

EARNINGS UPDATE – Q2 FY12



November 2011

SKS Microfinance Limited

BSE: 533228 NSE: SKSMICRO

www.sksindia.com

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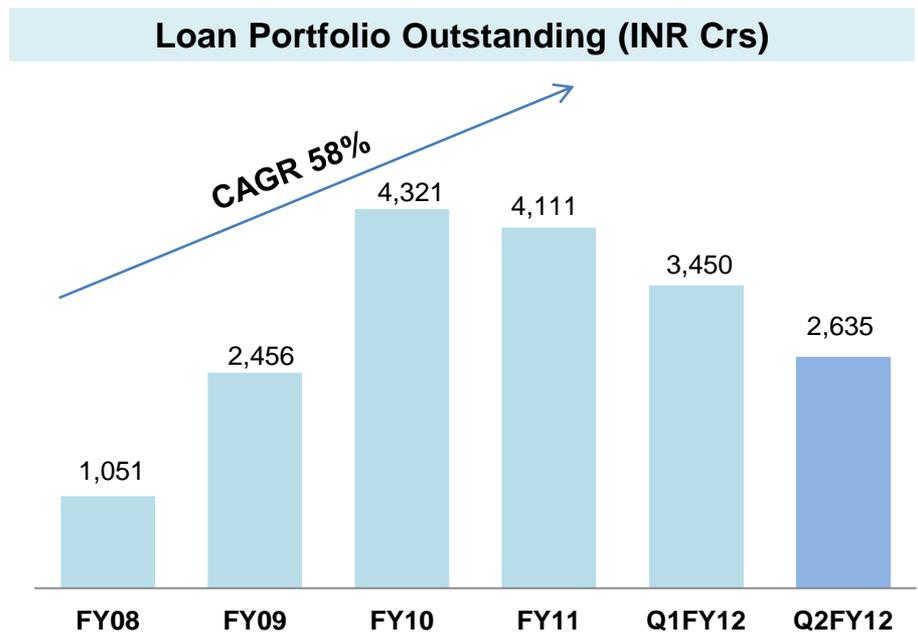
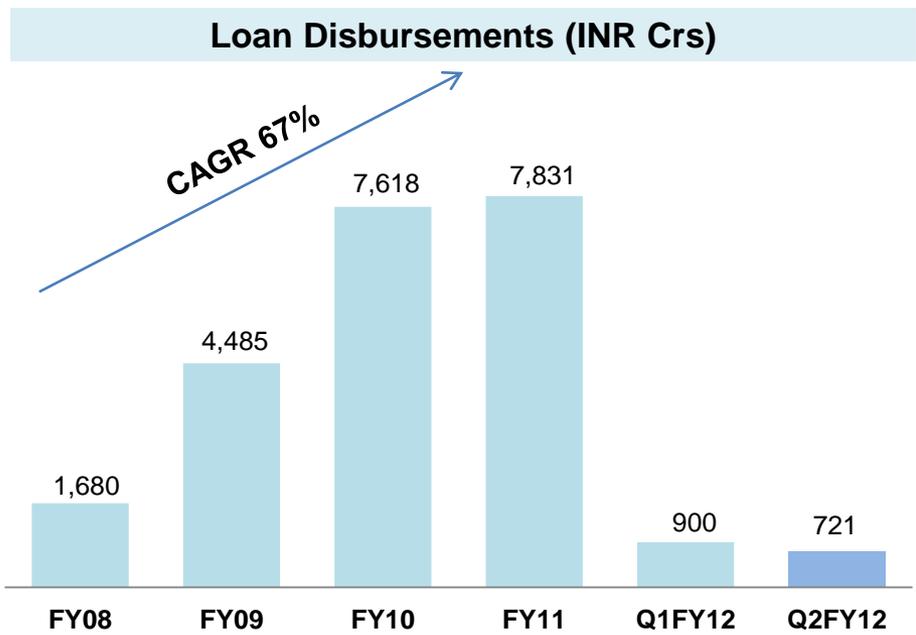
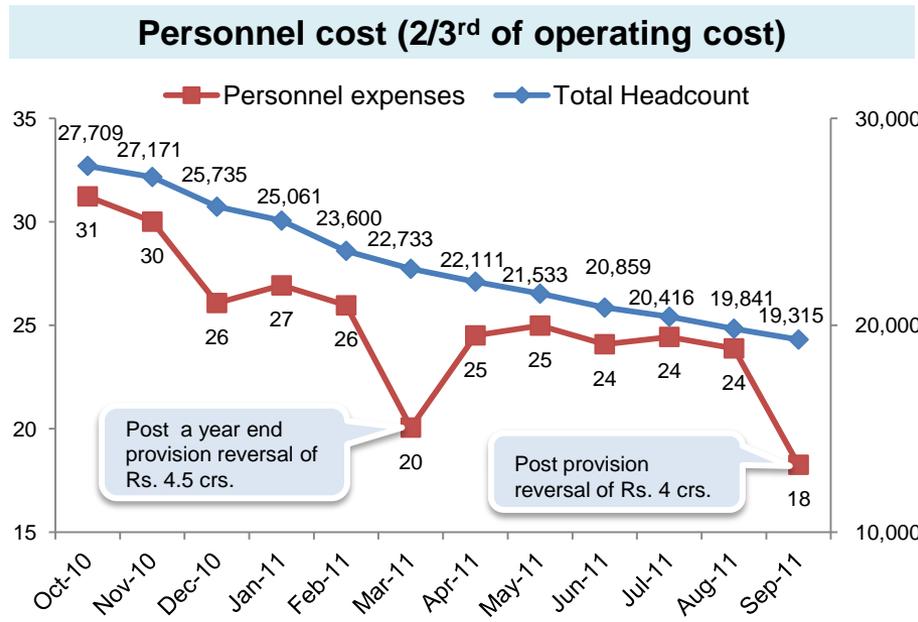
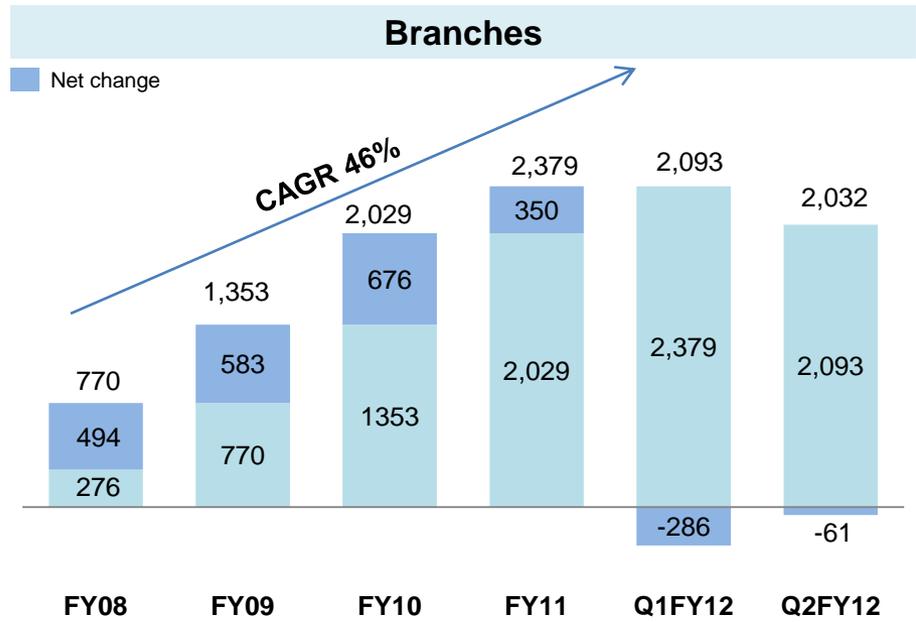
PERFORMANCE HIGHLIGHTS

