

## EARNINGS UPDATE Q1FY16



**JULY 2015**

### **SKS Microfinance Limited**

BSE: 533228 • NSE: SKSMICRO

Corporate Identity No. L65999MH2003PLC250504

[www.sksindia.com](http://www.sksindia.com)

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# HIGHLIGHTS OF Q1FY16

- Reduced interest rate charged to borrowers from 23.55% to 22.0% on income-generating loans extended on or after 1<sup>st</sup> July 2015. With this reduction, SKS charges the lowest rate among NBFC-MFIs.
- Incremental drawdowns of Rs. 1,046 Crs. in Q1FY16 (Rs. 575 Cr in Q1FY15), excluding origination under managed loans.
- Issued commercial paper of Rs.405 Crs. rated as 'A1+', Non Convertible Debenture of Rs. 200 Crs. rated as 'A+' and completed securitization of Rs. 84 Crs. rated as 'AA(SO)'. SKS also originated Rs.243 Crs. loans under managed portfolio in Q1FY16 .
- Loan disbursement of Rs. 2,377 crore in Q1FY16 (growth of 105% YoY).
- Non-AP Portfolio grew by 72% (YoY) and 15% (QoQ) to Rs. 4,797 Crs. as of June 30, 2015.
- Cost of interest-bearing liabilities# at 11.9% for Q1FY16.
- Cost to income at 52.3% for Q1FY16 as compared to 59.4% in Q4FY15 (drop of 7.1% QoQ).
- The un-availed deferred tax benefit of Rs. 460 Crs. and MAT credit of Rs. 21 Crs. will be available to offset tax on future taxable income.
- PAT of Rs. 61.2 Crs. in Q1FY16 (growth of 51% QoQ and 24% YoY).
- Networth of Rs. 1,115 Crs. and capital adequacy at 27.2% as of June 30, 2015.
- Cash & Cash equivalent^ of Rs. 772 Crs.

Note:

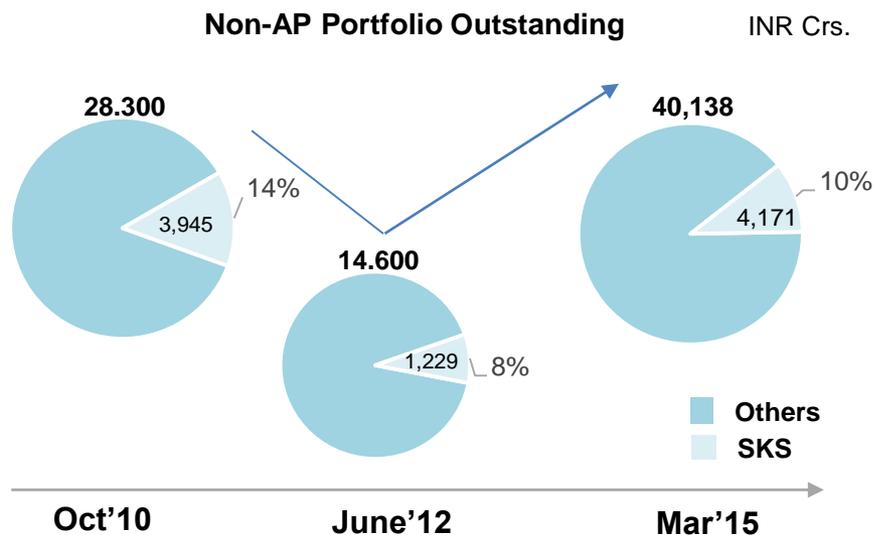
^ Excluding security deposit.

# including processing fee paid on Loans on Balance sheet.

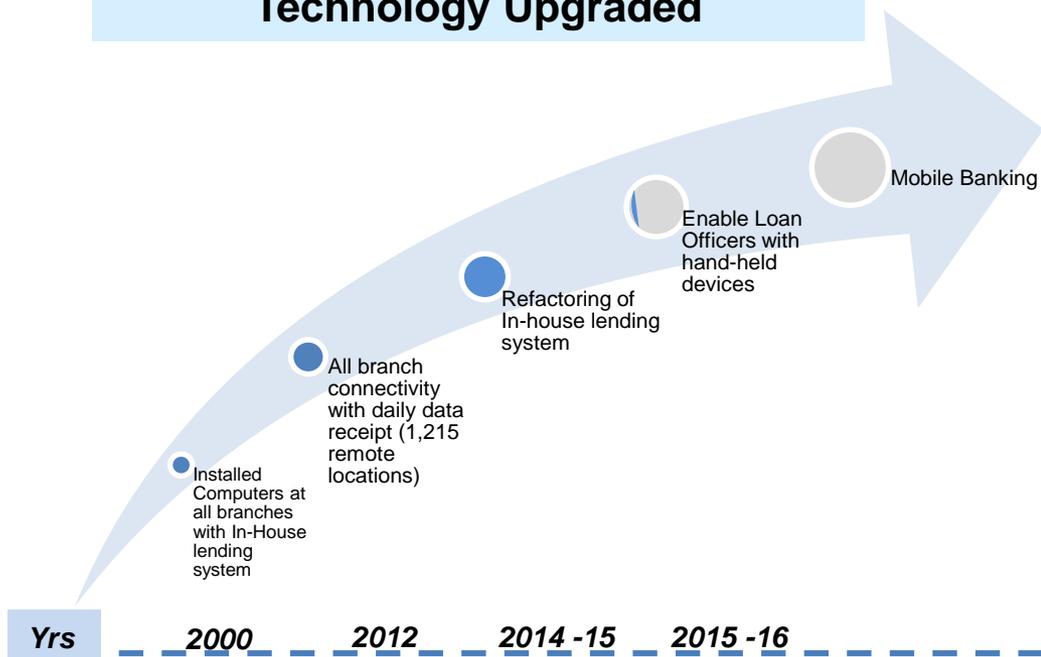
Figures rounded off to the nearest digit across the presentation. Figures and ratios have been regrouped wherever necessary.

# DURABLE FOUNDATION FOR SUSTAINABLE GROWTH

## Market Share Regained



## Technology Upgraded

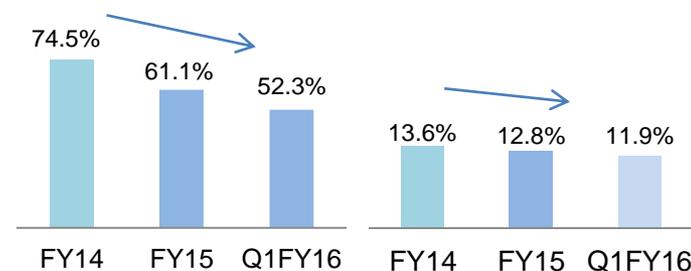


## Capital Reinforced

- Net worth - Rs. 1,115 crs
- CAR - 27.2% (RBI Requirement 15%)

## Efficiency Gains

Cost to Income      Cost of Borrowing



# including processing fee paid on Loans on Balance sheet 4

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# **CLARITY ON MAJOR UNCERTAINTIES POST AP MFI CRISIS**

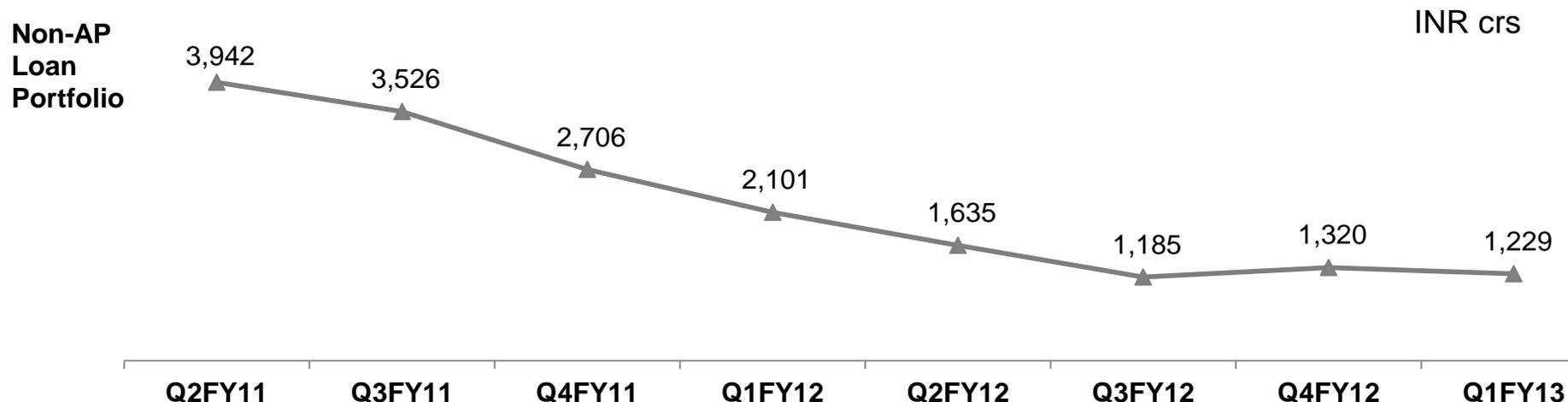
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# WHAT DOESN'T KILL YOU, MAKES YOU STRONGER - POSITIVE DEVELOPMENTS POST AP MFI CRISIS

