EARNINGS UPDATE – Q2 FY13

October, 2012

SKS Microfinance Limited

BSE: 533228 ● NSE: SKSMICRO

www.sksindia.com

CONTENTS

RECENT UPDATE

RECENT UPDATE – Q2 FY13

- With accelerated provisioning of Rs. 233 crs in Q2-FY13, AP exposure reduces to nil from a high of Rs. 1,491 crs in Oct 2010 at the start of AP MFI crisis.

- Loss (sans AP credit cost) for Q2-FY13 pared down to Rs. 28 crs compared to Rs. 39 crs for Q1-FY13 and Rs. 82 crs for Q2-FY12

- SKS completes QIP of Rs. 230 crs and Preferential issue of Rs. 33.5 crs.

- Incremental draw-downs of Rs.405 crs in Q2-FY13 (Rs. 200 crs for Q1FY13).

- Loan Disbursements in Non-AP states rose by 25% (QoQ), Non-AP Portfolio grows by 12.0% (QoQ).

- Collection efficiency in 17 Non-AP states reverts to the pre AP MFI crisis level of 99.2%

- Networth of Rs.386 crs and capital adequacy at 37.1%* as of 30th September, 2012.

- The un-availed deferred tax benefit stands at Rs.557 crs and will be available to offset tax on future taxable income. Deferred Tax assets will be recognised on the books upon virtual certainty of future taxable profits supported by convincing evidence as per AS-22.

- Healthy cash and bank balances of Rs. 358 crs.

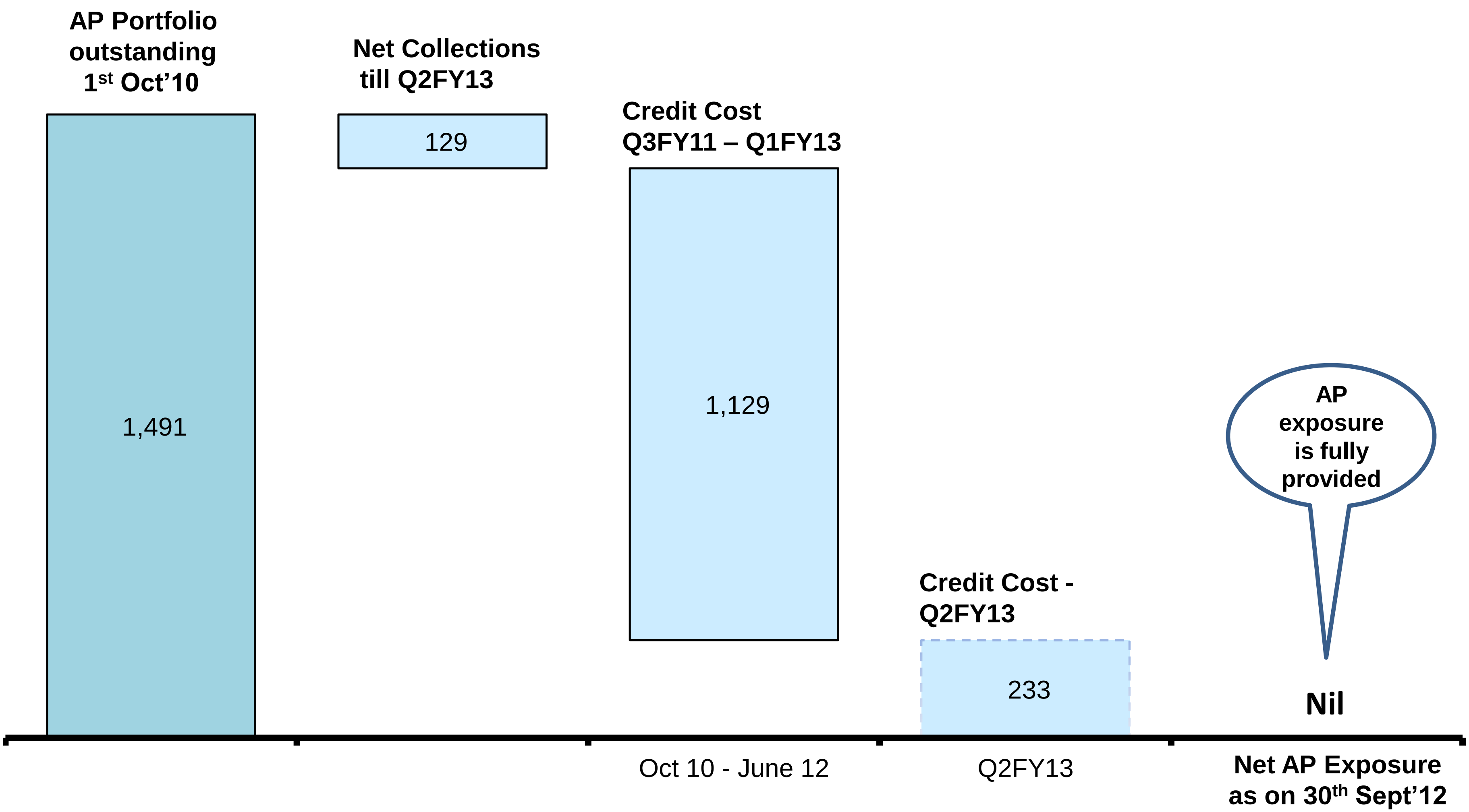
Note::
*Capital adequacy without RBI dispensation on AP provisioning is 25.6%
Figures rounded off to nearest digit across the presentation

STRATEGIC RESPONSE TO THE AP MFI CRISIS

- **Calibrated Credit cost approach**
- **Cost structure optimisation**
- **Cash flow management to deliver promises**
- **Capital raise**

SKS FULLY PROVIDES FOR ITS AP EXPSOURE

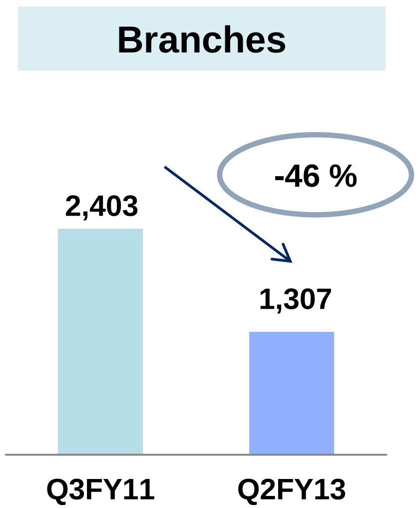
INR crs

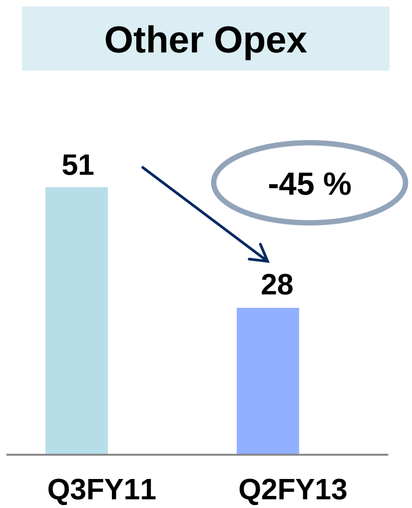


Note: The unavailed DTA stands at Rs.557 crs post the above write-offs and provision.

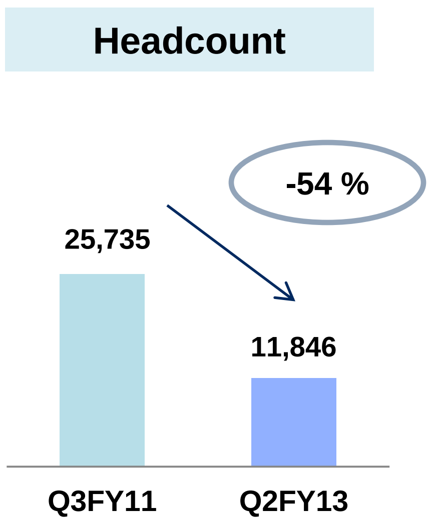
COST STRUCTURE OPTIMISATION-THROUGH BRANCH CONSOLIDATION AND HEADCOUNT RATIONALISATION