HIGHLIGHTS – Q2 FY12

- 2,032 branches across 19 States (includes 44 Gold Loan branches).
- Total member base stands at 6.4 million.
- Incremental loan disbursements of Rs. 721 crores and Rs. 1,621 crores for Q2-FY12 and H1-FY12 respectively.
- Gross Loan portfolio stands at Rs. 2,635 crores including assigned loans of Rs. 211 crores.
- Networth of Rs. 1,181 crores and cash & bank balances of Rs. 236 crores as at 30th September, 2011.
- Revenue of Rs. 131 crores for Q2-FY12 (down 26% QoQ) and Rs. 308 crores for H1FY12 (down 55% YoY).
- Reported Loss of Rs. 385 crores for Q2-FY12 is largely on account of credit cost of Rs. 353 crores. An amount of Rs.326 crores pertaining to AP state was written off during the quarter, which is in excess of credit cost as per applicable RBI provisioning norms.
- **Exposure at risk in AP state is substantially dealt with in the books of accounts. Residual exposure at risk on AP works out to Rs.337 crores after adjusting for un-availed DTA and accounting for tax break on future write-offs. (Further Details in slide no.23)**
- **RBI introduces NBFC-MFI category. RBI introduced comprehensive regulatory framework for MFIs on May 3rd, 2011 based on Malegam committee recommendations and restored priority sector status for MFIs. Detailed guidelines will be issued by end-November 2011.**
- **Supreme Court directs AP High Court to dispose the matter pertaining to AP MFI Act “as early as possible but preferably by 31st January, 2012”.**
- **The Draft Microfinance (Development and Regulation) Bill- 2011, adds to regulatory clarity by deputing RBI as the sole regulator.**

OPERATIONAL HIGHLIGHTS

SKS' CONSOLIDATION STRATEGY STARTS YIELDING RESULTS



* Loan portfolio outstanding includes assigned loans & portfolio loans on balance sheet

CONSOLIDATED OPERATIONAL HIGHLIGHTS

Particulars	Sep-10	Sep-11	YoY%	Jun-11	QoQ%
Branches#	2,407	2,032	-16%	2,093	-3%
Centers (Sangam)	274,755	258,748	-6%	268,826	-4%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	27,054	19,315	-29%	20,859	-7%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	26,620	18,964	-29%	20,503	-8%
– Sangam Managers* (i)	14,404	12,595	-13%	13,821	-9%
– Sangam Managers Trainees(ii)	5,219	118	-98%	49	141%
– Branch Management Staff (iii)	4,014	3,630	-10%	3,840	-5%
– Area Managers (iv)	203	146	-28%	166	-12%
– Regional Office Staff (v)	2,780	2,475	-11%	2,627	-6%
• Head Office Staff (vi)	434	351	-19%	356	-1%
Members (in '000)	7,772	6,396	-18%	6,879	-7%
Active borrowers (in '000)	6,662	4,676	-30%	5,615	-17%
No. of loans disbursed (in '000)	2,833	781	-72%	890	-12%
Disbursements (for the quarter) (INR Crs)	3,171	721	-77%	900	-20%
Off-take Avg (Disbursements / No of Loans disbursed)(INR)	11,193	9,237	-17%	10,116	-9%
Gross loan portfolio (INR Crs) (A+B)	5,434	2,635	-52%	3,450	-24%
• Loans outstanding (A)	4,947	2,424	-51%	3,060	-21%
• Assigned loans (B)	486	211	-57%	390	-46%
Operational Efficiency:					
Gross loan portfolio/ No. of Sangam managers (Rs. '000)	3,772	2,092	-45%	2,496	-16%
Gross loan portfolio/ Active Borrowers (INR)	8,156	5,634	-31%	6,144	-8%
Members / No. of Branches	3,229	3,148	-3%	3,287	-4%
Members / No. of Sangam managers	540	508	-6%	498	2%

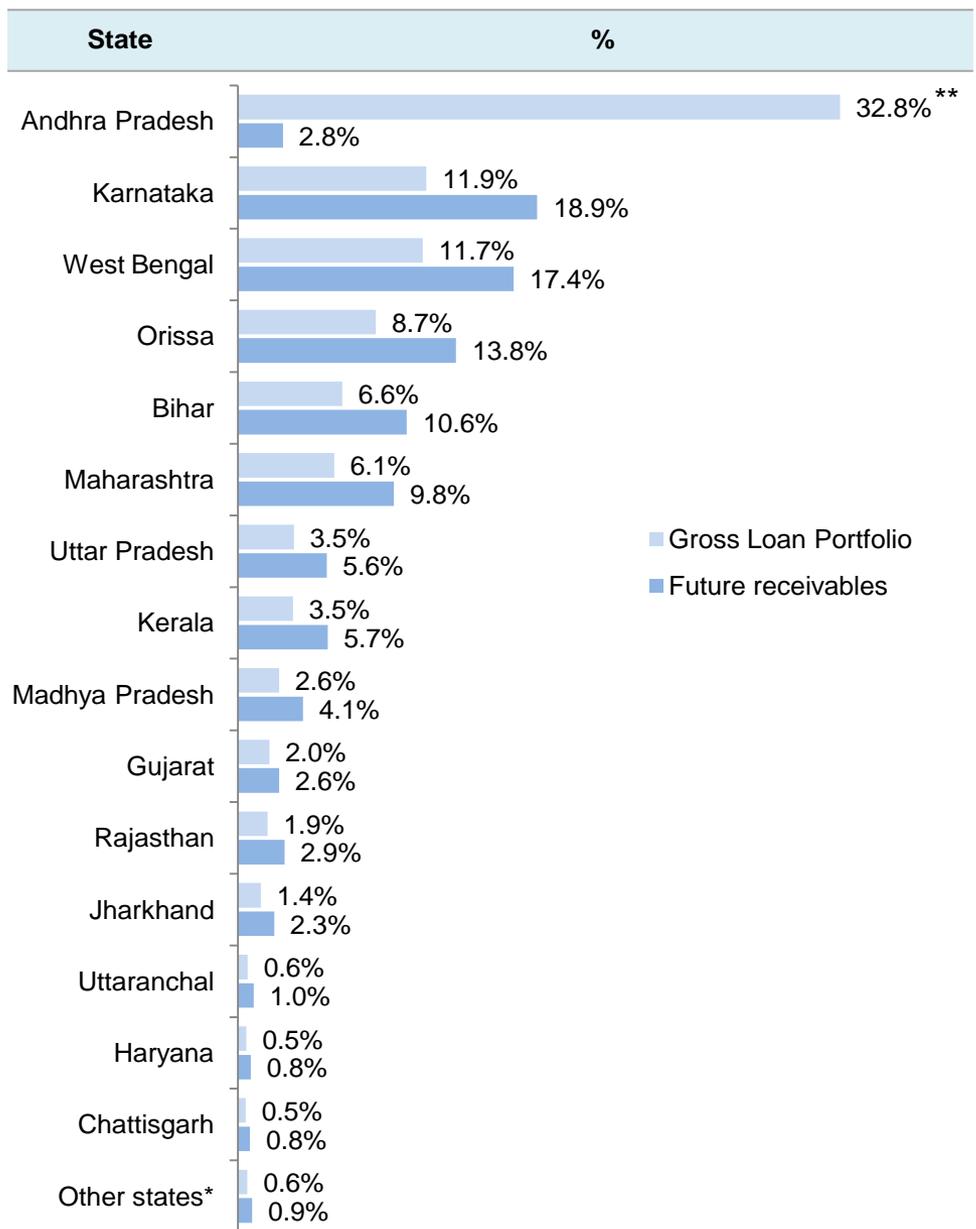
*Sangam Managers are our loan officers, who manage our centers (also called as Sangams).

