

EARNINGS UPDATE Q2FY16



OCTOBER 2015

SKS Microfinance Limited

BSE: 533228 • NSE: SKSMICRO

Corporate Identity No. L65999MH2003PLC250504

www.sksindia.com

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HIGHLIGHTS OF Q2FY16

- Reduced interest rate charged to borrowers from 22.0% to 20.75% on income-generating loans extended on or after 1st Oct 2015. With this reduction, SKS continues to charge the lowest rate among Indian MFIs.
- Incremental drawdowns of Rs.1,569 Crs. in Q2FY16 (Rs. 1,100 Crs in Q2FY15), including commercial paper of Rs.200 Crs. rated as 'A1+'.
- SKS also originated Rs.237 Crs. loans under managed portfolio in Q2FY16.
- Loan disbursement of Rs.2,665 crore in Q2FY16 (growth of 57% YoY and 12% QoQ).
- Non-AP Portfolio grew by 80% (YoY) and 14% (QoQ) to Rs.5,462 Crs. as of Sept 30, 2015.
- Marginal Cost of Borrowings for Q2 FY16 at 11.2% and Weighted Average cost of Borrowings# (historical) at 12.1% for Q2FY16.
- Cost to income at 47.0% for Q2FY16 as compared to 52.3% in Q1FY16 (drop of 5.3% QoQ).
- The un-availed deferred tax benefit of Rs. 425 Crs. will be available to offset tax on future taxable income.
- MAT credit of Rs.23 crs for Q2FY16 is conservatively not availed as P&L credit, despite supporting accounting standards. The total MAT credit of Rs.48 crs as of 30th Sept'15, is also available to offset normal tax liability in the future.
- PAT of Rs.78 Crs. in Q2FY16 (growth of 37% YoY and 27% QoQ).
- Networth of Rs.1,203 Crs. and capital adequacy at 24.6% as of Sept 30, 2015.
- Cash & Cash equivalent^ of Rs.834 Crs.
- Equipped all loan officers with Tablets.
- PAT Guidance for FY16 increased to Rs.290 Crs from earlier guidance of Rs.235 Crs.

Note:

^ Excluding security deposit. # including processing fee of Rs.5.7 Crs paid on Loans on Balance sheet in Q2FY16.

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

TURNAROUND ACHIEVED

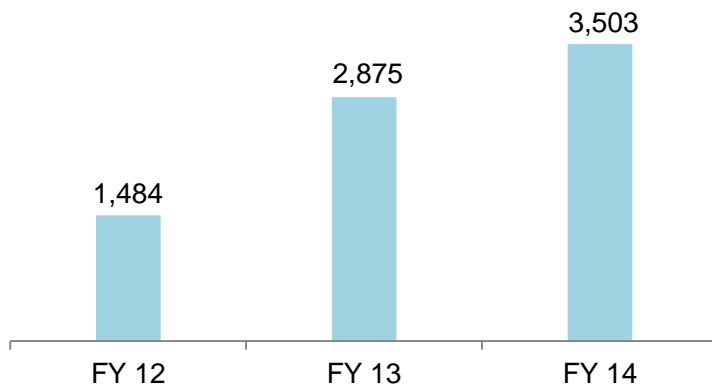
INR crore

Balance Sheet Cleansed

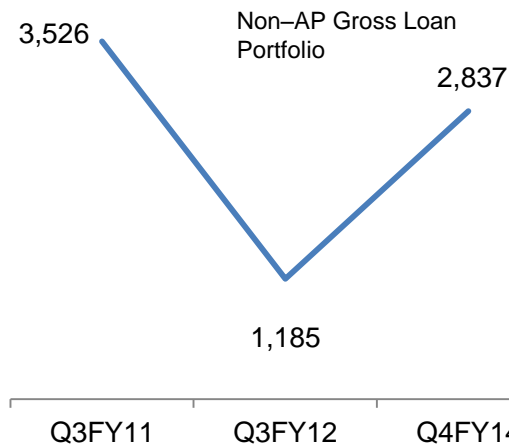
AP exposure of Rs. 1,360 crore written off/ provided for

Supply-side Shock Managed

Drawdowns



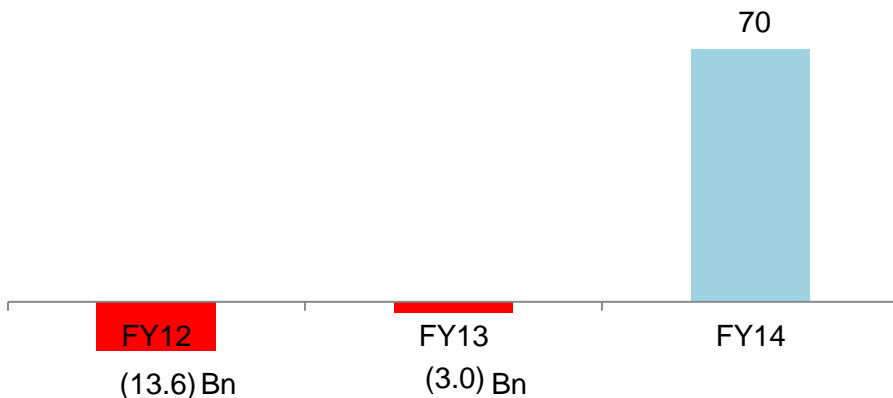
Credit Growth Resumed



Cost Structure Optimization

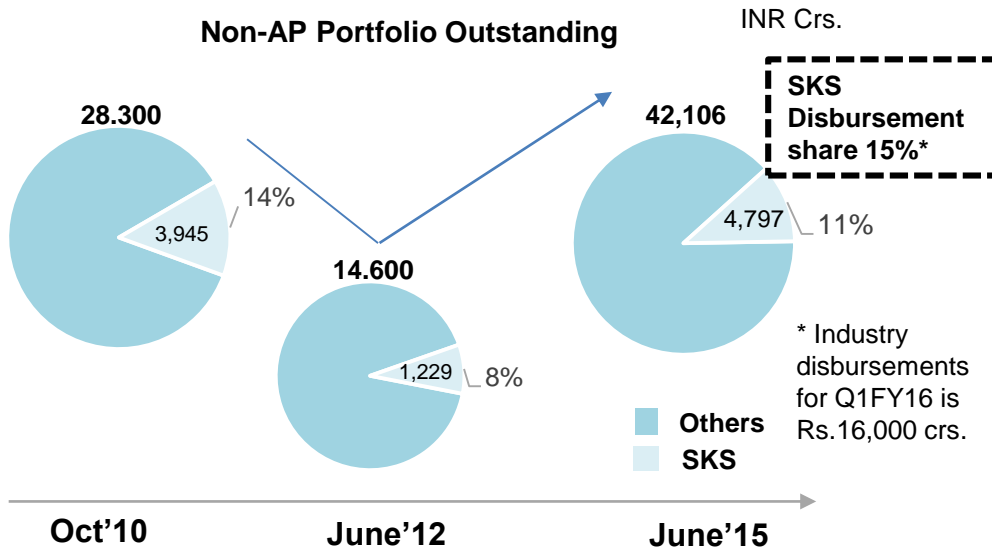
	Q3FY11	Q4FY14	Var.
Branches	2,403	1,255	-48%
Other Opex (INR crore)	51	21	-60%
Headcount	25,735	8,932	-65%
Personnel Cost (INR crore)	89	43	-52%

Return To Profitability

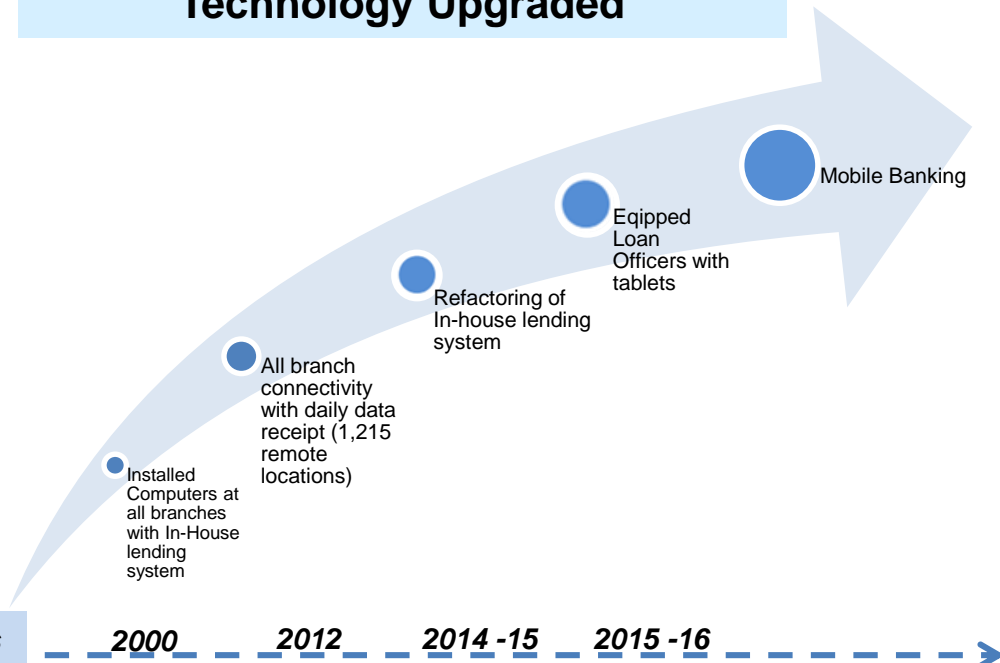


DURABLE FOUNDATION FOR SUSTAINABLE GROWTH

Market Share Regained



Technology Upgraded

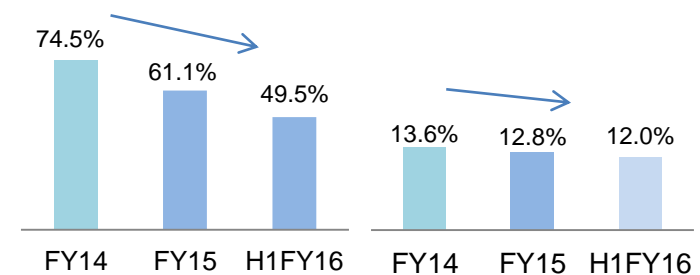


Capital Reinforced

- Net worth - Rs. 1,203 crs
- CAR - 24.6% (RBI Requirement 15%)

