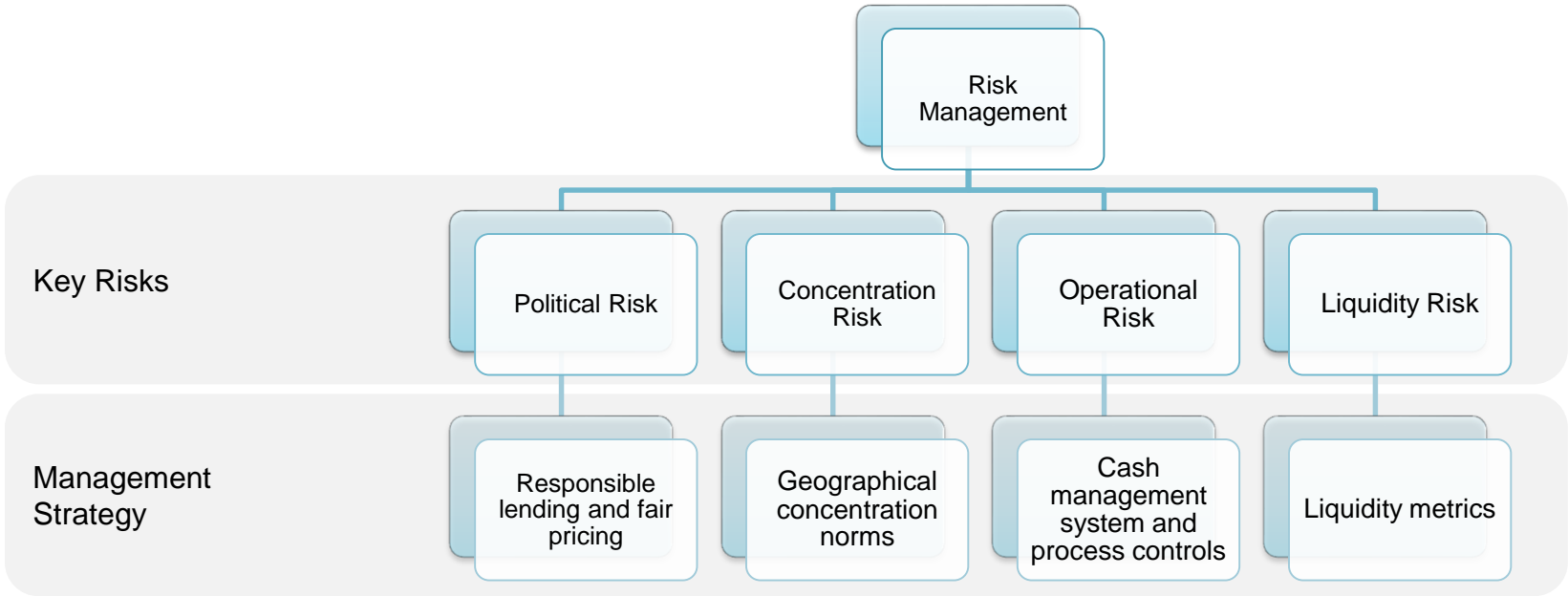
	FY14	FY15	9MFY16	Cumulative past 2.75 years
Mobile Phone	3.5%	9.0%	10.7%	23.2%
Solar Lamp	2.0%	7.9%	8.1%	18.0%
Sewing Machine	-	0.2%	1.5%	1.7%
Bicycle	-	-	1.2%	1.2%
Bio-mass stove	-	0.3%	0.8%	1.2%
Water Purifier	-	-	0.5%	0.5%
Total	5.5%	17.5%	22.8%	45.8%

Frequency Of Loans Based On Current Member Base

Frequency of Loans (for the period)	FY14	FY15	9MFY16	Cumulative past 2.75 years
#1	2.1%	17.4%	21.7%	36.3%
#2	-	-	0.2%	2.6%
#3	-	-	-	0.04%
#4	-	-	-	-
Total	2.1%	17.4%	21.9%	39.0%

Cumulative Cross-sell Penetration % among our existing Non-AP Member base of 4.96 mn for last 2.75 years is 46%

KEY RISKS AND MANAGEMENT STRATEGIES



- Low cost lender
- Voluntary Cap on RoA from core lending
- Robust Customer grievance redressal (CGR) Mechanism with Ombudsman
- Calibrated Growth

- Disbursement Related Caps
- Portfolio Outstanding Related Caps

- Integrated cash management system
- Product and process Design
- ISO Certified Internal audit

- Well defined metrics for
 - *Cash burn*
 - *Business continuity*
 - *Growth*

INTERNAL AUDIT PLAYS A CRITICAL ROLE IN PROCESS MONITORING

Strength

- 196 strong headcount
- ISO 9001:2008 certified process
- All branches are inspected monthly based on a 4 tier grading system
- Grading linked to incentives/appraisals of field staff
- Head Office audit by KPMG

Scope

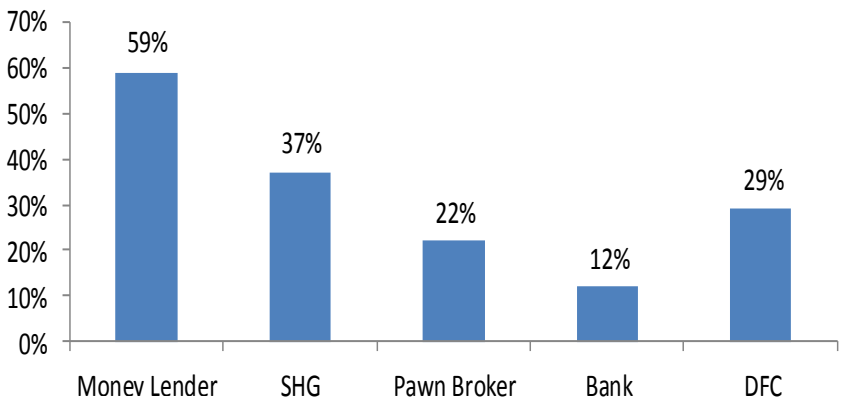
- Branches 1,300
- Branches per Internal Audit staff 7
- Regional Offices 23

