

## EARNINGS UPDATE Q2FY15



**OCTOBER 2014**

### **SKS Microfinance Limited**

BSE: 533228 • NSE: SKSMICRO

Corporate Identity No. L65999MH2003PLC250504

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

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# STRONG PERFORMANCE IN Q2FY15

- Incremental drawdowns of Rs.1,100 crore in Q2FY15 (Rs.575 crore Q1FY15).
- Loan disbursement of Rs. 1,693 crore in Q2FY15 (growth of 73% YoY and 46% QoQ).
- Non-AP Portfolio was Rs. 3,043 crore as of September 30, 2014 (growth of 50% YoY) and a growth of 8% QoQ based on average Non-AP portfolio for the period.
- Net interest income (including processing fees) grew by 63% YoY and 24% QoQ.
- Cost-to-income has improved to 58.2% in Q2FY15 compared to 60.8% in Q1FY15 and 74.9% in Q2FY14.
- The un-availed deferred tax benefit of Rs. 522 crore will be available to offset tax on future taxable income. Given the carried forward tax loss, no tax provision was required for Q2FY15.
- PAT of Rs. 56.8 crore in Q2FY15 compared to Rs. 49.3 crore in Q1FY15 (growth of 15% QoQ).
- Networth of Rs. 951 crore and capital adequacy at 33.2%\* as of Sept 30, 2014.
- Cash & Cash equivalent^ of Rs.530 crore.
- The aggregate limit for bank borrowings with A1+ for short term facilities and A+ for long term facilities was enhanced from Rs.2,000 crore to Rs.2,500 crore.

Note:

\*Capital adequacy without RBI dispensation on AP provisioning

^ Excluding security deposit

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

# TURNAROUND ACHIEVED

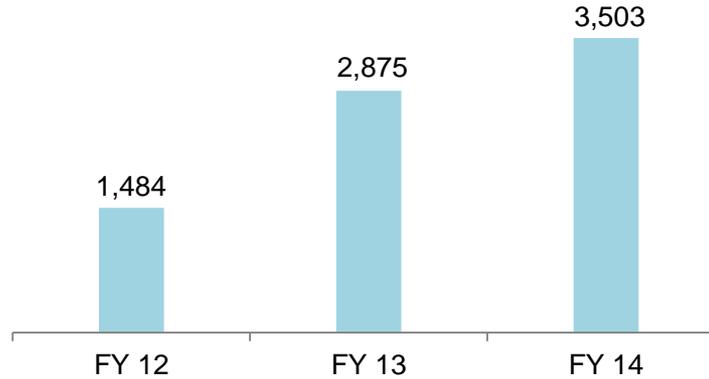
INR crore

## Balance Sheet Cleansed

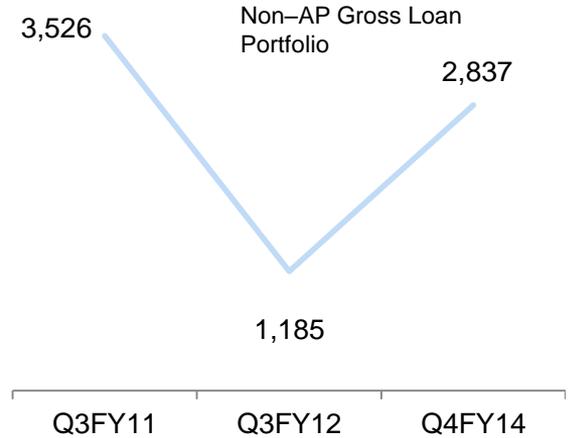
AP exposure of Rs. 1,360 crore written off/ provided for

## Supply-side Shock Managed

### Drawdowns



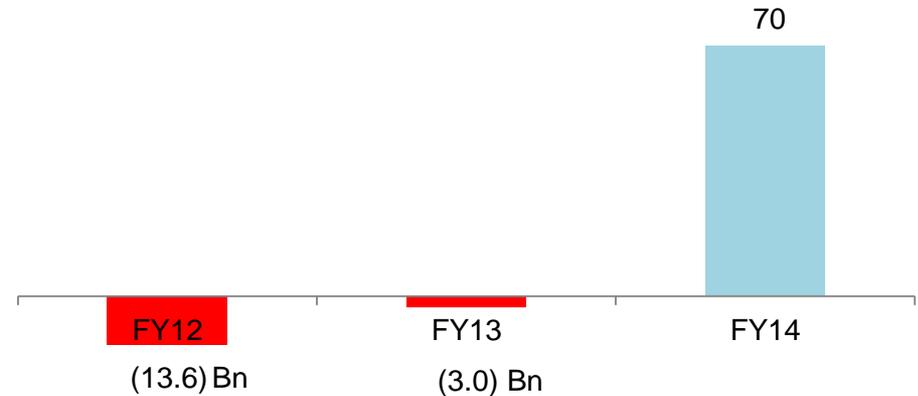
## Credit Growth Resumed



## Cost Structure Optimization

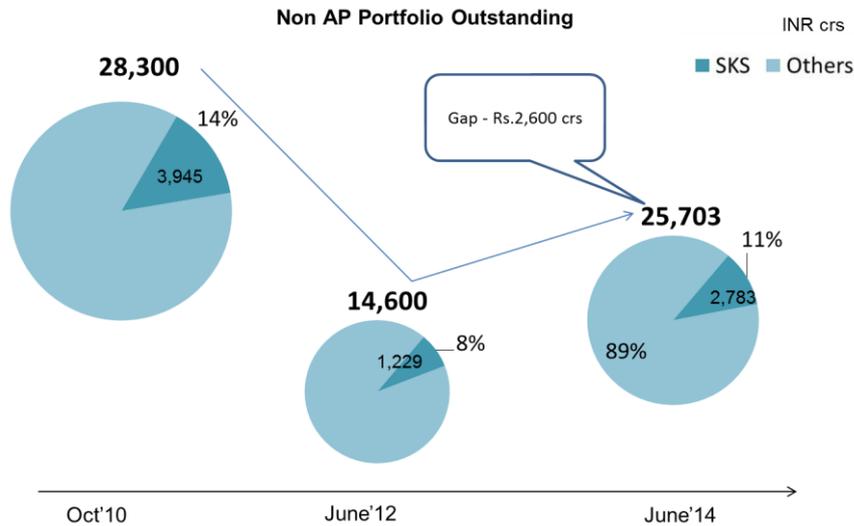
	Q3FY11	Q4FY14	Var.
Branches	2,403	1,255	-48%
Other Opex (INR crore)	51	21	-60%
Headcount	25,735	8,932	-65%
Personnel Cost (INR crore)	89	43	-52%