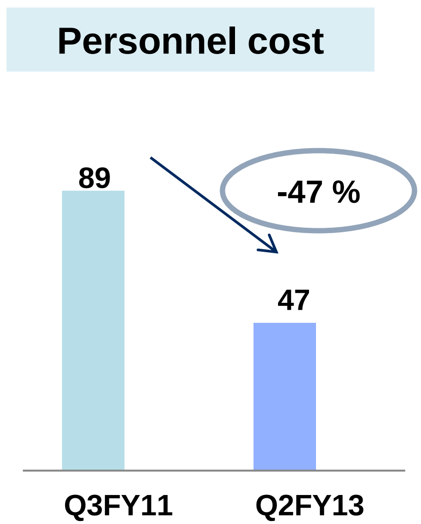
INR crs





AP	Q3FY11	Q2FY13
Branches	566	121
Head- count	6,203	1,489



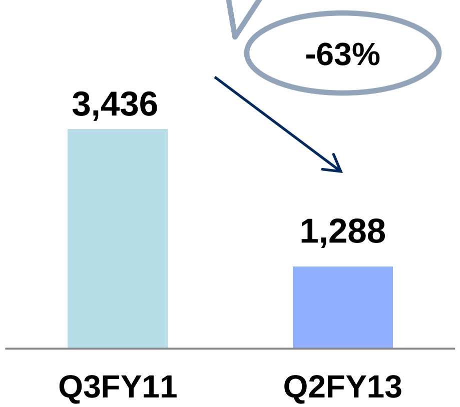


CASH FLOW MANAGEMENT TO DELIVER PROMISES

INR Crs

- Met all financial obligations in a timely manner
- Repaid ~Rs 5,900 Crs back to banks
- Opted out of CDR to protect Shareholder value
- Continued disbursements in all Non-AP centers
- Met staff expectation with all emoluments

Repayment to Banks:
Gross – Rs.5,900 crs
Net – Rs.2,148 crs



Bank borrowings (incl. assigned loans)

Delivering promises pays off

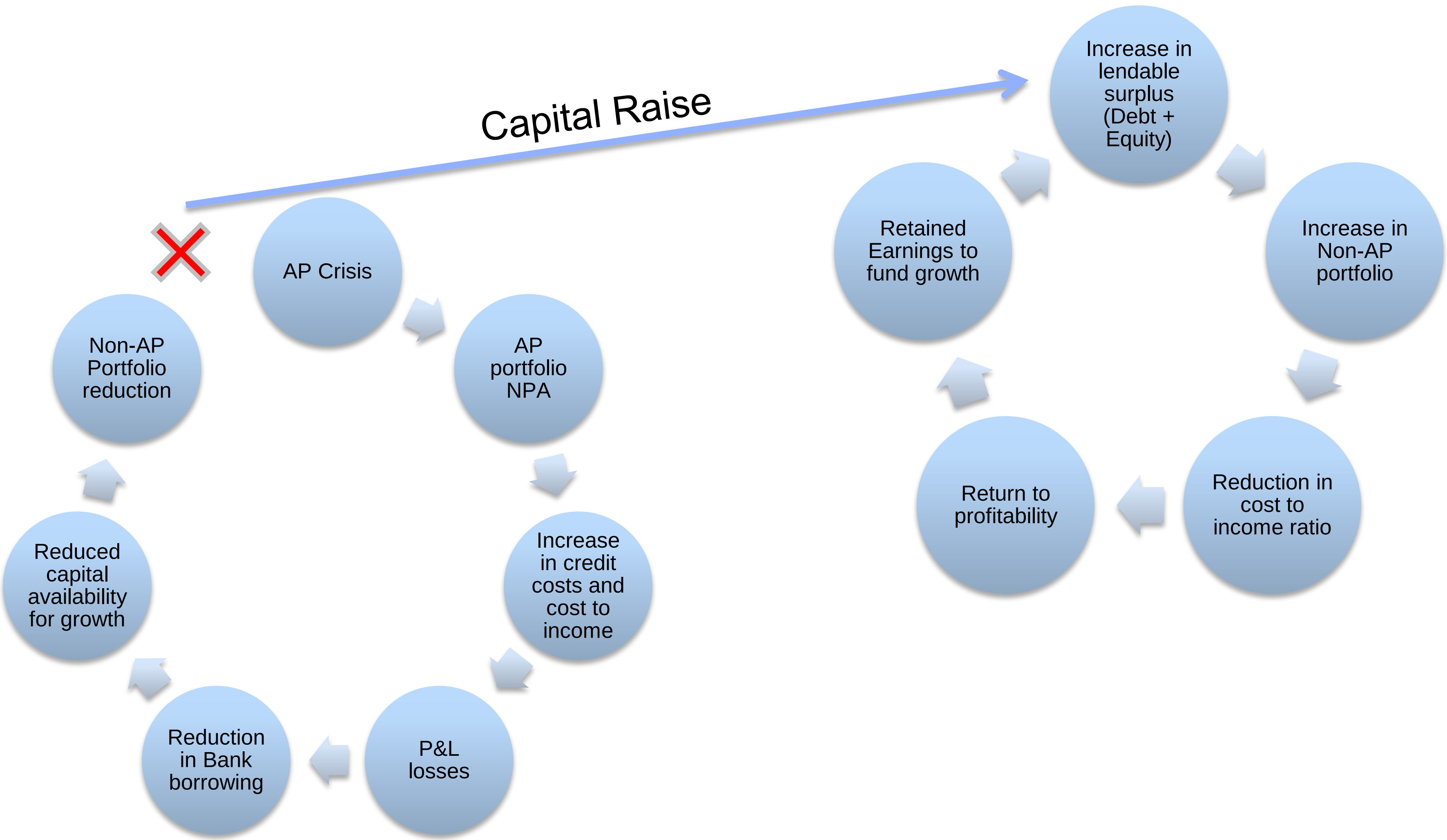
Sanctions Received

Q4-FY12	**1,360**
Q1-FY13	250
Q2-FY13	405

- 12 structured obligations placed with highest safety rating
- No credit enhancement invoked

CAPITAL RAISE TO BREAK THE CYCLE AND FUND FUTURE GROWTH

- Completed QIP of Rs.230 Crs and preferential allotment of Rs.33.5 Crs.
- Largest capital raise in the microfinance sector post SKS IPO in August 2010.



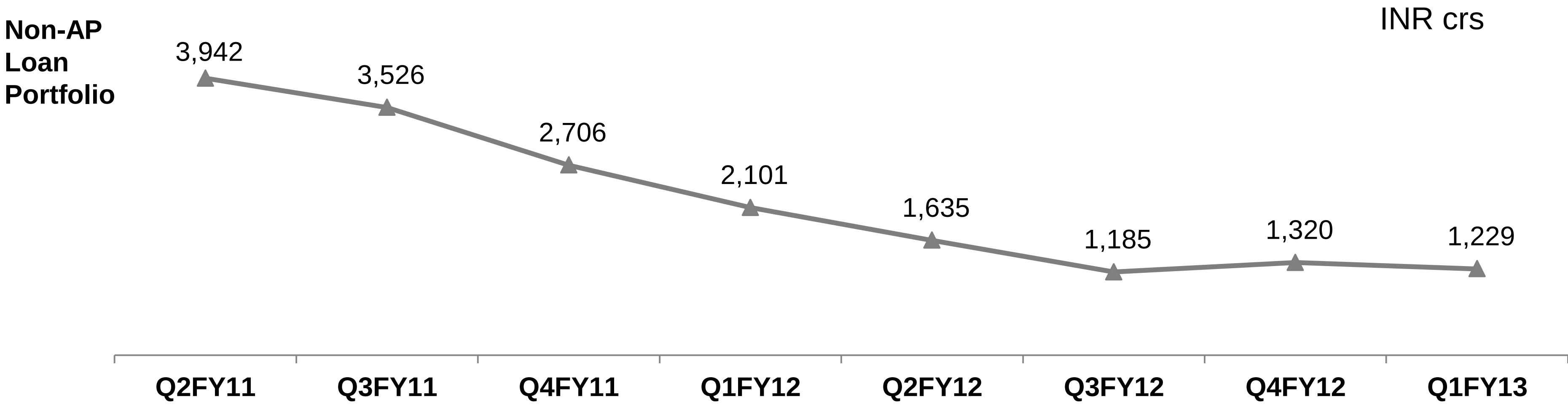
CLARITY ON MAJOR UNCERTAINTIES POST AP MFI CRISIS

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

Concerns	Clarity
Will there be multiple regulators?	▪ Regulatory clarity – RBI to be the sole regulator
Funding uncertainty?	▪ Priority sector status will continue ▪ MFIs to be the only indirect priority sector dispensation
Will there be contagion?	▪ No contagion. 97% repayment in all other 17 states ▪ More than 2 years, no other state has followed suit
Has the business model been challenged?	▪ Collection efficiency maintained despite disbursement being a fraction of collections validates the operating model and dispels the myth of ever-greening ▪ No alternative credit delivery model has gained currency
How will the AP situation get resolved?	▪ Central legislation ▪ Legal relief ▪ RBI diplomacy ▪ Customer sentiment
What will be the economics under regulated interest rate regime?	▪ 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