GOLD LOAN OPERATIONAL HIGHLIGHTS

Particulars	Sep-11
Branches	44
Employees	310
Active borrowers as on date	4,600
Disbursements (for the quarter) (INR Crs)	13
Gross loan portfolio (INR Crs)	12
Operational Efficiency:	
Gross loan portfolio/ No. of Branches (Rs. '000)	2,836
Gross loan portfolio/ Active Borrowers (INR)	27,131
Active Borrowers / No. of Branches	105
Loan to Value	73%

AP EXPOSURE REDUCES AND THERE IS NO SIGN OF CONTAGION IN NON-AP STATES

State wise – Portfolio Mix Q2FY12



** Net AP Portfolio (after provision)

State wise – Collection Efficiency

State	Q2FY12
Andhra Pradesh	10.7%
Karnataka	99.5%
West Bengal	86.0%
Orissa	96.3%
Bihar	99.5%
Maharashtra	98.0%
Uttar Pradesh	99.2%
Kerala	100.0%
Madhya Pradesh	98.1%
Gujarat	80.9%
Rajasthan	99.0%
Jharkhand	100.0%
Uttaranchal	99.9%
Haryana	99.7%
Chhattisgarh	99.9%
Other states*	92.0%

* Other states include Delhi, Punjab, Tamil Nadu & Himachal Pradesh

ALL RATED POOL ASSIGNMENTS COMPLETED BY SKS POST AP MFI ACT ALSO EXHIBIT A COLLECTION EFFICIENCY OF 98% WITH HIGHEST RATINGS

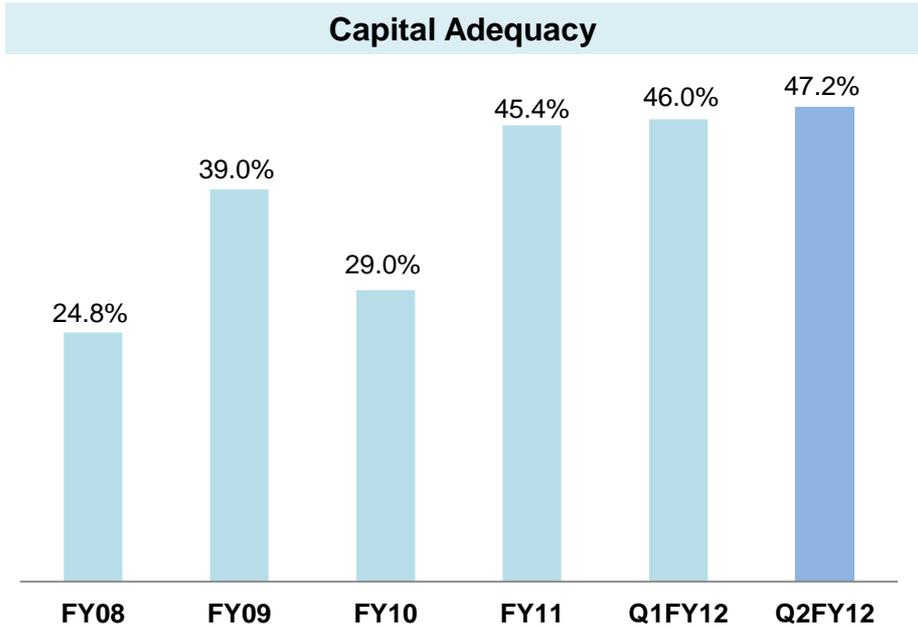
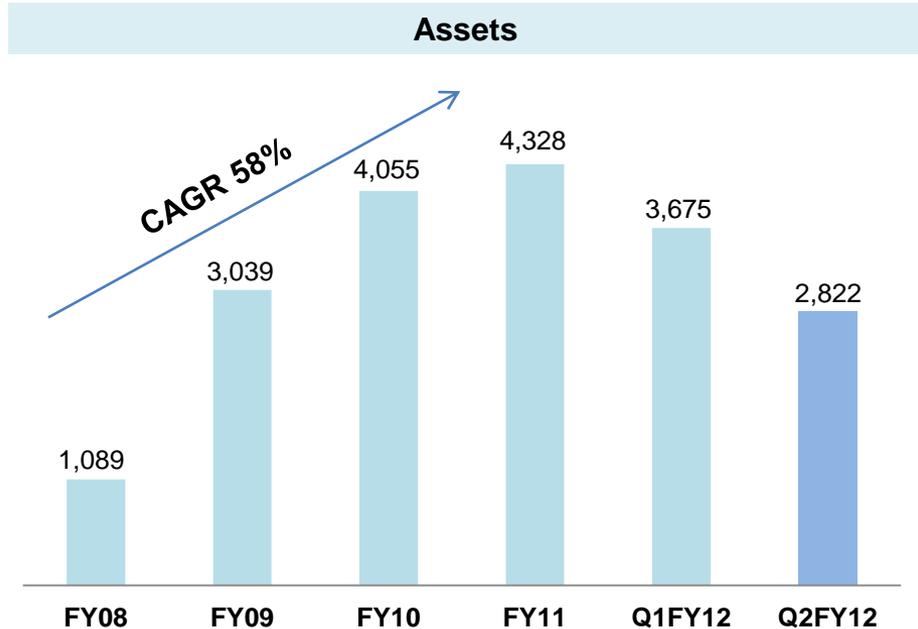
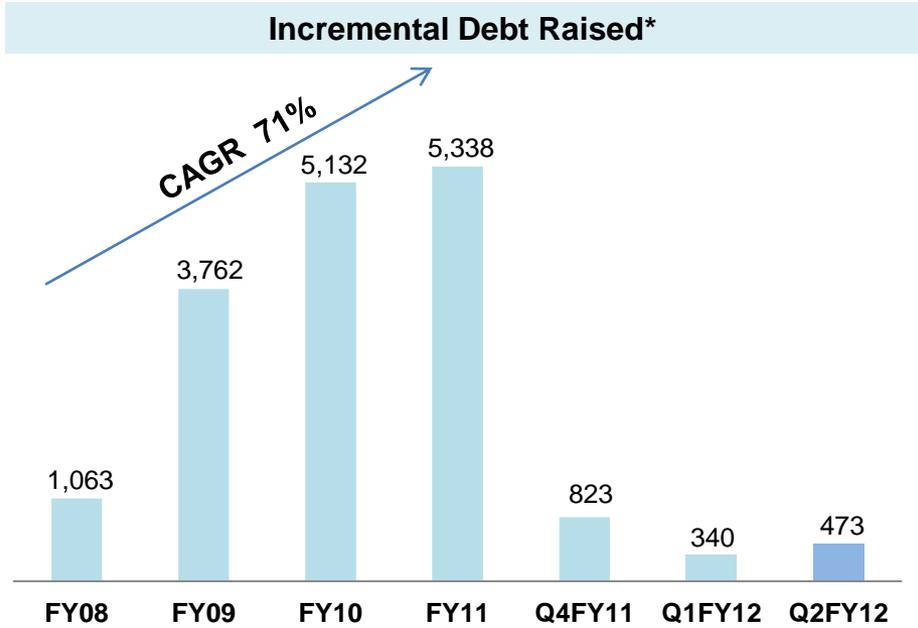
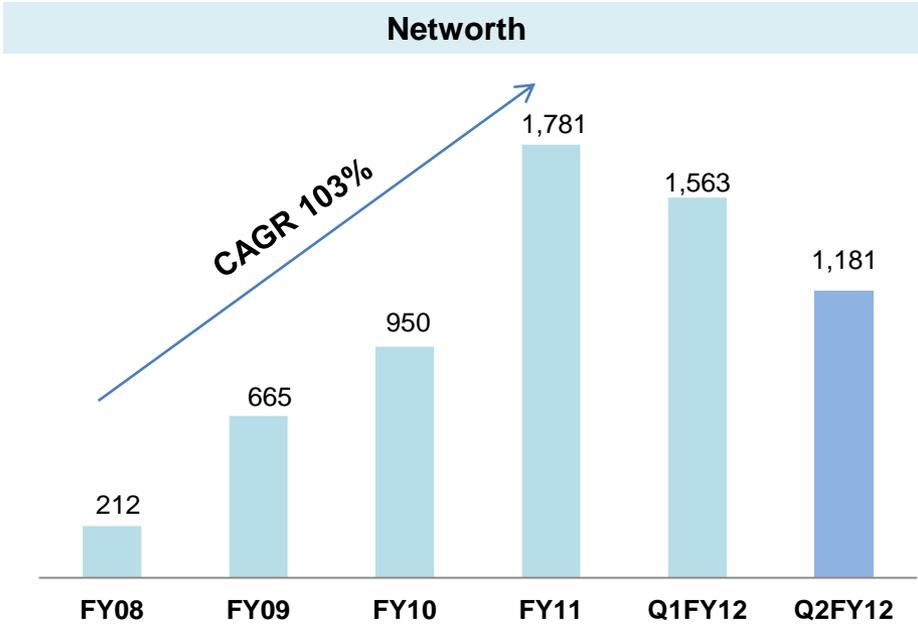
	Transaction 1	Transaction 2	Transaction 3	Transaction 4	Transaction 5	Transaction 6
Deal Date	Feb-11	Mar-11	Mar-11	May-11	Jun-11	Sep-11
Rating	A1+(SO)*	A1+(SO)	A1+(SO)	A1+(SO)	A1+(SO)	A1+(SO)
Pool Amount (Rs Cr)	58	232	312	50	40	38
Month Post Transaction	8	8	6	6	4	1
Cumulative Collection Efficiency	98.0%	98.4%	98.7%	97.6%	98.4%	99.7%

