

EARNINGS UPDATE – Q1 FY13



August , 2012

SKS Microfinance Limited

BSE: 533228 NSE: SKSMICRO

www.sksindia.com

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RECENT UPDATE

RECENT UPDATE – Q1 FY13

- SKS completes QIP of Rs.230 Crs and together with the proposed preferential allotment^ of Rs.33.5 Crs , the aggregate capital raised will be Rs. 263.5 Crs.
- Largest capital raise in the microfinance sector post SKS IPO in August 2010.
- Reported Networth of Rs.398 Crs as at 30th June 2012 increases to Rs.648 Crs* post the QIP and proposed preferential allotment. The un-availed deferred tax benefit stands at Rs. 472 Crs.
- Collection efficiency in 17 Non-AP states continues to be robust with Q1FY13 fig. at 98%. The Non-AP credit costs reduces to Rs.9.5 crs in Q1FY13 from Rs.32 crs in Q4FY12.
- Revenue increases by 11% QoQ to Rs.79 crs in Q1FY13 from Rs.72 crs in Q4FY12.
- Branch consolidation and headcount rationalisation continued in Q1FY13. Branches reduced by 103 and headcount reduced by 2,619 QoQ.
- Healthy cash and bank balances of Rs. 403 Crs.

Note:

^ Proposed preferential allotment is expected to complete in August 2012

* After reduction of estimated issue expenses

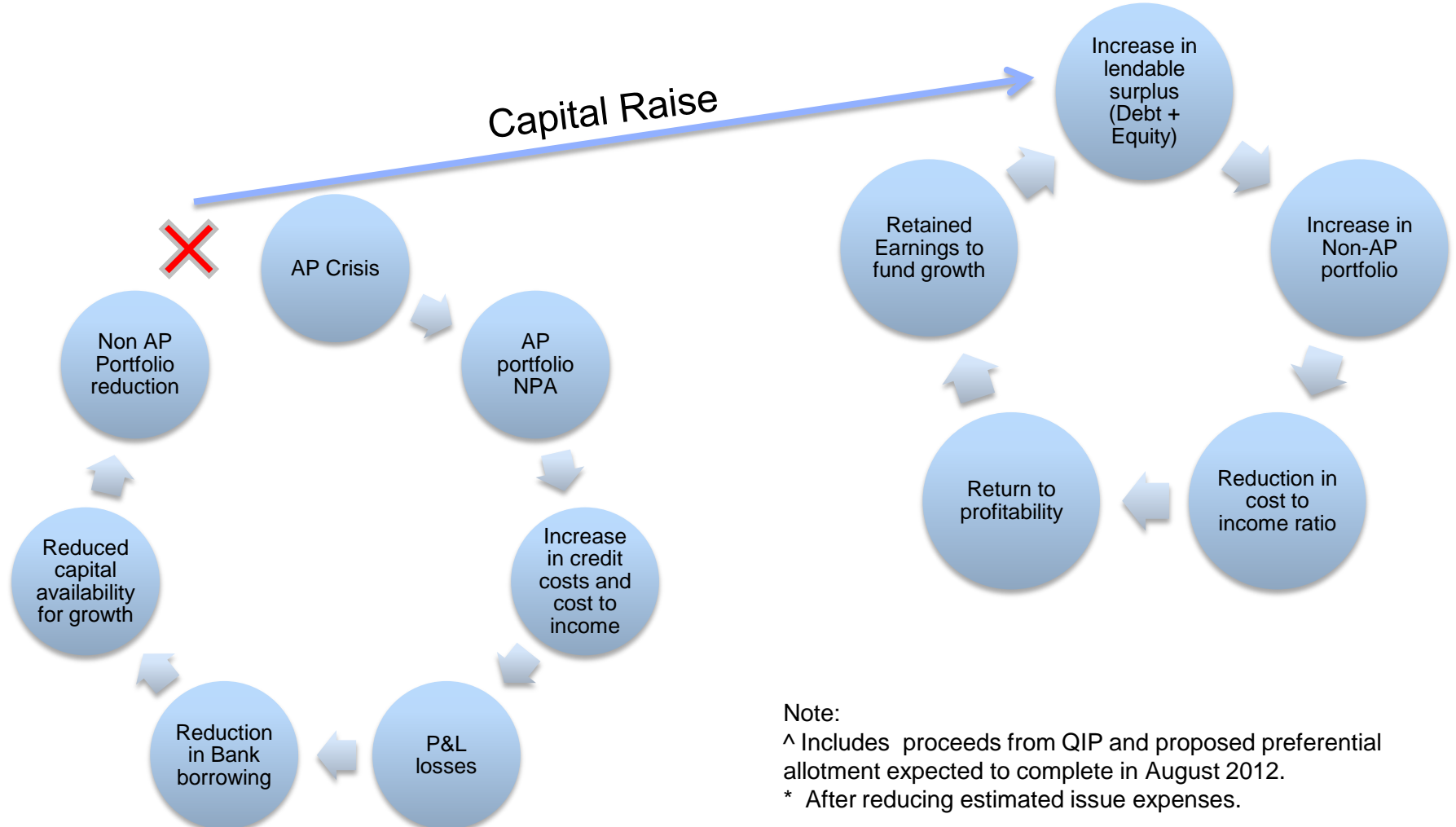
- Figures rounded off to nearest digit across the presentation

HIGHLIGHTS OF CAPITAL RAISE

CAPITAL RAISE TO BREAK THE CYCLE AND FUND FUTURE GROWTH

	Pre-issue	Capital Raised	Post-issue
Networth	398	263.5^	648*
No. of shares	7.3	3.5	10.8
Book Value (Rs.)	54		60
CAR %	28.6%		47.6%