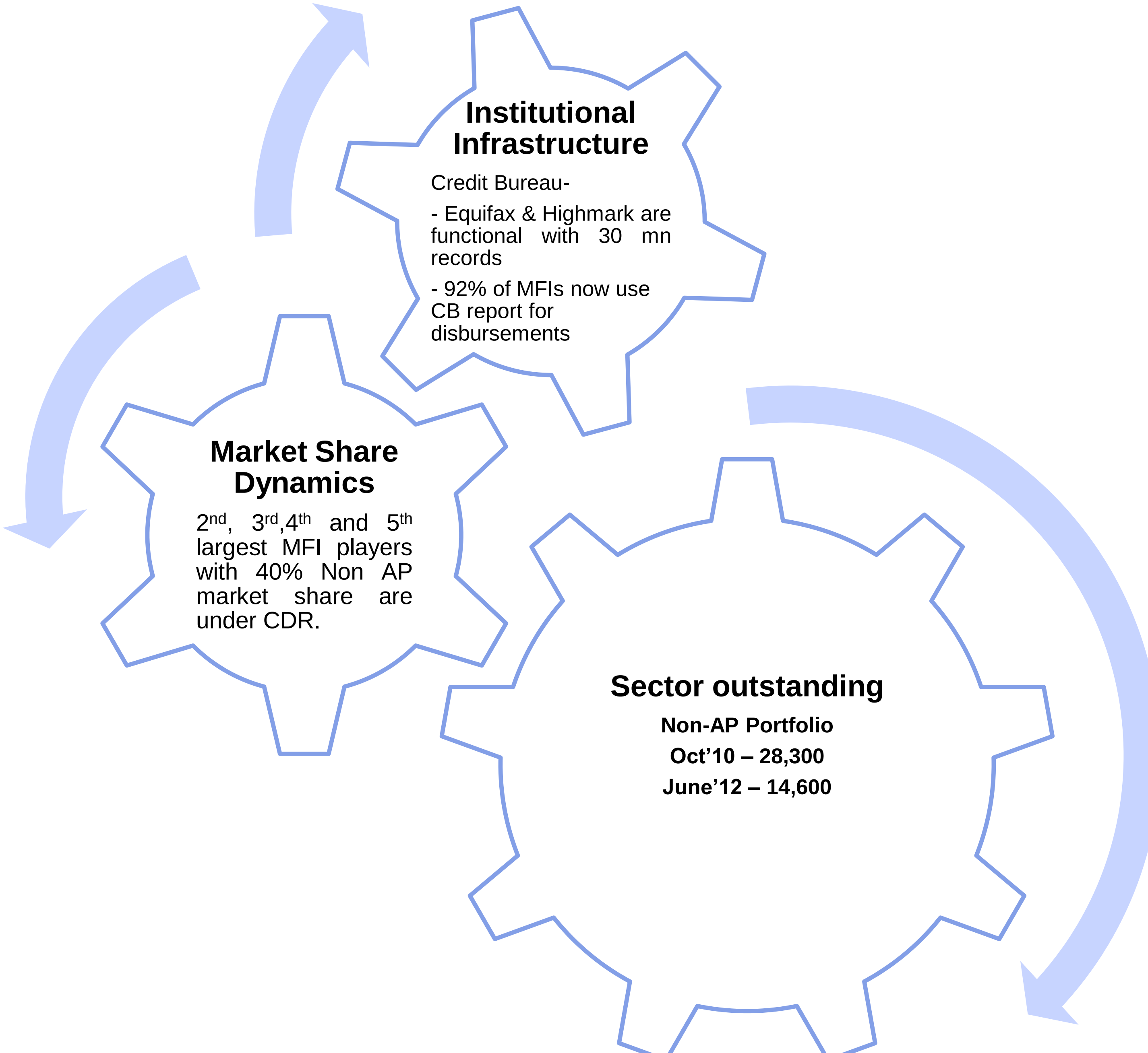
1.9 million borrowers repaid loans without incremental lending