* Upgraded in July '11 and transaction closed in October'11

REVIEW OF FINANCIALS

STRONG NETWORKH ADDS TO SKS' COMPETITIVE EDGE

INR Crs



* Amount of Sanctions received

PROFIT AND LOSS STATEMENT FOR THE QUARTER ENDED

INR Crs.

Particulars	Q2 FY11	Q2 FY12	YoY%	Q2 FY12 As % of Total Revenue	Q1 FY12	QoQ%
<u>Income from Operations</u>						
Interest income on Portfolio loans	302	104*	-65%	80%	128*	-18%
Income from Assigned loans	35	8	-78%	6%	22	-64%
Membership fee	5	-	-100%	0%	-	628%
Loan processing fees	-	2	-	1.5%	0.3	650%
<u>Other Income</u>						
Insurance commission	4	1	-77%	1%	1	-14%
Group Insurance admin. charges	19	5	-72%	4%	11	-51%
Income on Investments	4	3	-17%	3%	6	-42%
Miscellaneous Income	4	7	101%	6%	9	-18%
Total Revenue	373	131	-65%	100%	177	-26%
Financial expenses	91	53	-42%	40%	63	-16%
Personnel expenses	88	67	-24%	51%	74	-10%
Operating and other expenses	48	39	-20%	29%	37	4%
Depreciation and amortization	5	3	-44%	2%	2	10%
Total Operating Cost	141	108	-23%	82%	113	-5%
Provision & Write-offs	17	353	1941%	269%	184	92%
Total Expenditure	249	514	107%	392%	360	43%
Profit before Tax	124	(383)	-409%	-292%	(183)	109%
Tax expense	43	2	-96%	1%	36	-95%
Profit after Tax	81	(385)	-577%	-293%	(219)	76%

* 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 FY11	H1 FY12	YoY%	H1 FY12 As % of Total Revenue
<u>Income from Operations</u>				
Interest income on Portfolio loans	527	232*	-56%	75%
Income from Assigned loans	91	29	-67%	10%
Membership fee	8	-	-100%	0%
Loan processing fees	-	2	-	1%
<u>Other Income</u>				
Insurance commission	8	2	-75%	1%
Group Insurance admin. charges	36	16	-54%	5%
Income on Investments	9	9	2%	3%
Miscellaneous Income	8	16	111%	5%
Total Revenue	686	308	-55%	100%
Financial expenses	164	116	-29%	38%
Personnel expenses	169	140	-17%	46%
Operating and other expenses	89	76	-15%	25%
Depreciation and amortization	9	5	-44%	2%
Total Operating Cost	268	221	-17%	72%
Provision & Write-offs	29	537	1735%	174%
Total Expenditure	461	874	90%	284%
Profit before Tax	225	(566)	-351%	-184%
Tax expense	78	38	-52%	12%
Profit after Tax	147	(603)	-510%	-196%

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

DEFERRED TAX BENEFIT CAN BE AVAILED IN FUTURE

Rs. 218 Crs of DTA will be available to off-set taxes on future taxable income and to add to the reported PBT

INR Crs

Deferred Tax Asset	Amount
Opening 31 st March'11	36
Add: DTA eligibility in Q1FY12	59
Add: DTA eligibility in Q2FY12	123
Total un-availed DTA	218

PROVISIONS & WRITE OFF IN PROFIT AND LOSS ACCOUNT

INR Crs.

Particulars	Q3 FY11			Q4 FY11		
	AP	Non-AP	Total	AP	Non-AP	Total
Provision for Standard & NPAs	9.4	21.2	30.6	(10.6)	27.4	16.8
Bad debts written off	1.2	7.4	8.6	37.9	13.9	51.8
Loss on short collection on Off B/S	56.2	5.4	61.6	29.4	8.3	37.6
Total	66.8	34.0	100.8	56.6	49.6	106.2

Particulars	Q1 FY12			Q2 FY12		
	AP	Non-AP	Total	AP	Non-AP	Total
Provision for Standard & NPAs	109.8	(20.4)	89.5	(24.7)	(6.8)	(31.6)
Bad debts written off	11.6	76.1	87.7	326.0	50.2	376.3
Loss on short collection on Off B/S	4.8	1.8	6.6	1.4	7.1	8.6
Total	126.2	57.5	183.7	302.7	50.5	353.3

STRONG CAPITAL BASE DRIVE SKS' BALANCE SHEET

INR Crs.