Concerns	Clarity
<b>Will there be multiple regulators?</b>	<ul style="list-style-type: none"><li>▪ Regulatory clarity – RBI to be the sole regulator</li></ul>
<b>Funding uncertainty?</b>	<ul style="list-style-type: none"><li>▪ Priority sector status continues</li><li>▪ MFIs are the only indirect priority sector dispensation</li></ul>
<b>Will there be contagion?</b>	<ul style="list-style-type: none"><li>▪ No contagion</li><li>▪ More than 4.5 years no other state has followed suit</li></ul>
<b>Has the operating model been challenged?</b>	<ul style="list-style-type: none"><li>▪ Collection efficiency maintained despite disbursements being a fraction of collections during the wind-down mode i.e. Oct 2010 to June 2012.</li><li>▪ No alternative credit delivery model has gained currency.</li></ul>
<b>What will be the economics under regulated interest rate regime?</b>	<ul style="list-style-type: none"><li>▪ RoA of 3-4% on a steady-state basis</li></ul>

# 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

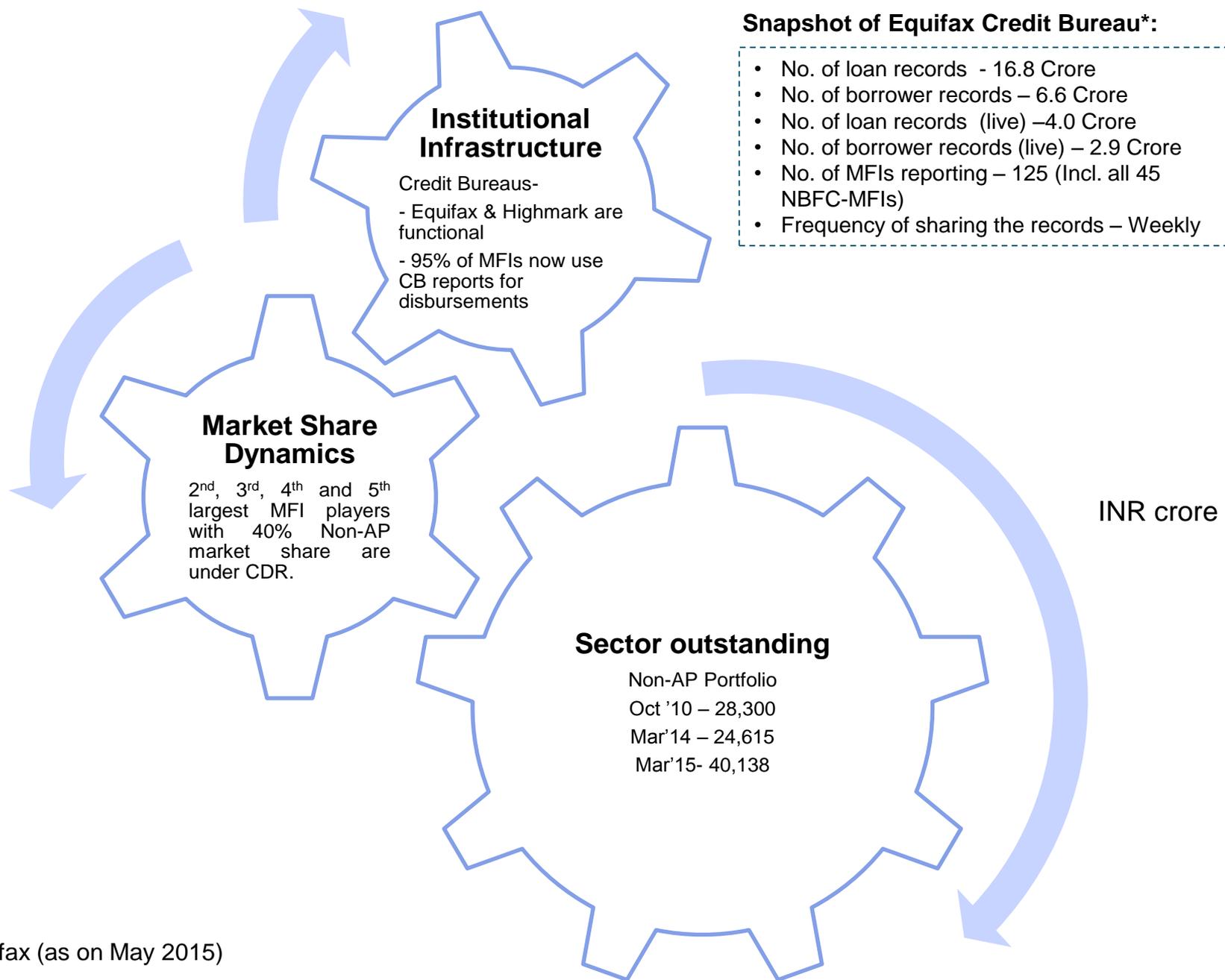
in Millions

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
<b>No. of non-AP members who didn't receive any incremental credit from SKS during this period</b>	<b>1.9</b>