## Return To Profitability

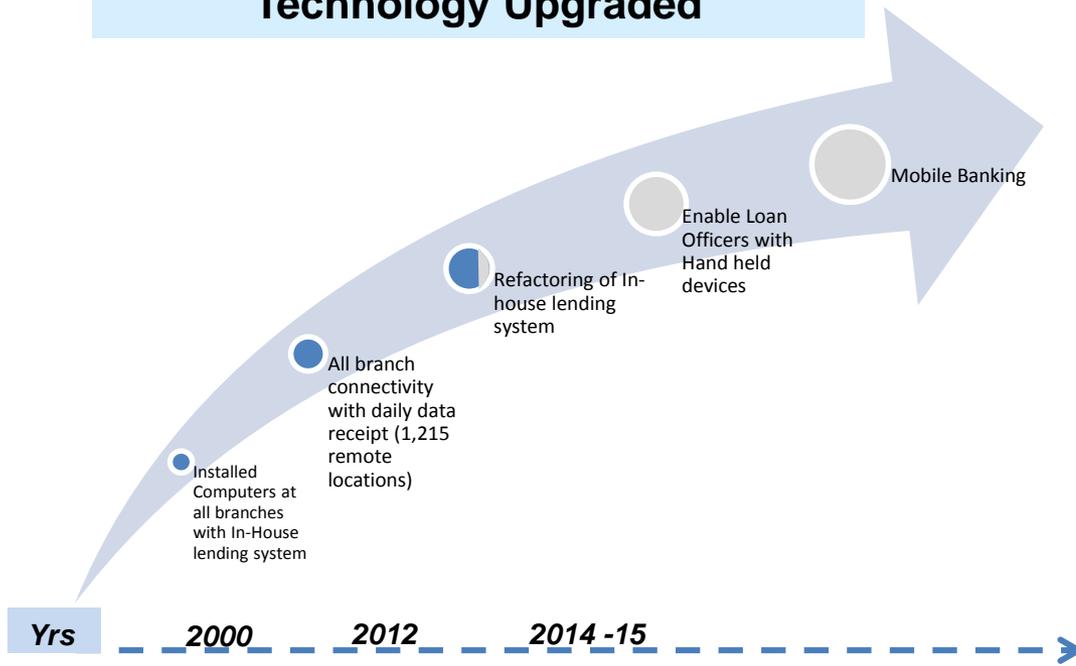


# DURABLE FOUNDATION FOR SUSTAINABLE GROWTH

## Market Share Regained



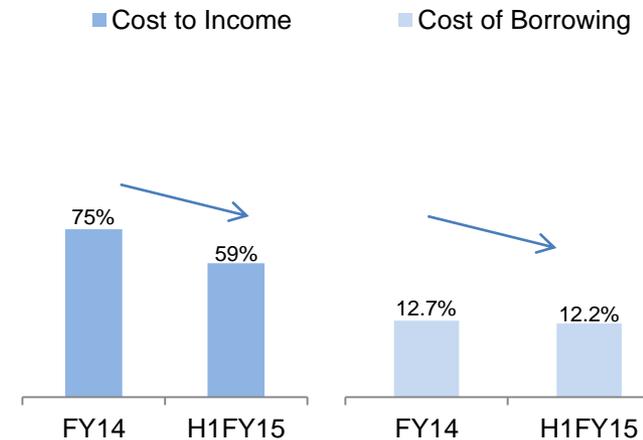
## Technology Upgraded



## Capital Reinforced

- QIP of Rs. 398 crs in May'14
- Networth - Rs. 951 crs
- CAR - 33.2%

## Efficiency Gains



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

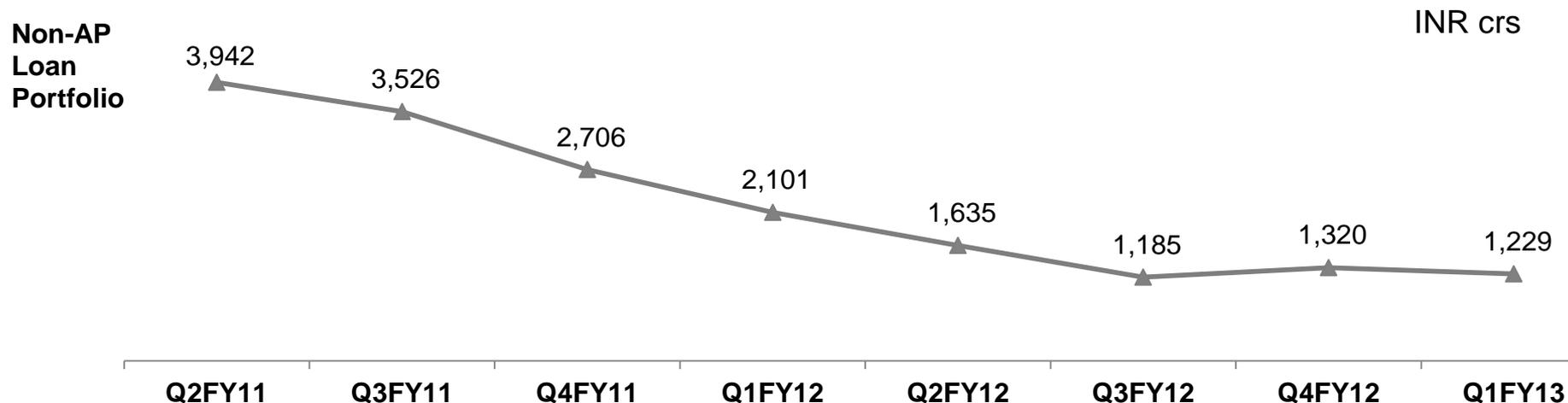
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# WHAT DOESN'T KILL YOU, MAKES YOU STRONGER - POSITIVE DEVELOPMENTS POST-AP-MFI CRISIS

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 is 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 3.5 years -- no other state has followed suit</li></ul>
<b>Has the business model been challenged?</b>	<ul style="list-style-type: none"><li>▪ Collection efficiency maintained despite disbursements being a fraction of collections.</li><li>▪ No alternative credit delivery model has gained currency</li></ul>
<b>How will the AP situation get resolved?</b>	<ul style="list-style-type: none"><li>▪ Legal relief</li><li>▪ Customer sentiment</li><li>▪ Central legislation</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**