Particulars	Q2 FY11	Q2 FY12	YoY%	Q1 FY12	QoQ%
Equity share capital	72	72	1%	72	0%
Stock options outstanding	8	12	36%	10	18%
Reserves and surplus	1,724	1,097	-36%	1,481	-26%
Capital & Reserves	1,804	1,181	-35%	1,563	-24%
Loan funds	3,500	1,392	-60%	1,724	-19%
Current liabilities and provisions	453	127	-72%	234	-46%
Provision for standard and non performing asset	17	123	606%	154	-21%
Liabilities	3,971	1,642	-59%	2,112	-22%
Total Liabilities	5,776	2,822	-51%	3,675	-23%
Fixed assets	23	20	-14%	20	-2%
Intangible assets	9	8	-10%	8	-7%
Investment	4	0.2	-95%	0.2	0%
Deferred tax assets (net)	26	-	-100%	-	-
Cash and bank balances	588	236	-60%	281	-16%
Sundry debtors	3	3	-16%	4	-27%
Other current assets	57	23	-59%	67	-65%
Portfolio loans	4,947	2,424	-51%	3,060	-21%
Other loans and advances	119	109	-9%	234	-53%
Total Loans and Advances	5,066	2,532	-50%	3,294	-23%
Total Assets	5,776	2,822	-51%	3,675	-23%
Note: 1. Assigned Portfolio	486	211	-57%	390	-46%
2. Gross Loan Portfolio	5,434	2,635	-52%	3,450	-24%

HIGHER CREDIT COSTS IMPACT PROFITABILITY FOR Q2 FY12

Particulars		Q2 FY11	Q1 FY12	Q2 FY12
Spread Analysis (as % of Avg. Gross Loan Portfolio)				
Gross Yield	(I)	29.8%	18.7%	17.2%
Portfolio Yield		26.9%	15.8%	14.7%
Financial Cost	(a)	7.3%	6.7%	6.9%
Operating Cost	(b)	11.2%	12.0%	14.2%
Provision and Write-offs	(c)	1.4%	19.4%	46.5%
Taxes	(d)	3.5%	3.8%	0.2%
Total Expense	II = (a+b+c+d)	23.3%	41.8%	67.8%
Return on Avg. Gross Loan Portfolio	(I) - (II)	6.4%	-23.1%	-50.6%
Efficiency:				
Cost to Income		49.9%	99.4%	137.4%
Leverage:				
Debt : Equity (on Balance Sheet)		1.9	1.1	1.2
Capital Adequacy:				
		33.19%	46.01%	47.19%
Profitability:				
Return on Avg. Assets		6.4%	-21.9%	-47.3%
Return on Avg. Assets (incl. assigned loans)		5.6%	-19.4%	-43.3%
ROE		22.8%	-52.3%	-112.1%
EPS - Diluted (INR)		10.99	(30.24)	(53.15)
Book Value (INR)		250.61	216.05	163.15

HIGHER CREDIT COSTS IMPACT PROFITABILITY FOR H1 FY12

Particulars		H1 FY11	H1 FY12
Spread Analysis (as % of Avg. Gross Loan Portfolio)			
Gross Yield	(I)	28.1%	18.1%
Portfolio Yield		25.3%	15.4%
Financial Cost	(a)	6.7%	6.8%
Operating Cost	(b)	11.0%	13.0%
Provision and Write-offs	(c)	1.2%	31.6%
Taxes	(d)	3.2%	2.2%
Total Expense	II = (a+b+c+d)	22.1%	53.6%
Return on Avg. Gross Loan Portfolio	(I) - (II)	6.0%	-35.5%
Efficiency:			
Cost to Income		51.2%	114.9%
Leverage:			
Debt : Equity (on Balance Sheet)		1.9	1.2
Capital Adequacy:		33.19%	47.19%
Profitability:			
Return on Avg. Assets		6.0%	-33.4%
Return on Avg. Assets (incl. assigned loans)		5.0%	-30.0%
ROE		21.4%	-80.0%
EPS - Diluted (INR)		20.66	(83.39)
Book Value (INR)		250.61	163.15

STEADY STATE ROA UNDER REGULATED INTEREST RATE REGIME

Particulars	Steady State / Medium Term	
Margin		12.0%
Loan processing fees		2.1%
Net portfolio yield		14.1%
Other income		1.0%
Total income		15.1%
Operating cost	9.0%	
Provision & write offs	1.5%	
Expenditure	10.5%	
PBT		4.6%
Tax expense	1.5%	
PAT (on debt portion of portfolio)		3.1%
Return on overall assets (including the portion funded by equity) with an assumed debt equity of 4:1		3.9%

Note: Leverage Assumptions:- (a) Capital Adequacy 20%; (b) Debt: Equity 4 times.

ANDHRA PRADESH UPDATE

SUMMARY OF AP PORTFOLIO FROM OCTOBER'10 TO SEPTEMBER'11

INR Crs

Particulars	
Opening Gross Portfolio (1-Oct-10)	1,491
During Oct'10 to Sep'11:	
Add: Disbursements	194
Less: Principal collected	308
Less: Write offs / loss on short collections already booked	465
Closing Gross Portfolio (30-Sep-11)	911
Less: Provisions	89
Closing Net Portfolio (30-Sep-11)	822

LOOKING BEYOND THE AP CRISIS

- Exposure at risk in AP is substantially dealt with in the books of accounts

Summary of AP exposure:

INR Crs

Gross AP Portfolio (30th Sept'11)		911
Less: Provision(30th Sept'11)		89
Net AP Portfolio(30th Sept'11)	A	822
DTA un-availed		
- Q1 FY12		95
- Q2 FY12		123
- Tax break incase of future write-off	32.5% of A	267
Total cushion available	B	485
Residual AP Portfolio exposure	C = A - B	337
Gross AP Portfolio (1st Oct'10)	D	1,474
% of exposure remaining	C/D	23%

- Residual AP exposure at risk (net of cushion) works out to Rs.337 crs
- Net AP portfolio reduces to Rs 822 Crs
- Residual AP exposure (adj. un-availed DTA) is 23% of total AP portfolio at the beginning of AP crisis
- AP exposure on future receivables reduces to 2.8%

AP SCENARIO – EVOLVING WITH DEVELOPING IMPLICATIONS

January - 2011	RBI notifies to banks on credit support to MFIs	<ul style="list-style-type: none">▪ RBI issues notification to banks that MFI sector problems are not on account of credit weakness but due to environmental factors
January - 2011	Malegam Committee Recommendations notified	<ul style="list-style-type: none">▪ Calls for withdrawal of AP MFI Act▪ Retains PSL status for MFIs▪ Recommends a comprehensive regulatory framework replete with interest rate cap and regulation of operational aspects
May - 2011	RBI institutionalizes regulatory framework for MFIs	<ul style="list-style-type: none">▪ RBI institutionalizes regulatory framework for MFIs largely in lines of Malegam Committee Recommendations▪ Retains PSL status for MFIs▪ Operationalize regulation of functional aspects
July - 2011	Finance Ministry unveils draft MFI bill	<ul style="list-style-type: none">▪ Upon passage of this legislation in parliament the said Act will override the AP MFI Act▪ Formation of MFI Development Fund enhances funding options▪ Registration process with RBI likely to act as an entry barrier
September - 2011	Supreme Court directs AP High Court to dispose the matter by 31st Jan., 2012	<ul style="list-style-type: none">▪ State govt. and SKS to complete their pleadings before the High Court by 31st Oct., 2011▪ Final disposal of matter by 31st Jan., 2012
October - 2011	RBI introduces NBFC-MFI category	<ul style="list-style-type: none">▪ Regulatory framework to be broadly based on recommendations of Malegam Committee▪ Detailed guidelines will be issued by end-November 2011