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**

COMPETITIVE LANDSCAPE CHANGES TO SKS's ADVANTAGE

INR crs

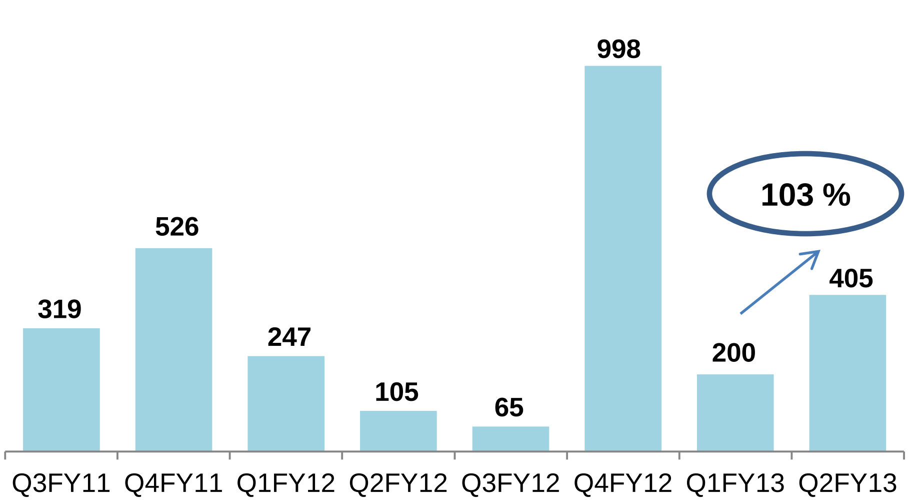


NON-AP UPDATE

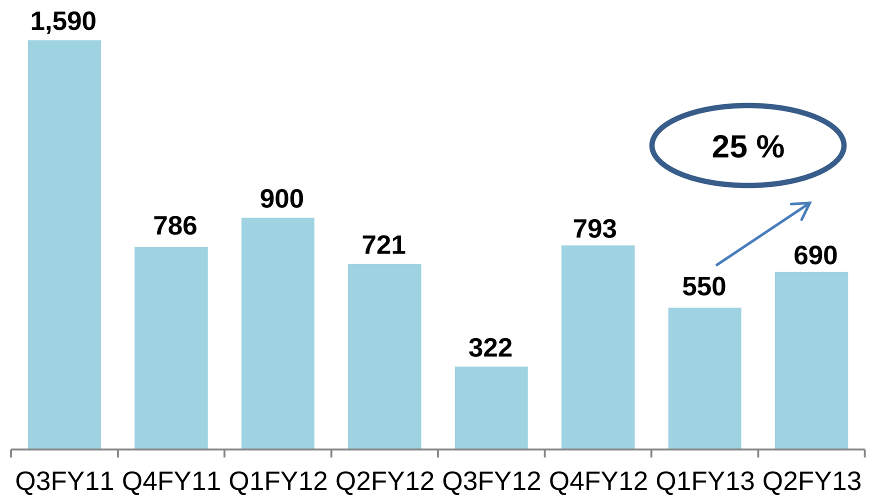
GROWTH MOMENTUM RETURNS

INR Crs

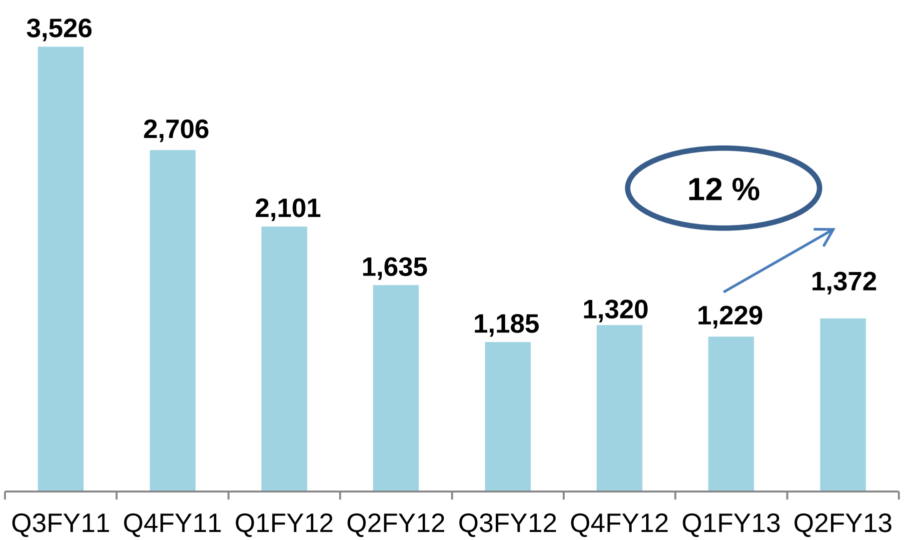
Drawdowns



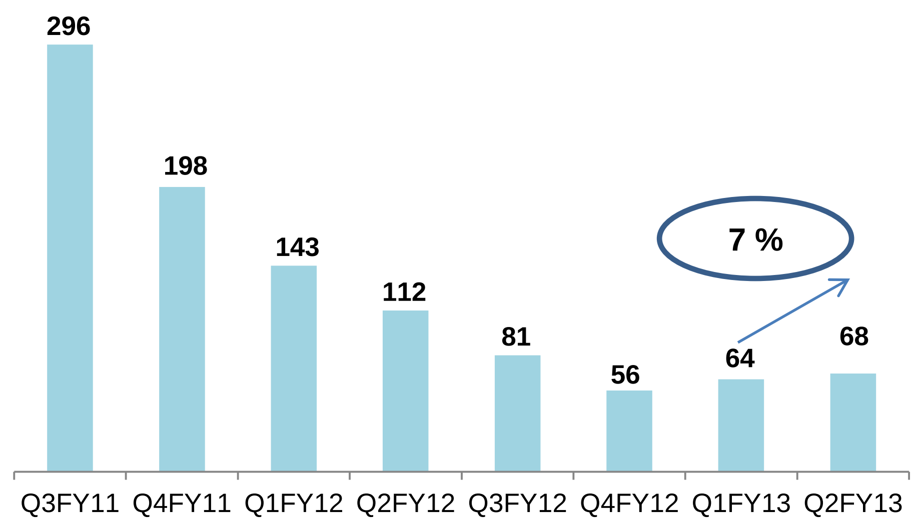
Disbursement



Non-AP Loan Portfolio Outstanding



Non-AP Core Interest Income*



*Includes Interest income on Portfolio loans, Income from Assignment/Securitisation & Loan processing fees

CONSOLIDATED OPERATIONAL HIGHLIGHTS

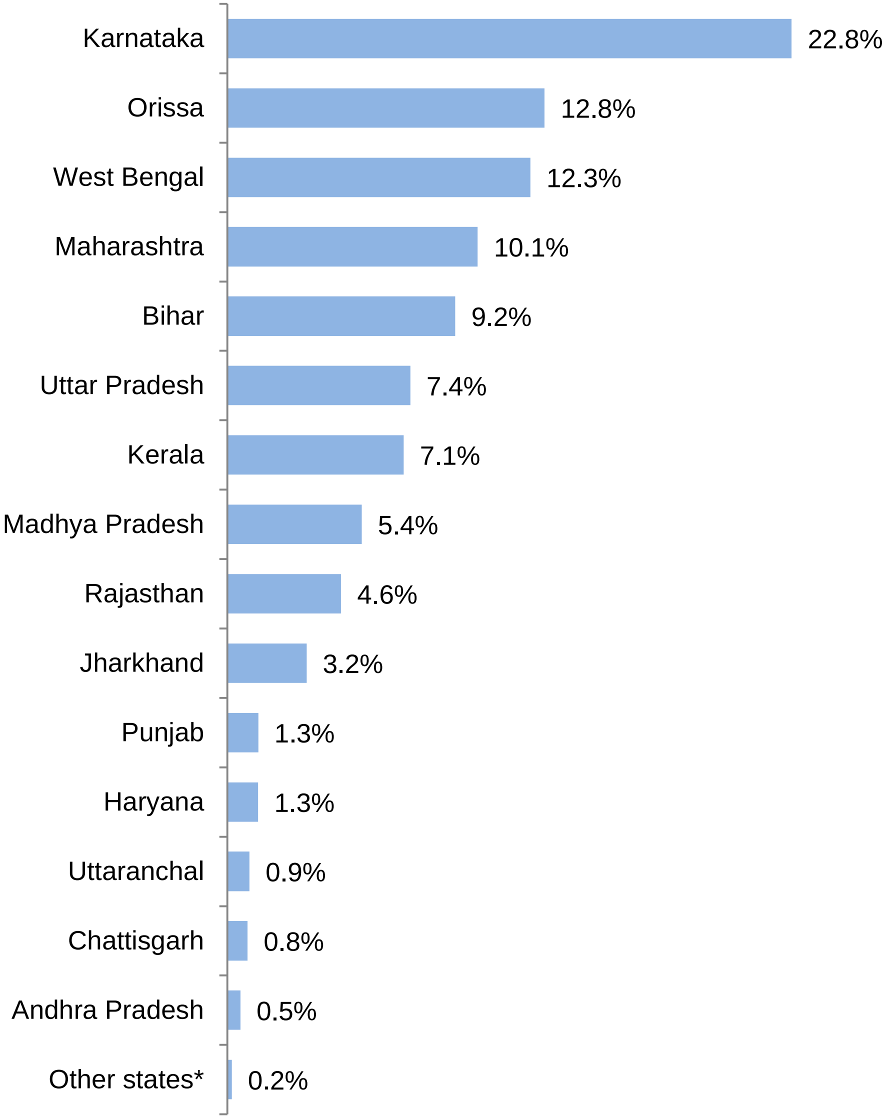
Particulars	Sep-11	Sep-12	YoY%	Jun-12	QoQ%
Branches[#]	2,032	1,307	-36%	1,358	-4%
Centers (Sangam)	258,748	210,044	-19%	220,819	-5%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	19,315	11,846	-39%	13,575	-13%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	18,964	11,577	-39%	13,258	-13%
– Sangam Managers* (i)	12,595	7,524	-40%	8,362	-10%
– Sangam Managers Trainees(ii)	118	45	-62%	123	-63%
– Branch Management Staff (iii)	3,630	2,470	-32%	2,674	-8%
– Area Managers (iv)	146	102	-30%	124	-18%
– Regional Office Staff (v)	2,475	1,436	-42%	1,975	-27%
• Head Office Staff (vi)	351	269	-23%	317	-15%
Members (in '000)	6,396	4,832	-24%	5,075	-5%
– Members in non-AP States (in '000)	4,468	2,912	-35%	3,155	-8%
Active borrowers (in '000)	4,676	3,977	-15%	3,946	1%
– Active borrowers in non-AP States (in '000)	2,938	2,262	-23%	2,229	1%
No. of loans disbursed (in '000)	781	617	-21%	473	30%
Disbursements (for the quarter) (INR Crs)	721	690	-4%	550	25%
Off-take Avg (Disbursements / No of Loans disbursed)(INR)	9,237	11,187	21%	11,629	-4%
Gross loan portfolio (INR Crs) (A+B)	2,635	1,717	-35%	1,576	9%
• Loans outstanding (A)	2,424	1,319	-46%	924	43%
• Assigned loans (B)	211	398	89%	652	-39%
Operational Efficiency (Non –AP):					
Gross loan portfolio/ No. of Sangam managers (Rs. '000)	1,668	2,098	26%	1,694	24%
Gross loan portfolio/ Active Borrowers (INR)	5,565	6,066	9%	5,514	10%
Members / No. of Branches	2,786	2,456	-12%	2,550	-4%
Members / No. of Sangam managers	456	445	-2%	435	2%