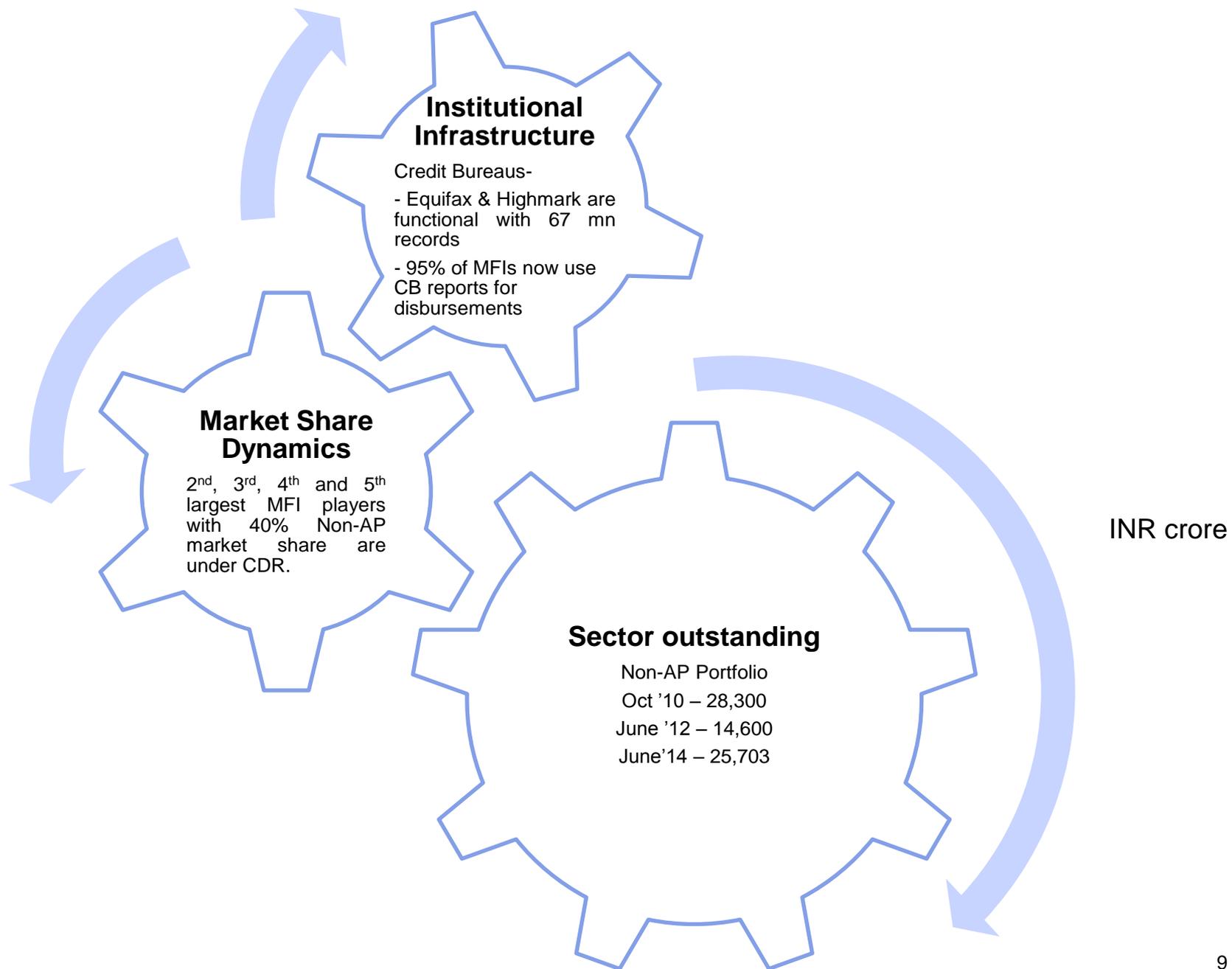
in Millions

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>

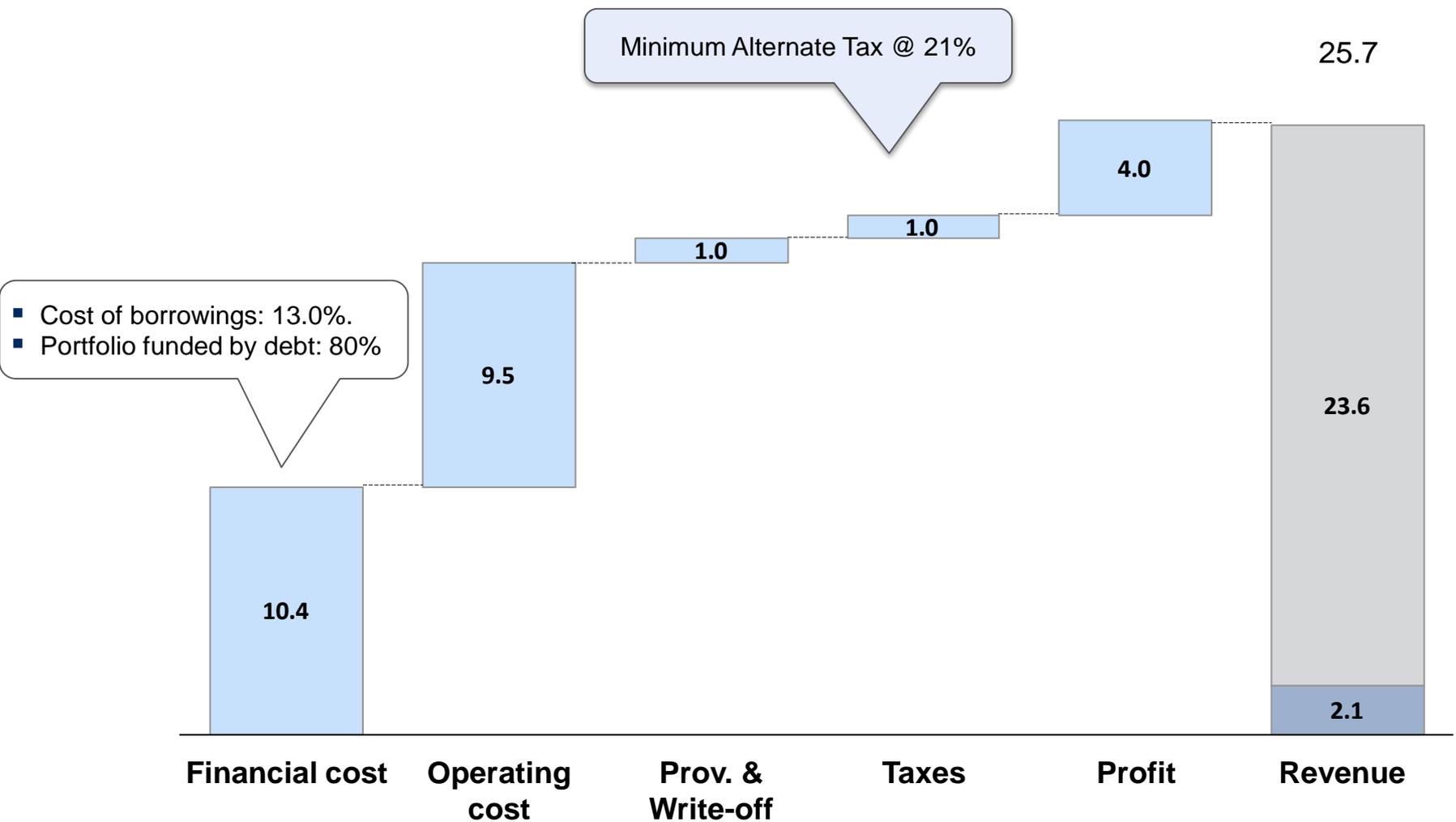
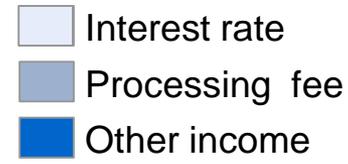
**Internal generation - and not incremental debt - aids prompt repayment**