Efficiency Gains

Cost to Income # Cost of Borrowing



including processing fee paid on Loans on Balance sheet 5

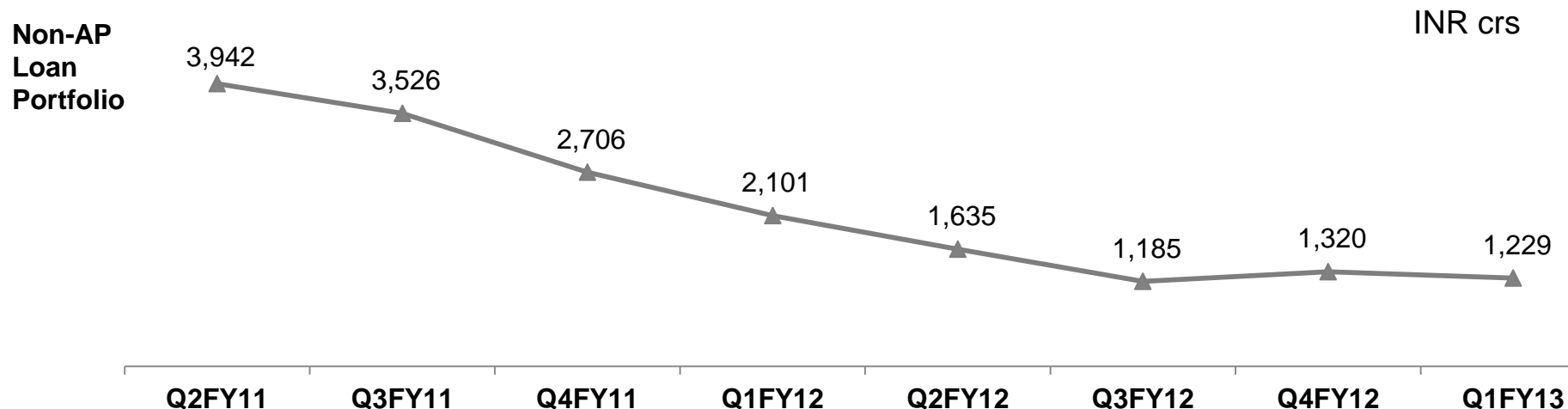
CLARITY ON MAJOR UNCERTAINTIES POST AP MFI CRISIS

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

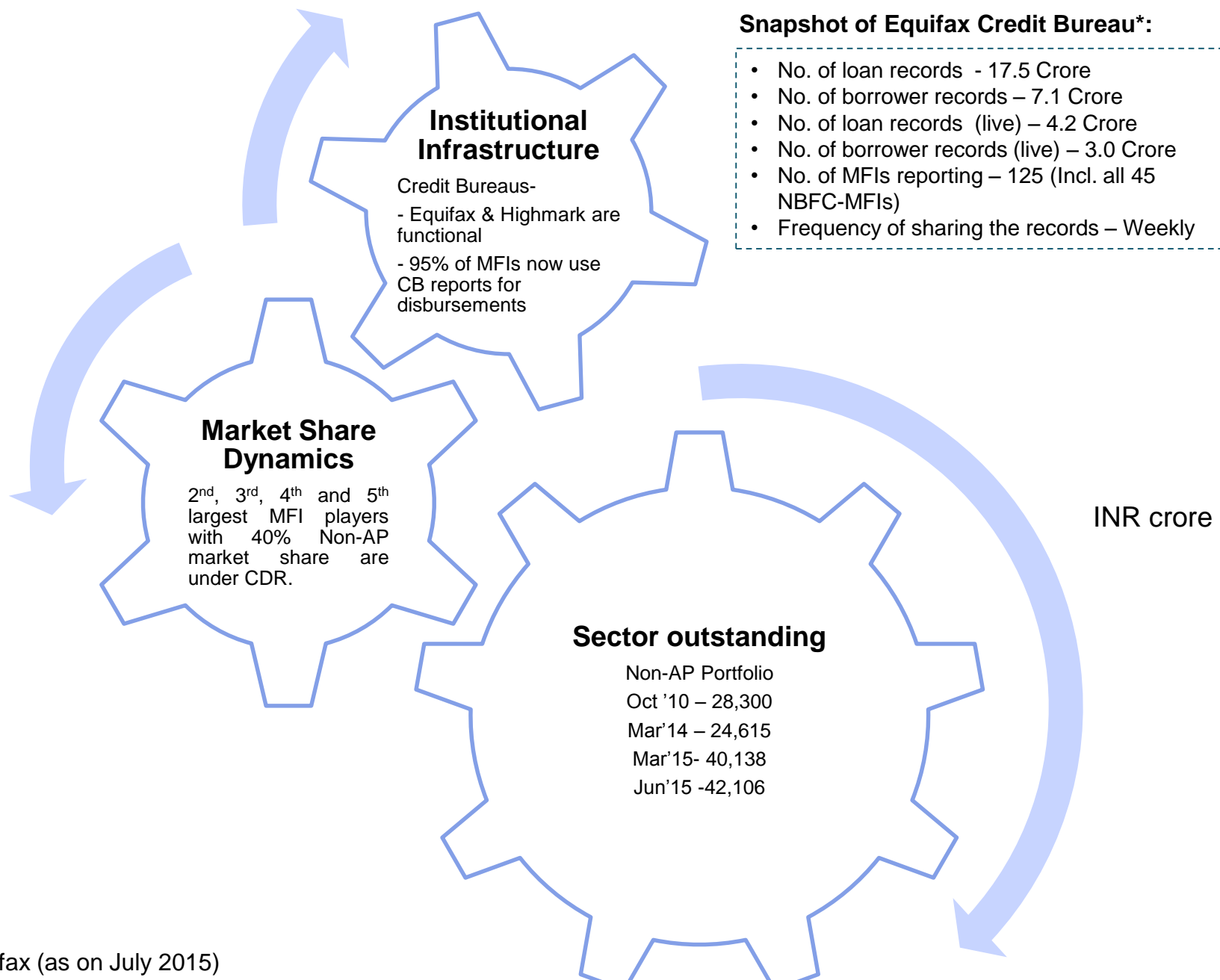
in Millions

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

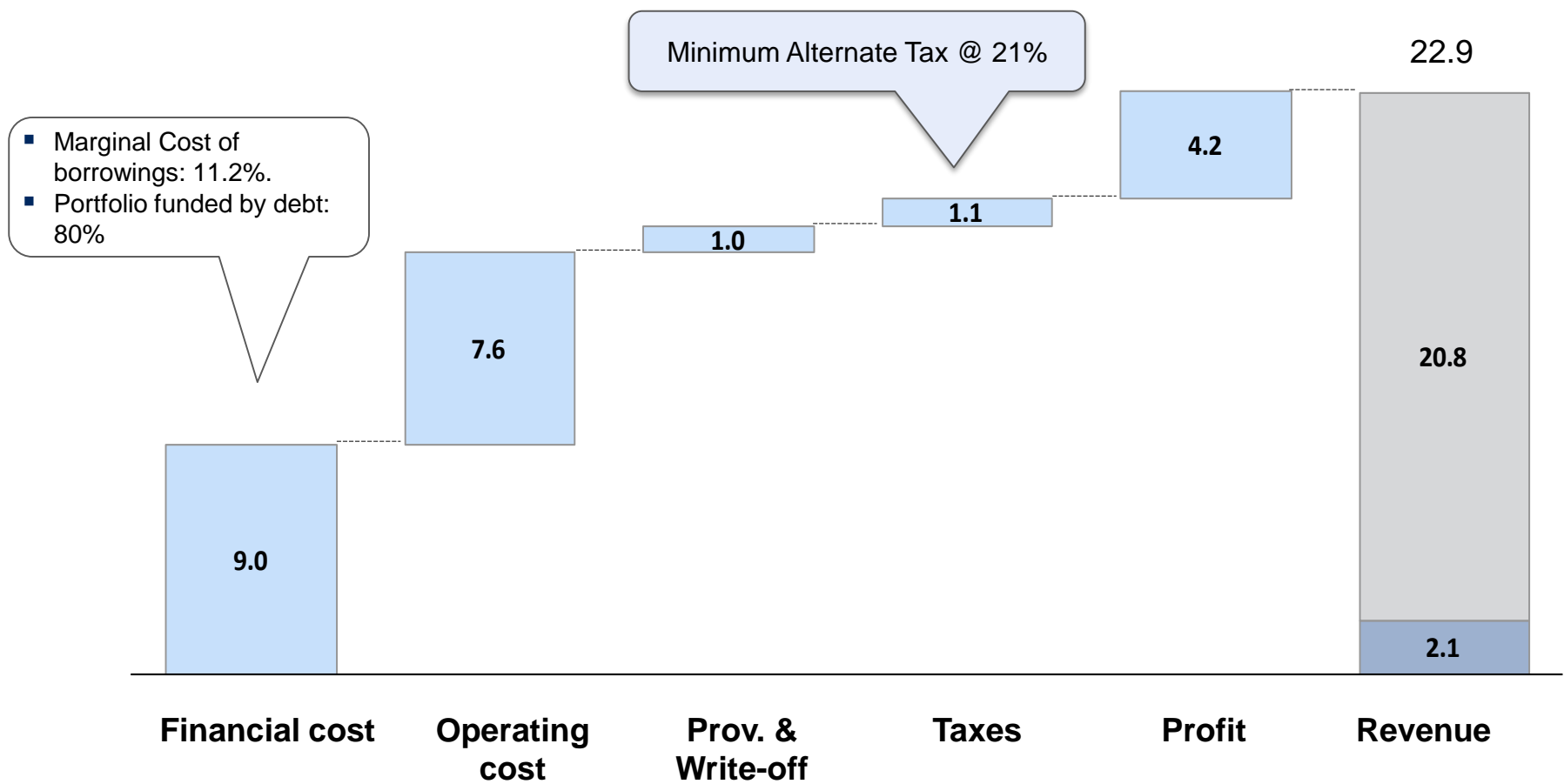
COMPETITIVE LANDSCAPE CHANGES TO SKS' ADVANTAGE



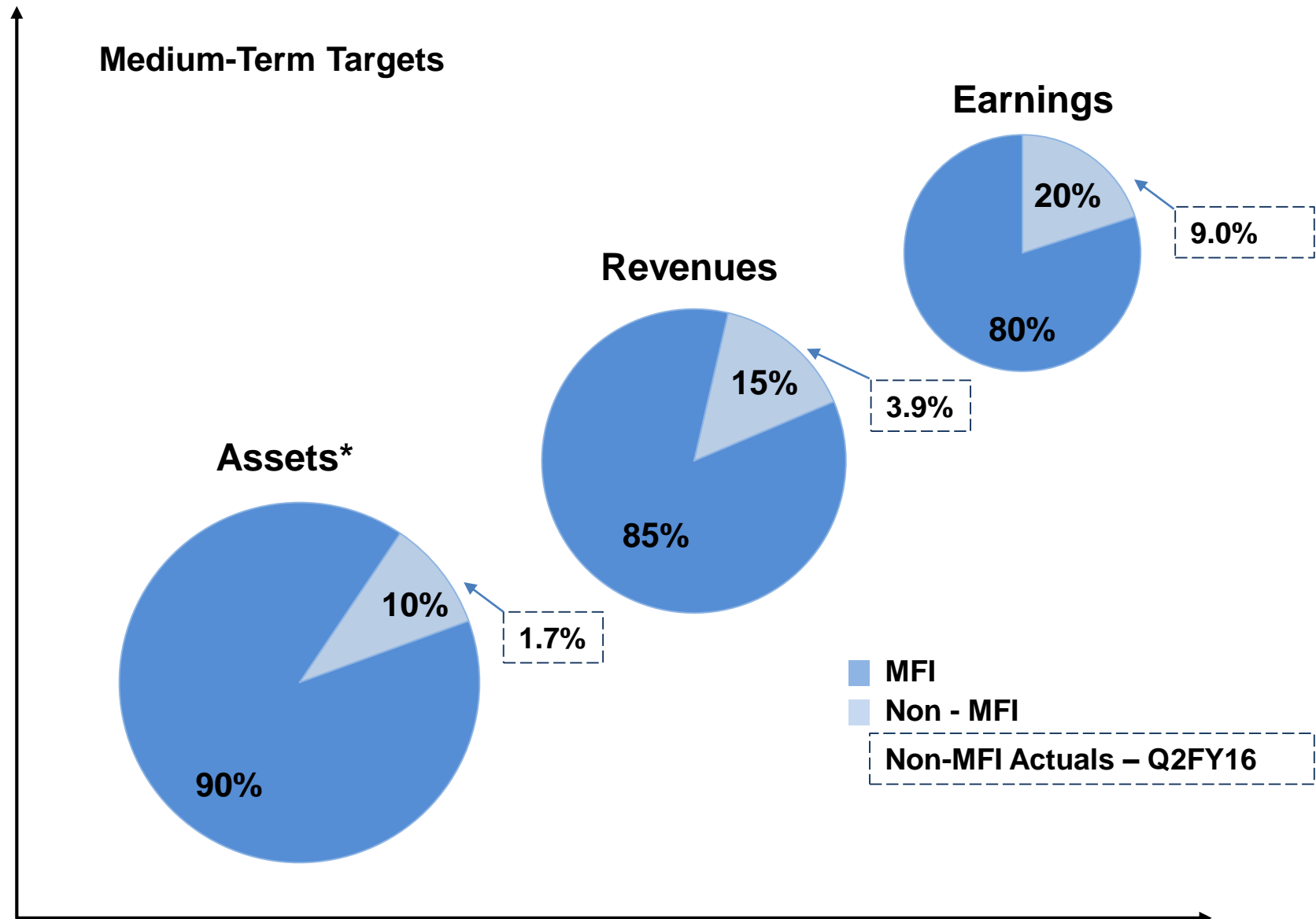
* Source: Equifax (as on July 2015)

STEADY-STATE ROA OF 4% CAN BE TARGETED

Interest rate
 Processing fee



CREATIVE DISTURBANCE TO ASSET-REVENUE-EARNING CORRELATION



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

OPERATIONAL HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

Particulars	Sep-14	Sep-15	YoY%	June-15	QoQ%
Branches#	1,268	1,268	-	1,268	-
Centers (Sangam)	228,494	216,723	-5%	220,485	-2%
- Centers in non-AP States	157,911	145,938	-8%	149,797	-3%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	8,943	10,782	21%	10,100	7%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	8,670	10,490	21%	9,812	7%
– Sangam Managers* (i)	5,094	6,066	19%	5,656	7%
– Sangam Manager Trainees(ii)	310	736	137%	610	21%
– Branch Management Staff (iii)	2,203	2,506	14%	2,390	5%
– Area Managers (iv)	86	137	59%	137	0%
– Regional Office Staff (v)	977	1,045	7%	1,019	3%
• Head Office Staff (vi)	273	292	7%	288	1%
Members in non-AP States (in '000)	4,171	4,592	10%	4,471	3%
– Members added (in the quarter) (in '000)	407	537	32%	415	29%
Active borrowers in non-AP States (in '000)	3,570	3,821	7%	3,686	4%
– Active borrowers added (in the quarter) (in '000)	475	552	16%	474	16%
No. of loans disbursed (in '000)	1,404	1,988	42%	1,778	12%
