“SKS Microfinance Limited Analyst Meet”

January 28, 2016

Note:

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Dilli Raj: Good afternoon. We thank each one of you for being here. Let me introduce the SKS team present here –

- Dilli Raj - President
- Ashish Damani – Chief Financial Officer
- Ashish Pipaliya – EVP Investor Relations & New Initiatives
- Pratap R – Deputy Chief Financial Officer
- Prabhdeep Singh Chana – Investor Relations
- Ashwin – Investor Relations

The deck has been with you for some time now. The highlight of our Q3FY16 performance is that SKS has become the most efficient MFI in the globe. We now charge sub-20 level, i.e. 19.75 per cent, which is unquestionably the lowest interest rate charged by any private sector MFI in the world .Marginal cost of borrowing has reduced from 11.2% to 9.98 % . In terms of operating cost efficiency, both the metrics of cost to income and Operating cost to Gross Loan Portfolio (GLP) have declined substantially, especially Operating cost to GLP is down to 6.8%. ROA and ROE are unquestionably the best of the breed.

We have had some discussions over the last four months with all our stakeholders on Small finance bank (SFB). Yes, the small finance bank structure does give access to CASA base and obviously mitigates the political risk and you could open bank account for your customers. But there are formidable challenges, if building CASA franchise is tough, building a competitive CASA franchise is tougher. Then there is SLR & CRR drag. You can no longer be a PSL generator for the banking system and you cannot act as a business correspondent for other banks. Finally domestic capital raise is there.

We did know all these when we applied for a bank license. Now we are making out a case of how we could retain our market leadership and competitive positioning despite being a NBFC MFI.

Political risk mitigation.

There is a correlation between interest rate charged and the political risk. Directionally if you drive down the interest rate and at sub 20 political risk gets mitigated.

Access to dedicated refinance lines at concessional rates.

We have showcased with Mudra drawdown that NBFC-MFI structure will not preclude you from accessing refinance from dedicated refinance agencies.

Downward adjustment of risk premium on your cost of borrowing

We have the best rating in the sector and are one or two notches above our peers. Our cost of borrowing is 2% to 3% lower than those who are going to become an SFB.

We continue to think that we would be in a position to maintain this competitive positioning and continue to be the lowest cost lender in the MFI segment irrespective of the legal structure.

If we have to quickly articulate what would be our medium-term strategic priorities, just for narrative ease - we call it as a target of 10, 20, 30, 40, and 50. Marginal cost of borrowing at 10%. In terms of interest rate charged to the borrowers, we are already sub-20. We would like to bring down Cost to Income to 40% in the medium term. We had a PAT of Rs.188 crores last year and our guidance for FY-16 is of Rs.290 crores and that represents a ~50% earnings growth.

We will open it for questions.

Participant: As you highlighted, political risk is the key fear factor for SKS, if that is the case then why not make a floating provision buffer, have a slightly lower ROE than we are currently making and probably, that will give a lot of comfort to investors as well.

Pratap: We have considered that, but the difference between banks and NBFCs is that the RBI allows specifically banks to create floating provisions, whereas NBFCs do not have that kind of leeway. But having said that, RBI in its NBFC guidelines has clearly said it is 1% provisioning on the portfolio. So we are doing 1% provisioning on the portfolio as of now.

Dilli Raj: Just to supplement, the real constraint is that your provisioning policy has to either be based on "current loss model" or "expected loss model". Our current loss being what it is, say 0.1 % and we continue to hold the view that our expected loss will not exceed 1% in the normal course.

MAT

I think someone referred to MAT provision also before this meeting. Applicable accounting standard does permit recognition of MAT and well respected companies both in financial services and outside financial services, under similar circumstances, have recognized MAT benefit. The expert advisory council opinion in a different matter from ICAI says that reducing carried forward losses is an indication that you would be able to make use of MAT. We are tilting towards recognition of MAT benefit. But when it comes to recognition of income / asset, we want to deliberate a lot over next one or two quarters and tick all the boxes. We see retained earnings / reserve appropriations increasing.