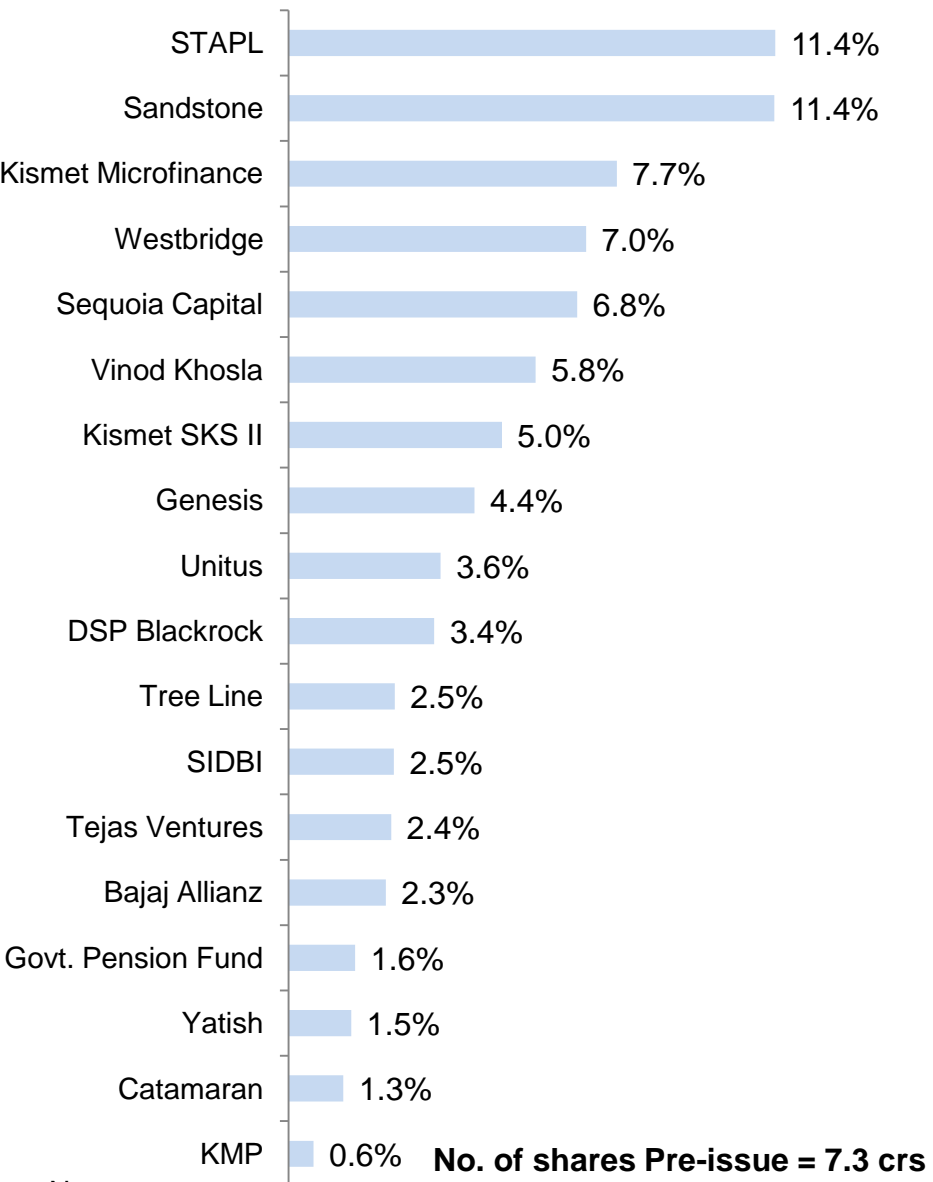
INR Crs



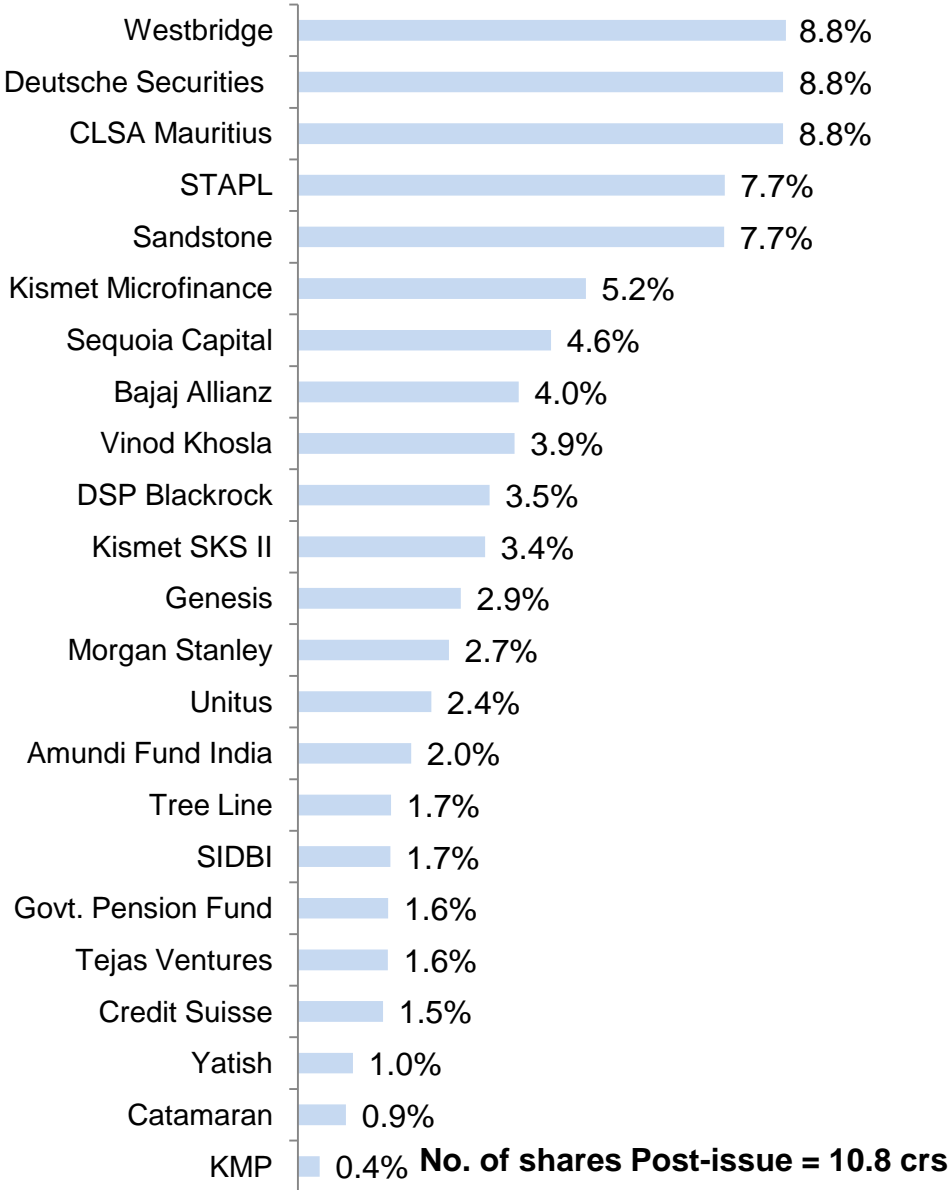
Note:
 ^ Includes proceeds from QIP and proposed preferential allotment expected to complete in August 2012.
 * After reducing estimated issue expenses.

POST-ISSUE CAPITAL STRUCTURE

PRE- Capital Raise



POST - QIP + Proposed Preferential Issue^



Note:

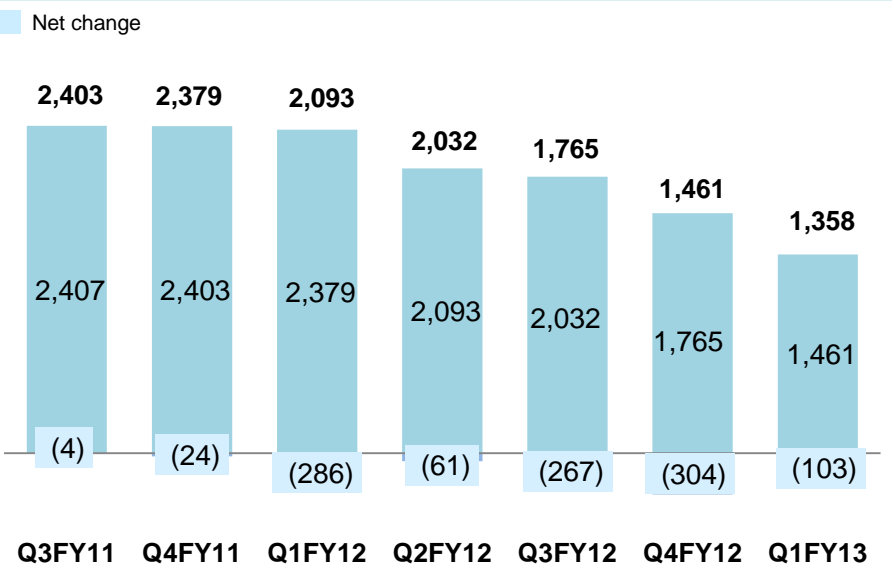
The percentages doesn't include ESOPs

^ Includes shares from QIP and proposed preferential allotment expected to complete in August 2012.

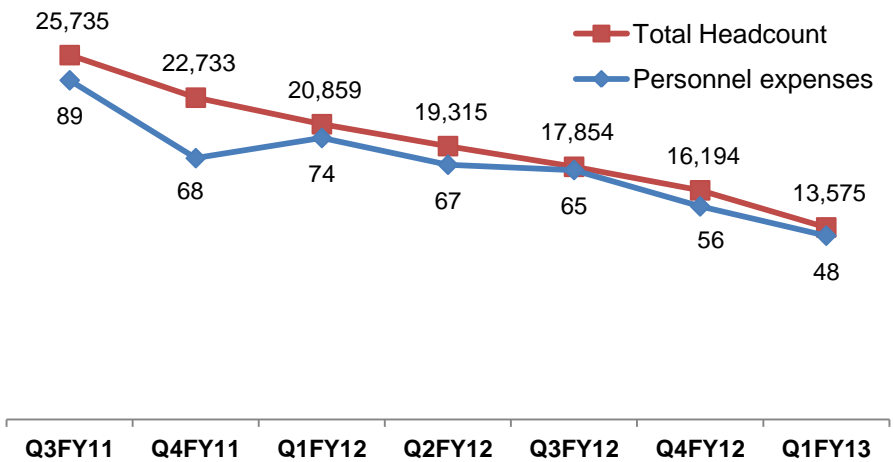
OPERATIONAL HIGHLIGHTS

COST STRUCTURE OPTIMISATION

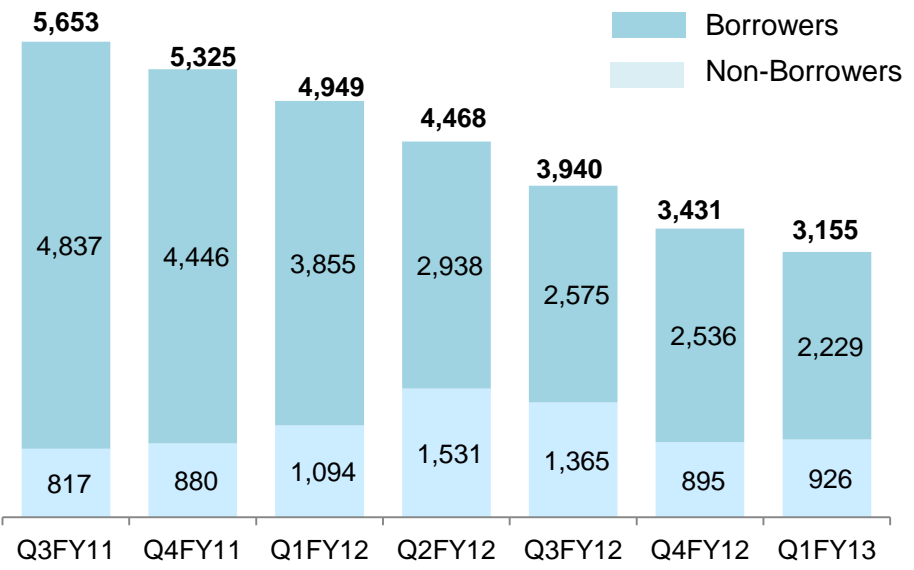
Branches



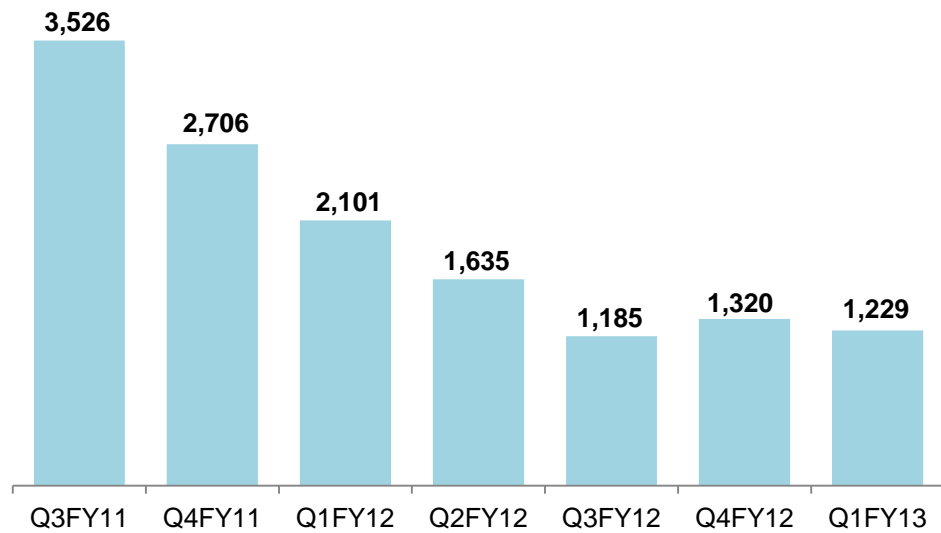
Personnel cost (2/3rd of operating cost)