Disbursements (for the quarter) (INR Crs.)	1,693	2,665	57%	2,377	12%
Gross loan portfolio – Non-AP (INR Crs.) (A+B+C)	3,043	5,462	80%	4,797	14%
• Loans outstanding (A)	2,793	4,753	70%	3,852	23%
• Securitized (B)	153	179	17%	475	-62%
• Managed loans (C)	97	531	-	470	13%
Operational Efficiency – Non-AP :					
Off-take Avg (Disbursements/ No of Loans disbursed) (INR)	12,068	13,414	11%	13,378	0.3%
Gross loan portfolio/ Active Borrowers (INR)	8,524	14,295	68%	13,015	10%
Gross loan portfolio/ No. of Sangam Managers (Rs. '000)	6,898	10,011	45%	9,544	5%
Active borrowers / No. of Branches	3,137	3,367	7%	3,247	4%
Active borrowers / No. of Sangam Managers	809	700	-13%	733	-4%

*Sangam Managers are our loan officers who manage our centers (also called Sangams). As of September'15, we had 5,456 Sangam Managers in Non-AP States # Incl. 44 Gold branches

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

	Best before AP MFI crisis	Worst during AP MFI crisis	FY14	FY15	Q1FY16	Q2FY16
<u>Productivity – Non-AP:</u>						
Borrowers/ SM	489*	287	721	787	733	700
Gross Loan Portfolio/ SM ('000)	3,640*	1,320	6,275	8,994	9,544	10,011
Offtake Avg.	10,299*	9,237	11,596	12,273	13,378	13,414
<u>Cost Efficiency:</u>						
Financial Cost % ^{\$}	6.6%	9.8%	8.3%	8.3%	9.0%	9.1%
Cost of borrowings % (without processing fees)	9.7%	12.9%	12.7%	12.1%	11.7%	11.6%
Cost of borrowings %	10.3%^	16.0%^	13.6%#	12.8%#	11.9%#	12.1%#
Opex/ Gross Loan Portfolio %	10.4%	21.7%	9.6%	9.5%	8.5%	7.6%
Cost to Income Ratio	52.4%	275%	74.5%	61.1%	52.3%	47.0%
<u>Credit Quality - Non-AP:</u>						
Gross NPA%	0.20%*	5.5%	0.1%	0.1%	0.1%	0.2%
Net NPA%	0.16%*	2.9%	0.1%	0.1%	0.1%	0.1%
Collection Efficiency %	99.8%*	94.9%	99.9%	99.8%	99.7%	99.7%