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

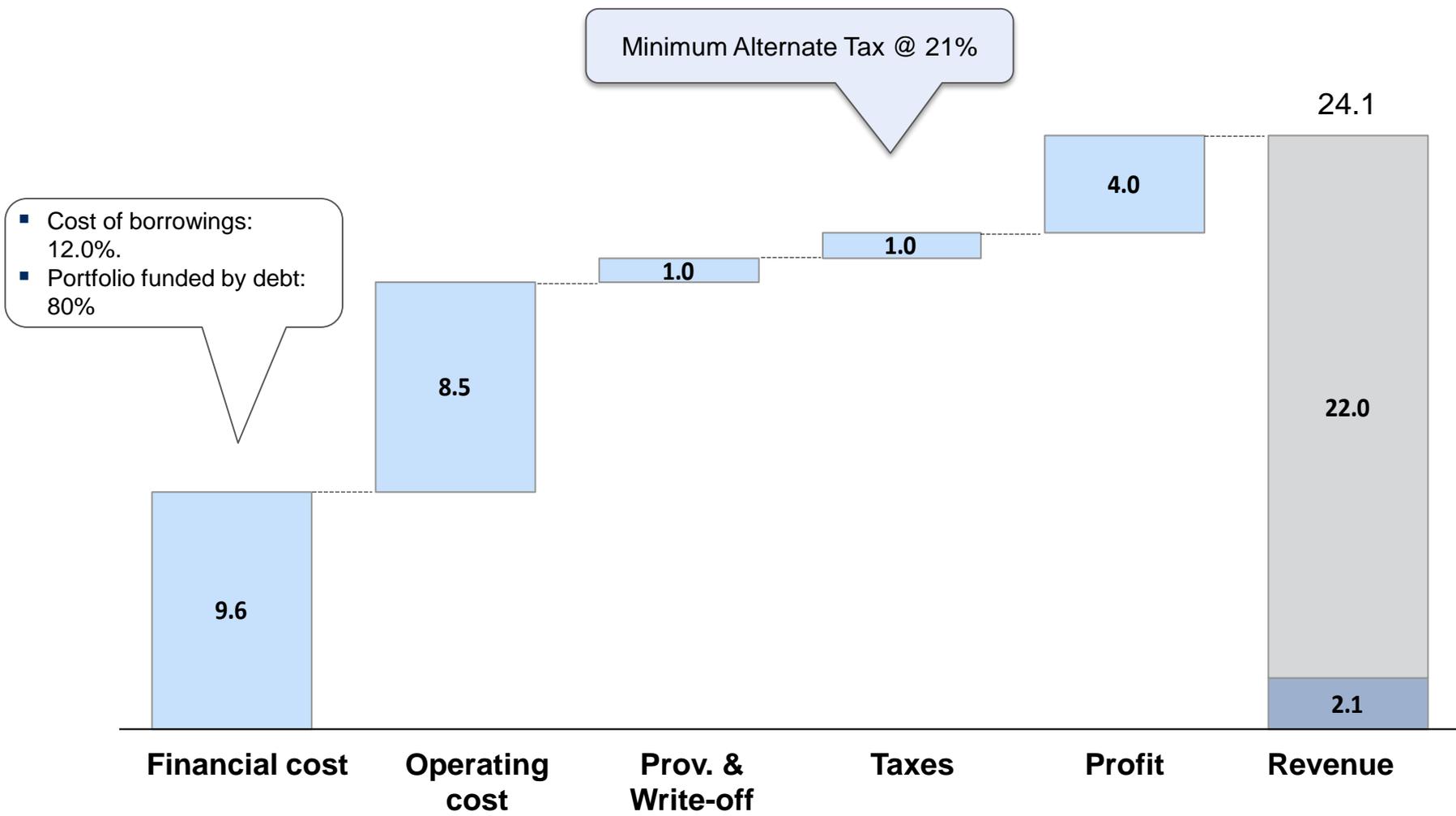
# COMPETITIVE LANDSCAPE CHANGES TO SKS' ADVANTAGE



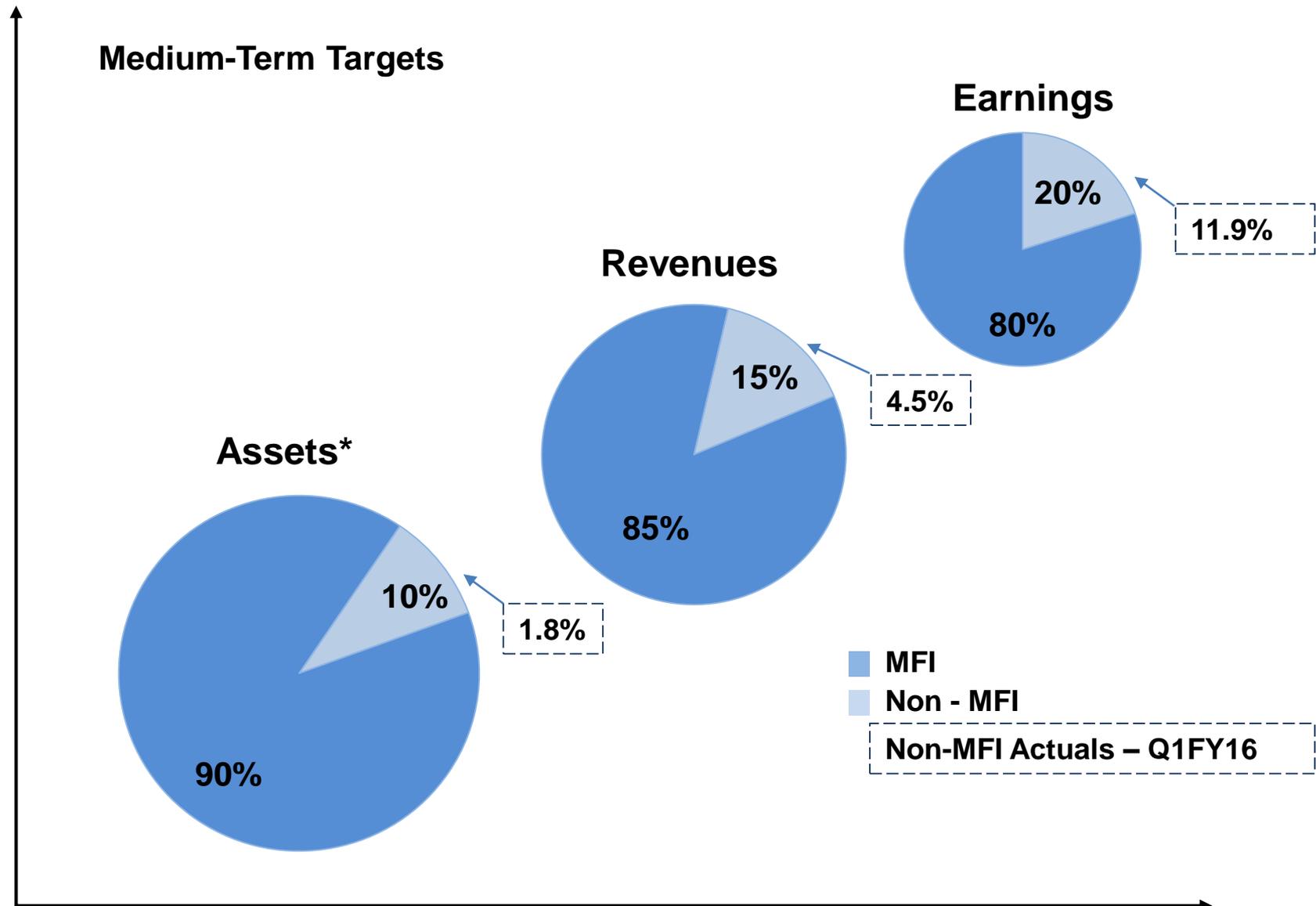
\* Source: Equifax (as on May 2015)

# STEADY-STATE ROA OF 4% CAN BE TARGETED

Interest rate  
Processing fee



# CREATIVE DISTURBANCE TO ASSET-REVENUE-EARNING CORRELATION



Medium-Term Targets

Earnings

Revenues

Assets\*

MFI  
Non - MFI  
Non-MFI Actuals - Q1FY16

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

# **OPERATIONAL HIGHLIGHTS**

# OPERATIONAL HIGHLIGHTS

Particulars	June-14	June-15	YoY%	Mar-15	QoQ%
Branches#	1,268	1,268	-	1,268	-
Centers (Sangam)	226,856	220,485	-3%	227,125	-3%
- Centers in non-AP States	156,176	149,797	-4%	156,457	-4%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	8,914	10,100	13%	9,698	4%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	8,651	9,812	13%	9,416	4%
– Sangam Managers* (i)	5,124	5,656	10%	5,286	7%
– Sangam Manager Trainees(ii)	293	610	108%	777	-21%
– Branch Management Staff (iii)	2,179	2,390	10%	2,266	5%
– Area Managers (iv)	89	137	54%	99	38%
– Regional Office Staff (v)	966	1,019	5%	988	3%
• Head Office Staff (vi)	263	288	10%	282	2%
Members (in '000)	5,796	6,391	10%	6,402	-0.2%
– Members in non-AP States (in '000)	3,877	4,471	15%	4,482	-0.3%
Active borrowers (in '000)	5,042	5,351	6%	5,325	0.5%
– Active borrowers in non-AP States (in '000)	3,342	3,686	10%	3,648	1.0%
No. of loans disbursed (in '000)	1,089	1,778	63%	1,857	-4%
Disbursements (for the quarter) (INR Crs.)	1,160	2,377	105%	2,494	-5%
Gross loan portfolio – Non-AP (INR Crs.) (A+B+C)	2,783	4,797	72%	4,171	15%
• Loans outstanding (A)	2,041	3,852	89%	2,911	32%
• Securitized (B)	550	475	-14%	918	-48%
• Managed loans (C)	192	470	145%	342	37%
<b>Operational Efficiency – Non-AP :</b>					
Off-take Avg (Disbursements/ No of Loans disbursed) (INR)	10,669	13,378	25%	13,443	-0.5%
Gross loan portfolio/ Active Borrowers (INR)	8,328	13,015	56%	11,434	14%
Gross loan portfolio/ No. of Sangam Managers (Rs. '000)	6,280	9,544	52%	8,994	6%
Active borrowers / No. of Branches	2,929	3,247	11%	3,214	1%
Active borrowers / No. of Sangam Managers	754	733	-3%	787	-7%

\*Sangam Managers are our loan officers who manage our centers (also called Sangams). As of June'15, we had 5,026 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
<b><u>Productivity – Non-AP:</u></b>					
Borrowers/ SM	489*	287	721	787	733
Gross Loan Portfolio/ SM ('000)	3,640*	1,320	6,275	8,994	9,544
Offtake Avg.	10,299*	9,237	11,849	12,273	13,378
<b><u>Cost Efficiency:</u></b>					
Financial Cost % <sup>\$</sup>	6.6%	9.8%	8.3%	8.3%	9.0%
Cost of borrowings %	10.3%^	16.0%^	13.6%#	12.8%#	11.9%#
Opex/ Gross Loan Portfolio %	10.4%	21.7%	9.6%	9.5%	8.5%
Cost to Income Ratio	52.4%	275%	74.5%	61.1%	52.3%
<b><u>Credit Quality - Non-AP:</u></b>					
Gross NPA%	0.20%*	5.5%	0.1%	0.1%	0.1%
Net NPA%	0.16%*	2.9%	0.1%	0.05%	0.06%
Collection Efficiency %	99.8%*	94.9%	99.9%	99.8%	99.7%

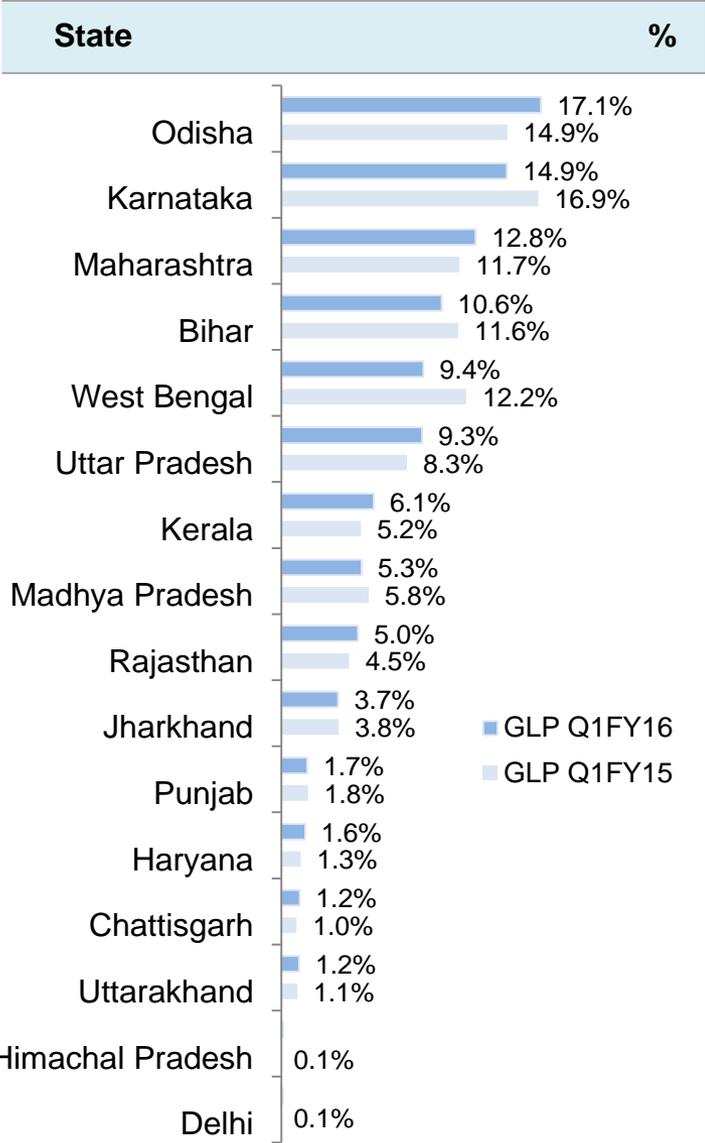
\*Enterprise figures - include figures from AP state