Non- AP Members (in '000)



Non- AP Loan Portfolio Outstanding (INR Crs)



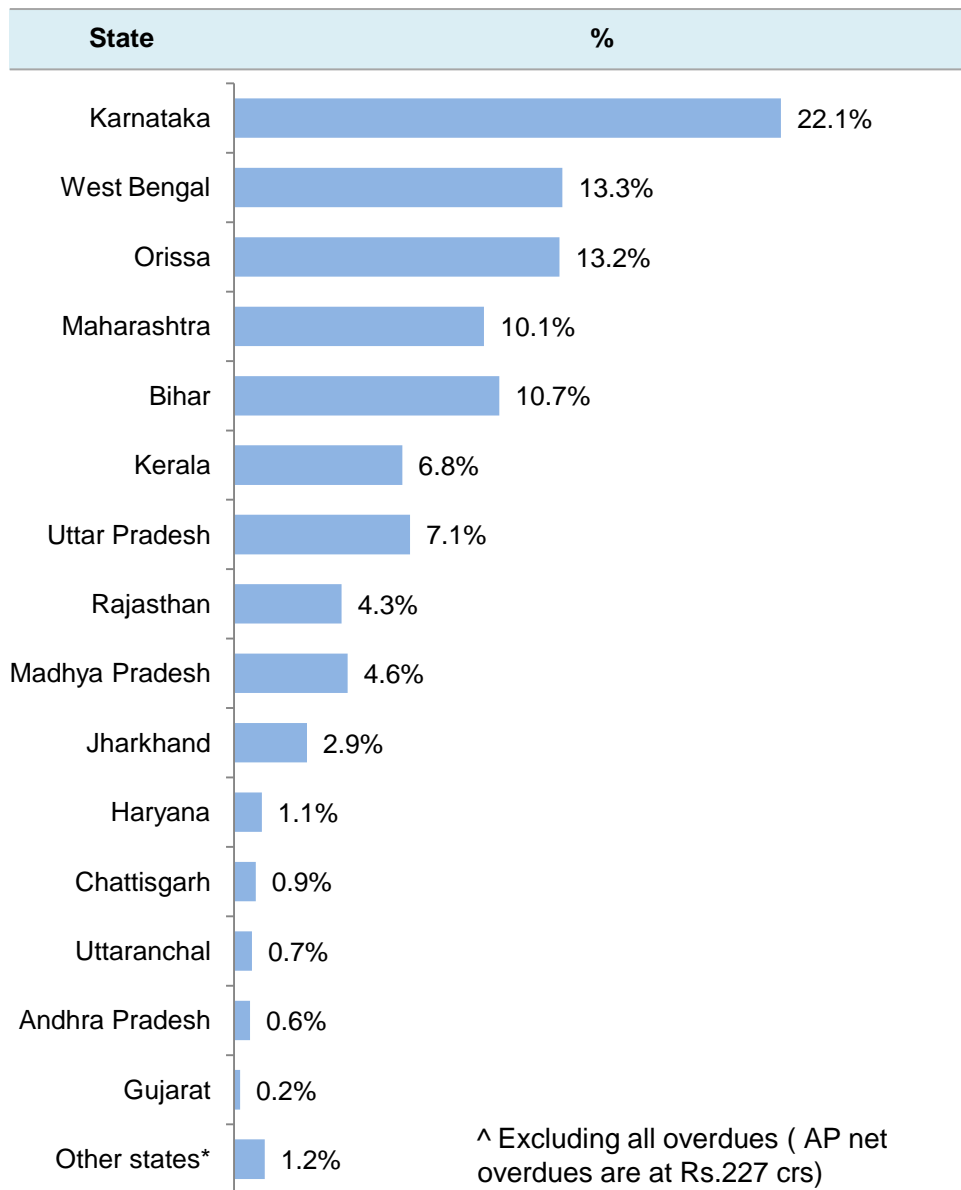
CONSOLIDATED OPERATIONAL HIGHLIGHTS

Particulars	Jun-11	Jun-12	YoY%	Mar-12	QoQ%
Branches#	2,093	1,358	-35%	1,461	-7%
Centers (Sangam)	268,826	220,819	-18%	229,600	-4%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	20,859	13,575	-35%	16,194	-16%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	20,503	13,258	-35%	15,867	-16%
– Sangam Managers* (i)	13,821	8,362	-39%	10,354	-19%
– Sangam Managers Trainees(ii)	49	123	151%	8	1438%
– Branch Management Staff (iii)	3,840	2,674	-30%	3,234	-17%
– Area Managers (iv)	166	124	-25%	123	1%
– Regional Office Staff (v)	2,627	1,975	-25%	2,148	-8%
• Head Office Staff (vi)	356	317	-11%	327	-3%
Members (in '000)	6,879	5,075	-26%	5,351	-5%
– Members in non-AP States (in '000)	4,949	3,155	-36%	3,431	-8
Active borrowers (in '000)	5,615	3,946	-30%	4,257	-7%
– Active borrowers in non-AP States (in '000)	3,855	2,229	-42%	2,536	-12
No. of loans disbursed (in '000)	890	473	-47%	722	-34%
Disbursements (for the quarter) (INR Crs)	900	550	-39%	793	-31%
Off-take Avg (Disbursements / No of Loans disbursed)(INR)	10,116	11,629	15%	10,987	6%
Gross loan portfolio (INR Crs) (A+B)	3,450	1,576	-54%	1,669	-6%
• Loans outstanding (A)	3,060	924	-70%	765	21%
• Assigned loans (B)	390	652	67%	904	-28%
Operational Efficiency:					
Gross loan portfolio/ No. of Sangam managers (Rs. '000)	2,496	1,885	-24%	1,612	17%
Gross loan portfolio/ Active Borrowers (INR)	6,144	3,994	-35%	3,921	2%
Members / No. of Branches	3,287	3,737	14%	3,662	2%
Members / No. of Sangam managers	498	607	22%	517	17%

*Sangam Managers are our loan officers, who manage our centers (also called as Sangams). #Includes 50 Gold Loan Branches.

NON-AP COLLECTION EFFICIENCY FURTHER IMPROVES TO 98%

State wise – Future Receivables Mix



State wise – Collection Efficiency#

State	Q1FY13	Q4FY12
Karnataka	99.9%	100.0%
West Bengal	90.4%	80.2%
Orissa	99.1%	97.9%
Maharashtra	99.9%	99.9%
Bihar	99.7%	99.9%
Kerala	99.9%	100.0%
Uttar Pradesh	99.8%	99.8%
Rajasthan	100.0%	100.0%
Madhya Pradesh	99.3%	99.3%
Jharkhand	100.0%	100.0%
Haryana	99.8%	100.0%
Chhattisgarh	100.0%	100.0%
Uttaranchal	100.0%	100.0%
Gujarat	44.9%	58.5%
Other states*	99.9%	99.9%
Total non-AP States	98.0%	95.1%

* Other states include Delhi, Punjab & Tamil Nadu

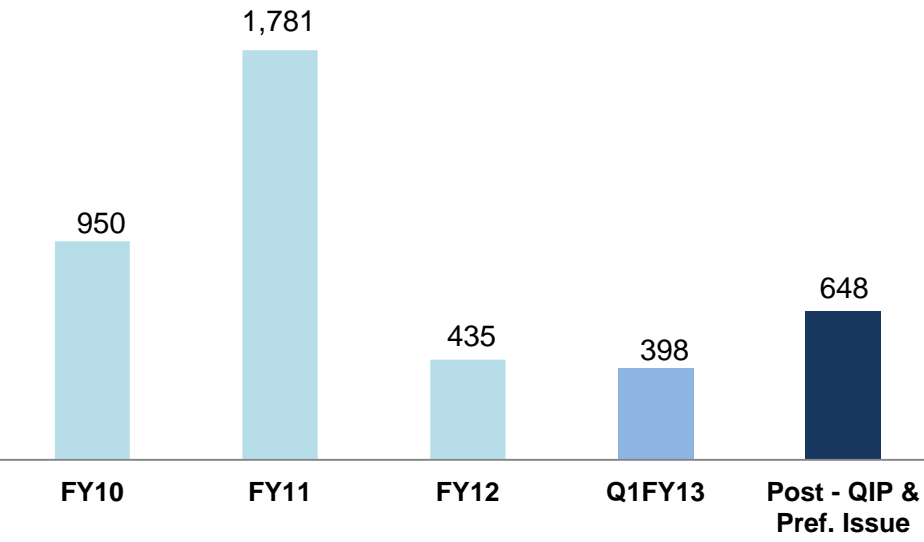
Total collection in quarter divided by scheduled dues in quarter