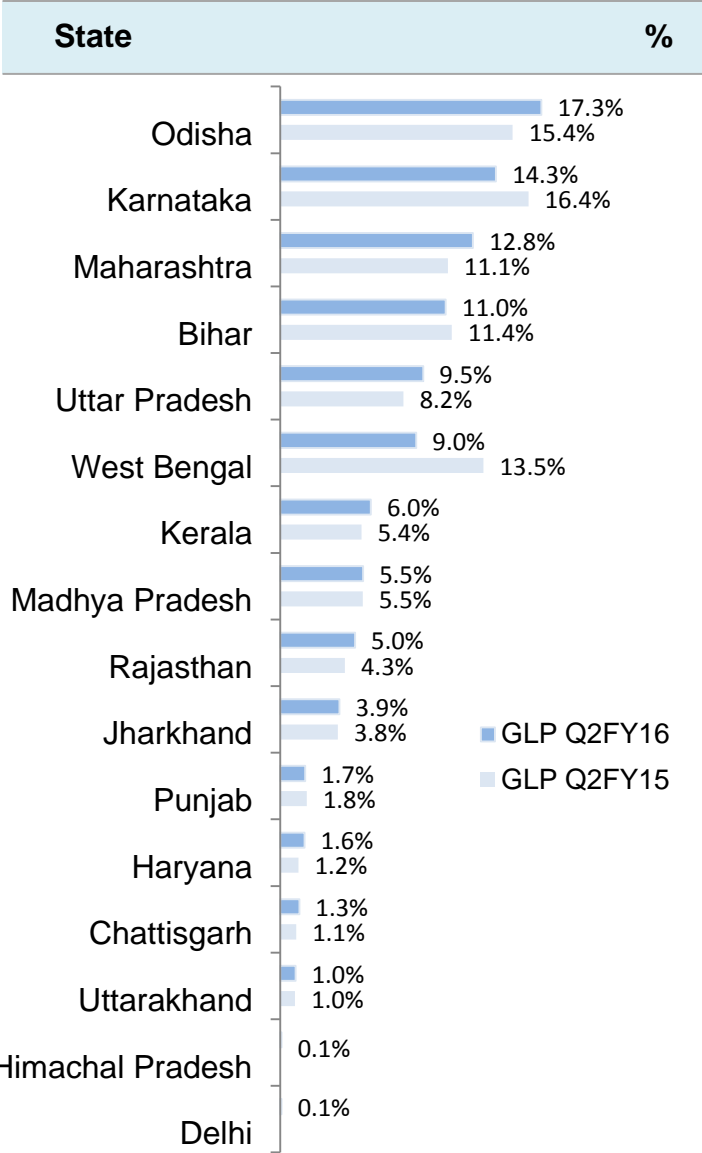
*Enterprise figures - includes figures from AP state

\$ 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

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 79%, 65% and 58% 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 YEARS

State	No. of Branches	Wt. Avg. Vintage (in Yrs.)*
Karnataka	169	7.8
Odisha	149	7.3
West Bengal	126	6.9
Bihar	121	7.2
Uttar Pradesh	121	6.2
Maharashtra	116	7.2
Madhya Pradesh	67	7.3
Rajasthan	57	7.1
Kerala	48	5.5
Jharkhand	43	6.5
Chhattisgarh	23	6.6
Punjab	18	6.1
Haryana	17	5.7
Uttarakhand	11	5.5
Himachal Pradesh	3	0.8
Gujarat	1	7.8
Delhi	1	6.2
Non-AP	1,091	7.0

As of Sep 2015

* Excludes 44 Gold Loan Branches.

PORTFOLIO OUTSTANDING BY ECONOMIC ACTIVITY

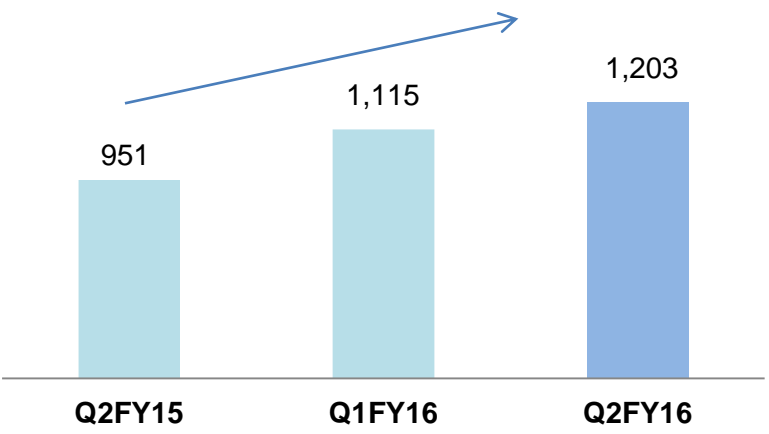
Purpose	% Mix
Livestock	29%
Tailoring, Cloth weaving	11%
Grocery stores and other retail outlets	10%
Masonry, Painting, Plumbing, Electrician, Carpenter and related	7%
Trading of vegetables & fruits	7%
Agriculture	7%
Vehicle repairs	5%
Trading of agri-commodities	5%
Eateries	5%
Garments & Footwear retailing	2%
Trading of Utensils, Plastic items	1%
Scrap business	1%
Bangles shop	1%
Other income generating activities	9%

REVIEW OF FINANCIALS

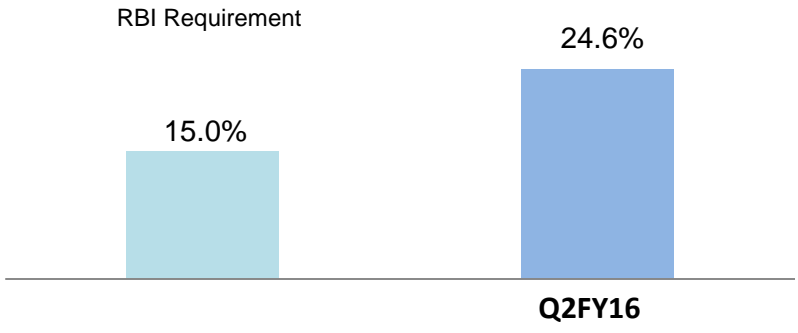
STRONG SOLVENCY AND SUFFICIENT LIQUIDITY

INR Crs.

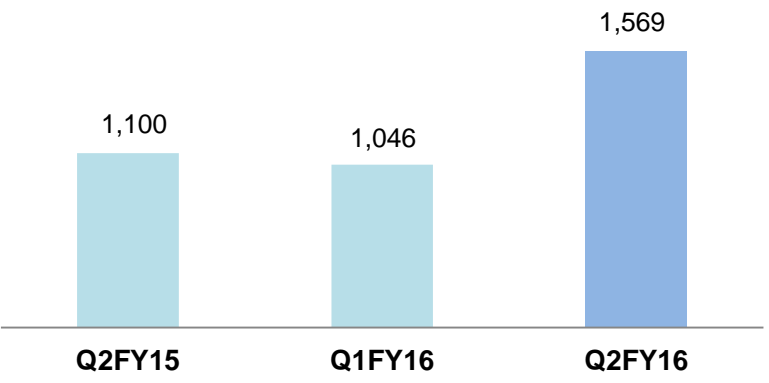
Networth



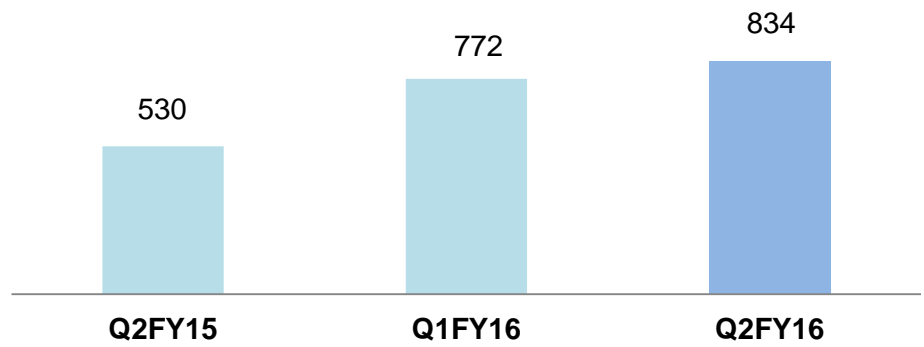
Capital Adequacy



Drawdowns



Cash and Cash Equivalent[^]

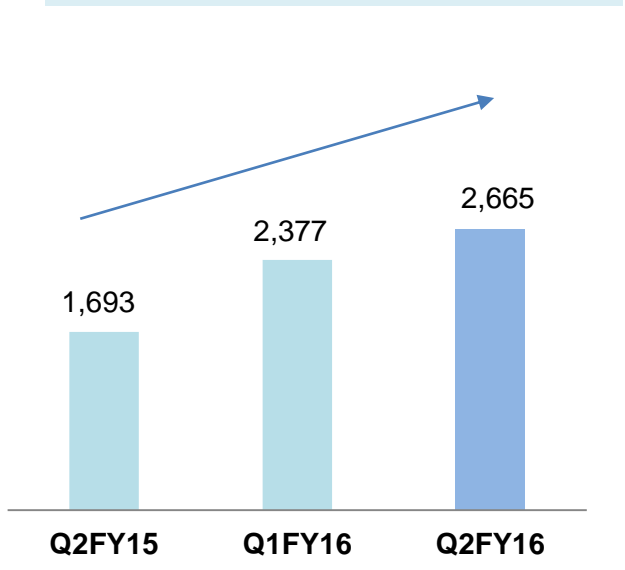


[^] Excluding security deposit

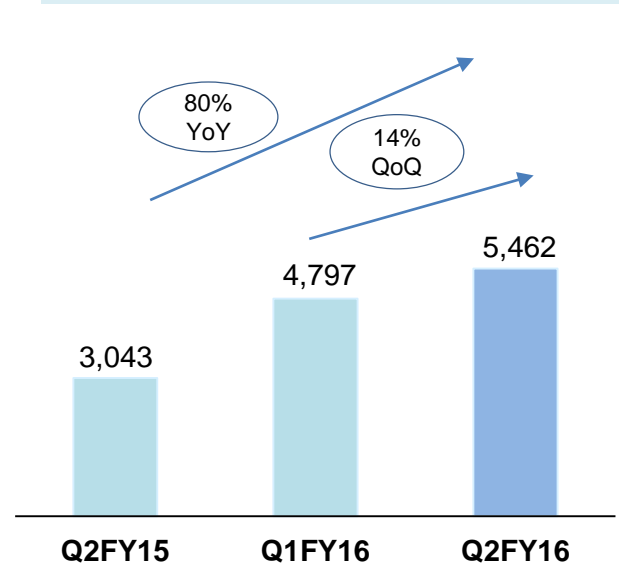
NII GROWTH EXCEEDS OPEX INCREASE

INR Crs.