*****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 99.2%

State wise – Future Receivables Mix

State | **%**



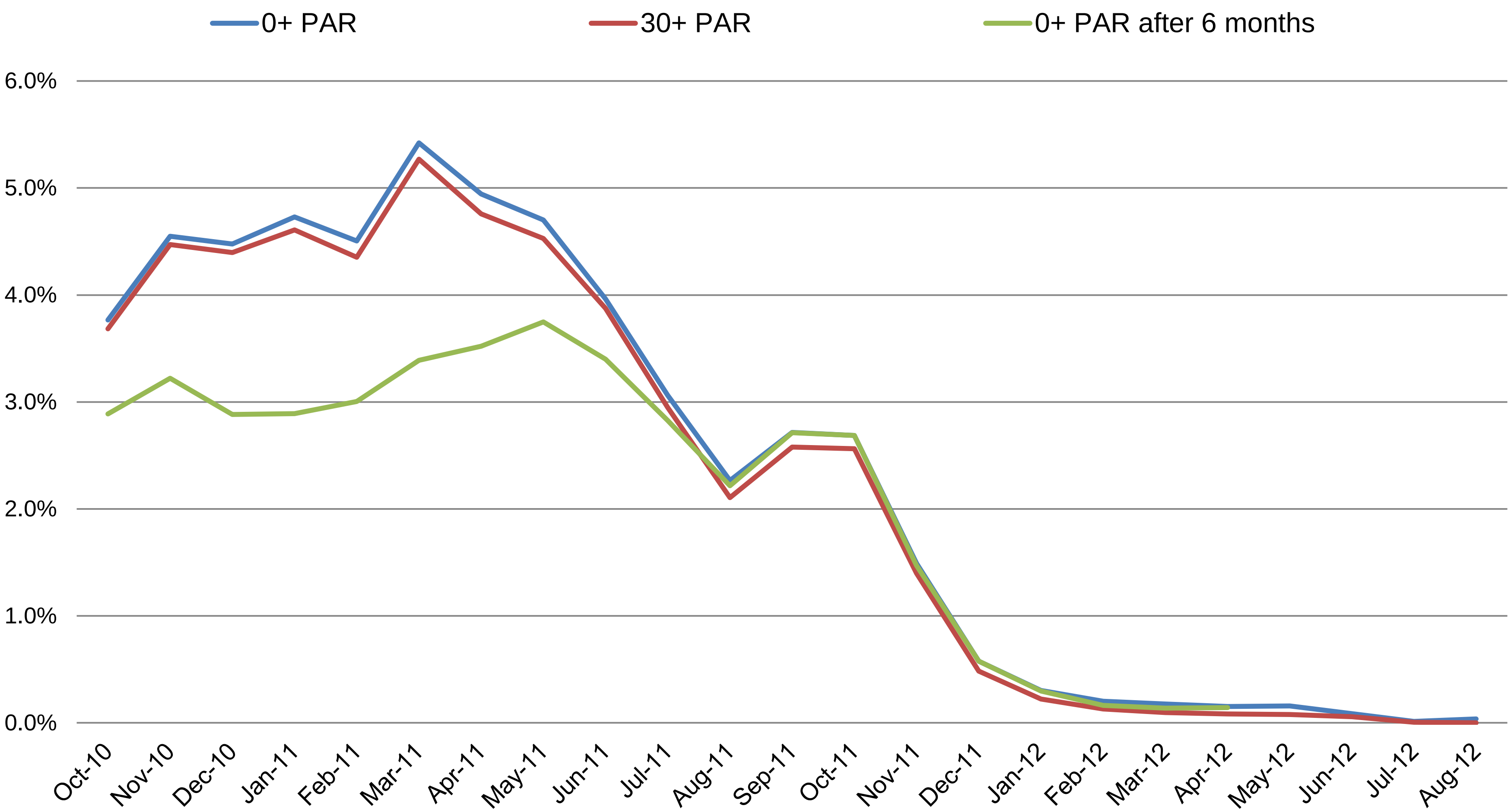
State wise – Collection Efficiency#

State	Q2-FY13	Q1-FY13
Karnataka	99.8%	99.8%
Orissa	99.7%	98.8%
West Bengal	95.9%	89.1%
Maharashtra	99.9%	99.8%
Bihar	99.7%	99.6%
Uttar Pradesh	99.7%	99.8%
Kerala	99.9%	99.8%
Madhya Pradesh	99.7%	99.2%
Rajasthan	99.8%	99.7%
Jharkhand	99.8%	99.8%
Punjab	99.8%	99.8%
Haryana	99.8%	99.7%
Uttaranchal	99.8%	99.6%
Chattisgarh	99.9%	99.8%
Other states*	33.9%	46.1%
Total non-AP States	**99.2%**	**97.6%**

* Other states include Delhi, Gujarat & Tamil Nadu

Collection wrt. scheduled dues in quarter (i.e. excluding arrear collection & prepayments)

CREDIT QUALITY INDICATORS REVERT TO PRE AP MFI CRISIS LEVEL



Note: Static Pool Analysis for Non AP Portfolio

SKS EMBRACES NEW GEOGRAPHICAL CONCENTRATION NORMS

Disbursement Related Caps:

Metric	Concentration norms
State	<15% (20% for Karnataka)
District	<3 % (4 % for Karnataka)
Branch	<1 % (1.25 % for Karnataka)
NPA	No disbursement to a branch with NPA > 1 % .
Collection efficiency	No disbursement to a branch with on time collection efficiency of < 95%

Portfolio Outstanding Related Caps:

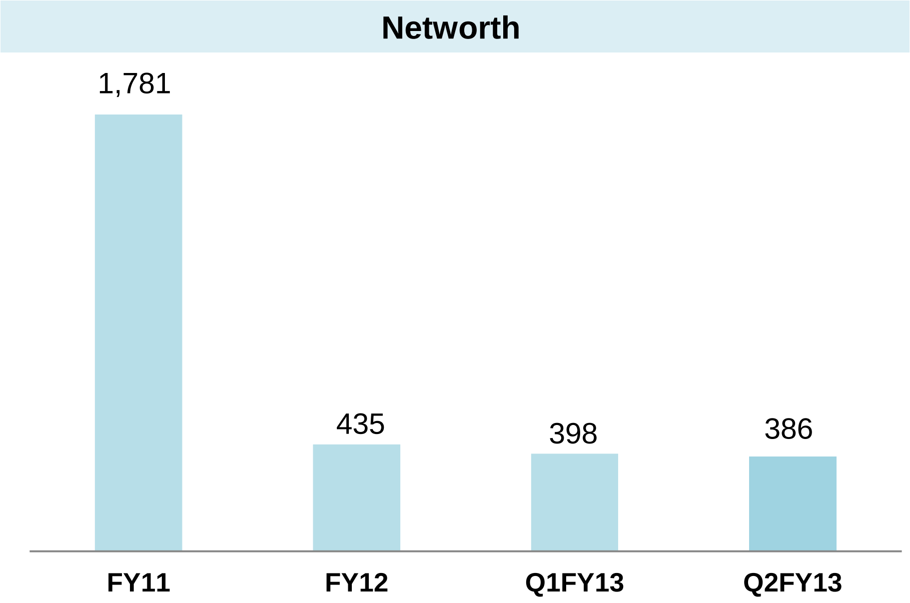
Geography	Portfolio O/S limit as % of Networth	Exceptions
State	50%	75% of Networth for Karnataka and Orissa .
District	5%	Only 5% of total operating districts can go up to 10% of Networth
Branch	1%	Only 5% of the total operating branches can go up to 2% of Networth