<sup>\$</sup> Financial expenses to Avg. Gross Loan Portfolio

<sup>^</sup>Includes processing fee for on and off balance sheet (b/s) funding

<sup>#</sup> 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

# PORTFOLIO MIX



# CONCENTRATION NORMS

Metric	% Cap on Disbursement*	POS % Cap of Network
<b>State</b>	<ul style="list-style-type: none"> <li>&lt;15%</li> <li>(20% for Karnataka &amp; Odisha)</li> </ul>	<ul style="list-style-type: none"> <li>50%</li> </ul>
<b>District</b>	<ul style="list-style-type: none"> <li>&lt;3 %</li> <li>(4% for Karnataka &amp; Odisha)</li> </ul>	<ul style="list-style-type: none"> <li>5%</li> <li>(Only 5% of total operating districts can go up to 10% of Network)</li> </ul>
<b>Branch</b>	<ul style="list-style-type: none"> <li>&lt;1 %</li> <li>(1.25 % for Karnataka &amp; Odisha)</li> </ul>	<ul style="list-style-type: none"> <li>1%</li> <li>(Only 5% of the total operating branches can go up to 2% of Network )</li> </ul>
<b>NPA</b>	<ul style="list-style-type: none"> <li>No disbursement to a branch with NPA &gt; 1 %</li> </ul>	
<b>Collection efficiency</b>	<ul style="list-style-type: none"> <li>No disbursement to a branch with on-time collection efficiency of &lt; 95%</li> </ul>	

\*Subject to tolerance of 10%

Odisha, Karnataka and Maharashtra exposure are at 74%, 64% and 55% respectively of our network..

Note: Portfolio percentage are based on proportion of gross loan portfolio of respective states.

## VINTAGE OF NON-AP BRANCHES IS ~6.7 YEARS

State	No. of Branches	Wt. Avg. Vintage (in Yrs.)*
Karnataka	170	7.5
Odisha	147	7.2
West Bengal	126	6.7
Bihar	121	6.9
Uttar Pradesh	121	5.9
Maharashtra	116	7.0
Madhya Pradesh	67	7.1
Rajasthan	57	6.9
Kerala	48	5.3
Jharkhand	43	6.2
Chhattisgarh	23	6.3
Haryana	18	5.5
Punjab	18	5.9
Uttarakhand	11	5.2
Himachal Pradesh	3	0.6
Delhi	1	5.9
Gujarat	1	7.5
<b>Non-AP</b>	<b>1,091</b>	<b>6.7</b>

As of June 2015

\* Excludes 44 Gold Loan Branches.

## PORTFOLIO OUTSTANDING BY ECONOMIC ACTIVITY

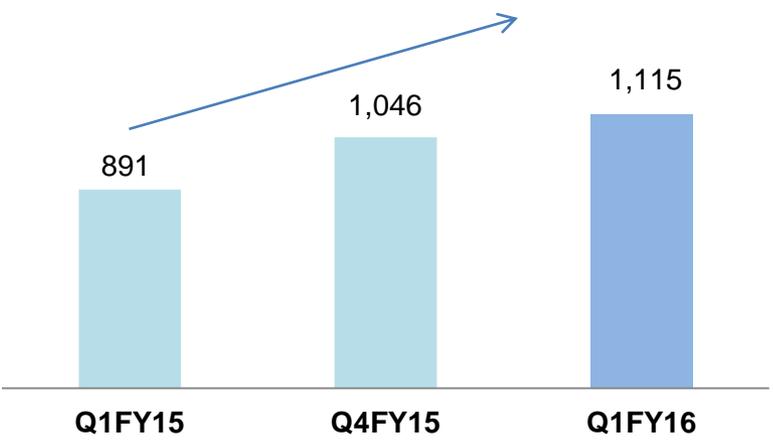
Purpose	% Mix
Livestock	28%
Tailoring, Cloth weaving	11%
Grocery stores and other retail outlets	9%
Masonry, Painting, Plumbing, Electrician, Carpenter and related	8%
Trading of vegetables & fruits	7%
Vehicle repairs	5%
Trading of agri-commodities	5%
Eateries	5%
Agriculture	5%
Garments & Footwear retailing	2%
Other income generating activities	14%

# REVIEW OF FINANCIALS

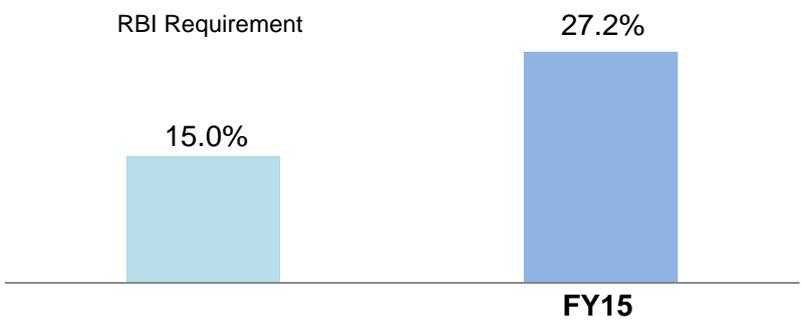
# STRONG SOLVENCY AND SUFFICIENT LIQUIDITY

INR Crs.

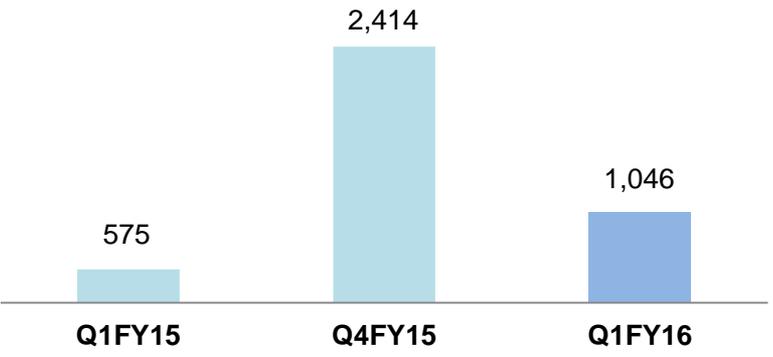
## Networth



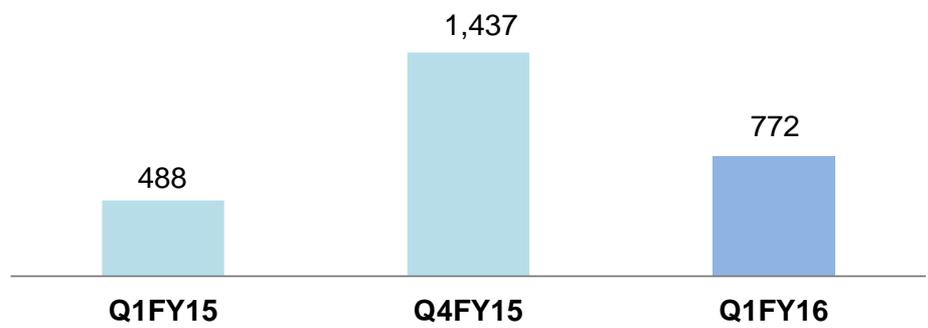
## Capital Adequacy



## Drawdowns



## Cash and Cash Equivalent<sup>^</sup>

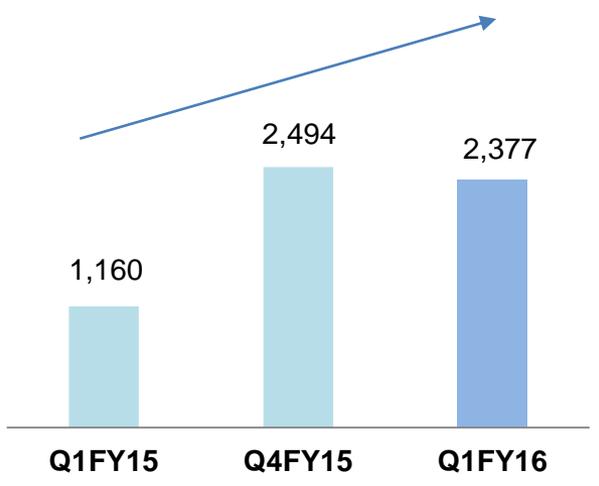


<sup>^</sup> Excluding security deposit

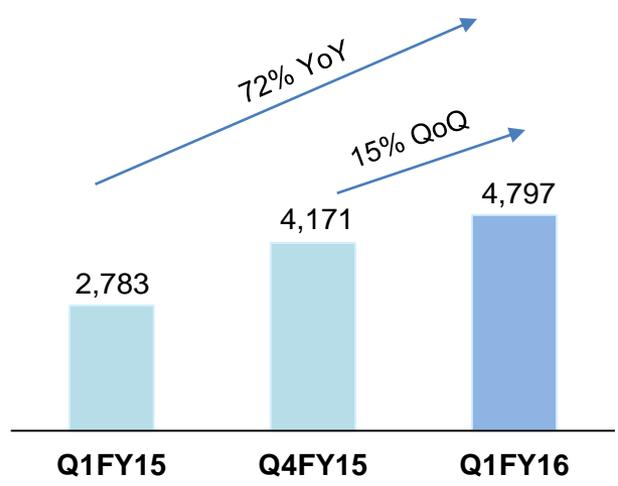
# NII GROWTH EXCEEDS OPEX GROWTH

INR Crs.