<b>MFI Industry non- AP Portfolio Outstanding (Rs Cr)</b>	
Oct'10	28,300
June'12	14,600

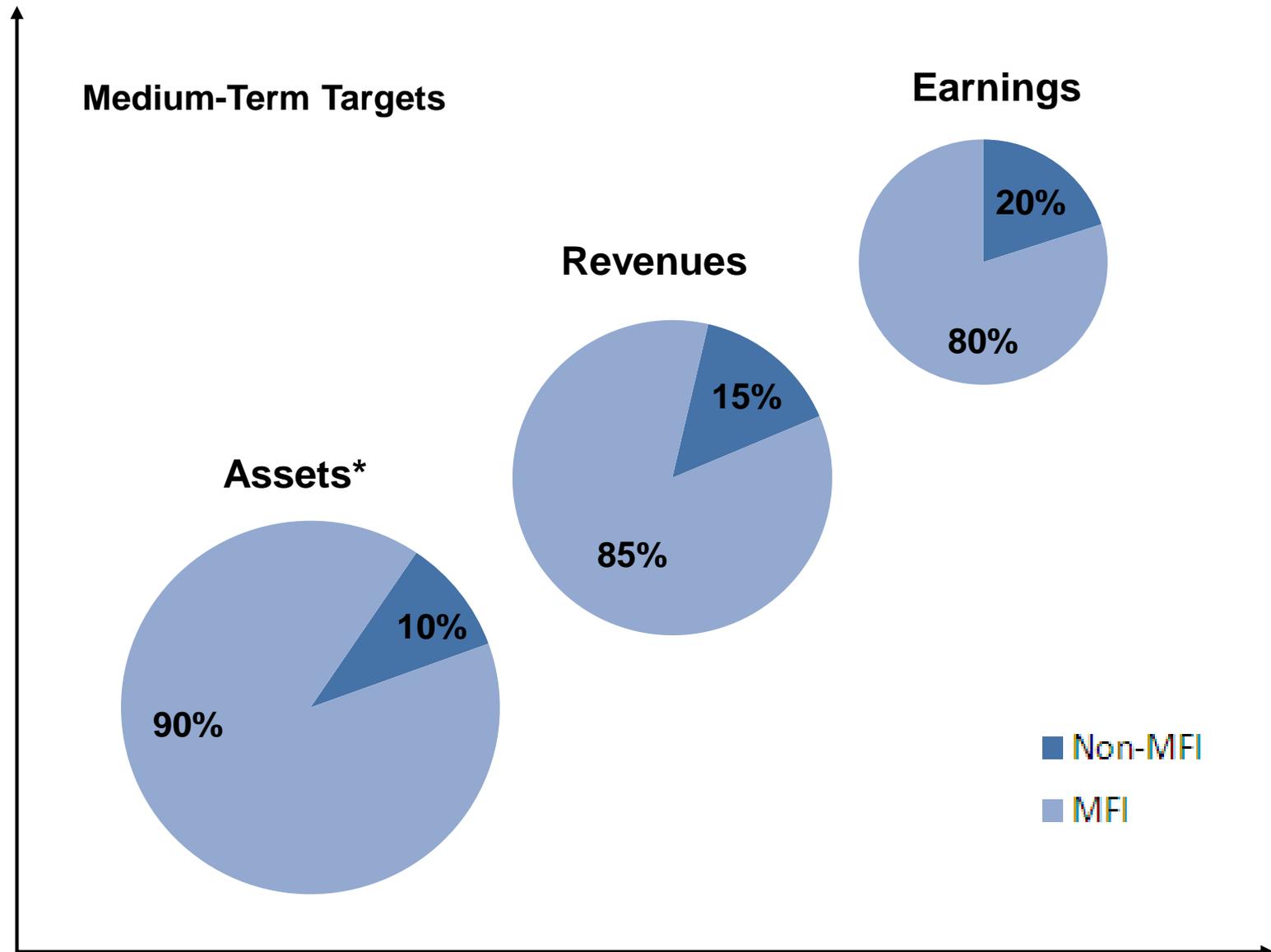
# COMPETITIVE LANDSCAPE CHANGES TO SKS' ADVANTAGE



# STEADY-STATE ROA OF 4% CAN BE TARGETED



# CREATIVE DISTURBANCE TO ASSET-REVENUE-EARNING CORRELATION



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

# **OPERATIONAL HIGHLIGHTS**

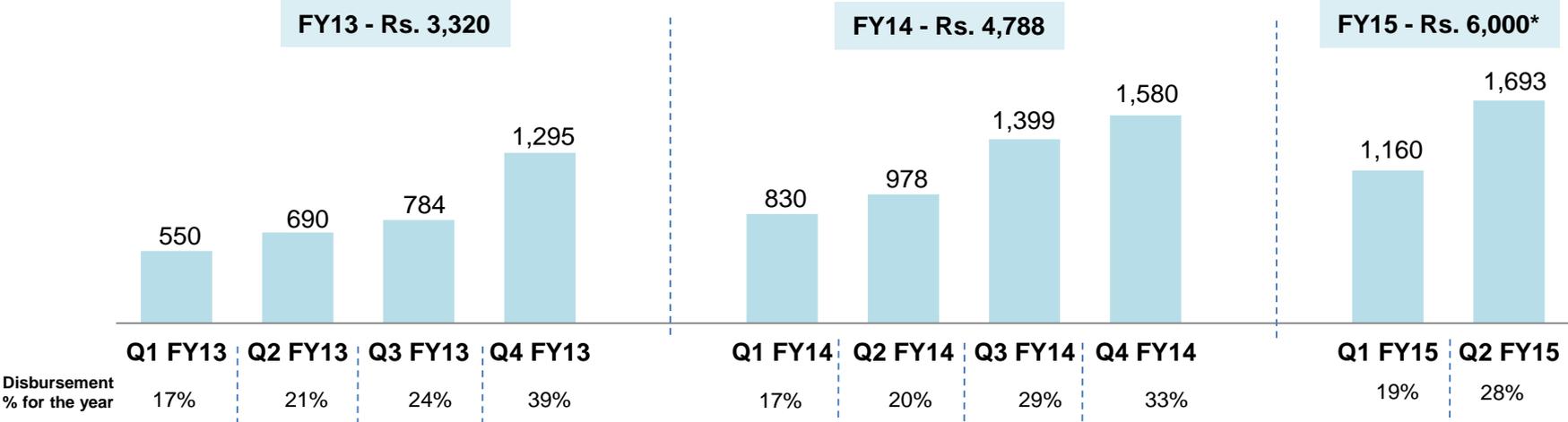
# OPERATIONAL HIGHLIGHTS

Particulars	Sep-13	Sep-14	YoY%	Jun-14	QoQ%
Branches#	1,254	1,268	1%	1,268	-
Centers (Sangam)	212,895	228,494	7%	226,856	1%
- Centers in non-AP States	142,218	157,911	11%	156,176	1%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	9,173	8,943	-3%	8,914	-
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	8,940	8,670	-3%	8,651	-
– Sangam Managers* (i)	5,647	5,094	-10%	5,124	-1%
– Sangam Manager Trainees(ii)	82	310	-	293	6%
– Branch Management Staff (iii)	2,213	2,203	-	2,179	1%
– Area Managers (iv)	82	86	5%	89	-3%
– Regional Office Staff (v)	916	977	7%	966	1%
• Head Office Staff (vi)	233	273	17%	263	4%
Members (in '000)	5,182	6,091	18%	5,796	5%
– Members in non-AP States (in '000)	3,262	4,171	28%	3,877	8%
Active borrowers (in '000)	4,507	5,268	17%	5,042	4%
– Active borrowers in non-AP States (in '000)	2,801	3,570	27%	3,342	7%
No. of loans disbursed (in '000)	889	1,404	58%	1,089	29%
Disbursements (for the quarter) (INR crore)	978	1,693	73%	1,160	46%
Gross loan portfolio – Non-AP (INR crore) (A+B)	2,029	3,043	50%	2,783	9%
• Loans outstanding (A)	1,575	2,793	77%	2,041	37%
• Securitized/ Assigned/ Managed loans (B)	453	250	-45%	742	-66%
<b>Operational Efficiency – Non-AP :</b>					