REVIEW OF FINANCIALS

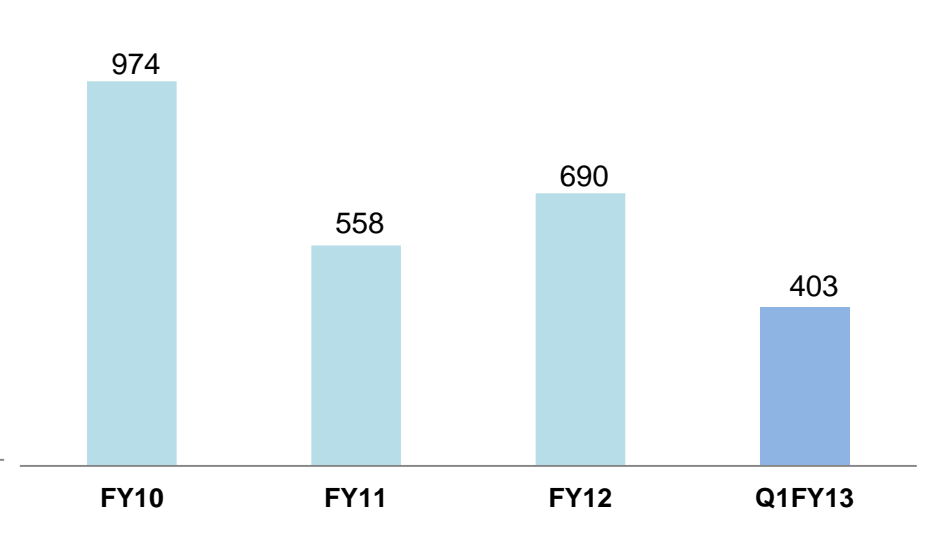
STRONG SOLVENCY AND LIQUIDITY

INR Crs

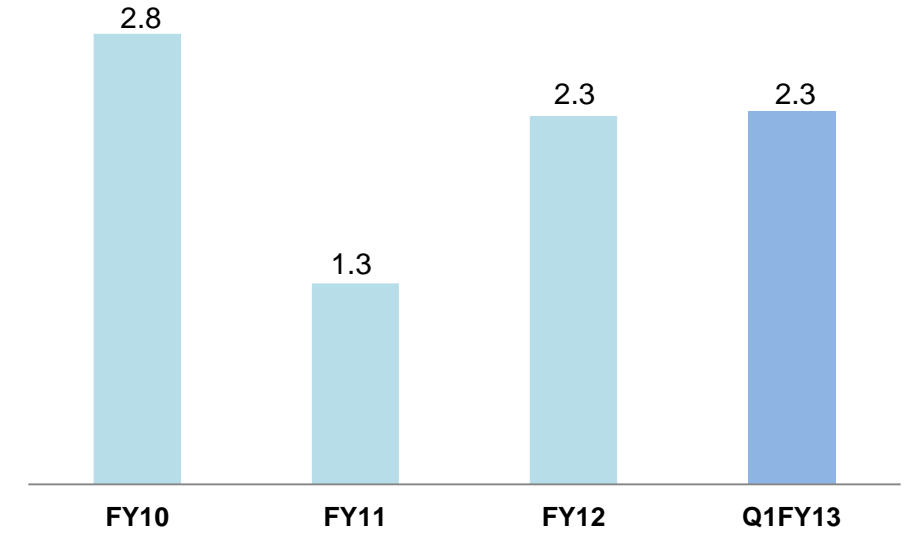
Networth



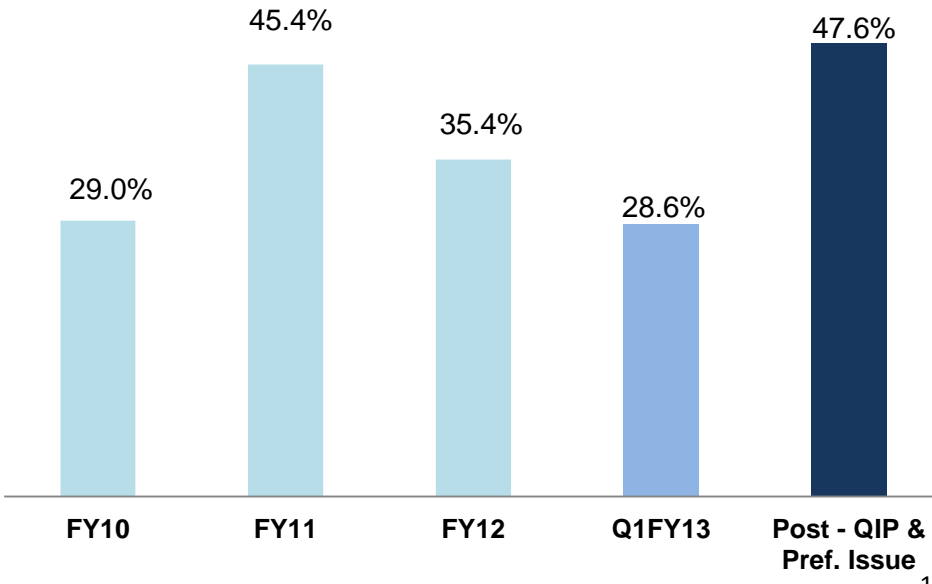
Cash and Bank



Debt/Equity



Capital Adequacy



PROFIT AND LOSS STATEMENT FOR THE QUARTER ENDED

INR Crs

Particulars	Q1 FY12	Q1 FY13	YoY%	Q1 FY13 As % of Total Revenue	Q4 FY12	QoQ%
<u>Income from Operations</u>						
Interest income on Portfolio loans	133*	42*	-69%	53%	50*	-16%
Income from Assigned loans	17	17	3%	22%	3	524%
Membership fee	-	-	-	-	-	-
Loan processing fees	-	5	1914%	7%	4	36%
<u>Other Income</u>						
Insurance commission	1	-	-100%	-	-	-
Group Insurance admin. charges	11	-	-100%	-	-	-
Income on Investments	6	10	72%	13%	7	40%
Miscellaneous Income	9	5	-43%	6%	8	-36%
Total Revenue	177	79	-55%	100%	72	11%
Financial expenses	63	33	-47%	42%	42	-21%
Personnel expenses	74	48	-35%	60%	56	-14%
Operating and other expenses	37	26	-31%	32%	23	12%
Depreciation and amortization	2	2	-28%	2%	2	-30%
Total Operating Cost	113	76	-33%	95%	81	-7%
Provision & Write-offs	184	10	-95%	12%	278	-97%
Total Expenditure	360	118	-67%	149%	401	-71%
Profit before Tax	(183)	(39)	-79%	-49%	(330)	-88%
Tax expense	36	-	-100%	-	-	-
Profit after Tax	(219)	(39)	-82%	-49%	(330)	-88%

* Income on AP portfolio recognised not on accrual basis, but on cash basis

DETAILS OF CREDIT COSTS

INR Crs

Particulars	Q1 FY12			Q2 FY12			Q3 FY12		
	AP	Non AP	Total	AP	Non AP	Total	AP	Non AP	Total
Provision for Standard & NPAs	110	(20)	89	(25)	(7)	(32)	(36)	(4)	(40)
Bad debts written off	12	76	88	326	50	376	368	29	397
Loss on short collection on Off B/S	5	2	7	1	7	9	(0.1)	1	1
Total	126	57	184	303	51	353	332	26	359

Particulars	Q4 FY12			Q1 FY13		
	AP	Non AP	Total	AP	Non AP	Total
Provision for Standard & NPAs	(27)	(12)	(39)	-	(13)	(13)
Bad debts written off	272	36	308	0.1	26	26
Loss on short collection on Off B/S	1	8	9	-	(4)	(4)
Total	246	32	278	0.1	10	10

MANY CHALLENGES BUT NEITHER SOLVENCY NOR LIQUIDITY IS ONE OF THEM

INR Crs

Particulars	Q1 FY12	Q1 FY13	YoY%	Q4 FY12	QoQ%
Equity share capital	72	73	1%	72	1%
Stock options outstanding	10	20	105%	19	8%
Reserves and surplus	1,481	305	-79%	344	-11%
Capital & Reserves	1,563	398	-75%	435	-9%
Loan funds	1,724	927	-46%	1,021	-9%
Current liabilities and provisions	184	176	-4%	173	2%
Provision for standard and non performing asset	154	34	-78%	52	-35%
Liabilities	2,062	1,136	-45%	1,246	-9%
Total Liabilities	3,625	1,534	-58%	1,681	-9%
Fixed assets	20	13	-38%	16	-21%
Intangible assets	8	4	-52%	4	-10%
Investment	-	0.2	-	0.2	-
Deferred tax assets (net)	-	-	-	-	-
Cash and bank balances	281	403	43%	690	-42%
Sundry debtors	4	0.1	-97%	0.2	-51%
Other current assets	16	37	127%	20	87%
Portfolio loans	3,060	924	-70%	765	21%
Other loans and advances	234	153	-34%	185	-17%
Total Loans and Advances	3,294	1,077	-67%	950	13%
Total Assets	3,625	1,534	-58%	1,681	-9%
Note: 1.Assigned Portfolio	390	652	67%	904	-28%
2.Gross Loan Portfolio	3,450	1,576	-54%	1,699	-6%