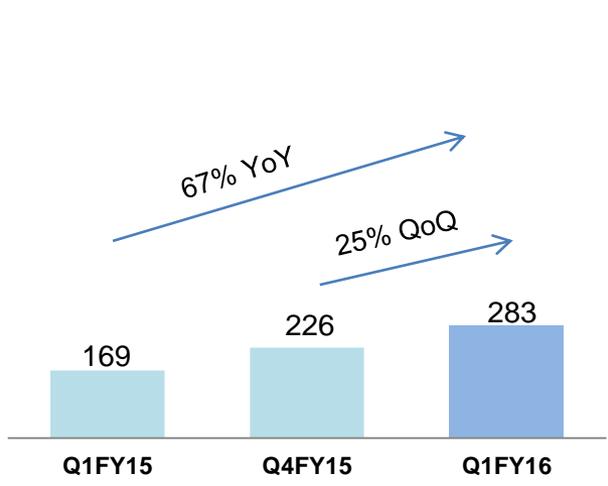
**Disbursements**



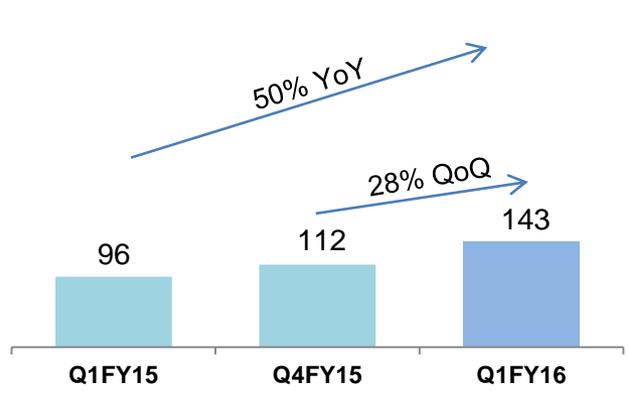
**Non-AP Gross Loan Portfolio**



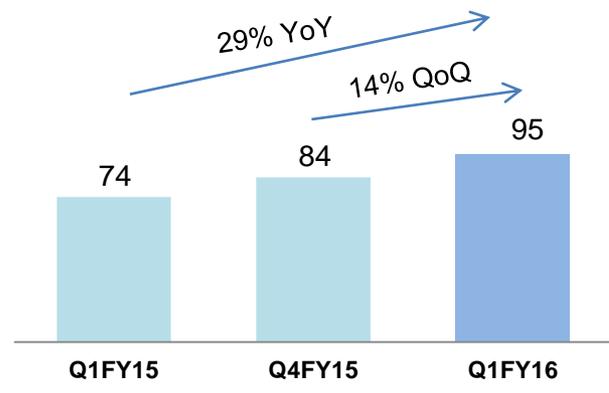
**Gross Revenue**



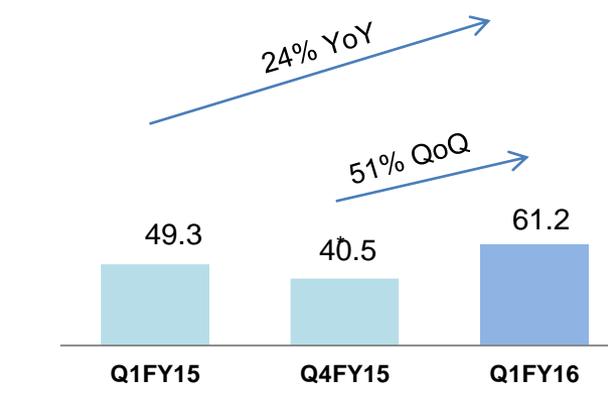
**Net Interest Income\***



**Operating Cost**



**PAT**



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

Tax Expense: Nil      Rs. 6 Crs      Rs. 18 Crs

# GROWTH IN NET INTEREST INCOME DRIVES PROFITABILITY

INR Crs.

Particulars	Q1FY15	Q1FY16	YoY%	Q1FY16 As % of Total Revenue	Q4FY15	QoQ%
<b><u>Income from Operations</u></b>						
Interest income on Portfolio loans	103	195	90%	69%	152	29%
Excess interest spread on securitization	24	22	-10%	8%	25	-12%
Loan processing fees	10	15	51%	5%	13	16%
<b><u>Other Income</u></b>						
Income on investments	9	21	127%	8%	14	56%
Recovery against loans written off	9	4	-56%	1%	4	-7%
Facilitation fees from Cross-sell	6	13	100%	5%	10	29%
BC fees	7	12	86%	4%	8	48%
Other miscellaneous income	0.5	0.2	-48%	0.1%	0.1	-55%
<b>Total Revenue</b>	<b>169</b>	<b>283</b>	<b>67%</b>	<b>100%</b>	<b>226</b>	<b>25%</b>
<b>Financial expenses</b>	<b>48</b>	<b>101</b>	<b>111%</b>	<b>36%</b>	<b>85</b>	<b>18%</b>
Personnel expenses	54	71	32%	25%	60	18%
Operating and other expenses	19	23	25%	8%	22	4%
Depreciation and amortization	1	1	-15%	0%	1	-12%
<b>Total Operating Cost</b>	<b>74</b>	<b>95</b>	<b>29%</b>	<b>34%</b>	<b>84</b>	<b>14%</b>
<b>Provision &amp; Write-offs</b>	<b>(2)</b>	<b>7</b>	<b>-</b>	<b>3%</b>	<b>11</b>	<b>-33%</b>
<b>Total Expenditure</b>	<b>120</b>	<b>203</b>	<b>70%</b>	<b>72%</b>	<b>180</b>	<b>13%</b>
<b>Profit before Tax</b>	<b>49</b>	<b>79</b>	<b>61%</b>	<b>28%</b>	<b>46</b>	<b>71%</b>
Tax expense	-	18	-	6%	6	-
<b>Profit after Tax</b>	<b>49.3</b>	<b>61.2</b>	<b>24%</b>	<b>22%</b>	<b>40.5</b>	<b>51%</b>

# STRONG CAPITAL BASE AND ROBUST LIQUIDITY DRIVE SKS BALANCE SHEET

Particulars	Q1FY15	Q1FY16	YoY%	Q4FY15	QoQ%
Equity share capital	126	126	-	126	-
Stock options outstanding	19	27	37%	25	6%
Reserves and surplus	746	962	29%	895	8%
<b>Capital &amp; Reserves</b>	<b>891</b>	<b>1,115</b>	<b>25%</b>	<b>1,046</b>	<b>7%</b>
Loan funds	1,675	3,503	109%	3,280	7%
Payable towards Securitisation	169	151	-11%	180	-16%
Expenses & other payables	20	33	71%	23	44%
Provision for Taxation	6	8	21%	2	-
Unamortised loan processing fees	20	35	71%	31	12%
Employee benefits payable	9	12	32%	19	-37%
Interest accrued but not due on borrowings	8	19	134%	10	91%
Interest accrued and due on borrowings	2	-	-	6	-
Provision for leave benefits & gratuity	12	14	23%	14	-1%
Statutory dues payable	4	7	93%	3	153%
Unrealized gain on securitization transactions	11	25	124%	42	-40%
Provision for standard and NPA -- Non-AP	30	48	60%	42	15%
Provision for standard and NPA -- AP	125	0.1	-	0	3%
<b>Liabilities</b>	<b>2,091</b>	<b>3,856</b>	<b>84%</b>	<b>3,652</b>	<b>6%</b>
<b>Total Liabilities</b>	<b>2,982</b>	<b>4,971</b>	<b>67%</b>	<b>4,699</b>	<b>6%</b>
Fixed assets	5	6	22%	5	17%
Intangible assets	5	5	2%	5	7%
Investment	0.2	0.2	-	0.2	-
Cash and bank balances	712	991	39%	1,659	-40%
Trade receivable	6	8	44%	9	-8%
Interest accrued and due on loans	1	1	-31%	1	-18%
Interest accrued but not due on loans	9	13	43%	11	23%
Interest accrued but not due on deposits with banks	12	15	19%	8	86%
Interest strip on securitization transactions	11	25	124%	42	-40%
Portfolio loans -- Non-AP	2,008	3,806	90%	2,824	35%
Portfolio loans -- AP	145	14	-91%	13	3%
Loans placed as collateral	33	46	38%	86	-47%
Security deposits for rent and other utilities	4	4	-4%	4	1%
Advances for Loan Cover Insurance	1	1	-1%	1	2%
Surrender amount receivable from insurance co.	3	-	-	0	-
Loans to SKS employee benefit trust	5	5	-4%	5	-
Advance Income Tax	16	14	-11%	14	-
Prepaid insurance	1	1	20%	3	-52%
Other advances	5	15	-	8	95%
<b>Total Assets</b>	<b>2,982</b>	<b>4,971</b>	<b>67%</b>	<b>4,699</b>	<b>6%</b>
Note:1 Non-AP Securitized/Managed Portfolio	742	945	27%	1,260	-25%
2. Non-AP Gross Loan Portfolio	2,783	4,797	72%	4,171	15%