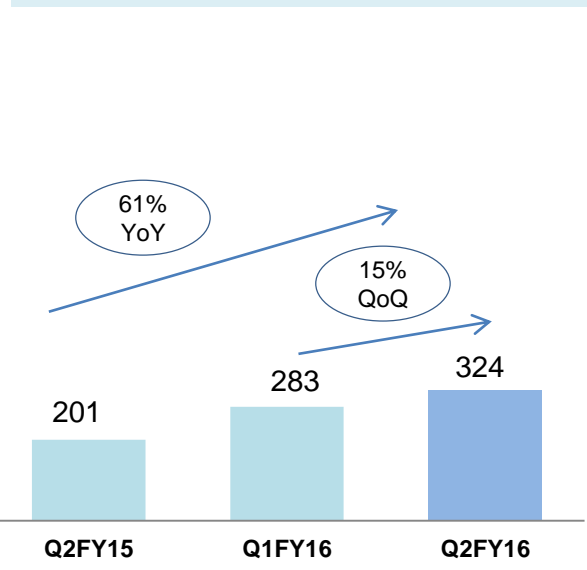
Disbursements



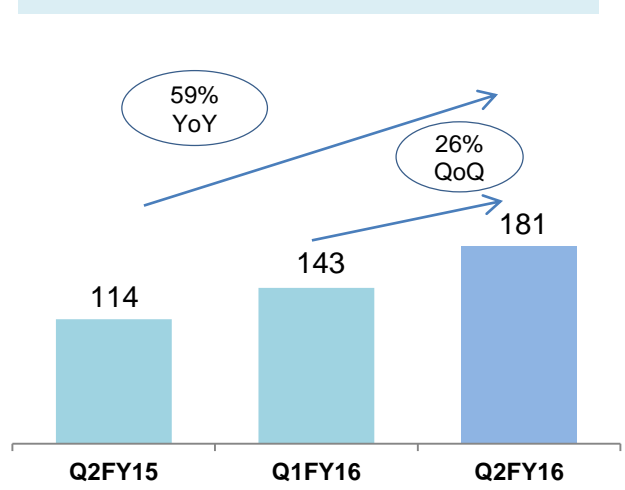
Non-AP Gross Loan Portfolio



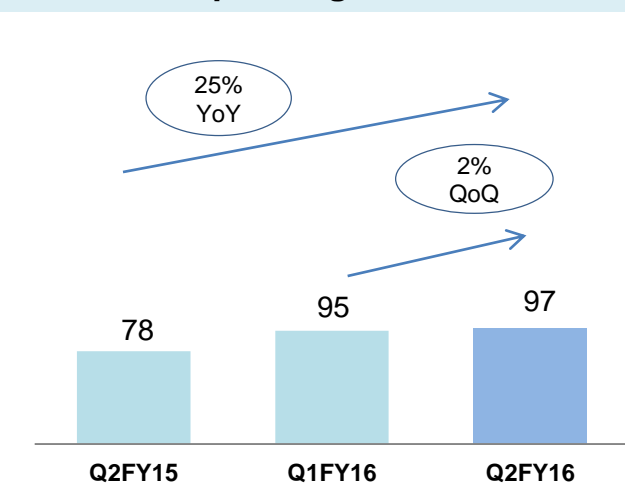
Gross Revenue



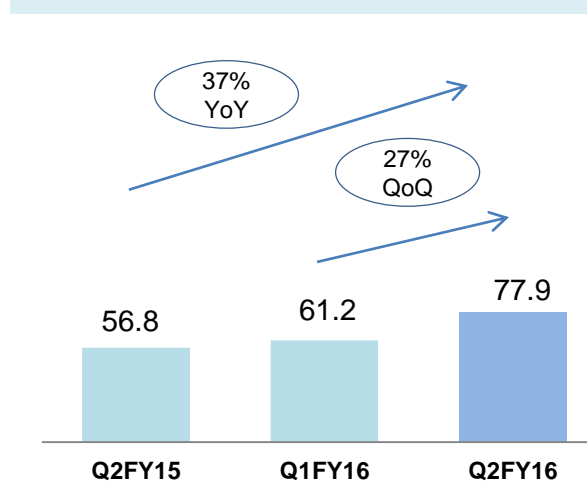
Net Interest Income*



Operating Cost



PAT



Tax Exp: Nil Rs. 18 Crs Rs. 23 Crs

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

PAT GROWTH OF 27% QoQ

INR Crs.

Particulars	Q2FY15	Q2FY16	YoY%	Q2FY16 As % of Total Revenue	Q1FY16	QoQ%
<u>Income from Operations</u>						
Interest income on Portfolio loans	158	256	62%	79%	195	31%
Excess interest spread on securitization	8	11	37%	3%	22	-50%
Loan processing fees	11	16	42%	5%	15	10%
<u>Other Income</u>						
Income on investments	7	9	27%	3%	21	-59%
Recovery against loans written off	8	4	-43%	1%	4	8%
Facilitation fees from Cross-sell	5	13	175%	4%	13	-1%
BC fees	4	16	-	5%	12	29%
Other miscellaneous income	0.4	0.2	-39%	0.1%	0.2	-9%
Total Revenue	201	324	61%	100%	283	15%
Financial expenses	67	117	74%	36%	101	16%
Personnel expenses	55	70	27%	22%	71	-1%
Operating and other expenses	22	26	16%	8%	23	10%
Depreciation and amortization	1	2	62%	1%	1	88%
Total Operating Cost	78	97	25%	30%	95	2%
Provision & Write-offs	(1)	9	-	3%	7	22%
Total Expenditure	144	223	55%	69%	203	10%
Profit before Tax	57	101	78%	31%	79	27%
Tax expense	-	23.3	-	7%	18.3	28%
Profit after Tax	56.8	77.9	37%	24%	61.2	27%

H1FY16 PROFIT INCREASES BY 31% YoY

INR Crs.

Particulars	H1FY15	H1FY16	YoY%	H1FY16 As % of Total Revenue
<u>Income from Operations</u>				
Interest income on Portfolio loans	261	451	73%	74%
Excess interest spread on securitization	32	33	2%	5%
Loan processing fees	21	31	46%	5%
<u>Other Income</u>				
Income on investments	16	30	84%	5%
Recovery against loans written off	17	8	-50%	1%
Facilitation fees from Cross-sell	11	26	132%	4%
BC fees	11	28	159%	5%
Other miscellaneous income	1	0.5	-41%	-
Total Revenue	370	607	64%	100%
Financial expenses	115	218	89%	36%
Personnel expenses	109	141	29%	23%
Operating and other expenses	41	49	21%	8%
Depreciation and amortization	2	3	23%	-
Total Operating Cost	152	193	27%	32%
Provision & Write-offs	(3)	16	-	3%
Total Expenditure	264	426	62%	70%
Profit before Tax	106	181	70%	30%
Tax expense	-	42	-	7%
Profit after Tax	106	139	31%	23%

	FY16 (Earlier)	FY16 (Revised)
Incremental debt requirement	7,000	7,000
Non-AP Disbursement	9,000	10,000
Non-AP Gross Loan Portfolio	6,000	6,250
Profit After Tax (Post MAT @ 21%)	235	290

STRONG CAPITAL BASE AND ROBUST LIQUIDITY DRIVE SKS BALANCE SHEET

Particulars	Q2FY15	Q2FY16	YoY%	Q1FY16	QoQ%
Equity share capital	126	127	1%	126	-
Stock options outstanding	20	26	28%	27	-1%
Reserves and surplus	804	1,050	31%	962	9%
Capital & Reserves	951	1,203	27%	1,115	8%
Loan funds	2,402	4,452	85%	3,503	27%
Payable towards Securitisation	107	68	-37%	151	-55%
Expenses & other payables	53	23	-56%	33	-28%
Provision for Taxation	5	8	73%	8	26%
Unamortised loan processing fees	23	40	70%	35	14%
Employee benefits payable	12	16	37%	12	37%
Interest accrued but not due on borrowings	14	33	138%	19	72%
Interest accrued and due on borrowings	-	-	-	-	-
Provision for leave benefits & gratuity	12	15	26%	14	6%
Statutory dues payable	3	5	75%	7	-28%
Unrealized gain on securitization transactions	2	12	-	25	-54%
Provision for standard and NPA -- Non-AP	31	56	82%	48	16%
Provision for standard and NPA -- AP	68	0.2	-100%	0.1	12%
Liabilities	2,730	4,728	73%	3,856	23%
Total Liabilities	3,681	5,932	61%	4,971	19%
Fixed assets	5	14	202%	6	133%
Intangible assets	5	5	6%	5	2%
Investment	0.2	0.2	0%	0.2	0%
Cash and bank balances	721	1,039	44%	991	5%
Trade receivable	6	10	69%	8	31%
Interest accrued and due on loans	1	1	-16%	1	-11%
Interest accrued but not due on loans	9	13	42%	13	-2%
Interest accrued but not due on deposits with banks	11	11	-	15	-23%
Interest strip on securitization transactions	2	12	-	25	-54%
Portfolio loans -- Non-AP	2,786	4,736	70%	3,806	24%
Portfolio loans -- AP	87	15	-82%	14	12%
Loans placed as collateral	7	17	135%	46	-63%
Security deposits for rent and other utilities	4	4	-4%	4	-
Advances for Loan Cover Insurance	1	2	204%	1	260%
Surrender amount receivable from insurance co.	2	-	-	-	-
Loans to SKS employee benefit trust	5	5	-4%	5	0%
Advance Income Tax	17	14	-18%	14	9%
Prepaid insurance	4	4	16%	1	196%
Other advances	7	28	280%	15	94%
Total Assets	3,681	5,932	61%	4,971	19%
Note:1 Non-AP Securitized/Managed Portfolio	250	709	184%	945	-25%
2. Non-AP Gross Loan Portfolio	3,043	5,462	80%	4,797	14%