Off-take Avg (Disbursements/ No of Loans disbursed )(INR)	11,000	12,068	10%	10,669	13%
Gross loan portfolio/ Active Borrowers (INR)	7,244	8,524	18%	8,328	2%
Gross loan portfolio/ No. of Sangam Managers (Rs. '000)	4,193	6,898	65%	6,280	10%
Active borrowers / No. of Branches	2,437	3,137	29%	2,929	7%
Active borrowers / No. of Sangam Managers	579	809	40%	754	7%

\*Sangam Managers are our loan officers who manage our centers (also called Sangams). As of Sep '14, we had 4,411 Sangam Managers in Non-AP States # Incl. Gold branches

# Q2FY15 DISBURSEMENT AS % OF ANNUAL DISBURSEMENT EXCEEDS HISTORICAL AVG.

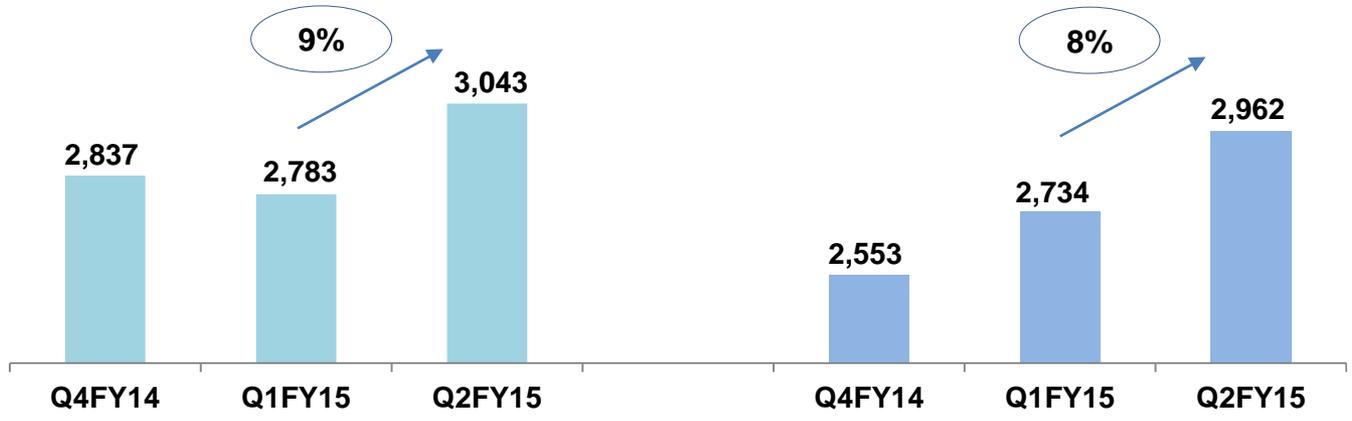
INR crore



\* Guidance

## Non-AP Gross Loan Portfolio

■ Closing Figures    ■ Based on Monthly Avg.



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

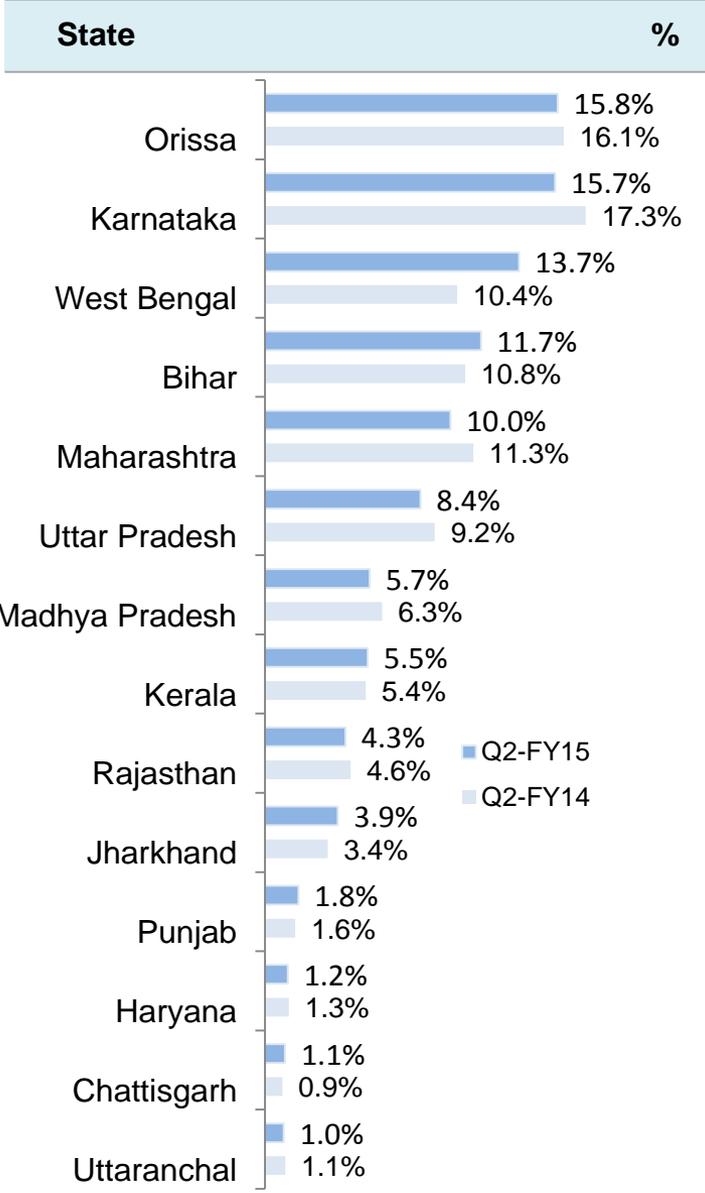
	Best before AP MFI crisis	Worst during AP MFI crisis	FY14	Q1FY15	Q2FY15
<b><u>Productivity – Non-AP:</u></b>					
Borrowers/ SM	489*	287	721	754	809
Gross Loan Portfolio/ SM ('000)	3,640*	1,320	6,275	6,280	6,898
Offtake Avg.	10,299*	9,237	11,849	10,669	12,068
<b><u>Cost Efficiency:</u></b>					
Cost of interest bearing liabilities (incl. proc. fee and other charges)	10.3%^	16.0%^	13.6%#	12.6%#	13.8%#
Cost of interest bearing liabilities (excl. proc. fee paid & other charges)	-	-	12.7%	12.0%	12.4%
Opex/ Gross Loan Portfolio %	10.4%	21.7%	9.6%	9.6%	10.0%
Cost to Income Ratio	52.4%	275%	74.5%	60.8%	58.2%
<b><u>Credit Quality - Non-AP:</u></b>					
Gross NPA%	0.20%*	5.5%	0.1%	0.2%	0.1%
Net NPA%	0.16%*	2.9%	0.1%	0.2%	0.1%
Collection Efficiency %	99.8%*	94.9%	99.9%	99.9%	99.8%