Participant: Sir firstly when we look at after a long, we have started adding branches as well, so this quarter we have added 32 odd branches, we are seeing increase in the number of centers, increase in the number of active borrowers, but when we look at in terms of number of loans disbursed, still it is coming up quarter-on-quarter and the growth largely has been on account of disbursements per borrower which has gone up by almost 17% and overall disbursement growth is 12% quarter-on-quarter, so that is number of loans disbursed are down almost 4% quarter-on-quarter. So what is the reason for that, maybe despite adding branches, so is it like the addition in branches have been towards the fag end of the quarter and will see the benefit coming through over next one year? And again on taking the question further in terms of disbursement per borrower, so the proportion of long-term loans (LTL) today are 32%, so where do we plan to take it to from the current level? And third question outside of microfinance, when we look at solar lamps, mobile phones, all of a sudden maybe we have seen some kind of a decline or a run down in that portfolio. So what is the strategy maybe outside of the MFI segment?

Ashish Damani: So I am just trying to summarize your question,

1. Branch expansion and related operating figures movement
2. Outlook on LTL percentage of overall loan portfolio
3. Decline in cross sell income QoQ

So I will take up the first one, in terms of branch opening, yes the branches have been open towards the fag end and we do take some time for branches to get optimized to a level and that will show up as we go forward during the next financial year. In terms of addition of clientele, it has been pretty much similar to last quarter, so there is no decline. You keep adding loan officers, so you would see that there is a small revision downwards in terms of efficiencies, but that will catch up as you keep adding more and more customers, that was part of the strategy, any loan officers you add it will take time to come to an optimum level in terms of managing number of borrowers.

The second one on the LTL percentage, it is actually the disbursement what we have capped at 25%, we are maintaining that as of now and that results into a 32% kind of outstanding. So we have said that we will relook at that over a period of time, as of now we are keeping it at 25%. So you would see it hovering around 30% to 35% or so in terms of outstanding to the portfolio.

The last one on the cross sell, we do rollout cross sell of mobile phones and solar lights and the other products in phased manner in branches, so it is just a phase where you see small decline QoQ but we are very much intact in terms of percentage penetration, if you see it has been pretty much stable across the products and it is picking up in the new products that we have put out there.

Dilli Raj: We are very comfortable with LTL because we are extending that to only those who have completed at least two repayment cycles in a satisfactory manner. Even today our offtake average is somewhere around Rs. 15,700 and 30% of our loans have gone for buying buffalo. We know that the cost of buffalo is much higher than Rs. 15,700, infact it is nothing less than Rs. 28,000. So what we are saying here is, in the first two loan cycles (i.e. 2 years), we would like to co-share the risk with someone else and from the third cycle onwards we do not mind being the largest lender to her, if not the only lender. So that is the logic for increasing exposure size in LTL and as a product we are very comfortable with that. But risk has to be measured and controlled mathematically in percentage terms. We started with 15% of disbursement and have gone up to 25%.

Participant: So no change in strategy with respect to the cross sell, no change in strategy as such when you see this portfolio growing forwards in terms of cross sell?

Dilli Raj: No. Primarily the strategy is that we are trying to creatively disturb the asset /revenue/ earnings mix. So today on a nine months' YTD basis 9% of our PAT comes from cross sale initiatives and we would like to see that going up to something like 20% in a matter of the three years. Non-loan revenue from large manufacturers and suppliers, in the years to come, will go to cross subsidizing the interest rate on core lending. God forbid, should the interest rate cycle movement reverse also, you have kept a lever for reducing cost of delivery to your customer. Cross sale continues to be a strategic priority. But as we always articulate, the challenge lies in choosing the right product, manufacturer and the supplier. We look at three things.

a. It should be an enterprise equipment or productivity enhancement tool. It cannot be a conspicuous consumption item like a color television.
b. It should be a low ticket item. Mobile phone, solar lights or cycle or sewing machine, they are all in the ticket size range of Rs. 1,800 to Rs. 5,300.
c. All these products have post-sales service provided by manufacturers/suppliers in many villages in India. So the challenge lies in choosing right product and right partners, but certainly there is a demand for these products.