		Scope of Audit								
Audit area	Frequency	Client Acquisition	Center Meeting Process	Document verification (KYC, Loan utilization check etc.)	Monitoring process by supervisors	Adherence to Process / Policies	Statutory Requirements (Credit bureau, Fair practices etc.)	Client Visits*	High Risk items (Frauds etc.)	Fixed Assets verification^
IGL Branches	Monthly	√	√	√	√	√	√	√	√	√
Gold Loan Branches	45 days	√	-	√	√	√	√	-	√	√
Regional Offices	Quarterly	-	-	-	-	√	√	-	-	√
Head office	Quarterly	-	-	-	-	√	√	-	-	√

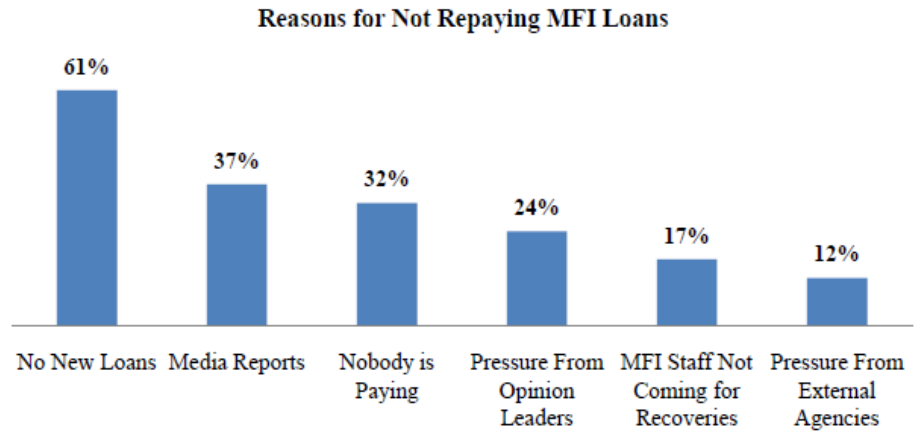
Note:
 * Approximately 30% of the clients are covered by Internal Audit in an year during the branch audits. Clients visited on a sample basis to check for Loan confirmations, Loan utilization (LUC) , arrears and awareness on Client Protection Principles (CPP)
 ^ Fixed Assets are verified on Annual basis

WHAT ARE CLIENTS DOING POST THE ANDHRA PRADESH MFI CRISIS?

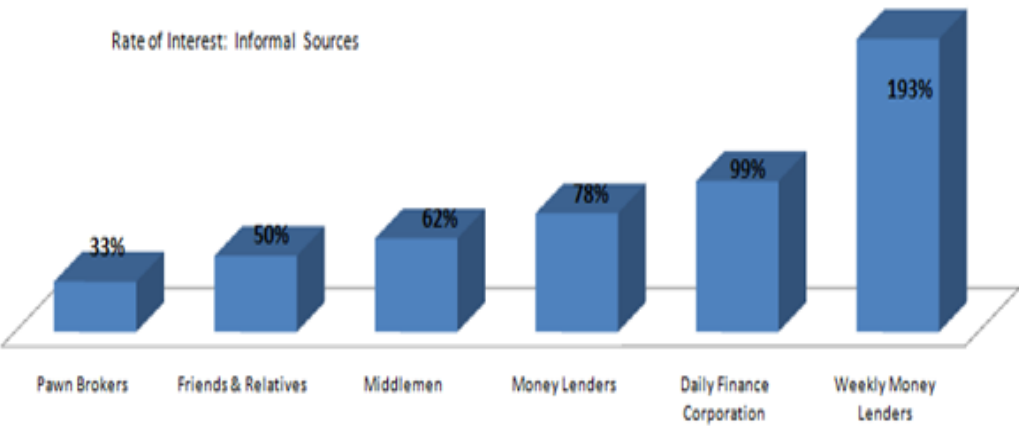
Sources of Credit (in the absence of MFI Loans)



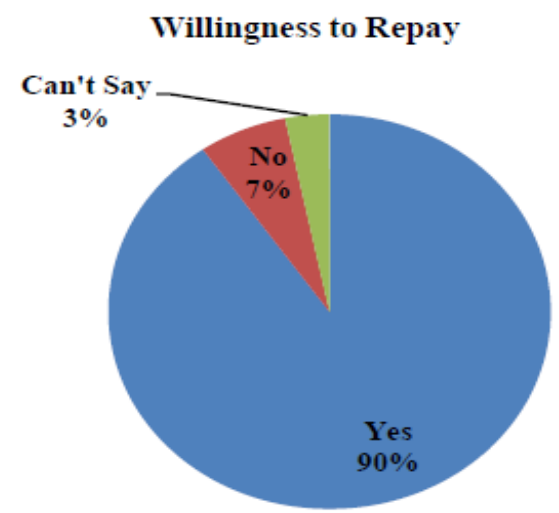
Reasons for not repaying MFI loans



Interest rates charged by informal sources (in the absence of MFIs)



Willingness to repay



Source: "What are Clients doing post the Andhra Pradesh MFI Crisis?", MicroSave, 2011



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