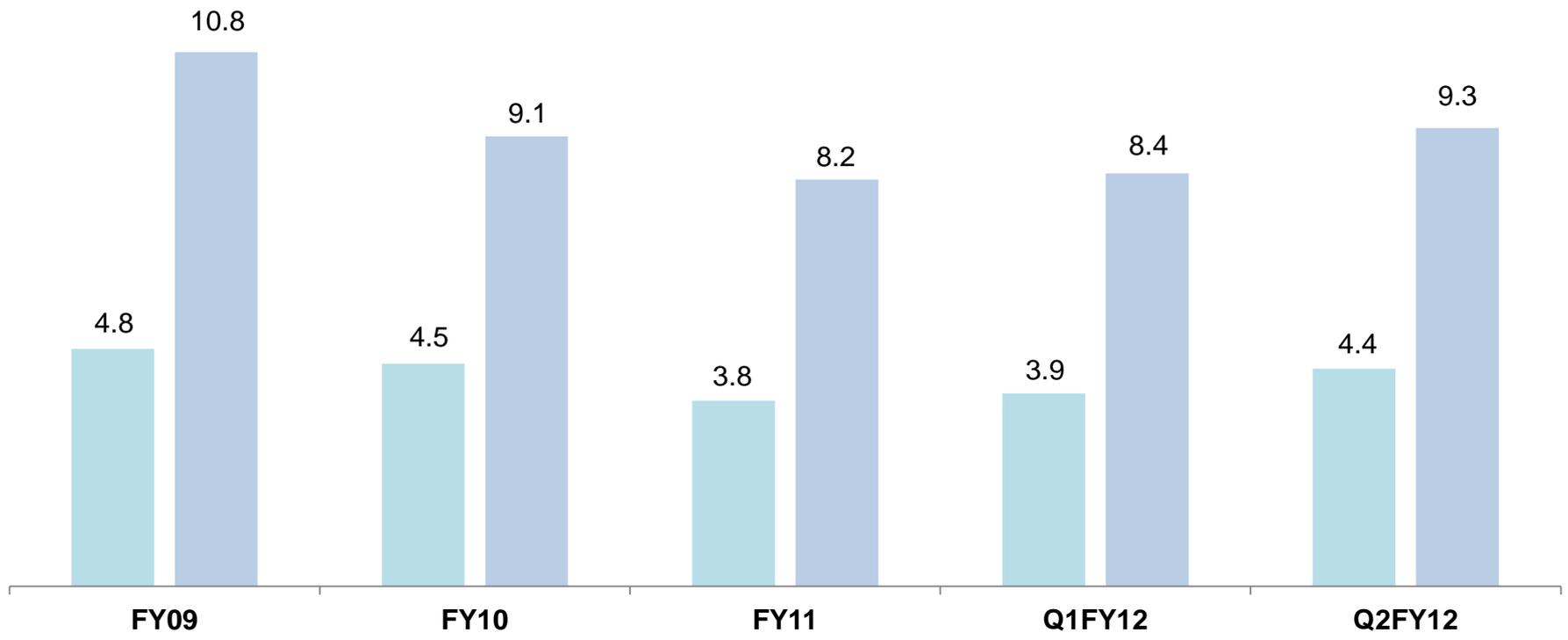
FINANCIAL ARCHITECTURE

FINANCIAL ARCHITECTURE (1/3)