REDUCED COST-TO-INCOME AND STABLE CREDIT COST ADD TO PROFITABILITY

Particulars		Q2 FY15	Q1 FY16	Q2 FY16
Spread Analysis (as % of Avg. Gross Loan Portfolio)				
Gross Yield	(I)	25.9%	25.1%	25.2%
Portfolio Yield		21.3%	19.3%	20.7%
Financial Cost	(a)	8.6%	9.0%	9.1%
Operating Cost	(b)	10.0%	8.5%	7.6%
Provision and Write-offs	(c)	-0.1%	0.6%	0.7%
Taxes	(d)	0.0%	1.6%	1.8%
Total Expense	II = (a+b+c+d)	18.6%	19.7%	19.2%
Return on Avg. Gross Loan Portfolio	(I) - (II)	7.3%	5.4%	6.1%
Efficiency:				
Cost to Income		58.2%	52.3%	47.0%
Asset Quality – Non-AP:				
Collection Efficiency		99.8%	99.7%	99.7%
Gross NPA		0.1%	0.1%	0.2%
Net NPA		0.1%	0.1%	0.1%
Gross NPA (INR Crs.)		3.0	4.6	7.5
Net NPA (INR Crs.)		1.9	2.2	3.9
Leverage:				
Debt : Equity		2.5	3.1	3.7
Debt : Equity (Incl. Securitised & Managed Loans)		2.8	4.1	4.3
Capital Adequacy:				
		34.1%	27.2%	24.6%
Profitability:				
Return on Avg. Assets (Incl. Securitised & Managed Loans)		5.9%	4.1%	5.0%
ROE		6.2%	22.7%	26.9%
EPS - Diluted (INR) (Not Annualised)		4.5	4.8	6.1
Book Value (INR)		75.5	88.2	94.9

REDUCED COST-TO-INCOME AND STABLE CREDIT COST ADD TO PROFITABILITY

Particulars		H1 FY15	H1 FY16
Spread Analysis (as % of Avg. Gross Loan Portfolio)			
Gross Yield	(I)	23.8%	25.2%
Portfolio Yield		18.8%	20.1%
Financial Cost	(a)	7.4%	9.0%
Operating Cost	(b)	9.7%	8.0%
Provision and Write-offs	(c)	-0.2%	0.7%
Taxes	(d)	0.0%	1.7%
Total Expense	II = (a+b+c+d)	17.0%	19.4%
Return on Avg. Gross Loan Portfolio	(I) - (II)	6.8%	5.8%
Efficiency:			
Cost to Income		59.5%	49.5%
Asset Quality – Non-AP:			
Collection Efficiency		99.8%	99.7%
Gross NPA		0.1%	0.2%
Net NPA		0.1%	0.1%
Gross NPA (INR Crs.)		3.0	7.5
Net NPA (INR Crs.)		1.9	3.9
Leverage:			
Debt : Equity		2.5	3.7
Debt : Equity (Incl. Securitised & Managed Loans)		2.8	4.3
Capital Adequacy:			
		34.1%	24.6%
Profitability:			
Return on Avg. Assets (Incl. Securitised & Managed Loans)		5.6%	4.5%
ROE		27.7%	24.8%
EPS - Diluted (INR) (Not Annualised)		8.8	10.8
Book Value (INR)		75.5	94.9

FINANCIAL ARCHITECTURE

FINANCIAL ARCHITECTURE (1/2)

Lenders Mix

On Balance Sheet*	Q2FY15	Q1FY16	Q2FY16
Yes Bank	20%	10%	13%
State Bank Group	6%	8%	12%
Dena Bank	3%	7%	11%
ICICI Bank	10%	8%	8%
Kotak Mahindra Bank	3%	10%	7%
Bank of Maharashtra	8%	5%	6%
IDFC	3%	3%	6%
IDBI Bank	2%	6%	4%
Andhra Bank	5%	6%	4%
Ratnakar Bank	-	5%	4%
SIDBI	4%	6%	4%
HSBC Bank	1%	2%	3%
Bank of India	8%	2%	3%
HDFC Bank	5%	5%	3%
Axis Bank	7%	4%	2%
Standard Chartered Bank	-	3%	2%
IndusInd Bank	8%	3%	2%
Citi Bank	1%	2%	2%
South Indian Bank	1%	2%	2%
Union Bank of India	-	-	1%
DCB Bank	2%	1%	1%
Others	2%	1%	1%
Grant Total	2,402	2,847	3,604

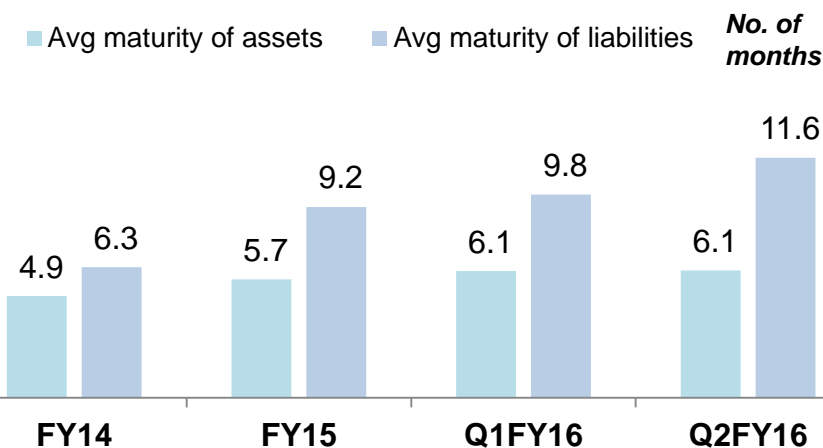
* Includes Term loan and cash credit facilities

Funding Mix

INR Crs.

	Q2FY15	% Mix	Q1FY16	% Mix	Q2FY16	% Mix
Term Loans	2,310	85%	2,724	59%	3,497	67%
Managed Loans	97	4%	479	10%	531	10%
Commercial Paper	-	-	256	6%	448	9%
NCD	-	-	400	9%	400	8%
Securitisation	218	8%	619	13%	244	5%
Cash Credit	92	3%	123	3%	107	2%
Total	2,716	100%	4,602	100%	5,226	100%

Positive ALM Mismatch



ALM data includes securitized loans

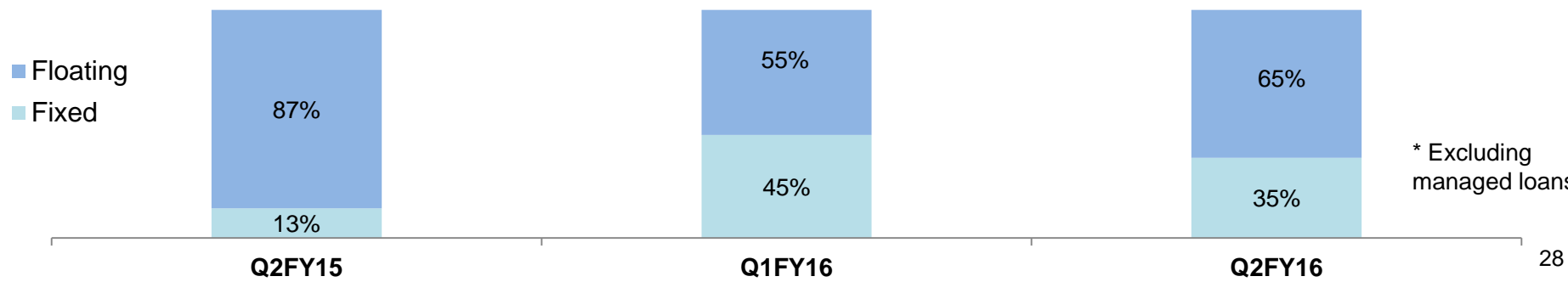
FINANCIAL ARCHITECTURE (2/2)

Funding Cost Analysis

Metric	FY14	FY15	Q2FY15	Q1FY16	Q2FY16
Marginal cost of borrowing for on b/s loans (excluding processing fees)	12.9%	12.3%	12.6%	11.6%	11.2%
Marginal cost of borrowing for on b/s loans (including processing fees)	13.6%	12.6%	12.9%	11.6%	11.3%
Wt. avg. cost of borrowing (excluding processing fee paid & other charges)	12.7%	12.1%	12.4%	11.7%	11.6%
Wt. avg. cost of borrowing (including processing fee paid on Loans on Balance sheet)	13.6%	12.8%	13.8%	11.9%	12.1%
Wt. avg. cost of borrowing (including processing fee and other charges paid for On & Off B/S loans)	14.2%	13.2%	14.0%	12.0%	12.3%
Loan Processing Fees (INR Crs.)	17.3	16.9	6.3	1.0	5.7
Drawdowns (INR Crs.)	3,503	5,020	1,100	1,046	1,569
Financial Cost^	8.3%	8.3%	8.6%	9.0%	9.1%