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

Particulars		Q1 FY15	Q4 FY15	Q1 FY16
<b>Spread Analysis (as % of Avg. Gross Loan Portfolio)</b>				
Gross Yield	(I)	22.1%	24.2%	25.1%
Portfolio Yield		16.6%	18.9%	19.3%
Financial Cost	(a)	6.3%	9.1%	9.0%
Operating Cost	(b)	9.6%	8.9%	8.5%
Provision and Write-offs	(c)	-0.2%	1.1%	0.6%
Taxes	(d)	-	0.6%	1.6%
Total Expense	II = (a+b+c+d)	15.6%	19.8%	19.7%
Return on Avg. Gross Loan Portfolio	(I) - (II)	<b>6.4%</b>	<b>4.3%</b>	<b>5.4%</b>
<b>Efficiency:</b>				
Cost to Income		60.8%	59.4%	52.3%
<b>Asset Quality – Non-AP:</b>				
Collection Efficiency		99.9%	99.8%	99.7%
Gross NPA		0.2%	0.1%	0.1%
Net NPA		0.2%	0.0%	0.1%
Gross NPA (INR Crs.)		4.0	2.4	4.6
Net NPA (INR Crs.)		3.4	1.3	2.2
<b>Leverage:</b>				
Debt : Equity		1.9	3.1	3.1
Debt : Equity (Incl. Securitised & Managed Loans)		2.6	4.5	4.1
<b>Capital Adequacy:</b>				
		<b>41.7%</b>	<b>31.7%</b>	<b>27.2%</b>
<b>Profitability:</b>				
Return on Avg. Assets (Incl. Securitised & Managed Loans)		5.2%	3.2%	4.1%
ROE		29.2%	15.9%	22.7%
EPS - Diluted (INR) (Not Annualised)		4.29	3.17	4.78
Book Value (INR)		70.75	82.86	88.19

# FINANCIAL ARCHITECTURE

# FINANCIAL ARCHITECTURE (1/2)

## Lenders Mix

On Balance Sheet*	June-14	Mar-15	June-15
Yes Bank	23%	15%	10%
Kotak Mahindra Bank	0%	4%	10%
ICICI Bank	8%	7%	8%
State Bank Group	8%	8%	8%
Dena Bank	5%	8%	7%
Andhra Bank	5%	6%	6%
SIDBI	8%	7%	6%
IDBI Bank	6%	6%	6%
Bank of Maharashtra	12%	6%	5%
Ratnakar Bank	0%	3%	5%
HDFC Bank	8%	5%	5%
Axis Bank	7%	4%	4%
Standard Chartered Bank	0%	3%	3%
IndusInd Bank	5%	4%	3%
IDFC	0%	3%	3%
HSBC Bank	0%	3%	2%
South Indian Bank	0%	2%	2%
Bank of India	0%	4%	2%
Citi Bank	2%	2%	2%
Others	4%	3%	2%
<b>Grant Total</b>	<b>1,675</b>	<b>2,990</b>	<b>2,847</b>

\* Includes Term loan and cash credit facilities

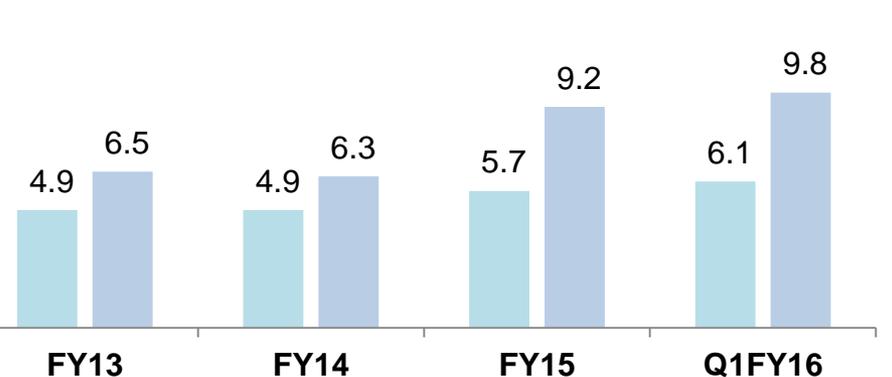
## Funding Mix

INR Crs.

	Q1FY15	% Mix	Q4FY15	% Mix	Q1FY16	% Mix
Term Loans	1,584	62%	2,867	61%	2,724	59%
Securitisation	674	27%	1,090	23%	619	13%
Managed Loans	189	7%	348	7%	479	10%
NCD	-	-	200	4%	400	9%
Commercial Paper	-	-	89	2%	256	6%
Cash Credit	92	4%	124	3%	123	3%
<b>Total</b>	<b>2,538</b>	<b>100%</b>	<b>4,718</b>	<b>100%</b>	<b>4,602</b>	<b>100%</b>

## Positive ALM Mismatch

■ Avg maturity of assets    ■ Avg maturity of liabilities    *No. of months*



ALM data includes securitized loans

# FINANCIAL ARCHITECTURE (2/2)

## Funding Cost Analysis

Metric	FY14	FY15	Q1FY15	Q4FY15	Q1FY16
Cost of interest bearing liabilities (excluding processing fee paid & other charges)	12.7%	12.1%	12.0%	11.4%	11.7%
Cost of interest bearing liabilities (including processing fee paid on Loans on Balance sheet)	13.6%	12.8%	12.6%	11.8%	11.9%
Cost of interest bearing liabilities (including processing fee and other charges paid for On & Off B/S loans)	14.2%	13.2%	12.8%	12.4%	12.0%
Loan Processing Fees (INR Crs.)	17.3	16.9	2.4	4.7	1.0
Drawdowns (INR Crs.)	3,503	5,020	575	2,414	1,046
Financial Cost^	8.3%	8.3%	6.3%	9.1%	9.0%

**\*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 recognised upfront whereas loan processing fees received from borrowers are amortized over the period of contract.

### Interest Rate Mix



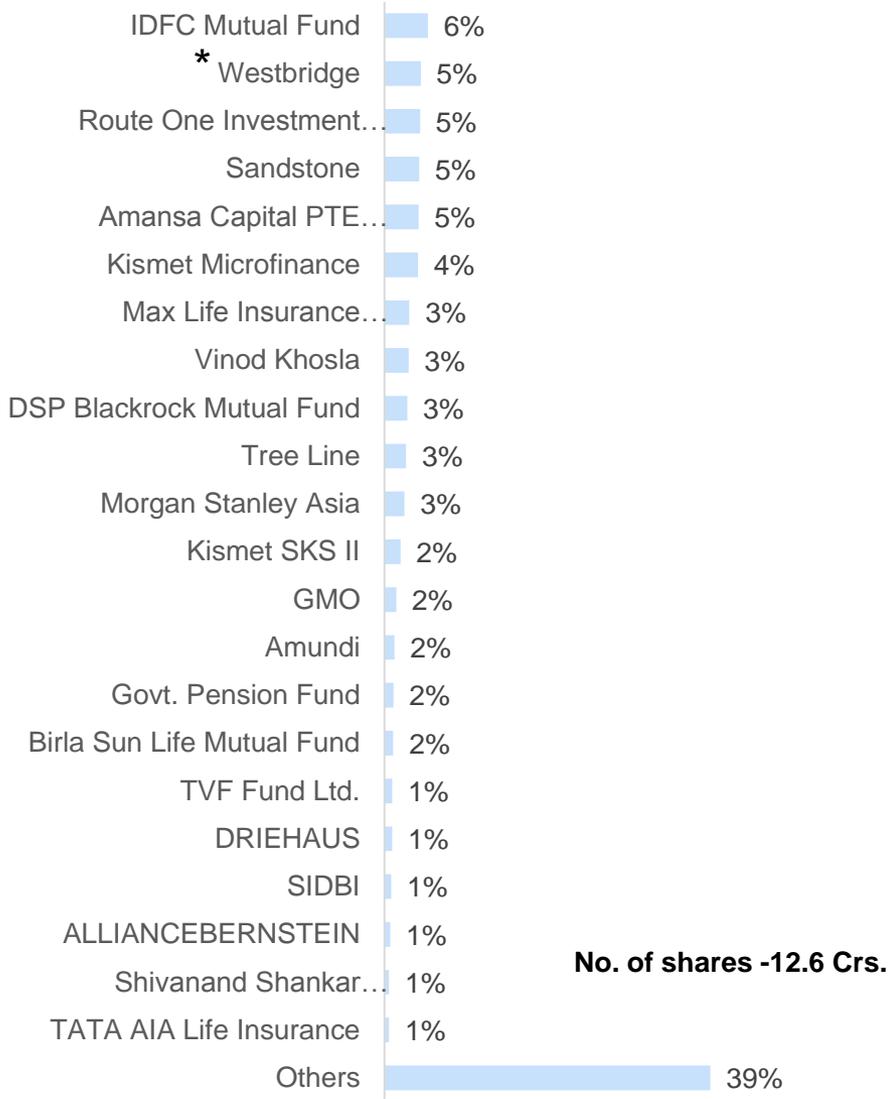
# EXTERNAL ASSESMENT

Rating Instrument	Rating	Rating Agency	Rating Amount Limits (Rs. Crs.)	
			Q4FY15	Q1FY16
MFI Grading	MFI 1	CARE Ratings	N/A	N/A
Bank Loan Rating (Long-term facilities)	CARE A+	CARE Ratings	2,800	3,300
Bank Loan Rating (Short-term facilities)	CARE A1+	CARE Ratings		
Long-term Debt (NCD)	CARE A+	CARE Ratings	200	400
Short-term Debt (CP/NCD)	CARE A1+	CARE Ratings	200	200
Long-term Debt	[ICRA] A+	ICRA Limited	300	500
Short-term Debt	[ICRA] A1+	ICRA Limited		
Securitisation Pool*	CARE AA (SO)	CARE Ratings	1,386	1,470
Securitisation Pool^	ICRA AA (SO)	ICRA Limited	173	173