Positive Asset Liability Management Structure

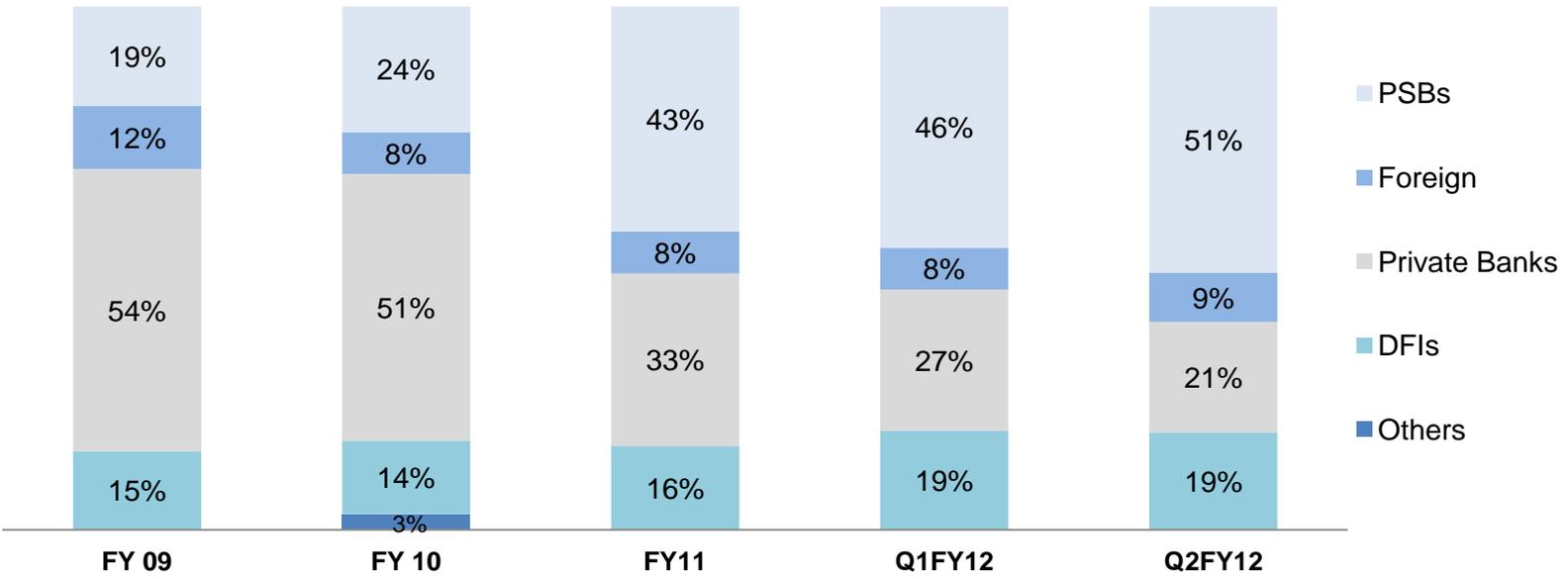
No. of months

■ Avg maturity of assets ■ Avg maturity of liabilities

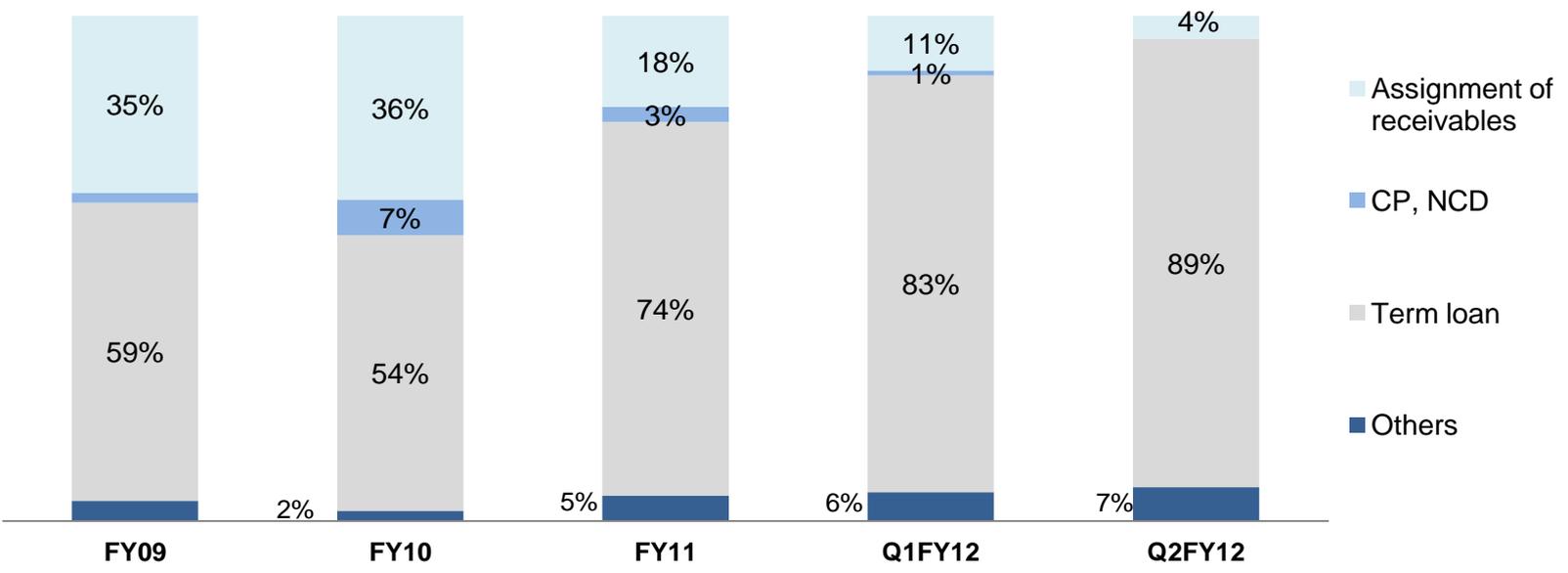


FINANCIAL ARCHITECTURE (2/3)

Lender Group Analysis

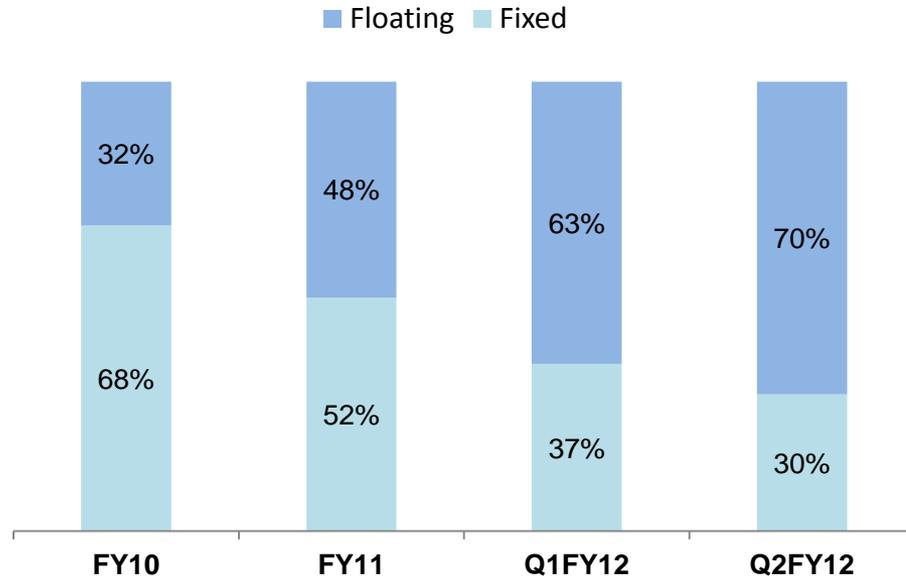


Sources Mix



FINANCIAL ARCHITECTURE (3/3)

Interest Rate Risk Analysis



Funding Cost Analysis

Metric	FY10	FY11	Q4FY11	Q1FY12	Q2FY12
Cost of interest bearing liabilities	11.94%	12.08%	12.77%	12.72%	13.54%
Financial Cost*	8.5%	7.4%	7.6%	6.7%	6.9%

Funding Mix-Devoid of Dependence Risk

Banks	September 30, 2011
SIDBI	13%
SBI Group	12%
Central Bank of India	10%
Citi Bank	9%
Axis Bank	8%
Andhra Bank	7%
J&K Bank	5%
Corporation Bank	5%
Syndicate Bank	5%
Reliance Capital	3%
IDBI Bank	3%
Yes Bank	3%
HDFC Bank	3%
Vijaya Bank	2%
TATA Capital	2%
Oriental Bank of Commerce	1%
Punjab & Sind Bank	1%

Total amount outstanding as of September'11: Rs 1,456 crs. Concentration risk on rest of the 13 banks is 1% or below.

* Financial expenses to Avg. Gross Loan Portfolio

REGULATORY UPDATE

SKS IS FULLY EQUIPPED TO COMPLY WITH NEW RBI REGULATORY FRAMEWORK (1/2)

	RBI PSL Norms for NBFC-MFIs	SKS compliance
NBFC – MFIs	<ul style="list-style-type: none"> Qualifying assets to constitute not less than 85% of its total assets (excluding cash and bank balances) Atleast 75% of loans for Income generation activities 	✓
Qualifying Assets Criteria*		
Income of Borrower’s Family	<ul style="list-style-type: none"> Rural : <=Rs.60,000 Non-Rural : <=Rs. 1,20,000 	✓
Ticket Size	<ul style="list-style-type: none"> <= 35,000 – 1st cycle <= Rs.50,000 – Subsequent cycle 	✓
Indebtedness	<ul style="list-style-type: none"> <= Rs. 50,000 	✓
Tenure	<ul style="list-style-type: none"> If loan amt. > Rs.15,000, then >= 24 months 	✓
Collateral	<ul style="list-style-type: none"> Without collateral 	✓
Repayment Model	<ul style="list-style-type: none"> Weekly, Fortnightly and Monthly 	✓

* SKS compliance relates to Income generation loans which contributes to 95% of total loans.

SKS IS FULLY EQUIPPED TO COMPLY WITH NEW RBI REGULATORY FRAMEWORK (2/2)

RBI PSL Norms for NBFC-MFIs

SKS compliance

Pricing Guidelines		
Interest Rate	<ul style="list-style-type: none"> Margin cap – 12% above cost of borrowings Maximum rate – 26% p.a. 	<ul style="list-style-type: none"> 24.6%
Processing Fees	<ul style="list-style-type: none"> <= 1% of loan amt. 	<ul style="list-style-type: none"> ✓
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 	<ul style="list-style-type: none"> ✓
Penalty	<ul style="list-style-type: none"> No penalty for delayed payment 	<ul style="list-style-type: none"> ✓
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

ANNEXURE

OUR PROVISIONING POLICY

		<u>RBI norms</u>	<u>SKS compliance</u>	
			<u>A.P.</u>	<u>Non A.P.</u>
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%