*The above percentages are based on monthly averages (except financial cost %). ^ Financial expenses to Avg. Gross Loan Portfolio
 Note: 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*

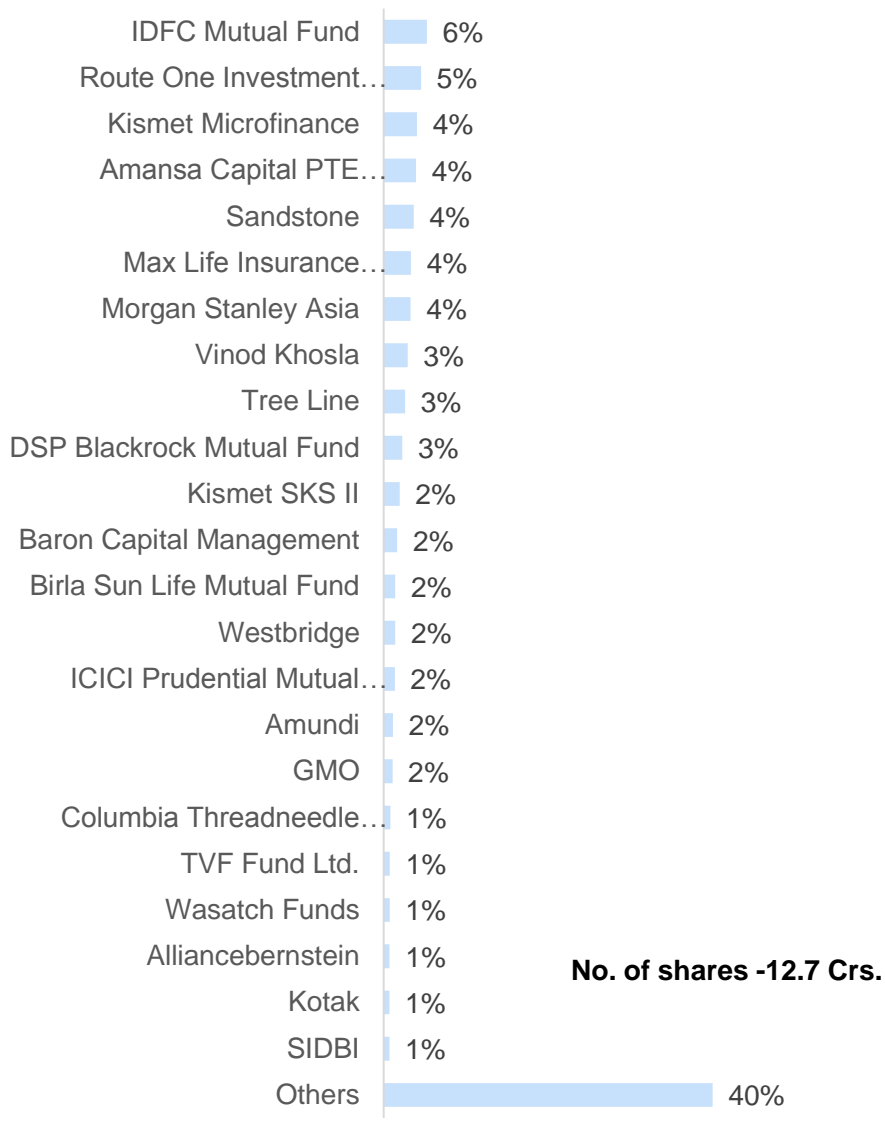


EXTERNAL ASSESMENT

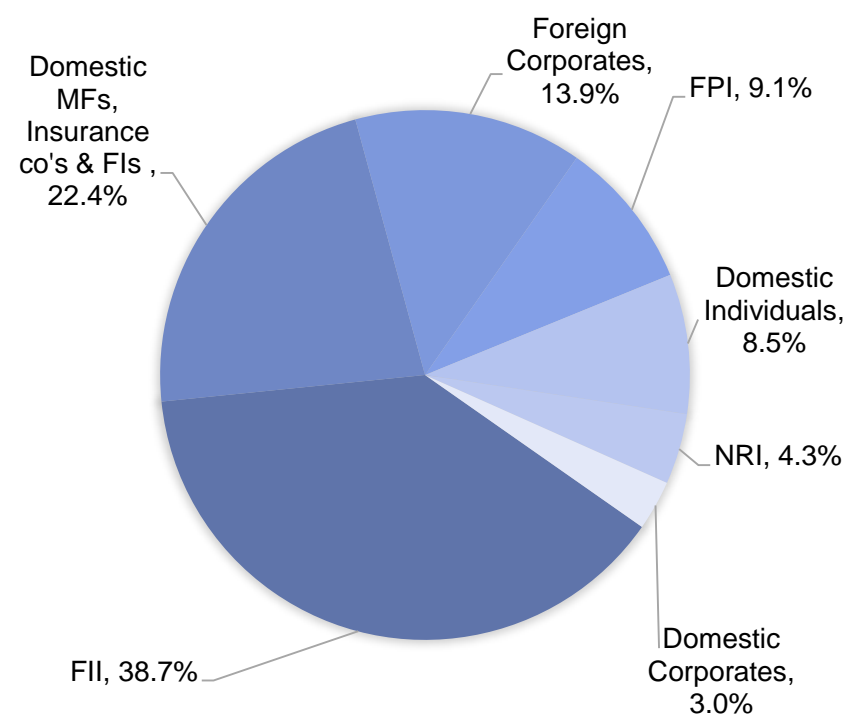
Rating Instrument	Rating	Rating Agency	Rating Amount Limits (Rs. Crs.)	
			Q1FY16	Q2FY16
MFI Grading	MFI 1	CARE Ratings	N/A	N/A
Bank Loan Rating (Long-term facilities)	CARE A+	CARE Ratings	3,300	3,300
Bank Loan Rating (Short-term facilities)	CARE A1+	CARE Ratings		
Long-term Debt (NCD)	CARE A+	CARE Ratings	400	400
Long-term Debt	[ICRA] A+	ICRA Limited	500	750
Short-term Debt	[ICRA] A1+	ICRA Limited		

CAPITAL STRUCTURE AND SHARE PRICE MOVEMENT

CAPITAL STRUCTURE AS ON 30TH SEPTEMBER 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

	Sep-15
Book value per share (INR) (A)	95
Present value of DTA per share (B)^	24
Book value per share – Including PV of DTA (INR) (A+B)	119
Adjusted Price to Book Ratio (times)	3.8

Note:

^ Estimated Present Value of Deferred Tax Assets(DTA) and MAT Credit not recognized in books per share.

DTA and MAT credit as on Sep 30, 2015 is Rs. 425 Crs and Rs. 48 Crs.. Discount rate assumed at 12.0% and applied over next 6 years' estimated profit.

SKS Market Price as of October 19, 2015 – Rs.449

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

- 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
- Qualifying assets - 96%
 - Income generation loans >97%

Qualifying Assets Criteria*

Income of Borrower's Family

- Rural : <=Rs.100,000
 - Non-Rural : <=Rs. 1,60,000
- ✓

Ticket Size

- <= 60,000 – 1st cycle
 - <= Rs.100,000 – Subsequent cycle
- ✓

Indebtedness

- <= Rs. 100,000
- ✓ <= Rs. 50,000

Tenure

- If loan amt. > Rs.15,000, then >= 24 months
- ✓

Collateral

- Without collateral
- ✓

Repayment Model

- Weekly, Fortnightly and Monthly
- ✓





* SKS compliance relates to income generation loans which comprise 97% of total loans.

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 20.75% w.e.f 1 st October'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%	36%+	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:

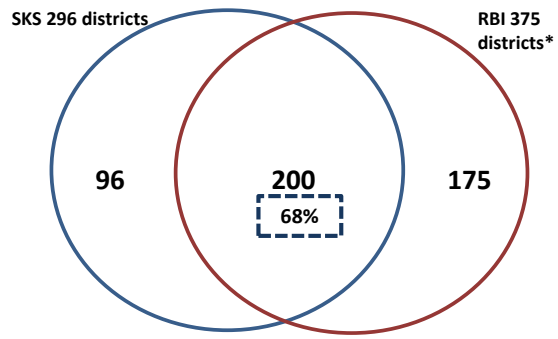
* As per RBI notification dated 16th July 2015 Banks are directed to ensure overall direct lending to non-corporate farmers does not fall below the system wide average of last three years achievement. They should also continue to maintain all efforts to reach the level of 13.5% direct lending to beneficiaries..

Refer Slide no.16 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

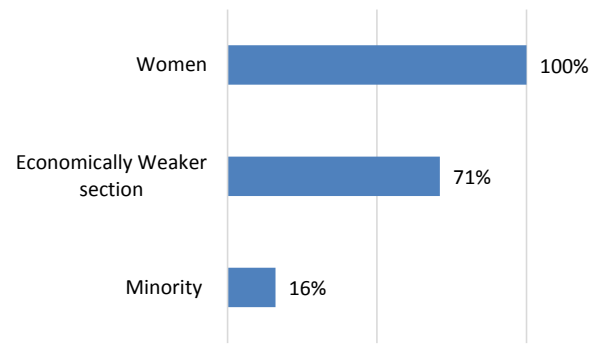


SKS covers 68% of below average & low financial inclusion districts identified by Crisil

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

68% (includes 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)	2,346 (43%)	1,451 (27%)	1,513 (28%)	93 (2%)	60 (1%)
Ticket size range (w.e.f 1 st Oct'15)	INR 9,060 to INR 14,940		INR 20,840 to INR 31,470	INR 1,785 to INR 4,995	INR 2,000 to INR 200,000
Avg. Ticket Size (INR) For Q2FY16	14,518	14,404	29,667	2,159	12,840
Eligibility*	<ul style="list-style-type: none"> ▪ Completion of CGT / GRT ▪ Age limit 18 years to 55 years 	<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 	<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	20.75% (w.e.f 1 st Oct'15 for new loans)			<ul style="list-style-type: none"> ▪ 19.80% - 20.45% 	<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 Cycle.