IMPROVEMENT IN COST TO INCOME & CREDIT COST REDUCES LOSSES IN Q1FY13

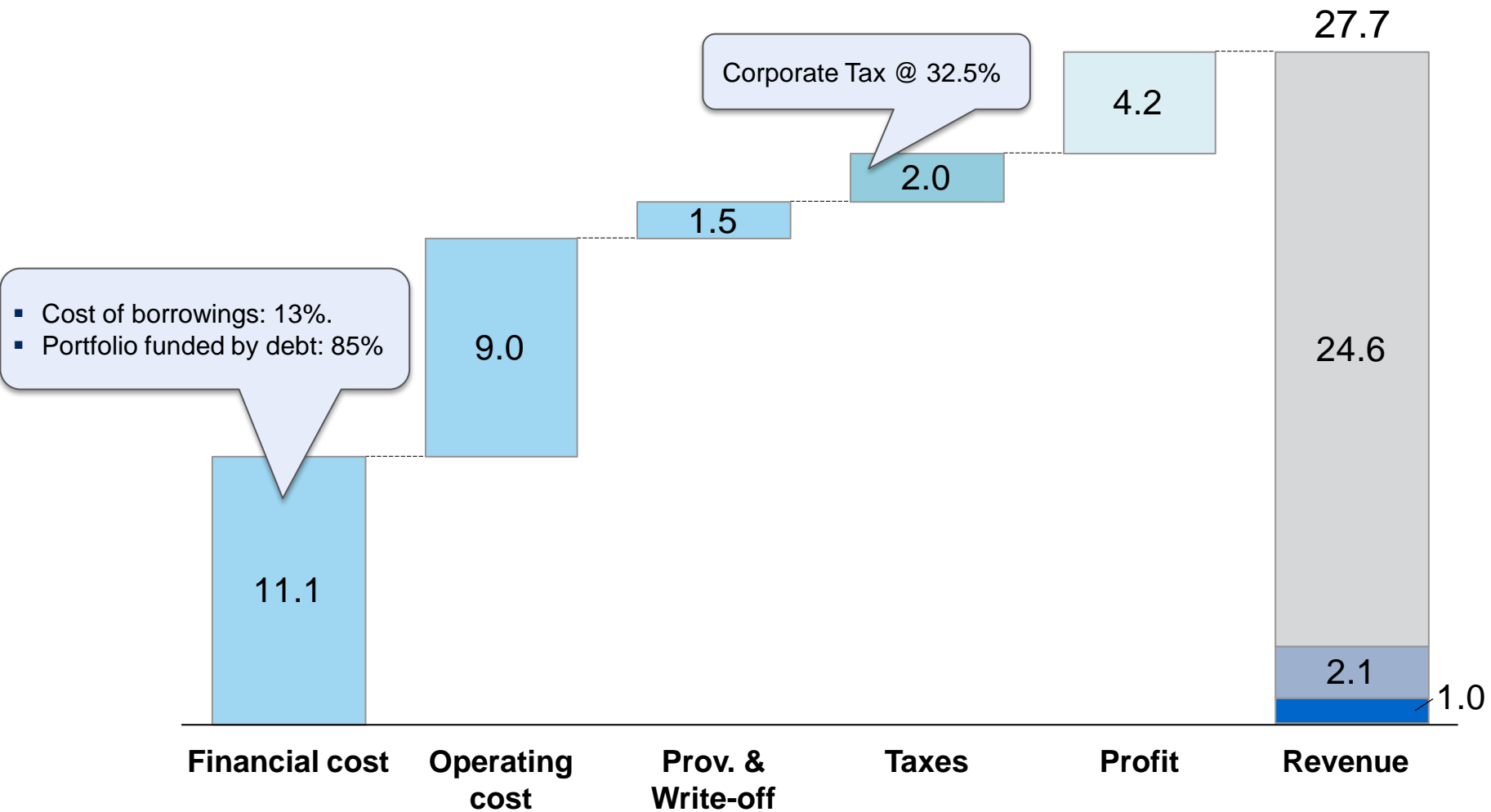
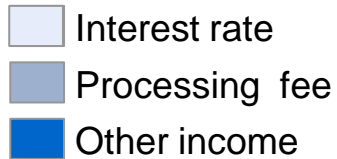
Particulars		Q1 FY12	Q4 FY12	Q1 FY13
Spread Analysis (as % of Avg. Gross Loan Portfolio)				
Gross Yield	(I)	18.7%*	16.5%*	19.6%*
Portfolio Yield		15.8%*	12.1%*	14.5%*
Financial Cost	(a)	6.7%	9.7%	8.2%
Operating Cost	(b)	12.0%	18.7%	18.6%
Provision and Write-offs	(c)	19.4%	63.9%	2.4%
Taxes	(d)	3.8%	-	-
Total Expense	II = (a+b+c+d)	41.8%	92.3%	29.2%
Return on Avg. Gross Loan Portfolio	(I) - (II)	-23.1%	-75.8%	-9.6%
Efficiency:				
Cost to Income		99.4%	275.2%	163.2%
Asset Quality – Non-AP :				
Gross NPA		2.6%	5.5%	1.1%
Net NPA		1.3%	2.9%	0.8%
Gross NPA (INR crs)		46	28	8
Net NPA (INR crs)		23	14	5
Leverage:				
Debt : Equity (on Balance Sheet)		1.1	2.3	2.3
Capital Adequacy:				
		46.0%	35.4%	28.6%
Profitability:				
Return on Avg. Assets		-22.0%	-70.4%	-9.7%
Return on Avg. Assets (incl. assigned loans)		-19.5%	-54.8%	-6.5%
ROE		-52.3%	-220.3%	-37.3%
EPS - Diluted (INR) (Not Annualised)		(30.24)	(45.54)	(5.32)
Book Value (INR)		216.05	60.07	54.33

* Income on AP portfolio recognised not on accrual basis, but on cash basis

PATH TO PROFITABILITY

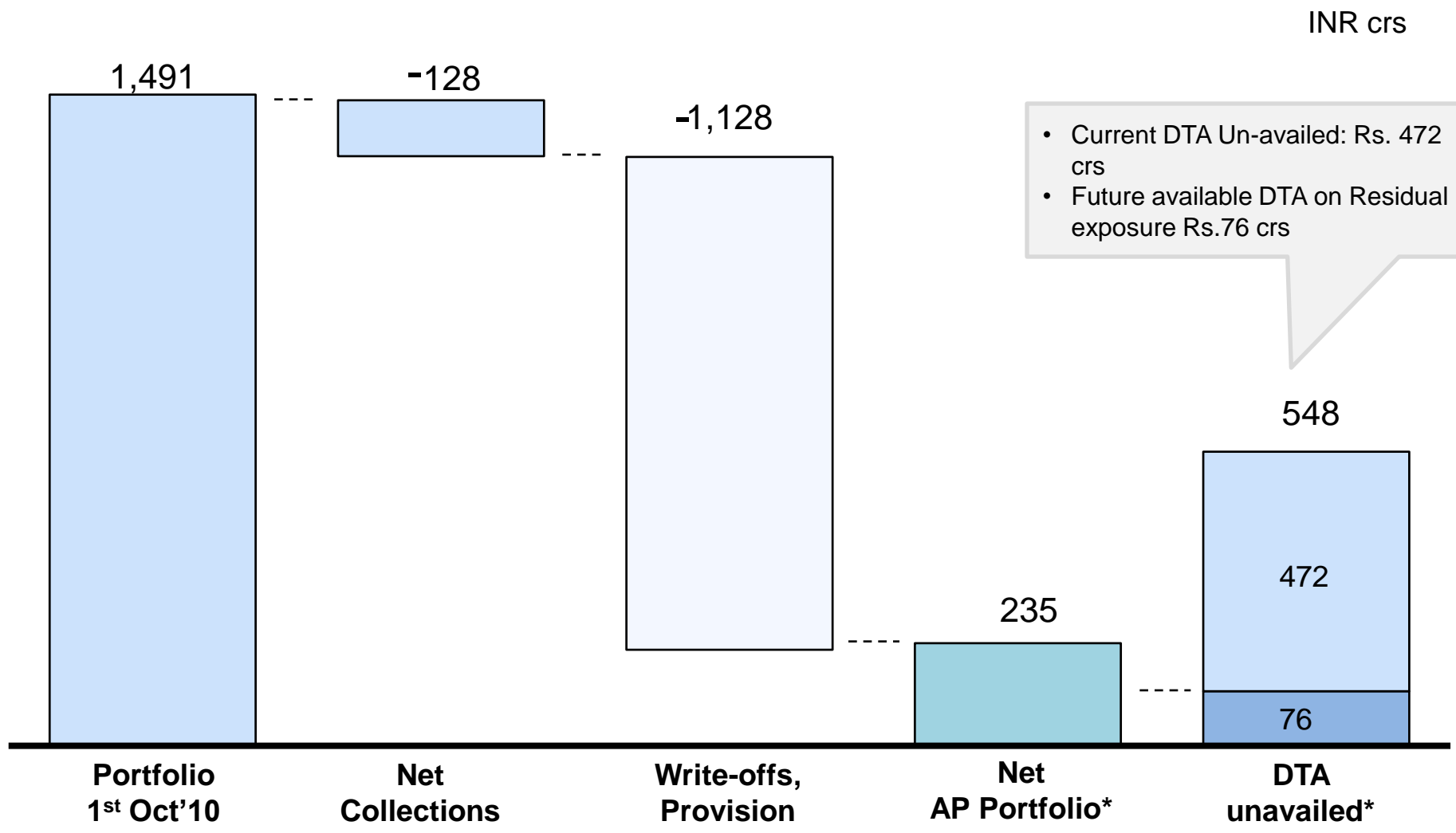
	Q2FY13	Q3FY13	FY14
Target	<ul style="list-style-type: none"> Increased Revenue with Non-AP Portfolio increase by 25% QoQ 	<ul style="list-style-type: none"> Enterprise profit 	<ul style="list-style-type: none"> Enterprise profit with Steady state RoA of 4% (MFI 3%+ Non-MFI 1%)
Strategy	<ul style="list-style-type: none"> Optimize the cost structure 	<ul style="list-style-type: none"> Operating leverage 	<ul style="list-style-type: none"> Financial leverage Broad base the revenue stream De-risk the business model
Drivers	<ul style="list-style-type: none"> One-time costs on headcount rationalisation and branch consolidation peters out Disbursements growth of 40% QoQ No fresh hiring at the field level No branch opening and new client acquisition 	<ul style="list-style-type: none"> Benefits of branch consolidation and headcount rationalisation to show up in P&L Start availing DTA No fresh hiring at the field level No branch opening and new client acquisition 	<ul style="list-style-type: none"> Debt equity to raise from 2.3 to 5 times New client acquisition Non-fund based initiatives to contribute 15% to the bottom line