Participant: Any specific reason for decline in number of loans disbursed, because even with the existing infra we should have seen the improvement in that particular line item.

Ashish Damani: Yes. So what happens is, you put out the branches, it will take some time for you to increase the number of customers in those branches, it is always with some lag effect that you will see number of loans, number of clients going upwards. Two, in our case, the number of loans are directly related to what has been the growth rate in the previous year for the same period because of the one-year ticket cycle. So it is like a corresponding growth. So what can change is only by new customer addition, so you see that getting reflected. Last year Q3 customer acquisition being lower, has kind of an impact, but that has been moderated up by higher customer acquisition in this year.

Participant: I just want to have an understanding how you are looking at this ticket size and average loan portfolio per active borrower because we have seen that there has been a step increase a few quarters, kind of stabilizing at Rs. 14,500 to Rs. 15,000 level. If it remains in that level, then what will be the growth rate because a large part of the current loan growth has been driven by that? Are we looking at a step down in the growth rates going forward or do you think you that you will be comfortable if there is an increase in the exposure per borrower even more?

Dilli Raj: Offtake average going up to Rs. 15,700 is primarily a function LTL. For Q3FY16, The number of cross sale loans coming down QoQ also, actually enhances the enterprise level offtake average between two quarters because as I said earlier the cross sale loans are low ticket items. We have also revised the exposure size for our income generating loans i.e. IGL -1 & 2 (1st year & 2nd year of customer with us) with 1 year repayment tenure, post RBI enhancing the threshold limit for two-year loans on December 7th. That should start showing up. But at a very strategic level, we are comfortable increasing ticket size even from this Rs. 15,700 offtake average by something like 18 to 20% on an annualized basis for next 3 years.

Participant: When I calculate your NIM, the Net Interest Margin, it seems to have come down, I know quarter-to-quarter it's not a right comparison but even on a YoY basis it's kind of come off. So what is happening over there, is it competitive pressures or what is happening over there?

Dilli Raj: We have been reducing our interest rate. Yes, our borrowing cost has also come down and our reductions are on a prospective basis. We are subjected to an operating spread cap of 10% as stipulated by the RBI and we have not come below 10%.

Participant: So there is nothing much, it's mostly a timing factor playing?

Dilli Raj: Yes.

Participant: So Mudra you said you got the first Rs. 100 crore tranche, but obviously that is not sufficient given your scale period which are growing. Your discussions with Mudra Bank and with other government officials on how do you see that funding for Mudra (its conversion to a proper bank) and hence the scalability of the funding from the Mudra?

Dilli Raj: Mudra is a game changer. The first transaction is more about a concept validity of demonstrating that as an NBFC -MFI also, we are not left out and you need not be a bank or a Small finance bank (SFB) to access refinance. It is just a matter of time and MUDRA should be increasing its exposure.

Participant: Just the last question slightly the thing into the future, right now we are in a reducing interest rate cycle but let us say in a few years if the rates are tightening again - so most of the other retail consumer NBFC have fairly sticky yields, they are not as volatile as their funding cost .But which in your case in a rising interest rate cycle over a year or year and a half time, if you reverse whatever you have done in terms of a 400 basis points increase in lending rates, how would the customer take it, politically how would it be or would you offset that by reducing the ticket size so their EMI stays constant, have you thought about that?

Dilli Raj: Interest rates can be increased on micro-loans. We are absolutely confident that, should the anchor rates go up and complying with operating spread cap, if we are forced to increase interest rates, neither operationally nor in terms of customer relationship that would be a challenge. Having said that, I think your question is more about if you took on the mission of driving down the interest rate, what would happen if the interest rate cycle reverse? I think, so long as we transparently link it to the operating spread cap stipulated by RBI, the political risk does not get attracted. So that is why our interest rate of 19.75% is much lower than the interest rate cap of 27%. Supposing the non-loan revenue from cross Sale goes beyond 1% ROA per se, then that could go to cross subsidize interest rate on core lending.