\*Enterprise figures - includes figures from AP state

^ Includes processing fee for On and Off balance sheet (B/S) funding

# Includes processing fee for on B/S funding only, for Q1FY15 Rs. 2.4 crs & Q2FY15 Rs. 6.3 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)</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)</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)</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%

## VINTAGE OF NON-AP BRANCHES IS ~6 YEARS

State	No. of Branches	Wt. Avg. Vintage (in Yrs.)*
Karnataka	176	6.7
West Bengal	154	6.0
Orissa	147	6.4
Bihar	121	6.2
Maharashtra	120	6.4
Uttar Pradesh	109	5.8
Madhya Pradesh	63	6.8
Rajasthan	60	6.1
Kerala	44	4.6
Jharkhand	37	6.7
Chattisgarh	19	7.3
Punjab	18	5.1
Haryana	16	5.5
Uttaranchal	9	5.5
Delhi	1	7.1
Gujarat	1	6.8
<b>Non -AP</b>	<b>1,095</b>	<b>6.2</b>

## PORTFOLIO OUTSTANDING BY ECONOMIC ACTIVITY

Purpose	% Mix
Livestock	25%
Tailoring, Cloth weaving	11%
Grocery stores and other retail outlets	9%
Masonry, Painting, Plumbing, Electrician, Carpenter and related	8%
Trading of vegetables & fruits	8%
Trading of agri-commodities	6%
Vehicle repairs	6%
Eateries	5%
Agriculture	4%
Garments & Footwear retailing	3%
Other income generating activities	16%

As of Sep 2014

\* Excludes 44 Gold Loan Branches.

# UPDATE ON GOLD LOANS - PILOT PROGRAMME

INR crore

Particulars	Sep 14
Total Gold Loan Portfolio Outstanding	56
Current Gold Holding Value*	81
Security Coverage (81/56 crores)	144%
SKS Non-AP Gross Loan Portfolio	3,043
<b>Gold loans as % of SKS Non-AP Gross Loan Portfolio</b>	<b>1.9%</b>

## Notes:

\* Based on Current value of Rs. 2,465/ gm – Sep 30, 2014 and applied on net weight of gold i.e. after deduction for stones and impurities on gross weight)

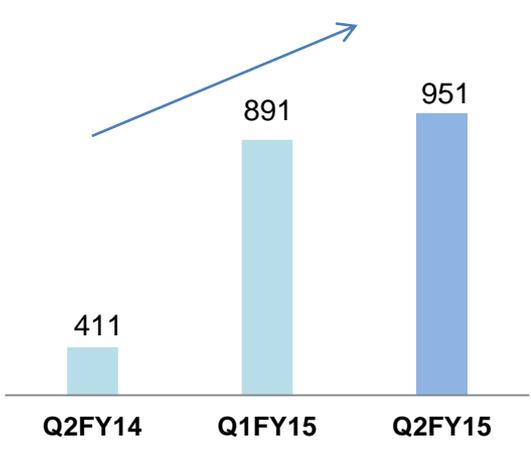
(Source: India Bullion & Jewellers Association Ltd. – 22 carat spot rate )