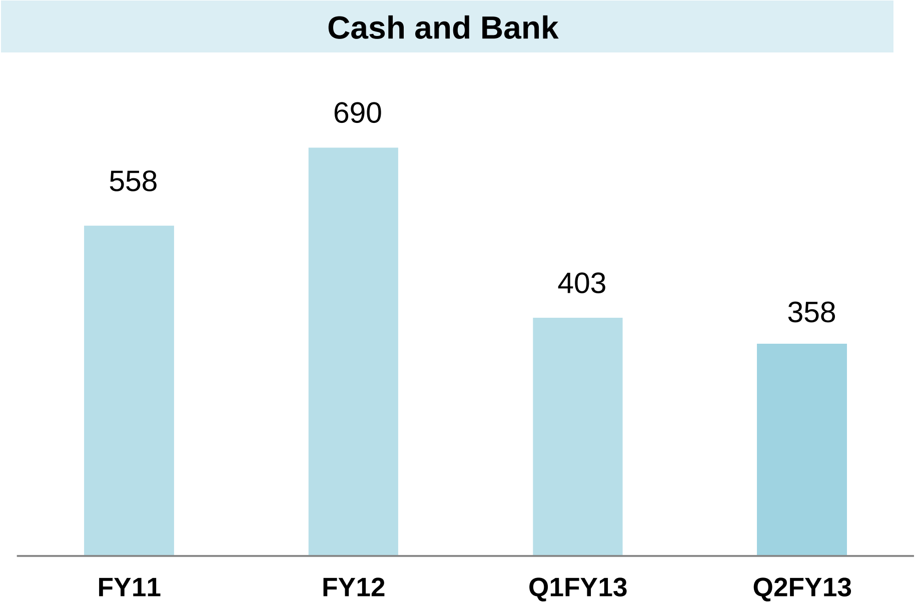
Note - Tolerance limit -10%

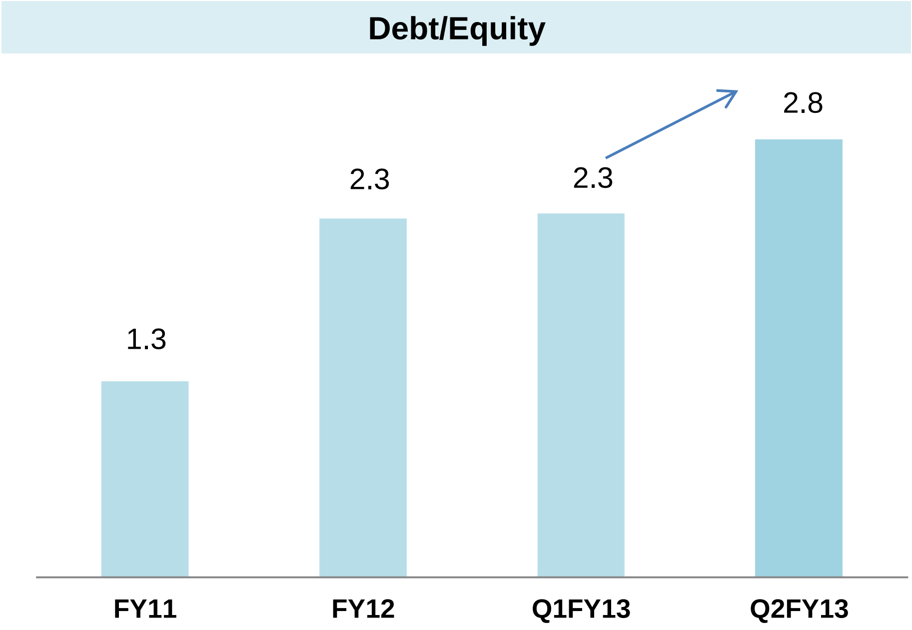
REVIEW OF FINANCIALS

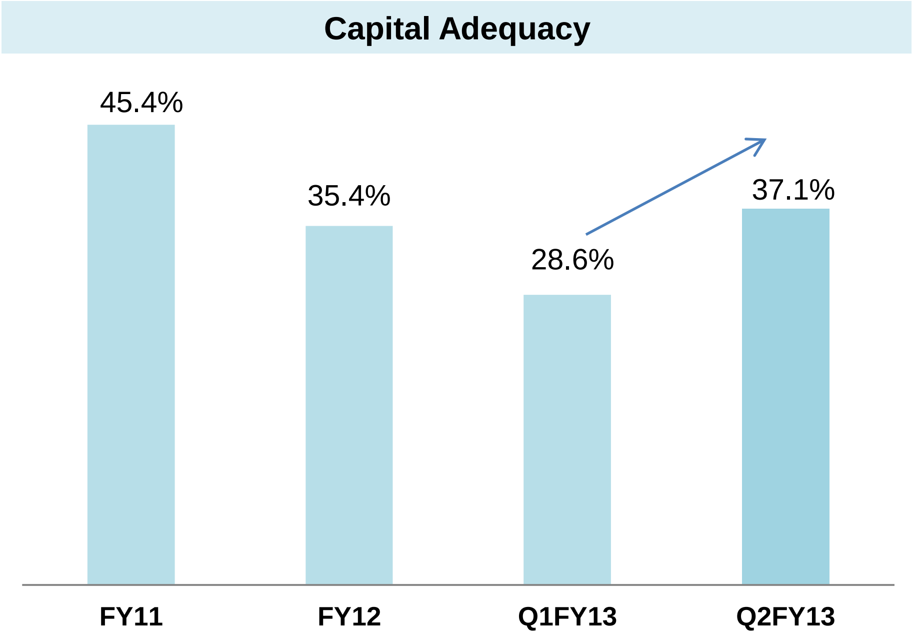
STRONG SOLVENCY AND LIQUIDITY

INR Crs









Note: Q2-FY13 – Capital adequacy without RBI dispensation on AP provisioning is 25.6%

LOSS (SANS AP CREDIT COST) FOR Q2FY13 PARED DOWN TO RS. 28 CRS

INR Crs

Particulars	Q2 FY12	Q2 FY13	YoY%	Q2 FY13 As % of Total Revenue	Q1 FY13	QoQ%
<u>Income from Operations</u>						
Interest income on Portfolio loans	105*	53*	-49%	66%	42*	27%
Income from Assigned loans	7	10	49%	13%	17	-40%
Loan processing fees	2	5	151%	6%	5	-7%
<u>Other Income</u>						
Insurance commission	1	-	-100%	-	-	-
Group Insurance admin. charges	5	-	-100%	-	-	-
Income on Investments	3	7	96%	8%	10	-34%
Recovery against loans written off	5	6	20%	7%	5	18%
Other Miscellaneous Income	3	0.2	-91%	-	0.3	-24%
Total Revenue	**131**	**81**	**-38%**	**100%**	**79**	**2%**
Financial expenses	**54**	**35**	**-36%**	43%	**33**	4%
Personnel expenses	67	47	-29%	59%	48	-1%
Operating and other expenses	38	26	-33%	32%	26	-
Depreciation and amortization	3	2	-31%	2%	2	4%
Total Operating Cost	**108**	**75**	**-30%**	93%	**76**	-1%
Provision & Write-offs	**353**	**234**	**-34%**	**289%**	**10**	**2,332%**
Total Expenditure	**515**	**343**	**-33%**	**424%**	**118**	**190%**
Profit before Tax	**(383)**	**(262)**	**-32%**	**-324%**	**(39)**	**-575%**
Tax expense	1	-	**-**	-	-	-
Profit after Tax	**(385)**	**(262)**	**-32%**	**-324%**	**(39)**	**-575%**

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

PROFIT AND LOSS STATEMENT FOR THE HALF-YEAR ENDED

INR Crs.

Particulars	H1 FY12	H1 FY13	YoY%	H1 FY13 As % of Total Revenue
Income from Operations				
Interest income on Portfolio loans	238*	95*	-60%	59%
Income from Assigned loans	23	27	17%	17%
Loan processing fees	2	10	358%	6%
Other Income				
Insurance commission	2	-	-100%	-
Group Insurance admin. charges	16	-	-100%	-
Income on Investments	9	17	81%	10%
Recovery against loans written off	12	10	-11%	-
Other Miscellaneous Income	5	1	-88%	7%
Total Revenue	**308**	**160**	**-48%**	**100%**
Financial expenses	**117**	**68**	**-42%**	**42%**
Personnel expenses	140	95	-32%	59%
Operating and other expenses	76	52	-32%	32%
Depreciation and amortization	5	4	-30%	2%
Total Operating Cost	**221**	**151**	**-32%**	**94%**
Provision & Write-offs	**537**	**243**	**-55%**	**152%**
Total Expenditure	**874**	**461**	**-47%**	**288%**
Profit before Tax	**(566)**	**(301)**	**-47%**	**-188%**
Tax expense	37			
Profit after Tax	**(603)**	**(301)**	**-50%**	**-188%**

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

CAPITAL RAISE TO DRIVE THE CLEANSED BALANCE SHEET GROWTH

Particulars	Q2 FY12	Q2 FY13	YoY%	Q1 FY13	QoQ%
Equity share capital	72	108	50%	73	48%
Stock options outstanding	12	20	75%	20	1%
Reserves and surplus	1,097	258	-77%	305	-15%
Capital & Reserves	**1,181**	**386**	**-67%**	**398**	**-3%**
Loan funds	1,392	1,085	-22%	927	17%
Payable towards assignment/Securitisation	35	65	86%	104	-38%
Other Current liabilities and provisions	81	72	-11%	72	1%
Provision for standard and non performing asset	123	263	113%	34	678%
Liabilities	**1,631**	**1,485**	**-9%**	**1,136**	**31%**
Total Liabilities	**2,812**	**1,871**	**-33%**	**1,534**	**22%**
Fixed assets	20	10	-49%	13	-19%
Intangible assets	8	3	-57%	4	-17%
Investment	0.2	0.2	-	0.2	-
Deferred tax assets (net)	-	-	-	-	-
Cash and bank balances	**236**	**358**	**52%**	**403**	**-11%**
Sundry debtors	2.3	0.1	-98%	0.1	-50%
Other current assets	21	44	103%	37	17%
Portfolio loans	2,424	1,319	-46%	924	43%
Loans placed as collateral	43	101	132%	120	-16%
Other loans and advances	57	35	-38%	34	5%
Total Loans and Advances	**2,524**	**1,455**	**-42%**	**1,077**	**35%**
Total Assets	**2,812**	**1,871**	**-33%**	**1,534**	**22%**
Note:1.Assigned Portfolio (Incl. Loans placed as collateral)	211	398	89%	652	-39%
2.Gross Loan Portfolio	2,635	1,717	-35%	1,576	9%