Ashish Pipaliya: Just to add to that if you look among the MFI competitors, we charge to the customer 19.75% and the next best lender provides it at 22.00%, there is a good gap of more than 2%. Hence, even on an increasing rate environment, this gap would remain and you are not going to lose your competitive advantage from a customer perspective.

Participant: There is a news article which talks about over-lending in rural side in some pockets of UP and Bihar, so I wanted to understand your view, your experience about the ground realities?

Dilli Raj: We can't comment on any specific news article or news item. We can also speak for SKS only. If you look at what SKS has done in the last 3 years in terms of the growth strategy, a number of things stand out.

1. Our ticket size at Rs. 15,700 is still is the lowest in the sector and lower than the industry average.
2. If you look at our asset allocation guidelines, the way we worked our geographic exposures, we have carefully avoided well serviced geographic segments like Tamil Nadu; we have also cut down our exposure in percentage terms in markets like West Bengal, respecting the excellent peers we have in West Bengal.
3. SKS collects either Aadhaar (UID) or Voter ID as the KYC document from its members. Such a KYC policy makes the credit bureau query process more efficient.
4. SKS growth rate has been the lowest in the sector. Last year the whole sector grew at 61% for FY-15, we grew at 47% and which is lower than the top five average of 62%.
5. Out of the Rs.50,000 crores plus SHG outstanding, 49% is in AP and Telangana, 12% in Tamil Nadu, so if you look at ~60% of the SHG outstanding is in Tamil Nadu, Andhra and Telangana, SKS does not have a single loan production center in any of those geographies. So we have done all that we can do to address this over leveraging issue and SKS-2.0 is certainly a leader in responsible lending.

Participant: You touched upon the West Bengal and the Tamil Nadu issue. Insignificant portfolio in West Bengal but I would like to understand that given Bandhan's new structure, are you seeing something on the ground that would sort of change the competitive field 2 or 3 years out?

Dilli Raj: The point I was making on West Bengal was that we had taken action three years back. If you recall 5 years back, West Bengal was the second largest exposure for SKS, today I think it is the sixth largest market for us.

Participant: The change in structure for Bandhan has not changed anything on the ground for you is it? You are not finding things more difficult to grow?

Dilli Raj: If that is the question, answer is NO. We do not think the bank structure per se gives market expansion opportunity in micro-finance. If that's the case, there are already 40 banks.

Participant: Now that you are the lowest priced competitor, the market like Tamil Nadu seems to be a large market and there is at least one strong player there, so why is it difficult for you with 250 bps pricing advantage, also trying to understand the competitive advantage in the business like yours, is it difficult for you to penetrate Tamil Nadu?

Dilli Raj: No, it is not about entry barriers in those markets or our ability. Few years back when we re-wrote the strategy on geographical segmentation and concentration risk, we felt that the market will become well serviced in Tamil Nadu and it has become exactly that. To look at hard data, in a state like Tamil Nadu with 7 crore population, the aggregate MFI plus SHG outstanding has crossed Rs. 12,000 crores. As I said 12% of SHG outstanding of that Rs.50,000 crores is in Tamil Nadu. If you take a state like Uttar Pradesh, there is 20 crore population and SHG plus MFI outstanding is somewhere around Rs. 5,500 crores. There is no apple to apple comparison but I am just saying that we found it sensible to expand into those markets. It is not that we diversified into Bihar, Uttar Pradesh, Madhya Pradesh and Rajasthan, Odisha, Karnataka. We have grown into those markets. To put that statement in perspective, even in October 2010, we had ~70% of our credit assets outside Andhra Pradesh. We had ~Rs. 4000 crore non-AP portfolio outstanding, even 5 years back. During the AP crisis since we had the supply side shock and we did not walk the path of Corporate debt restructuring (CDR), we had to trim down the non-AP portfolio to repay banks and that's how we got to the low point of Non-AP portfolio of Rs.1,185 crores and we are now back at Rs.6,175 crores now. The weighted average vintage of our Non AP branch network is ~7 years.