\* Includes six securitisation transactions done during FY15 and one during Q1FY16

^ for two securitisation transactions during FY15

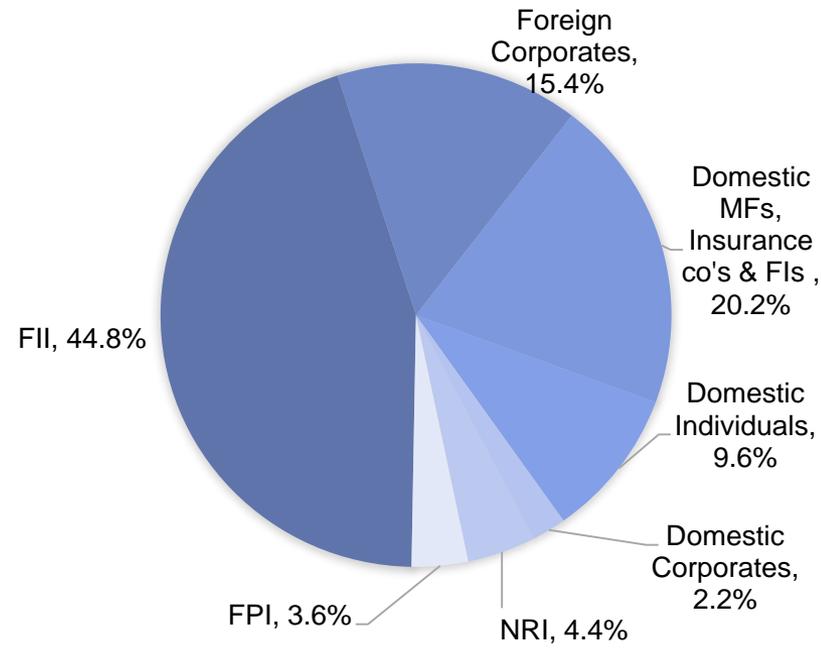
# CAPITAL STRUCTURE AS ON 30<sup>TH</sup> JUNE 2015



\*Includes Kumaon Investment

Excludes no. of Outstanding ESOPs 0.4 crs  
 Note: The Investment under different accounts by a fund are clubbed under their respective names

## SHAREHOLDING PATTERN



Note:  
 Holding by Insurance companies have been moved from "Domestic Corporates" to the "Domestic MFs, Insurance Cos. & FIs" category.

## ADJUSTED PRICE TO BOOK COMPUTATION

	June-15
Book value per share (INR) (A)	88
Present value of DTA per share (B)^	25
<b>Book value per share – Including PV of DTA (INR) (A+B)</b>	<b>113</b>
<b>Adjusted Price to Book Ratio (times)</b>	<b>4.7</b>

### Note:

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

DTA and MAT credit as on June 30, 2015 is Rs. 460 Crs and Rs. 21 Crs. Discount rate assumed at 12.0% and applied over next 6 years' estimated profit.

SKS Market Price as of July 22, 2015 – Rs. 537

# ANNEXURES

# OUR PROVISIONING POLICY

## Asset Classification

	<u>RBI NBFC-MFI norms</u>	<u>SKS compliance</u>
<b>Standard Assets</b>	0-90 days	0-60 days
<b>Sub-Standard Assets</b>	91-180 days	61-180 days
<b>Loss Assets</b>	>180 days	>180 days

## Provisioning Norms

<b>Standard Assets</b>	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
<b>Sub-Standard Assets</b>	50% of instalments overdue*	50% of outstanding principal*
<b>Loss Assets</b>	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 - 95%
  - Income generation loans >96%

## Qualifying Assets Criteria\*

### Income of Borrower's Family

- Rural : <=Rs.120,000
  - Non-Rural : <=Rs. 1,60,000
- ✓

### Ticket Size

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

### Indebtedness

- <= Rs. 100,000
- ✓

### 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 96% of total loans.

# COMPLIANCE WITH RBI NBFC-MFI REGULATORY FRAMEWORK (2/2)

## RBI norms for NBFC-MFIs

## SKS compliance

### Pricing Guidelines

<b>Interest Rate</b>	<ul style="list-style-type: none"> <li>▪ A. Margin cap – 10% above cost of borrowings</li> <li>▪ B. Avg. base rate of top 5 commercial banks X 2.75</li> <li>▪ Lower of the A and B.</li> </ul>		Interest rate 22% w.e.f 1 <sup>st</sup> July'15 for new loans
<b>Processing Fees</b>	<ul style="list-style-type: none"> <li>▪ &lt;= 1% of loan amt.</li> </ul>		
<b>Insurance Premium</b>	<ul style="list-style-type: none"> <li>▪ Actual cost of insurance can be recovered from borrower and spouse</li> <li>▪ Administrative charges can be recovered as per IRDA guidelines</li> </ul>		
<b>Penalty</b>	<ul style="list-style-type: none"> <li>▪ No penalty for delayed payment</li> </ul>		
<b>Security Deposit</b>	<ul style="list-style-type: none"> <li>▪ No security deposit/ margin to be taken</li> </ul>		<ul style="list-style-type: none"> <li>▪ SKS has never taken security deposit/ margin</li> </ul>

# 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%	30%+	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:

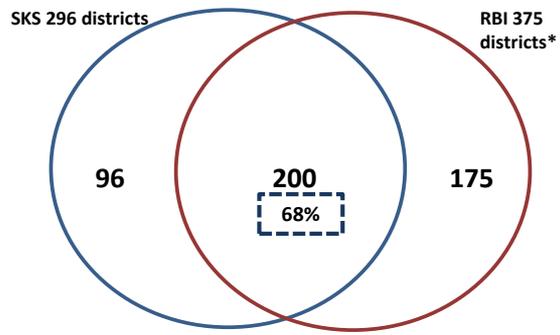
\* As per RBI notification dated 16<sup>th</sup> July 2015 Banks are directed to ensure overall direct lending to non-corporate farmers does not fall below the system wide average of last three years achievement. They should also continue to maintain all efforts to reach the level of 13.5% direct lending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

Refer Slide no.15 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

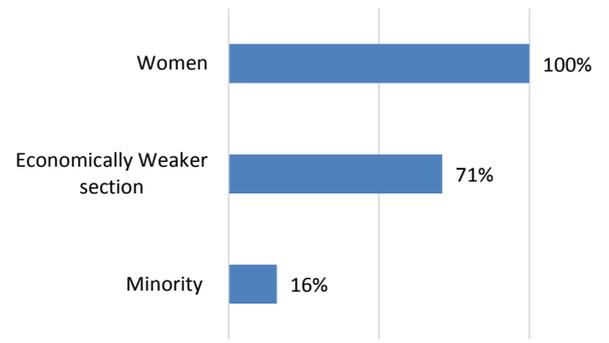


SKS covers 68% of below average & low financial inclusion districts identified by Crisil

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

68% (Covers 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



3 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)	2,261 (47%)	1,274 (26%)	1,135 (24%)	87 (2%)	54 (1%)
Ticket size range (w.e.f 1 <sup>st</sup> July'15)	INR 8,550 to INR 14,850		INR 20,600 to INR 31,100	INR 1,670 to INR 4,981	INR 2,000 to INR 200,000
Avg. Ticket Size (INR) For Q1FY16	14,551	14,451	29,641	2,200	13,044
Eligibility*	<ul style="list-style-type: none"> <li>Completion of CGT / GRT</li> <li>Age limit 18 years to 55 years</li> </ul>	<ul style="list-style-type: none"> <li>With IGL - Between 20th to 46th week</li> <li>With LTL – Between 20th to 96th week</li> </ul>	<ul style="list-style-type: none"> <li>Minimum Two IGL Loan cycle completed</li> </ul>	<ul style="list-style-type: none"> <li>With IGL – Between 4th to 46th week</li> <li>With LTL – Between 4th to 100th week</li> </ul>	Maximum LTV as % of gold value on disbursement <ul style="list-style-type: none"> <li>SP3: 68%</li> <li>SP4: 75%</li> </ul>
Tenure	50 weeks		104 weeks	25 weeks	<ul style="list-style-type: none"> <li>SP3: 0 - 365 days</li> <li>SP4: 0 - 270 days</li> </ul>
Annual effective interest rate	22.0% (w.e.f 1 <sup>st</sup> July'15 for new loans)			<ul style="list-style-type: none"> <li>20.07% - 21.50%</li> </ul>	<ul style="list-style-type: none"> <li>SP3: 15% - 24%</li> <li>SP4: 19.2% - 26%</li> </ul>
Processing fee (Incl. Service Tax)	1%			<ul style="list-style-type: none"> <li>0.8%-1.0%</li> </ul>	<ul style="list-style-type: none"> <li>SP3 &amp; SP4: 0.5%</li> </ul>