STEADY STATE ROA OF 4% CAN BE TARGETED UNDER REGULATED INTEREST RATE REGIME



ANDHRA PRADESH UPDATE

EXPOSURE AT RISK IN AP IS SUBSTANTIALLY DEALT IN THE BOOKS OF ACCOUNTS



* As on 30th June'2012

AP exposure on future receivables reduces to less than 1%

WAY OUT FOR AP SITUATION

Legal Relief

- SKS files writ petition against AP MFI act in the Honourable High court of Andhra Pradesh.

Central Legislation

- Draft MFI bill appointing RBI as sole regulator, to overwrite the AP MFI act upon passage in the Parliament.

Diplomacy

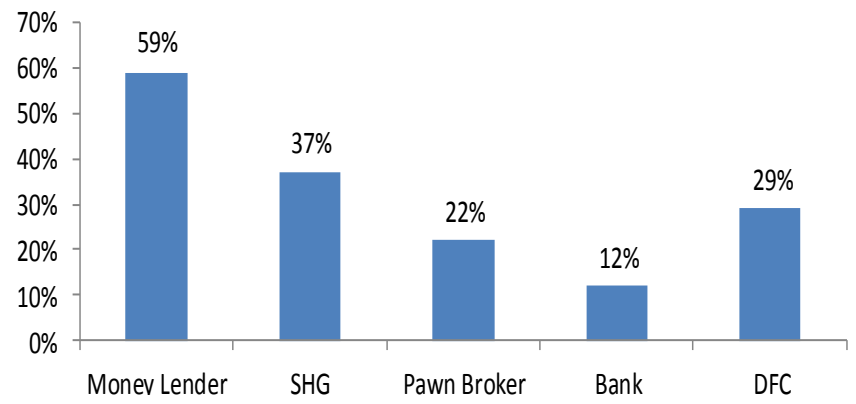
- RBI, MFIN and SIDBI are reportedly in dialogue with the AP Govt.

Customer Sentiment

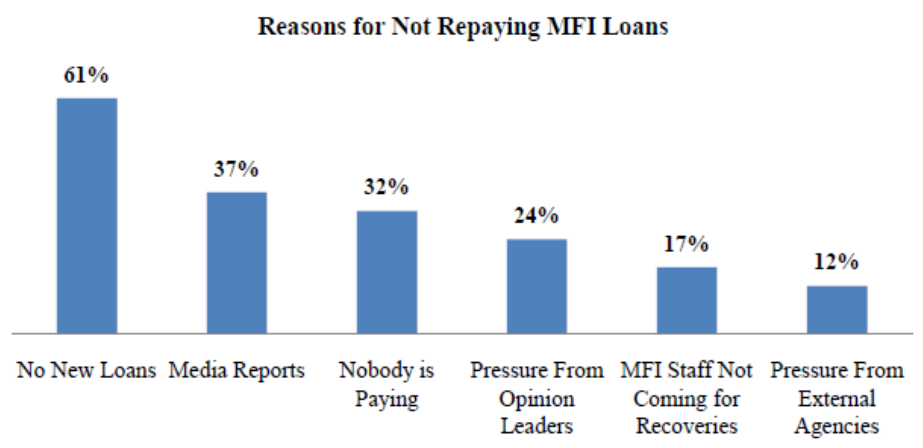
- Substantial reduction or No access to credit for the financially excluded.
- Increase in borrowing costs from borrowing from moneylenders.

WAY OUT FOR AP SITUATION- CUSTOMER SENTIMENT IN AP

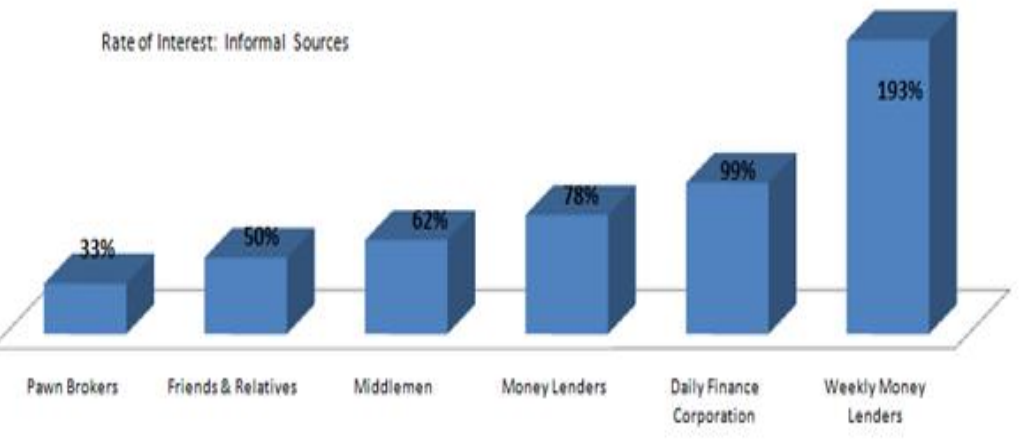
Sources of Credit (in absence of MFI Loans)



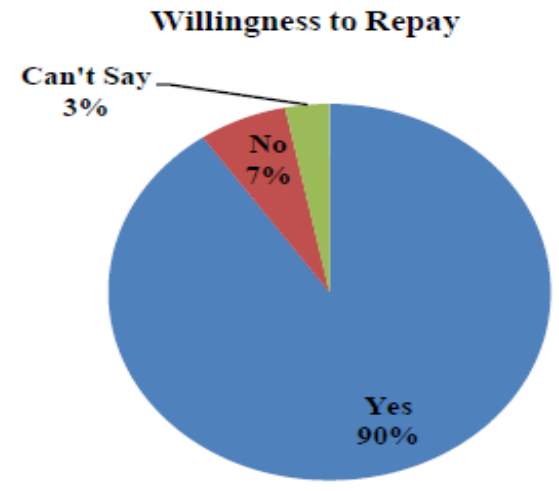
Reasons for not repaying MFI loans



Interest rates charged by Informal Sources (in absence of MFIs)