HIGHEST SAFETY RATINGS ACROSS INSTRUMENTS

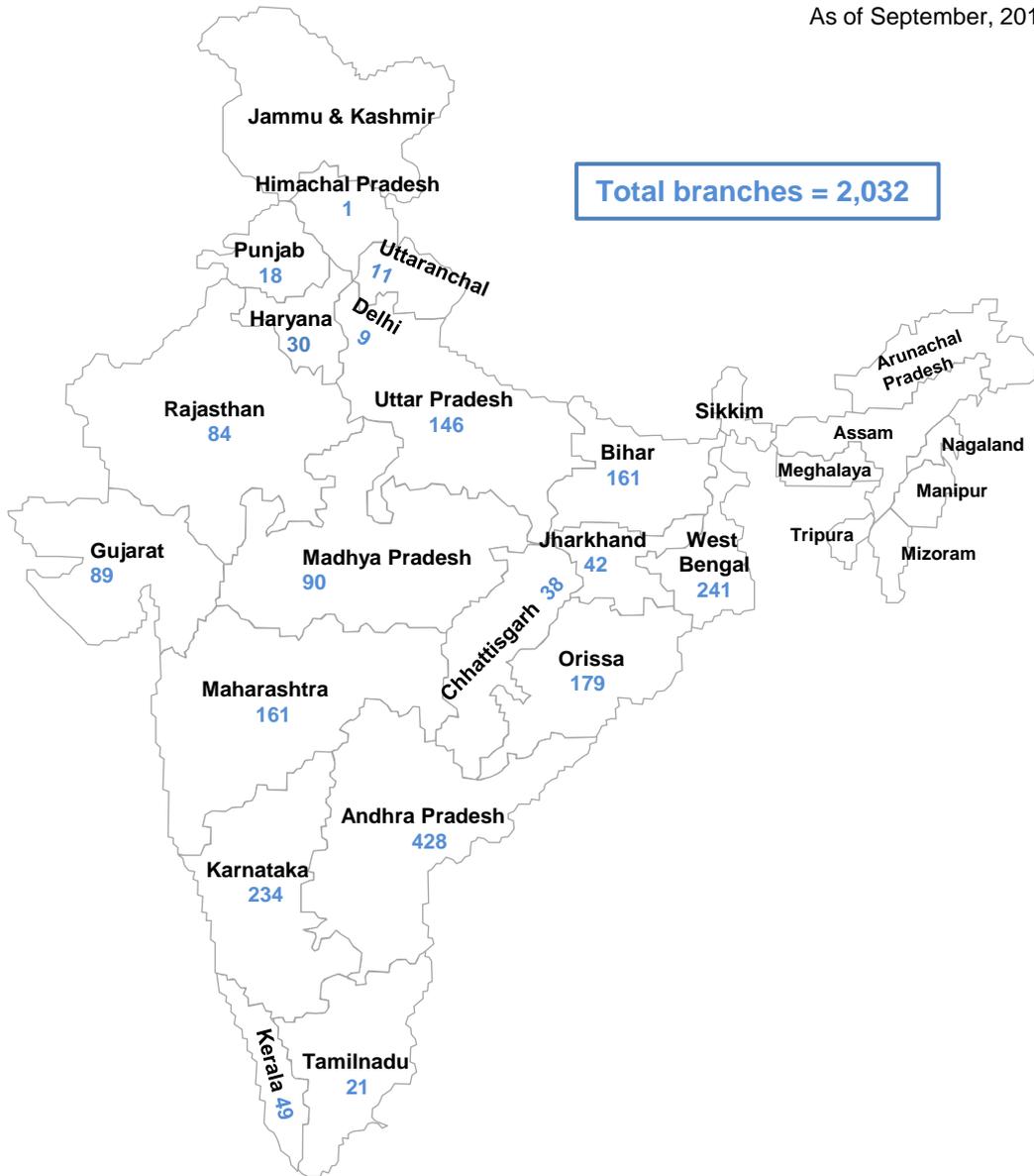
Rating Agency	Instrument	Rating
CARE	Short Term Debt*	CARE A1
CARE	Securitisation	CARE A1+ (SO)
ICRA	Securitisation^	ICRA A1+ (SO)

* CARE has put the commercial paper ratings on Credit Watch

^ Upgraded from ICRA A1 (SO) and transaction closed in the month of October'2011

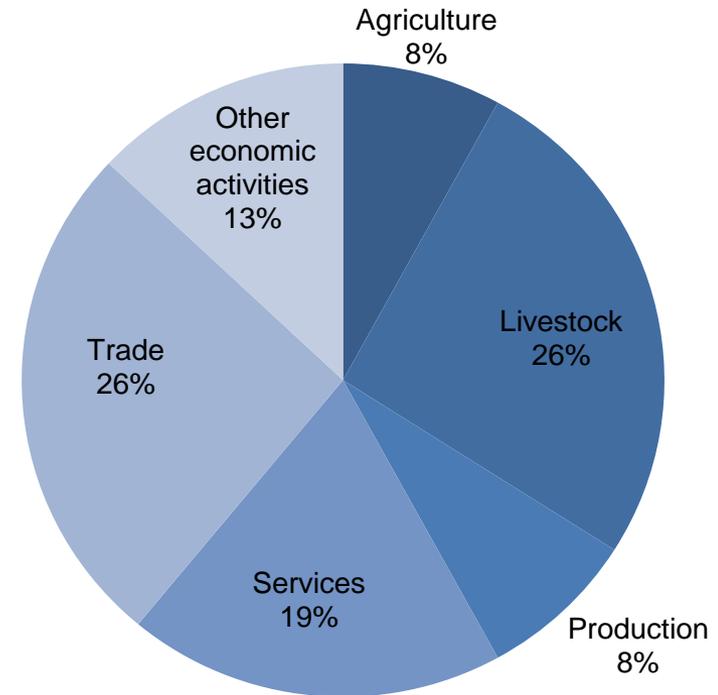
Pan India Distribution Network

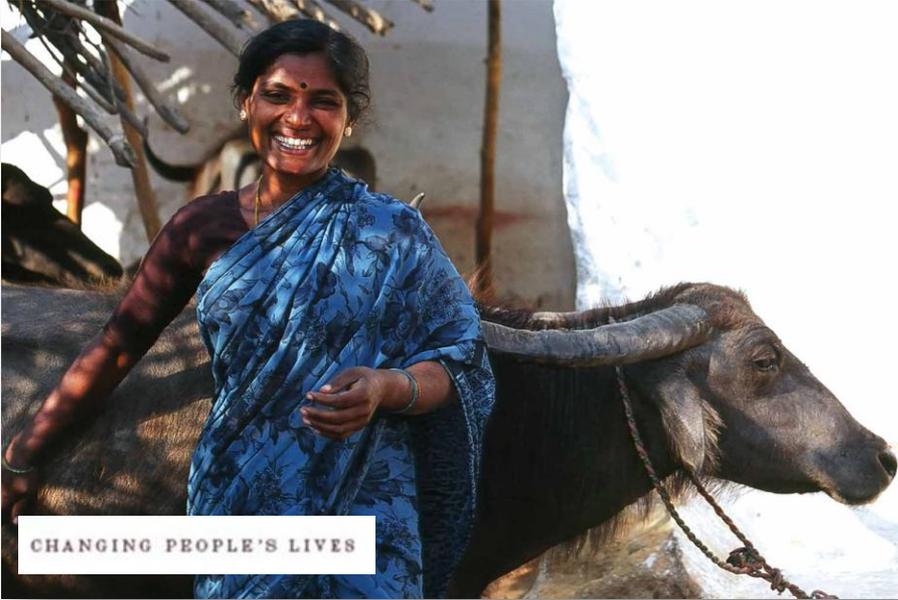
As of September, 2011



Loan Outstanding by Economic Activity

As of September, 2011





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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