AP CREDIT COST IMPACTS THE PROFITABILITY IN Q2FY13

Particulars		Q2 FY12	Q1 FY13	Q2 FY13
Spread Analysis (as % of Avg. Gross Loan Portfolio)				
Gross Yield	(I)	17.2%*	19.6%*	19.7%*
Portfolio Yield		14.7%*	14.5%*	15.4%*
Financial Cost	(a)	7.0%	8.2%	8.4%
Operating Cost	(b)	14.2%	18.6%	18.2%
Provision and Write-offs	(c)	46.5%	2.4%	56.7%
Taxes	(d)	-	-	-
Total Expense	II = (a+b+c+d)	67.8%	29.2%	83.3%
Return on Avg. Gross Loan Portfolio	(I) - (II)	-50.6	-9.6%	-63.7%
Efficiency:				
Cost to Income		138.8%	163.2%	161.6%
Asset Quality – Non-AP :				
Gross NPA		2.5%	1.1%	0.8%
Net NPA		1.3%	0.8%	0.7%
Gross NPA (INR crs)		38	8	8
Net NPA (INR crs)		19	5	7
Leverage:				
Debt : Equity (on Balance Sheet)		1.2	2.3	2.8
Capital Adequacy:		**47.2%**	**28.6%**	**37.1%^**
Profitability:				
Return on Avg. Assets		-47.3%	-9.7%	-61.6%
Return on Avg. Assets (incl. assigned loans)		-43.3%	-6.5%	-47.1%
ROE		-112.1%	-37.3%	-267.5%
EPS - Diluted (INR) (Not Annualised)		(53.15)	(5.32)	(26.30)
Book Value (INR)		163.15	54.33	35.67

* Income on AP portfolio recognised not on accrual basis, but on cash basis
^ Capital adequacy without RBI dispensation on AP provisioning is 25.6%

HIGHER CREDIT COST AND PORTFOLIO REDUCTION ADVERSELY IMPACT H1-FY13 RATIOS

Particulars		H1 FY12	H1 FY13
Spread Analysis (as % of Avg. Gross Loan Portfolio)			
Gross Yield	(I)	18.1%*	19.4%*
Portfolio Yield		15.4%*	14.8%*
Financial Cost	(a)	6.9%	8.2%
Operating Cost	(b)	13.0%	18.2%
Provision and Write-offs	(c)	31.6%	29.4%
Taxes	(d)	2.2%	-
Total Expense	II = (a+b+c+d)	53.6%	55.8%
Return on Avg. Gross Loan Portfolio	(I) - (II)	-35.5%	-36.4%
Efficiency:			
Cost to Income		115.4%	162.4%
Leverage:			
Debt : Equity (on Balance Sheet)		1.2	2.8
Capital Adequacy:		**47.2%**	**37.1%^**
Profitability:			
Return on Avg. Assets		-33.4%	-35.5%
Return on Avg. Assets (incl. assigned loans)		-30.0%	-25.7%
ROE		-80.0%	-148.2%
EPS - Diluted (INR)		(83.39)	(34.84)
Book Value (INR)		163.15	35.67

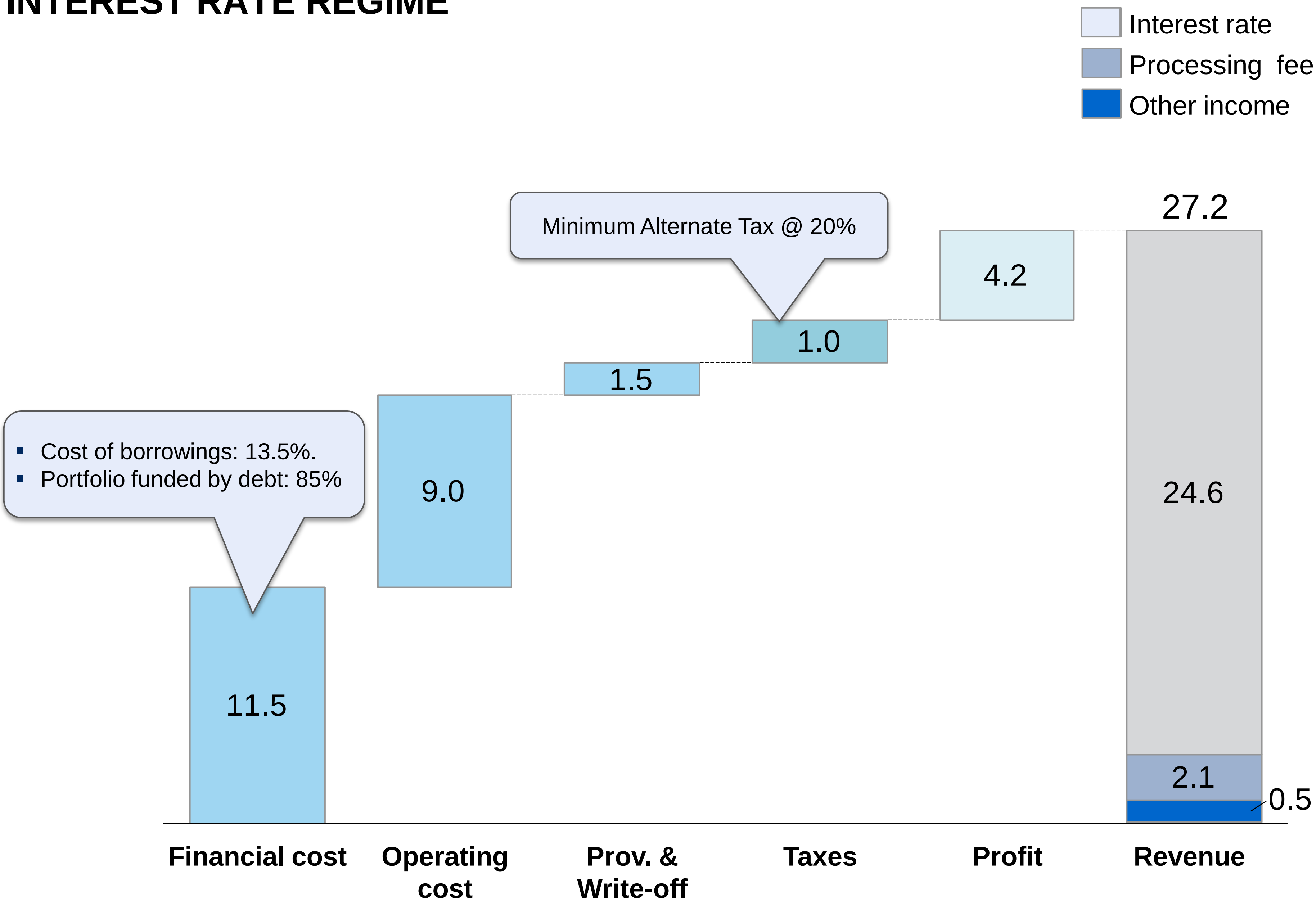
* Income on AP portfolio recognised not on accrual basis, but on cash basis

^ Capital adequacy without RBI dispensation on AP provisioning is 25.6%

PATH TO PROFITABILITY

	Q3-FY13	Q4-FY13	FY14
Target	▪ Break-even	▪ Enterprise profit	▪ Enterprise profit with Steady state RoA of 4% (MFI 3%+ Non-MFI 1%)
Strategy	▪ Operating Leverage ▪ Portfolio Growth – 25% QoQ	▪ Financial leverage	▪ Financial leverage ▪ Broad base the revenue stream ▪ De-risk the business model
Drivers	▪ 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	▪ 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	▪ Debt / Equity to raise from 2.8 to 5 times ▪ New client acquisition ▪ Non-fund based initiatives to contribute 15% to the bottom line