Participant: With respect to the SFB slide up there, in your challenges you have said that the size is still an issue and I have heard you say this earlier that as you cross AUMs of ~Rs.10,000 crore, the political risk will raise its head again. Now that you applied for an SFB, but did not get it and you will soon cross that and go beyond hopefully, how else can we think about, you talked about the lowering the interest rates and subsidize from cross sell to act as risk mitigant, is there something else that you can do or once it opens up on tap, SFB is the route you will consider if that were to happen?

Dilli Raj: There are two parts to it. In terms of political risk, yes, we did mention in the past that somewhere beyond a size, that time we picked up Rs.10000 crore AUM, there could be a political risk. But enhanced involvement of the regulator in the sector, low interest rate, a comprehensive regulatory framework addressing concerns on interest rate, recovery practices and over-leveraging of borrowers, go a long way in addressing political risk. We certainly feel both the Central government and Reserve Bank of India are looking at micro-finance as a key financial inclusion plank and their stake in that way in the sector has substantially increased, so that should help us revisit this number of Rs.10,000 crore AUM. There are 2 profound rationale to our business model. (A) The segment we are serving and (B) The efficiency with which we do. Cost of delivery has come down by 10% in the last ~5 years and how could anyone have a quarrel with such a business model? Be it client protection, responsible lending, fair pricing, a robust customer grievance redressal etc., it's an ongoing journey.

Finally you should route all your actions through the prism of public perception.

Participant: Also in the Credit Bureau you seem to be happy with the record that has gone through the NBFC MFI route, but are the SHGs reporting through that and are you finding it difficult, is that posing any kind of challenge?

Dilli Raj: No, right now the SHG data is not available at a granular level, that's the reality. Even the RBI regulation which makes it mandatory for SHG data to be shared by bank, gives a transition period of 2 years. We have found a macro solution - ~60% of the SHG loan portfolio is from AP, Telangana, and Tamil Nadu. If SKS does not have a single loan product in those regions, you've avoided any possible over leveraging on account of SHG exposure of your customers. In some of our high growth target areas like Uttar Pradesh, Bihar, Madhya Pradesh, Rajasthan, SHG exposure is 1% to a maximum of 3%.

Participant: Does the Rs.100 crores refinance from Mudra impose on you - any cost obligations?

Dilli Raj: RBI norm of 10% over the cost of borrowing applies.

Participant: So all other things remaining constant you are happy, borrowing from Mudra because I would assume your cost would be much lower?

Dilli Raj: Absolutely.

Participant: Two questions, first on the incremental loan growth, how much is likely to come from branch expansion and how much from the ticket size? Secondly on the branch expansion what are the geographies that we are targeting? Are we finding opportunities in the existing geographies or are there any under penetrated segments where we think SKS can grow?

Dilli Raj: In terms of the growth strategy, when we plan for 50% AUM growth, we see two drivers for that, one is actual expansion of the job family of Sangam Managers. As we said in the past, it's more of a distribution business than a sales business. So if we increase the job family of Sangam Managers by something like 25% to 30% and probably 15% to 20% will come from ticket size. So with the interplay of these two we could easily get the 50% AUM growth. Probably I don't think we are going to put up more than 50 branches in a year from now.

Participant: It's largely in the same region that SKS is present.

Ashish Damani: Yes, it's in the same states.

Participant: The other question is how do we see the risk in the MFI segment? With the other players growing at a much faster pace. There are some players who are also not imposing weekly or monthly installments as strictly as they were imposing earlier. Do we think that that will spoil the borrowing system in the market, how is SKS dealing with the challenges?