Willingness to repay



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

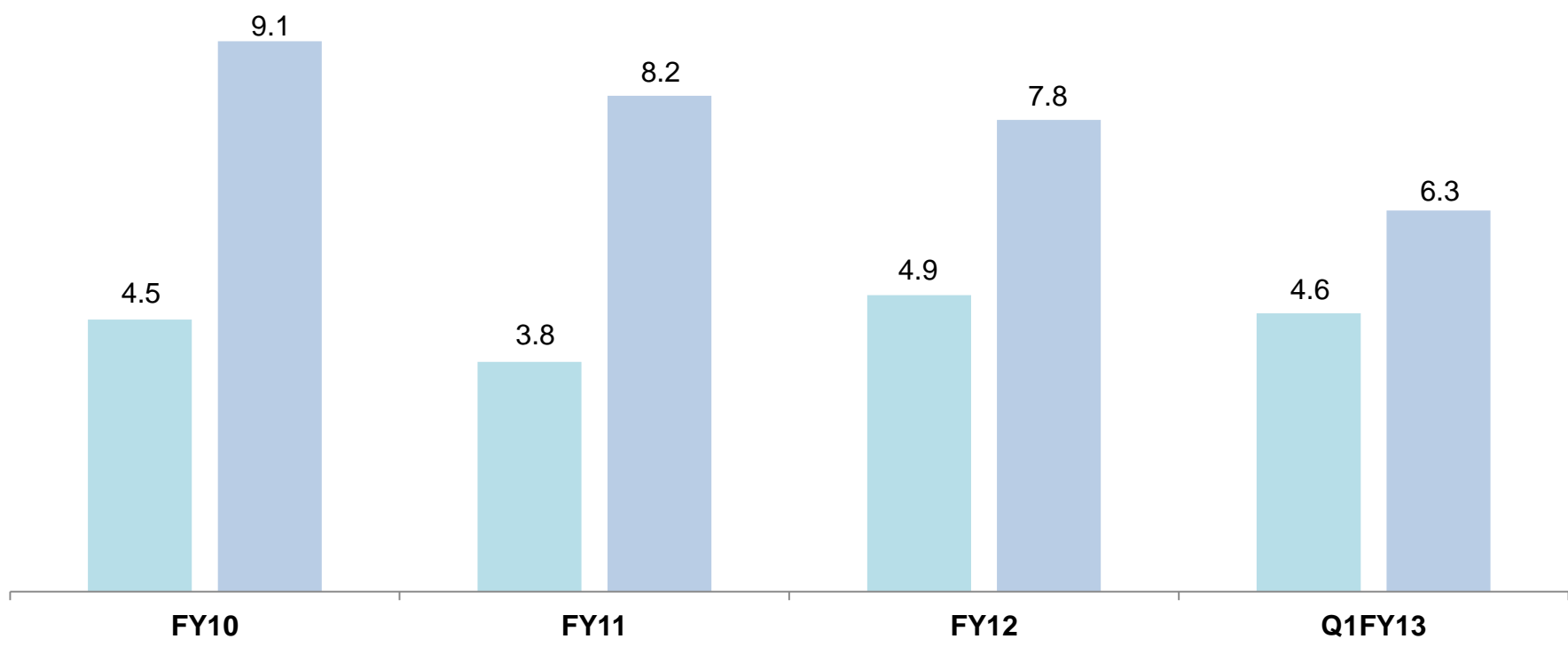
FINANCIAL ARCHITECTURE

FINANCIAL ARCHITECTURE (1/3)

Positive Asset Liability Management Structure

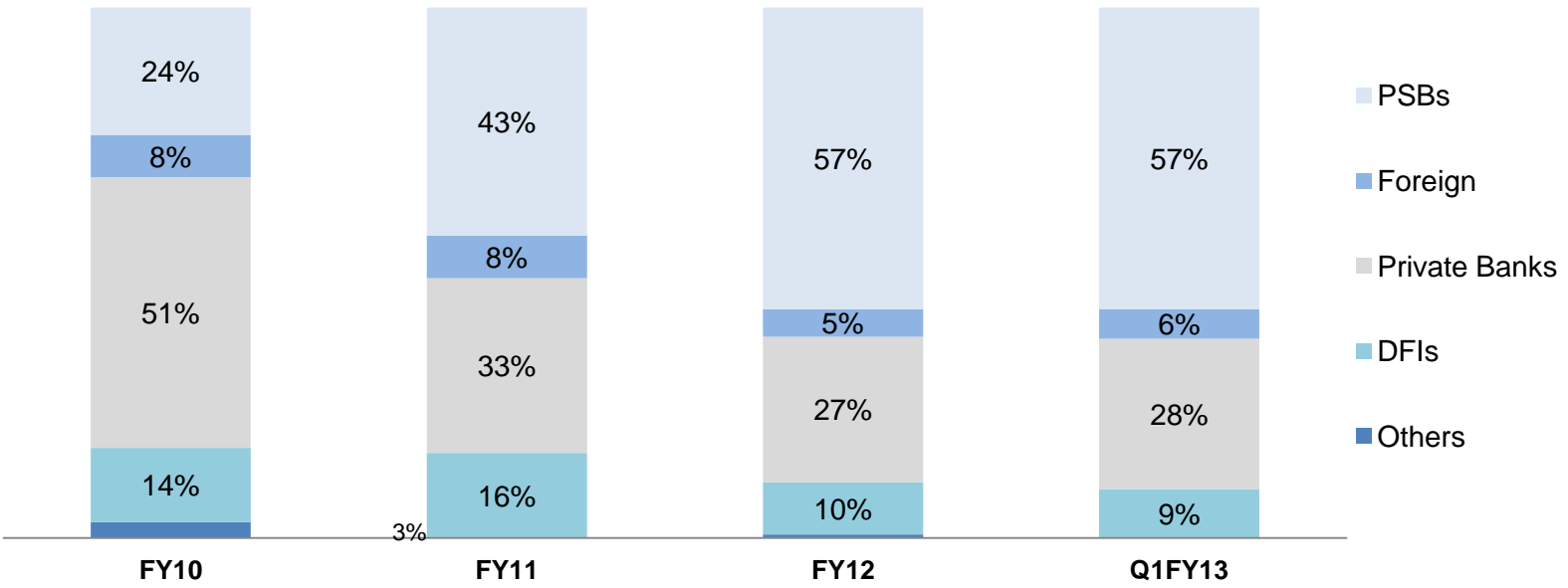
No. of months

■ Avg maturity of assets ■ Avg maturity of liabilities

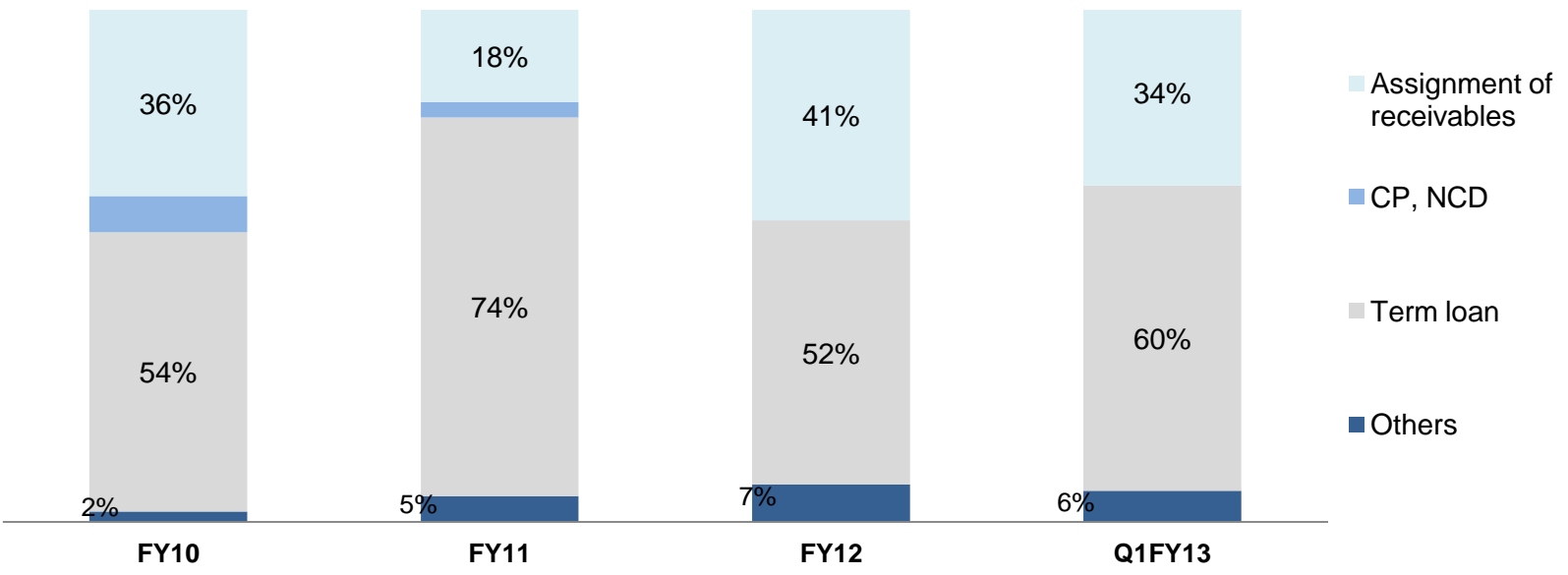


FINANCIAL ARCHITECTURE (2/3)

Lender Group Analysis



Sources Mix



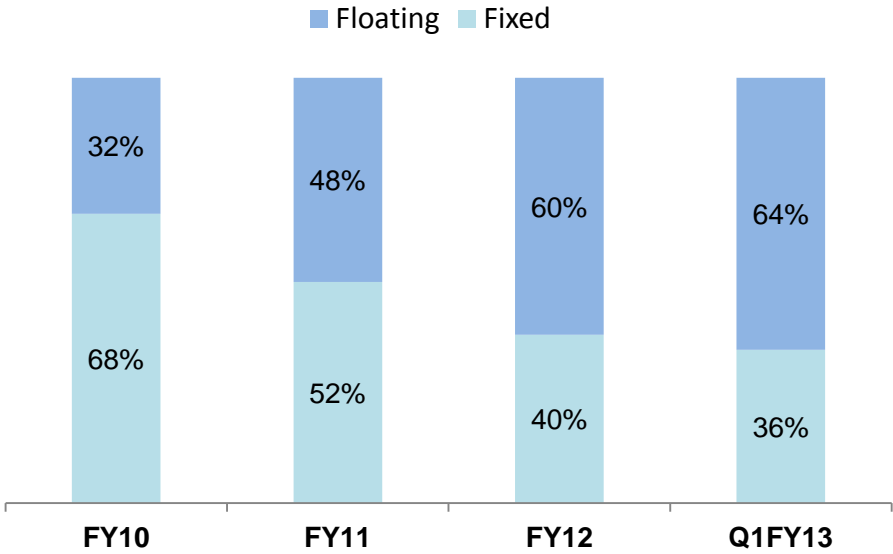
FINANCIAL ARCHITECTURE (3/3)

Funding Cost Analysis

Metric	Q3FY12	Q4FY12	Q1FY13
Cost of interest bearing liabilities	13.5%	12.9%	13.0%
Financial Cost*	7.6%	9.7%	8.2%

* Financial expenses to Avg. Gross Loan Portfolio

Interest Rate Risk Analysis



Funding Mix-Devoid of Dependence Risk

Banks	June 30, 2012
IDBI Bank	18%
Yes Bank	14%
Dena Bank	12%
SIDBI	9%
SBI Group	8%
Indusind Bank	8%
CITI Bank	6%
Central Bank of India	5%
Andhra Bank	4%
Axis Bank	3%
Corporation Bank	3%
Jammu & Kashmir Bank	3%
Indian Overseas Bank	2%
Syndicate Bank	2%
Punjab & Sind Bank	1%

Total amount outstanding as of June'12: Rs 1,409 crs. Concentration risk on rest of the 6 banks is below 1%.