\* 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	INR 20,600 to INR 31,100
Tenure	104 Weeks
Eligibility	- Completion of two IGL^ Loan cycles
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	
	Q1FY15	Q1FY16	Q1FY15	Q1FY16	Q1FY15	Q1FY16
No. of Loans Disbursed in '000	11	191	1,089	1,778	1.0%	10.8%
Avg. Ticket Size INR	28,268	29,641	10,653	13,368		
Amount of Loan Disbursed ('In Crs.)	31	567	1,160	2,377	2.7%	23.8%*
Portfolio Outstanding (in Crs.)	77	1,135	2,783	4,797	2.8%	23.7%

\*Disbursement capped at 25% of overall disbursement

^ Income Generating Loans with ticket size of Rs.8,550 to Rs.14,850 with tenure of 50 weeks

## LEVERAGING THE DISTRIBUTION STRENGTH

	FY15			Q4FY15			Q1FY16			
	Mobile phone	Solar lamp	Total	Mobile phone	Solar lamp	Total	Mobile phone	Solar lamp	Others ^	Total
No. of Units Facilitated (in Lacs)	4.5	3.9	8.4	1.4	1.2	2.6	1.8	1.4	0.7	4.0
Gross Fees (after service tax) INR Crs.	15.9	12.4	28.3	5.5	3.7	9.2	6.1	4.6	2.2	12.8
Less: Incentives INR Crs.	2.5	2.1	4.6	1.1	0.9	2.0	1.7	1.3	0.7	3.6
<b>Net Fees INR Crs.*</b>	<b>13.4</b>	<b>10.3</b>	<b>23.7</b>	<b>4.4</b>	<b>2.8</b>	<b>7.2</b>	<b>3.5**</b>	<b>2.7**</b>	<b>1.2**</b>	<b>7.3**</b>
Loan Portfolio INR Crs.	33.1	25.2	58.3	33.1	25.2	58.3	40.6	24.8	21.5	86.9
Net Fee Income as % of PAT	7.2%	5.5%	12.6%	10.9%	6.9%	17.8%	5.7%	4.3%	1.9%	11.9%
Loan Portfolio Mix	0.8%	0.6%	1.4%	0.8%	0.6%	1.4%	0.8%	0.5%	0.4%	1.8%

\*Net fee post the incentive payout and sans transfer pricing of other operating cost.

\*\* Post MAT adjustment

^Others include Loans for Sewing Machines, Bio-Mass Stove, Water-purifier and Cycle.

## HIGHLIGHTS – GOLD LOANS

INR crore

Particulars	Mar 15
Total Gold Loan Portfolio Outstanding	54
Current Gold Holding Value*	77
Security Coverage (70/49 crores)	142%
SKS Non-AP Gross Loan Portfolio	4,797
<b>Gold loans as % of SKS Non-AP Gross Loan Portfolio</b>	<b>1.1%</b>

### Notes:

\* Based on Current value of Rs. 2,428/ gm – June 30, 2015 and applied on net weight of gold i.e. after deduction for stones and impurities on gross weight)

(Source: India Bullion & Jewellers Association Ltd. – 22 carat spot rate )

# INTERNAL AUDIT PLAYS A CRITICAL ROLE IN PROCESS MONITORING

## Strength

- 188 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

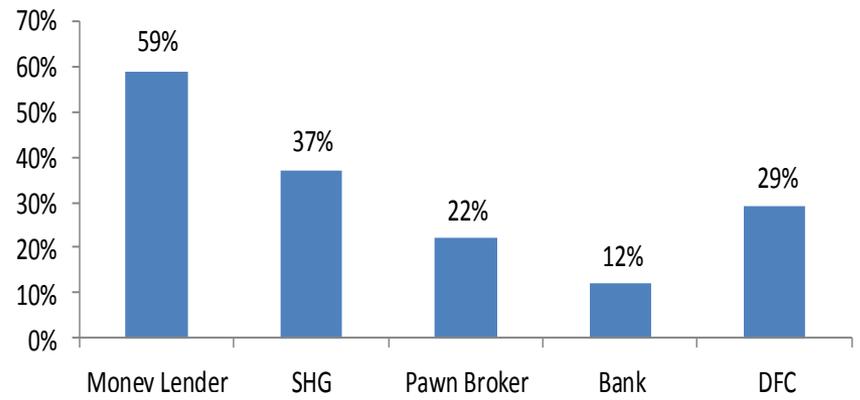
- Branches 1,268
- Branches per Internal Audit staff 7
- Regional Offices 22

		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	-	-	-	-	√	√	-	-	√

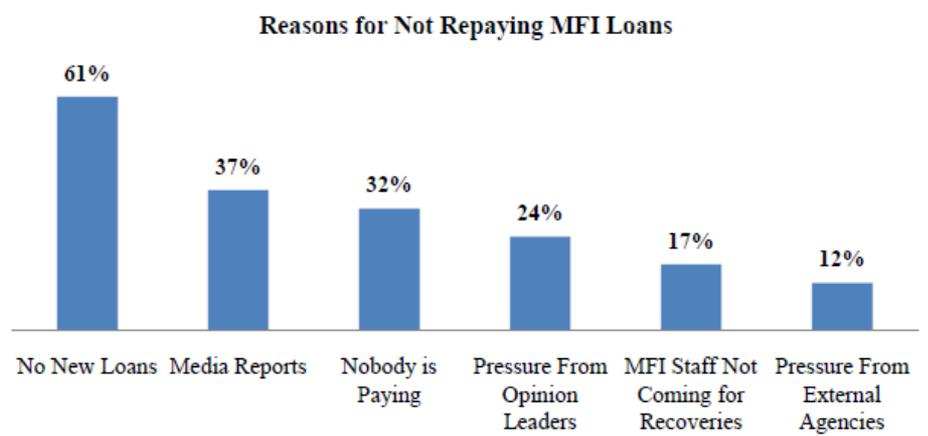
**Note:**  
 \* Approximately 30% of the clients are covered by Internal Audit in an year during the branch audits. Clients visited on a sample basis to check for Loan confirmations, Loan utilization (LUC) , arrears and awareness on Client Protection Principles (CPP)  
 ^ Fixed Assets are verified on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

# WHAT ARE CLIENTS DOING POST THE ANDHRA PRADESH MFI CRISIS?

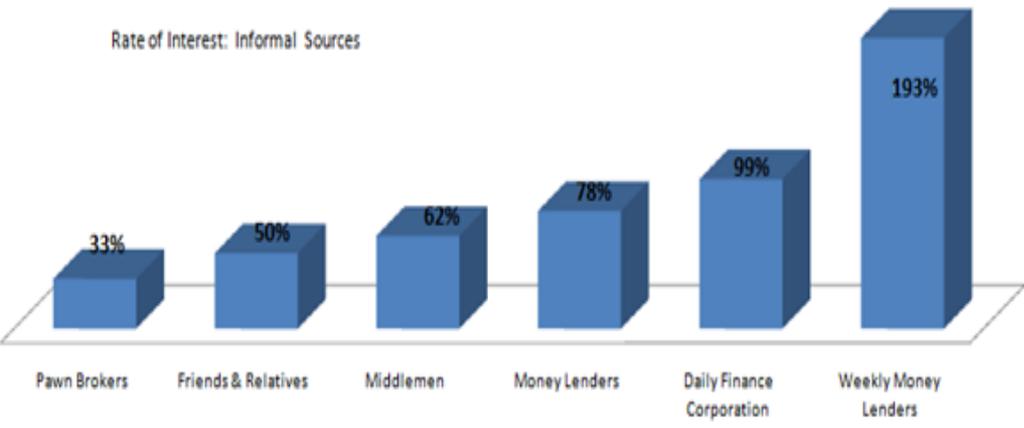
## Sources of Credit (in the absence of MFI Loans)



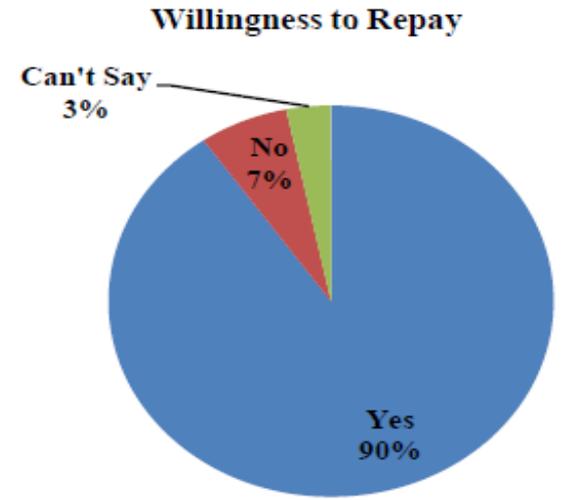
## Reasons for not repaying MFI loans



## 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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