HIGHLIGHTS - LONG TERM LOANS (LTL)

Product Details	
Purpose	Income generating activity
Ticket Size	Rs.20,840 to Rs.31,470
Tenure	104 Weeks
Eligibility	<ul style="list-style-type: none"> - Completion of two IGL^ Loan cycles - Client with IGL 3 can opt for LTL instead of MTL
Product design	Equal weekly installment (EWI) similar to IGL Eg.: IGL Rs.13K Ticket size : Rs. 300 EWI LTL Rs.26K Ticket size : Rs. 320 EWI

Snapshot	LTL		Enterprise		% Mix LTL	
	Q2FY15	Q2FY16	Q2FY15	Q2FY16	Q2FY15	Q2FY16
No. of Loans Disbursed in '000	68	191	1,404	1,988	4.87%	9.60%
Avg. Ticket Size INR	28,346	29,677	12,052	13,404		
Amount of Loan Disbursed ('In Crs.)	194	567	1,693	2,665	11.44%	21.26%
Portfolio Outstanding (in Crs.)	251	1,513	3,043	5,462	8.26%	27.70%

*Disbursement capped at 25% of overall disbursement

^ Income Generating Loans with ticket size of Rs.9,060 to Rs.14,940 with tenure of 50 weeks

LEVERAGING THE DISTRIBUTION STRENGTH

	FY15			Q1FY16				Q2FY16			
	Mobile phone	Solar lamp	Total	Mobile phone	Solar lamp	Others ^	Total	Mobile phone	Solar lamp	Others ^	Total
No. of Units Facilitated (in Lacs)	4.5	3.9	8.4	1.8	1.4	0.7	4.0	2.0	1.4	0.7	4.1
Gross Fees (after service tax) INR Crs.	15.9	12.4	28.3	6.1	4.6	2.2	12.8	6.0	4.7	2.1	12.8
Less: Incentives INR Crs.	2.5	2.1	4.6	1.7	1.3	0.7	3.6	1.9	1.3	0.7	3.9
Net Fees INR Crs.*	13.4	10.3	23.7	3.5**	2.7**	1.2**	7.3**	3.2**	2.7**	1.1**	7.0**
Loan Portfolio INR Crs.	33.1	25.2	58.3	40.6	24.8	21.5	86.9	43.8	25.6	23.4	92.8
Net Fee Income as % of PAT	7.2%	5.5%	12.6%	5.7%	4.3%	1.9%	11.9%	4.1%	3.4%	1.5%	9.0%
Loan Portfolio Mix	0.8%	0.6%	1.4%	0.8%	0.5%	0.4%	1.8%	0.8%	0.5%	0.4%	1.7%

Cross-sell Penetration %:

Cumulative Cross-sell Penetration % among our existing Non-AP Member base of 4.6 mn for last 2.5 years is 40%



	FY14	FY15	H1FY16	Cumulative for last 2.5 years
Mobile Phone	3.2%	9.3%	7.9%	20.4%
Solar Lamp	1.9%	8.1%	5.7%	15.7%
Sewing Machine	-	0.2%	1.1%	1.4%
Bio-mass stove	-	0.4%	0.8%	1.2%
Bicycle	-	-	0.6%	0.6%
Water Purifier	-	-	0.5%	0.5%
Total	5.1%	18.0%	16.6%	40%

*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.

INTERNAL AUDIT PLAYS A CRITICAL ROLE IN PROCESS MONITORING

Strength

- 192 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

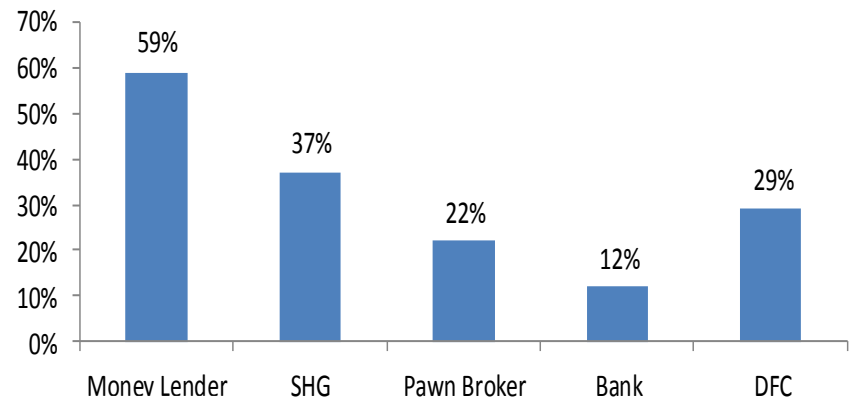
- Branches 1,268
- Branches per Internal Audit staff 7
- Regional Offices 22

		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	-	-	-	-	√	√	-	-	√

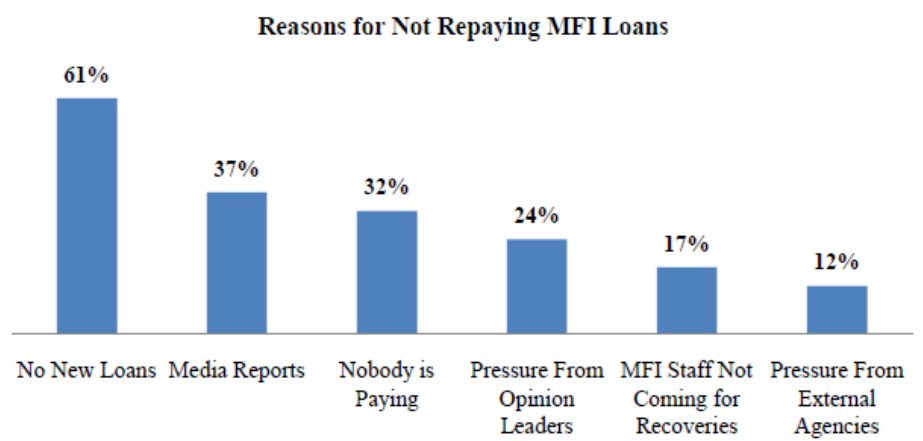
Note:
 * Approximately 30% of the clients are covered by Internal Audit in an year during the branch audits. Clients visited on a sample basis to check for Loan confirmations, Loan utilization (LUC) , arrears and awareness on Client Protection Principles (CPP)
 ^ Fixed Assets are verified on Annual basis

WHAT ARE CLIENTS DOING POST THE ANDHRA PRADESH MFI CRISIS?

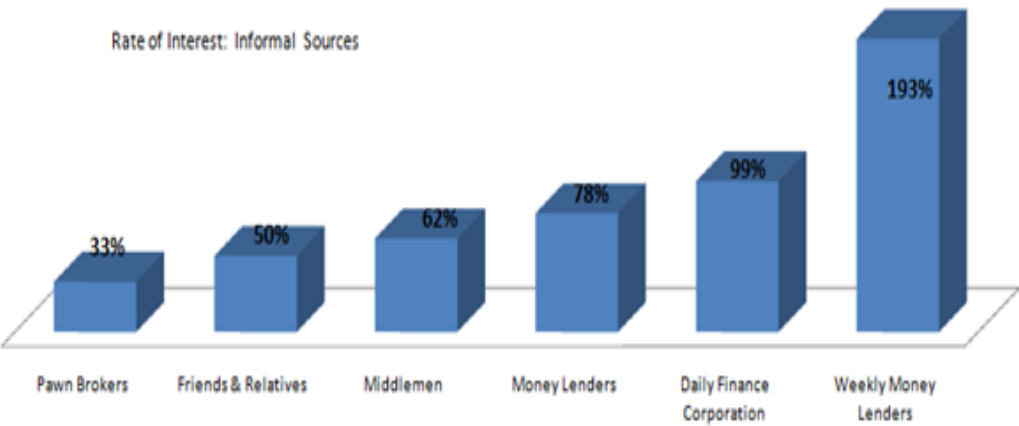
Sources of Credit (in the absence of MFI Loans)



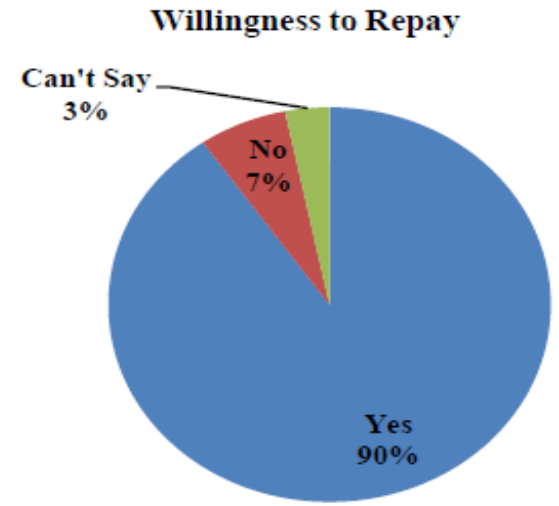
Reasons for not repaying MFI loans



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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