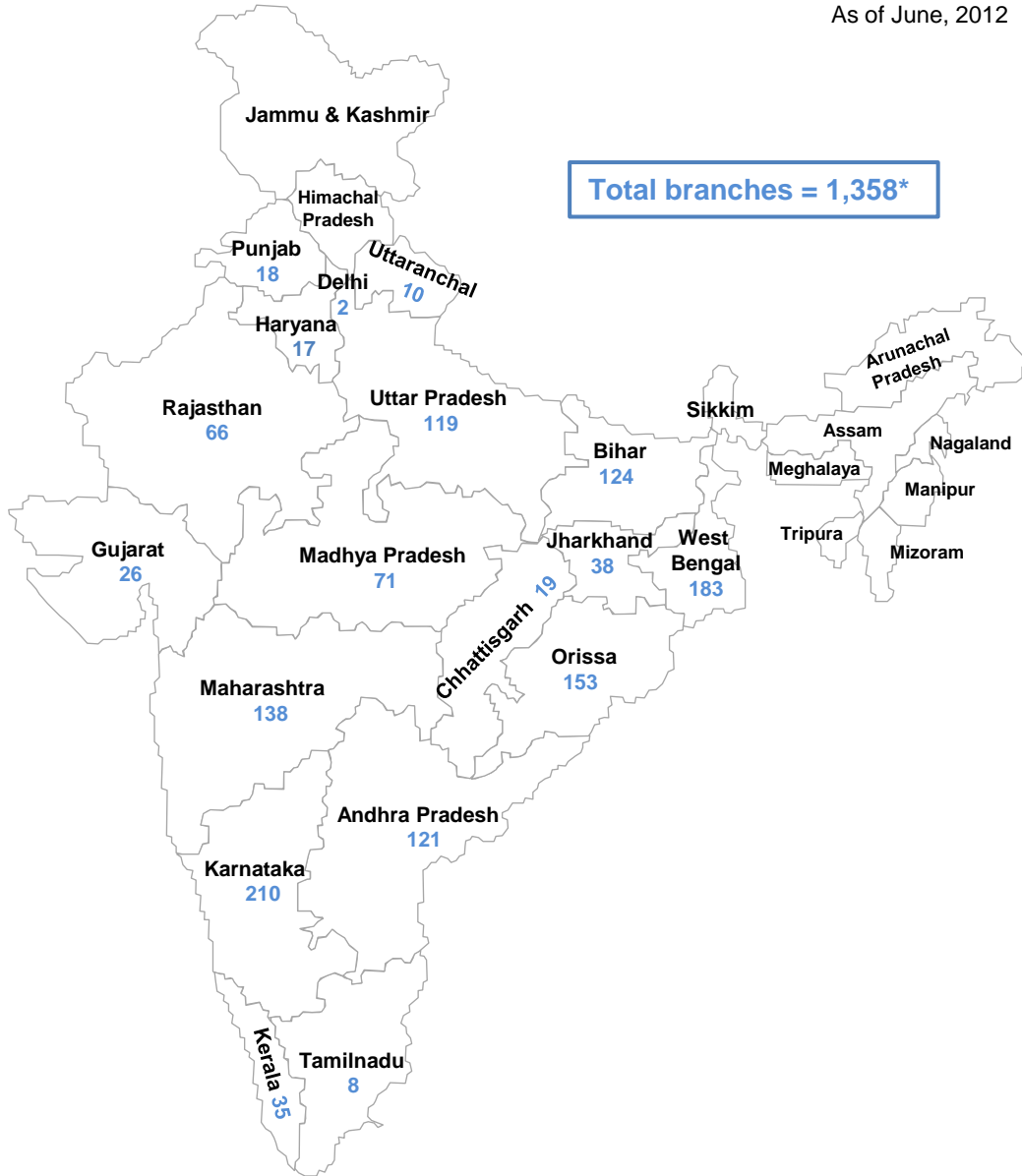
ANNEXURE

OUR PROVISIONING POLICY

		RBI norms	SKS compliance	
			A.P.	Non A.P.
Asset Classification	Standard Assets	Up to 180 days	Up to 180 days	0-8 weeks
	Sub-Standard Assets	180-720 days	180-720 days	8-25 weeks
	Loss Assets	> 720days	>720 days	> 25 weeks
Provisioning Norms	Standard Assets	0.25%	0.25%	0.25-1%
	Sub-Standard Assets	10%	10%	50%
	Loss Assets	100% provision / Write off	100% provision / Write off	100%

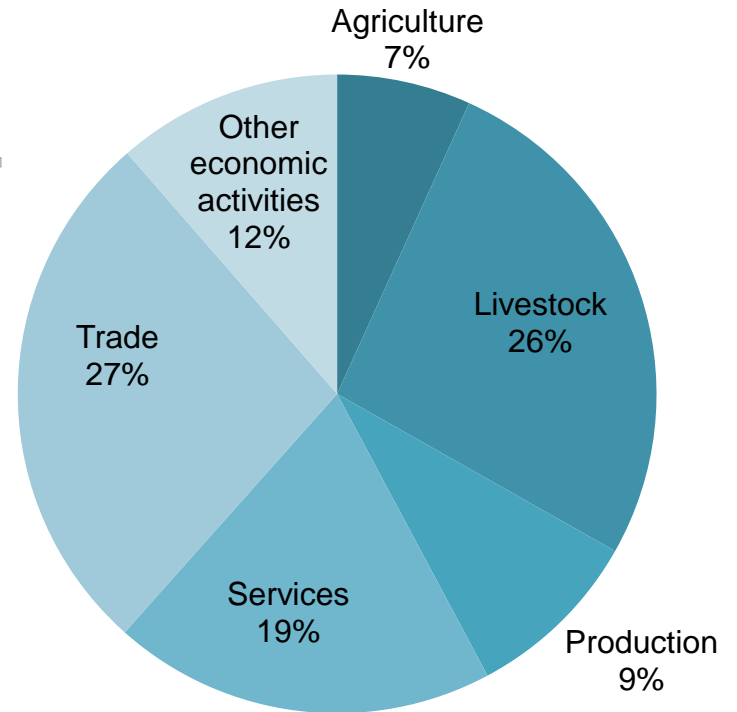
Pan India Distribution Network

As of June, 2012

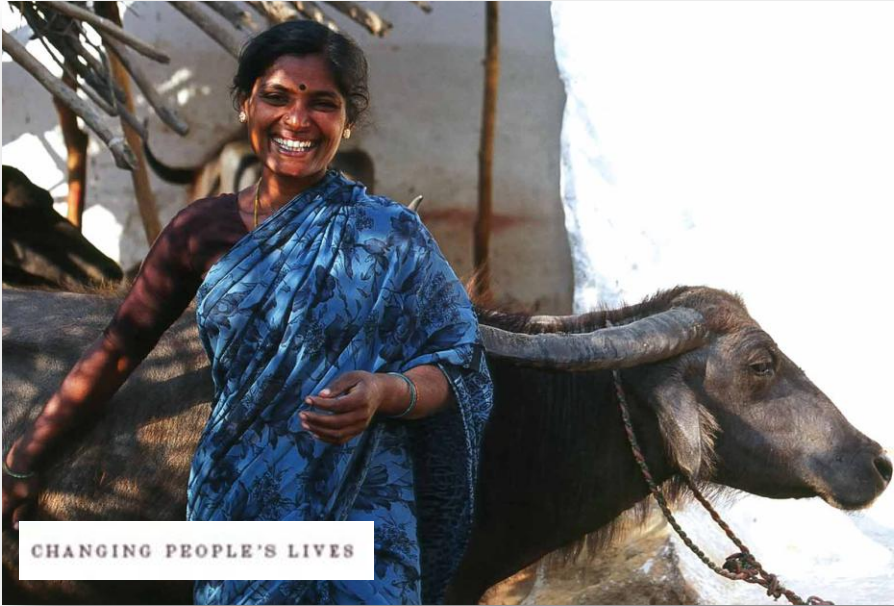


Loan Outstanding by Economic Activity

As of June, 2012



* Includes 50 Gold Loan Branches.



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