# REVIEW OF FINANCIALS

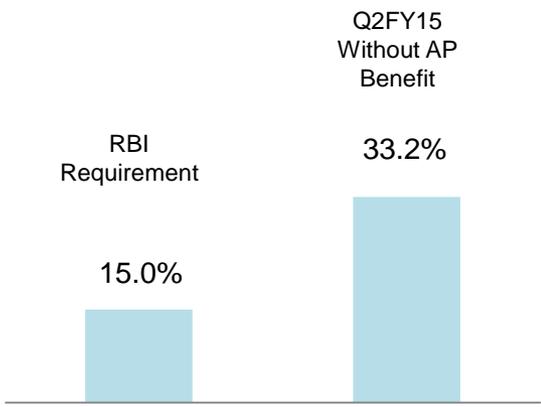
# STRONG SOLVENCY AND SUFFICIENT LIQUIDITY

INR crore

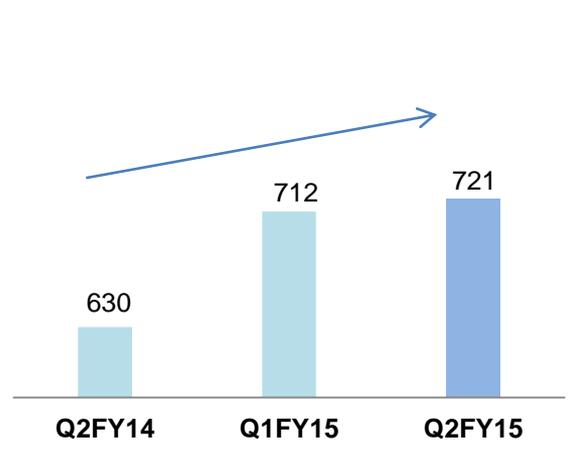
**Networth**



**Capital Adequacy**

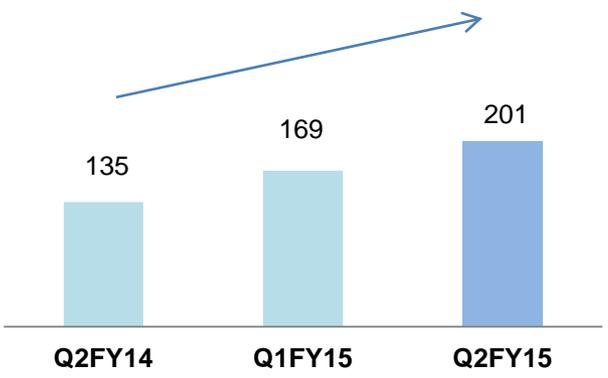


**Cash and Bank Bal.**

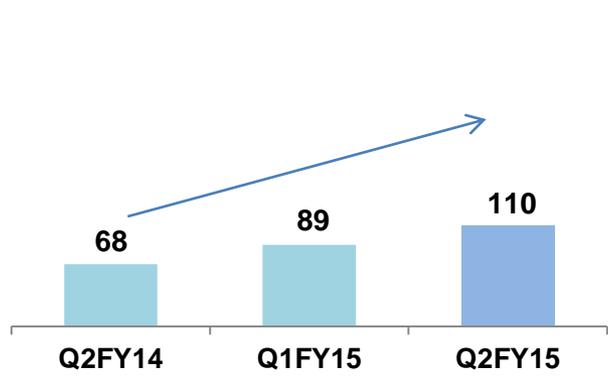


# GROWTH IN REVENUE AND PROFIT

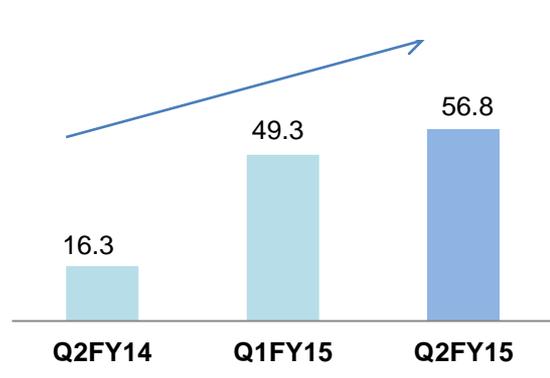
**Gross Revenue**



**Net Interest Income\***



**PAT**



\*Interest income on Portfolio loans + Income from Assignment/ Securitization + Loan processing fees – Financial Cost

# GROWTH IN NET INTEREST INCOME DRIVES PROFITABILITY

INR crore

Particulars	Q2FY14	Q2FY15	YoY%	Q2FY15 As % of Total Revenue	Q1FY15	QoQ%
<b><u>Income from Operations</u></b>						
Interest income on Portfolio loans	104	158	51%	79%	103	53%
Income from Assigned loans	10	8	-20%	4%	24	-68%
Loan processing fees	8	11	41%	6%	10	17%
<b><u>Other Income</u></b>						
Income on investments	6	7	21%	3%	9	-27%
Recovery against loans written off	3	8	-	4%	9	-15%
Other miscellaneous income	4	9	-	5%	13	-32%
<b>Total Revenue</b>	<b>135</b>	<b>201</b>	<b>49%</b>	<b>100%</b>	<b>169</b>	<b>19%</b>
<b>Financial expenses</b>	<b>55</b>	<b>67</b>	<b>22%</b>	<b>33%</b>	<b>48</b>	<b>40%</b>
Personnel expenses	39	55	40%	27%	54	2%
Operating and other expenses	20	22	9%	11%	19	18%
Depreciation and amortization	1	1	9%	1%	1	-1%
<b>Total Operating Cost</b>	<b>60</b>	<b>78</b>	<b>29%</b>	<b>39%</b>	<b>74</b>	<b>6%</b>
<b>Provision &amp; Write-offs</b>	<b>4</b>	<b>(0.8)</b>	<b>--</b>	<b>-0.4%</b>	<b>(1.9)</b>	<b>-58%</b>
<b>Total Expenditure</b>	<b>119</b>	<b>144</b>	<b>21%</b>	<b>72%</b>	<b>120</b>	<b>21%</b>
<b>Profit before Tax</b>	<b>16.3</b>	<b>56.8</b>	<b>-</b>	<b>28%</b>	<b>49.3</b>	<b>15%</b>
Tax expense	-	-	-	-	-	-
<b>Profit after Tax</b>	<b>16.3</b>	<b>56.8</b>	<b>-</b>	<b>28%</b>	<b>49.3</b>	<b>15%</b>

# PROFIT AND LOSS STATEMENT FOR THE HALF-YEAR ENDED

INR Crs.

Particulars	H1 FY14	H1 FY15	YoY%	H1 FY15 As % of Total Revenue
<b><u>Income from Operations</u></b>				
Interest income on Portfolio loans	193	261	35%	71%
Income from Assigned loans	24	32	32%	9%
Loan processing fees	16	21	37%	6%
<b><u>Other Income</u></b>				
Insurance commission	-	-	-	-
Group Insurance admin. charges	-	-	-	-
Income on Investments	14	16	19%	4%
Recovery against loans written off	5	17	-	5%
Other Miscellaneous Income	6	23	-	6%
<b>Total Revenue</b>	<b>258</b>	<b>370</b>	<b>44%</b>	<b>100%</b>
<b>Financial expenses</b>	<b>102</b>	<b>115</b>	<b>13%</b>	<b>31%</b>
Personnel expenses	81	109	34%	29%
Operating and other expenses	37	41	10%	11%
Depreciation and amortization	2	2	13%	1%
<b>Total Operating Cost</b>	<b>120</b>	<b>152</b>	<b>26%</b>	<b>41%</b>
<b>Provision &amp; Write-offs</b>	<b>15</b>	<b>(2.6)</b>	<b>-</b>	<b>-1%</b>
<b>Total Expenditure</b>	<b>236</b>	<b>264</b>	<b>12%</b>	<b>71%</b>
<b>Profit before Tax</b>	<b>21.3</b>	<b>106.1</b>	<b>-</b>	<b>29%</b>
Tax expense				
<b>Profit after Tax</b>	<b>21.3</b>	<b>106.1</b>	<b>-</b>	<b>29%</b>