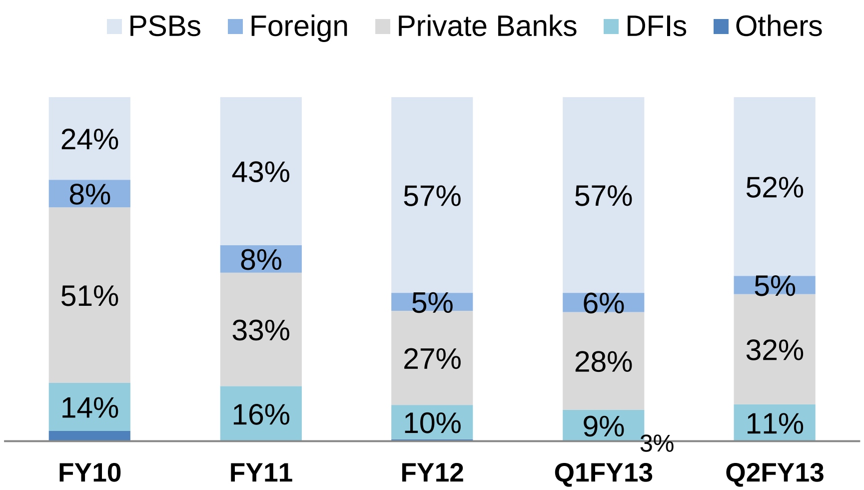
STEADY STATE ROA OF 4% CAN BE TARGETED UNDER REGULATED INTEREST RATE REGIME



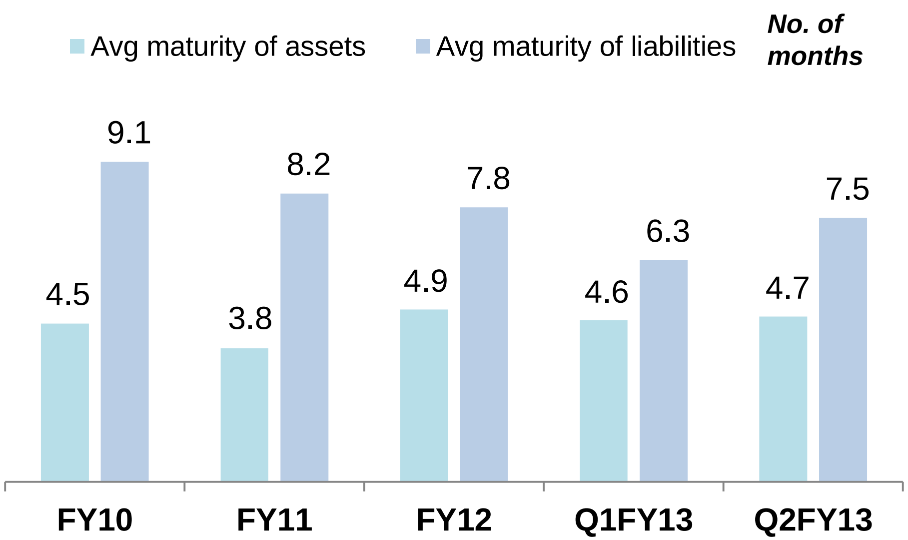
FINANCIAL ARCHITECTURE

FINANCIAL ARCHITECTURE (1/2)

Stable Funding Partners



Positive ALM Mismatch



Derisked Funding Mix

Banks	Sep 30, 2012
IDBI Bank	18%
SIDBI	11%
Dena Bank	11%
Yes Bank	11%
Indusind Bank	10%
State Bank Group	9%
ICICI Bank	6%
Citi Bank	5%
Central Bank of India	4%
Andhra Bank	3%
Corporation Bank	3%
Jammu & Kashmir Bank	3%
Indian Overseas Bank	2%
Axis Bank	2%
Syndicate Bank	1%

Total amount outstanding as of Sep'12 : Rs 1,288 crs.
Concentration risk on rest of the 5 banks is below 1%.

FINANCIAL ARCHITECTURE (2/2)

Funding Cost Analysis

Metric	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Cost of interest bearing liabilities (excluding loan processing fee paid upfront)	13.2%	12.9%	12.4%	12.0%
Cost of interest bearing liabilities (including loan processing fee paid upfront)	13.2%	16.0%	13.6%	13.7%
Financial Cost^	7.6%	9.7%	8.2%	8.4%

^ Financial expenses to Avg. Gross Loan Portfolio

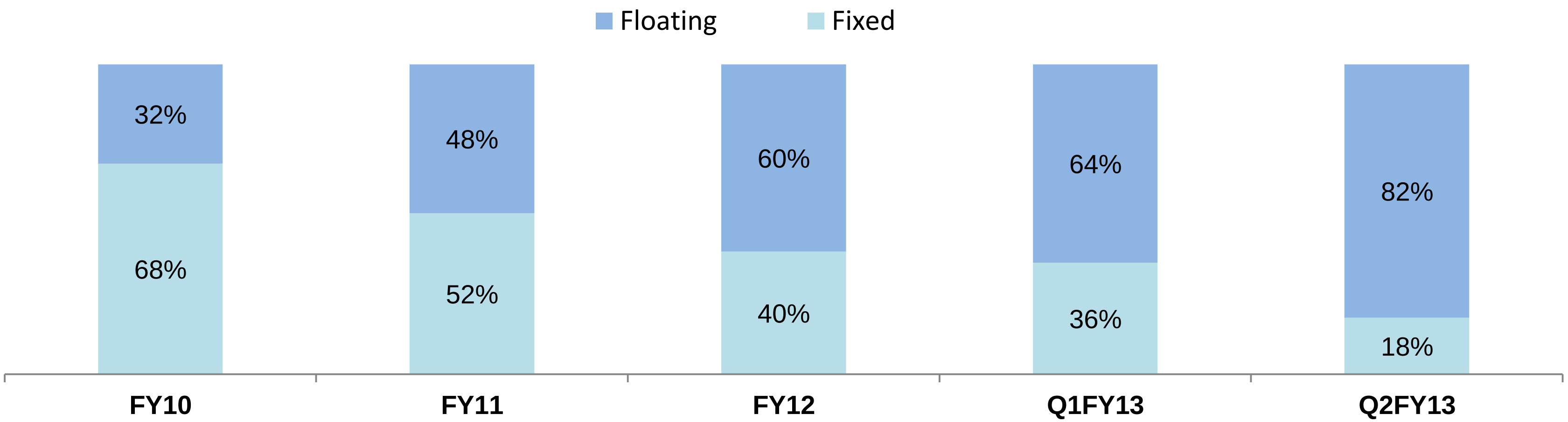
Rs. 998 crs drawdown

Rs. 200 crs drawdown

Rs. 405 crs drawdown

Note: SKS expenses loan processing fees paid upfront . Whereas loan processing fees received from borrowers are amortized over the period of contract.

Interest Rate Risk Analysis



ANNEXURE

OUR PROVISIONING POLICY

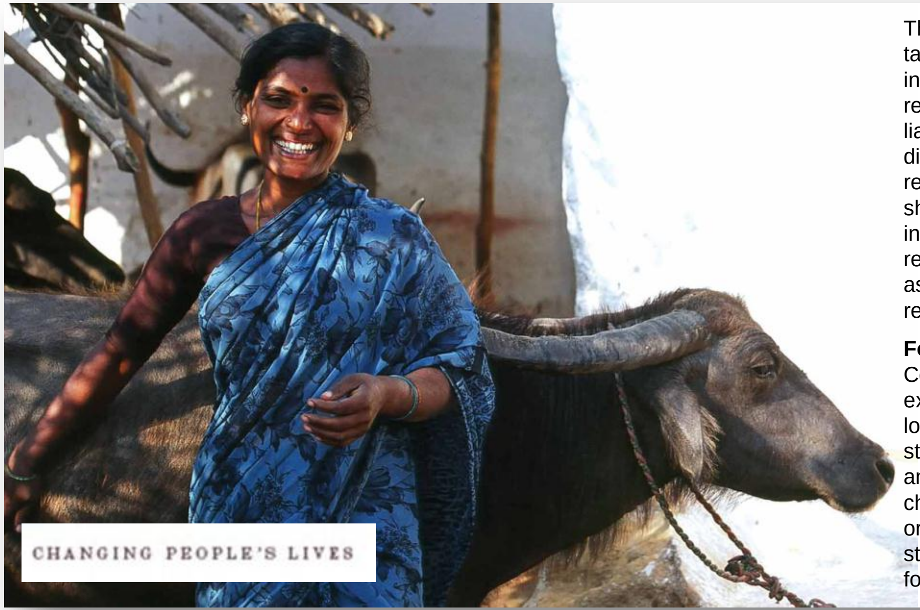
Asset Classification

	RBI norms	SKS compliance	
		A.P*	**Non A.P.**
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

		A.P*	**Non A.P.**
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%

Note: AP Portfolio has been fully provided



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Forward Looking Statement

Certain statements in this document with words or phrases such as "will", "should", etc., and similar expressions or variation of these expressions or those concerning our future prospects are forward looking statements. Actual results may differ materially from those suggested by the forward looking statements due to a number of risks or uncertainties associated with the expectations. These risks and uncertainties include, but are not limited to, our ability to successfully implement our strategy and changes in government policies. The company may, from time to time, make additional written and oral forward looking statements, including statements contained in the company's filings with the stock exchanges and our reports to shareholders. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company