Dilli Raj: As we said our ticket size and our growth rate are lower than the sector average. We have avoided well serviced states. We have stayed faithful to the model including weekly collections etc. If you look at the underlying economic activities of our customers, 70% -75% of them are so essential for everyday living, 30% livestock, 10% kirana shop, 5% in eateries and so on. These businesses come with inelasticity and we don't see any pressure showing up in that segment as of now.

Participant: And a question to the other MFI player going ahead in much faster pace but that is spoiling the lending system?

Dilli Raj: If you look at other MFIs also, at least as of now they may have higher NPLs on the individual loan portfolio. But coming to the MFI portfolio, they also seem to be somewhere around 1%, when I last looked at the data. Yes, they have about 4%-5% NPL on some of the individual loan products and other products. I would not like to comment on others growth strategies as such.

Ashish Pipaliya: Just to add in that so from a competition intensity perspective if you look at top five MFIs today, NBFC MFIs and one of them is bank, they have 65% market share. If you look at the largest player, in terms of portfolio, they have about 45% in West Bengal, 18% Assam. We are not there in Northeast and West Bengal is just 9% of our portfolio, so there is hardly any overlap with the largest player. Then there are other microfinance players among top 5; they follow the monthly repayment model and operate in different geographies altogether i.e. urban areas. We may be sharing the same state but will operate in a very different locality in same state. And #5 player has more than 60% exposure in Tamil Nadu, and we don't have a single branch in Tamil Nadu. Thus, from competition intensity perspective, when some MFI is offering monthly repayment product in urban, while we are offering weekly repayment product in rural, I think we don't really have those ground level concern there.

Participant: You mentioned about competitor’s intensity so right now you are saying that you don't see much competition here in this particular segment but could you throw some light on what is your thought on next two to three years, when these Bandhan bank, Ujjivan, and Equitas, etc., when they already setup their shops, how do you see the competition at that point of time and what are the strategies?

Dilli Raj: See when we talk about competition we need to just start with the addressable market size. The way we look at it exactly the way World Bank would look at. Target customers are broadly categorized into three segments. Segment-1 is households with access to an economic asset and has an earning capacity of $2 per day subject to purchase power parity. Economic asset here could be a buffalo etc. or a flower stand .The estimate is that there are 70 million households in this segment. The second segment is one which may not have access to an economic asset but that has daily earning capacity of $1.25 per day subject to PPP, comprises 80 million households. So the potential target segment size is 150 million households. The annual credit requirement is somewhere around Rs. 20,000 (Year 2005 fig) so if you multiply you get a Rs.300,000 crores market size and may be you could shave off 20% for servicing difficulties, you are left with something like Rs.2,40,000 crores. If you add MFI outstanding plus SHG outstanding that does not cross Rs.1,00,000 crores even today. So you are still left out with Rs.1,40,000 crores of unaddressed market demand. But overheating could happen in a district or some part of the state. So we need to constantly monitor.

Some of the SFBs could actually move up the value curve in terms of individual loan exposure, truck loans and, housing loan etc. Most of the SFBs are urban and we are well entrenched in deep rural pockets which would pose formidable entry barrier challenges to new entrants.

Participant: Also sir on SFB you mentioned that you will think about SFB On-Tap process, etc., so it is specific to number of years or is it subject to size of AUM? When do you take a call that you need to go for SFB?

Dilli Raj: Basically the trigger point is Reserve Bank coming out with the new On-Tap process. We need to look at those guidelines and review the pros and cons afresh. We can evaluate only after Reserve Bank of India coming out with new set of guidelines.

Participant: But anything else for the purpose of growth you are considering? Any other model are you considering as of now?

Dilli Raj: We have been sticking to the knitting. Customer is the strategy. We don't want to drift away from the customer segment for the simple reason that we have a better connectivity with the customer. It is a close to consumer model with the high touch points. We meet them 50 times in a year. We may do more of what she wants subject to debt repayment capacity.

Participant: Sir Couple of follow up questions - Looking at the opportunities within the rural areas where you are working in. So first one is that so you are lending for businesses so the women that you lend to are either earning income from buffalo or a cow or tailoring machine or something which the product and services need to be consumed within the village economy and if the other rural play that we are seeing - the NBFCs or even non-NBFCs other companies, there are challenges in the rural economy. It is something that should have some impact, it is surprising that it is not showing up as any stress that you are seeing because may be your borrower could see lower demand for their products and somehow that could lead to either lower growth or some stress in paying. The second question is in terms of the calculation that you just gave out in terms of the scale of the opportunity, your business model is restricted to income generating activities. In your evaluation of that Rs.240,000 crores number, Rs. 20,000 per household credit demand could also include a large part of it being consumption related debt. So can you just clarify what exactly is the number that we are looking at?

Dilli Raj: In terms of the rural slowdown and growth rate as we said our customers are 2-3 strata below the customer segment of other NBFCs. Discretionary spending has come down and gold consumption has come down. But bulk of the economic activities of our customers is serving the essential needs of everyday living, we are not seeing any shrinkage of demands of their service or strain on their cash flows. If we work with indicators like rural wage growth or minimum support price increase or even government spending as a part of the rural GDP, all those are still in the positive territory. Some indicators may be lower than last three years average but they are still in a positive territory. Your second question on the Rs.20,000 annual credit requirement, yes it is for Income generation. If it were to be for consumption per household, obviously the requirement will be much more because then it relates to their aspiration level, which is obviously much larger.

Participant: Just one question regarding gold loan portfolio—will you or are you able to scale that up. What are the major challenges that we are facing on that front?

Dilli Raj: It is just a pilot. Soon after the AP MFI crisis we wanted to experiment with one secured loan product. It is not that we could not scale up, the question is do you want to scale up when the core is growing at 50%? I don't think we will be scaling it up. The Portfolio outstanding is already declining.

Participant: And going forward sir what are the other technological changes that you might see in the pilot projects in terms of technological cashless payments or something on that front?

Dilli Raj: Equipping our Sangam managers with tablet is completed. We have also reworked the entire lending platform, which is renamed as SKS SMart. What is getting our attention is, how we look at technologies which will help us to migrate from cash to electronic platform. Cashless is the theme for next wave of technology initiatives, but these are early days.

Participant: Taking a slightly longer term view, how are you looking at asset diversification, may be three to four years down the line say building the capabilities in other asset classes outside microfinance? And given that you are more used to have factory style, if I may use that word kind of operation in microfinance, what kind of skills in credit underwriting would your feet on street has?

Dilli Raj: As we said that even three to five years we will still be with this same customer segment. I am just giving you an example – for instance if we get indication from customers that part of our customers want a two-wheeler we may look at that; or we see that part of them want a home extension loan, it will not be a housing finance loan but home extension loan where it's just adding a room or toilet or a shop, we may explore.

Participant: Can you quantify the cross-sell opportunity what is the current penetration, what is that you look forward to and how many more products you could add and would that be like a different vertical at some point of time?

Dilli Raj: ~40% of the customers are penetrated with one or two products. We could go up to somewhat like 85% to 90% of the customers covered under one of these products. Mobile phones and solar lights have gained traction and crossed 1 million pieces each. We see cycles and sewing machines gaining traction.

Participant: Sir taking Subbu's question forward if three years or five years down the line you see demand surge in MFI business but what next? Would penetration go higher-up from these levels? And you reach at saturation point sometime; when is the next stage growth coming for us?

Ashish Damani: Like Dilli was explaining earlier if the customer is your strategy you know if you keep looking for what are the other areas in which they would require loans or assistance. Presently as we see we have a fixed six products of which four have been doing very well, the other two have just been launched recently, so we will wait and see how the traction plays out on this front.

Ashish Damani: Thank you. With this we will close the meeting now. Please join us for snacks and tea. Thank you.