## STRONG CAPITAL BASE AND ROBUST LIQUIDITY DRIVE SKS BALANCE SHEET

Particulars	Q2FY14	Q2FY15	YoY%	Q1FY15	QoQ%
Equity share capital	108	126	16%	126	-
Stock options outstanding	20	20	1%	19	6%
Reserves and surplus	283	804	-	746	8%
<b>Capital &amp; Reserves</b>	<b>411</b>	<b>951</b>	<b>-</b>	<b>891</b>	<b>7%</b>
Loan funds	1,703	2,402	41%	1,675	43%
Payable towards assignment/ Securitization	85	107	25%	169	-37%
Expenses & other payables	20	53	-	20	-
Provision for Taxation	20	5	-76%	6	-24%
Unammortised loan processing fees	15	23	53%	20	15%
Employee benefits payable	6	12	-	9	32%
Interest accrued but not due on borrowings	7	14	92%	8	69%
Interest accrued and due on borrowings	-	-	-	2	-
Provision for leave benefits & gratuity	8	12	43%	12	3%
Statutory dues payable	2	3	27%	4	-21%
Unrealized gain on securitization transactions	8	2	-80%	11	-86%
Provision for standard and NPA -- Non-AP	23	31	35%	30	2%
Provision for standard and NPA -- AP	233	68	-71%	125	-46%
<b>Liabilities</b>	<b>2,131</b>	<b>2,730</b>	<b>28%</b>	<b>2,091</b>	<b>31%</b>
<b>Total Liabilities</b>	<b>2,542</b>	<b>3,681</b>	<b>45%</b>	<b>2,982</b>	<b>23%</b>
Fixed assets	7	5	-36%	5	-6%
Intangible assets	4	5	34%	5	-3%
Investment	0.2	0.2	-	0.2	-
Cash and bank balances	630	721	15%	712	1%
Sundry debtors	1	6	-	6	12%
Interest accrued and due on loans	2	1	-47%	1	-27%
Interest accrued but not due on loans	9	9	5%	9	-2%
Interest accrued but not due on deposits with banks	12	11	-4%	12	-9%
Interest strip on securitization transactions	8	2	-80%	11	-86%
Portfolio loans -- Non-AP	1,575	2,786	77%	2,008	39%
Portfolio loans -- AP	234	87	-63%	145	-40%
Loans placed as collateral	34	7	-78%	33	-78%
Security deposits for rent and other utilities	4	4	-1%	4	-
Advances for Loan Cover Insurance	1	1	-16%	1	17%
Surrender amount receivable from insurance co.	1	2	-	3	-9%
Loans to SKS employee benefit trust	5	5	-6%	5	-
Advance Income Tax	12	17	47%	16	9%
Prepaid insurance	3	4	12%	1	-
Other advances	1	7	-	5	60%
<b>Total Assets</b>	<b>2,542</b>	<b>3,681</b>	<b>45%</b>	<b>2,982</b>	<b>23%</b>
Note:1 Non-AP Assigned Portfolio	453	250	-45%	742	-66%
2. Non-AP Gross Loan Portfolio	2,029	3,043	50%	2,783	9%

## CAPITAL RAISE HELPS TO ENHANCE NII AND REDUCES COST-TO-INCOME

Particulars		Q2 FY14	Q1 FY15	Q2 FY15
<b>Spread Analysis (as % of Avg. Gross Loan Portfolio)</b>				
Gross Yield	(I)	23.0%	22.1%	25.9%
Portfolio Yield		19.5%	16.6%^	21.3%^
Financial Cost	(a)	9.3%	6.2%	8.6%
Operating Cost	(b)	10.3%	9.6%	10.0%
Provision and Write-offs	(c)	0.7%	-0.2%	-0.1%
Taxes	(d)	-	-	-
Total Expense	II = (a+b+c+d)	20.3%	15.6%	18.6%
Return on Avg. Gross Loan Portfolio	(I) - (II)	2.8%	6.4%	7.3%
<b>Efficiency:</b>				
Cost to Income		74.9%	60.8%	58.2%
<b>Asset Quality – Non-AP:</b>				
Collection Efficiency		99.9%	99.9%	99.8%
Gross NPA		0.2%	0.2%	0.1%
Net NPA		0.2%	0.2%	0.1%
Gross NPA (INR crore)		3.8	4.0	3.0
Net NPA (INR crore)		3.2	3.4	1.9
<b>Leverage:</b>				
Debt : Equity		4.1	1.9	2.5
Debt : Equity (Incl. Managed Loans)		5.2	2.6	2.8
<b>Capital Adequacy*:</b>				
		23.2%	39.6%	33.2%
EPS - Diluted (INR) (Not Annualised)		1.5	4.3	4.5
Book Value (INR)		38.9	70.7	75.5

### ROA and ROE (excluding AP recovery & cross-sell) is 4.3% and 17.9% for Q2FY15

^ Increase in Portfolio yield QoQ is primarily on account of reduction in securitized/managed Loans proportion to Non-AP GLP from 27% in Q1FY15 to 8% in Q2FY15

\*Capital adequacy without RBI dispensation on AP

# OPERATING LEVERAGE STARTS PLAYING OUT

Particulars		H1 FY14	H1 FY15
<b>Spread Analysis (as % of Avg. Gross Loan Portfolio)</b>			
Gross Yield	(l)	21.9%	23.8%
Portfolio Yield		18.5%^	18.8%^
Financial Cost	(a)	8.6%	7.4%
Operating Cost	(b)	10.2%	9.7%
Provision and Write-offs	(c)	1.3%	-0.2%
Taxes	(d)	-	-
Total Expense	II = (a+b+c+d)	20.1%	17.0%
Return on Avg. Gross Loan Portfolio	(l) - (II)	1.8%	6.8%
<b>Efficiency:</b>			
Cost to Income		76.9%	59.5%
<b>Asset Quality – Non-AP:</b>			
Collection Efficiency		99.9%	99.8%
Gross NPA		0.2%	0.1%
Net NPA		0.2%	0.1%
Gross NPA (INR crore)		3.8	3.0
Net NPA (INR crore)		3.2	1.9
<b>Leverage:</b>			
Debt : Equity		4.1	2.5
Debt : Equity (Incl. Managed Loans)		5.2	2.8
<b>Capital Adequacy*:</b>			
EPS - Diluted (INR) (Not Annualised)		2.0	8.8
Book Value (INR)		38.0	75.5

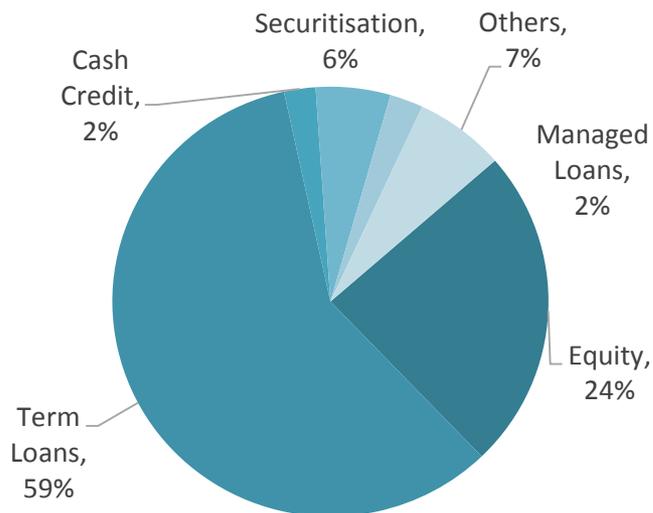
^ Increase in Portfolio yield YoY is primarily on account of reduction in securitized/managed Loans proportion to Non-AP GLP from 22% in H1FY14 to 8% in H1FY15

\*Capital adequacy without RBI dispensation on AP

# FINANCIAL ARCHITECTURE

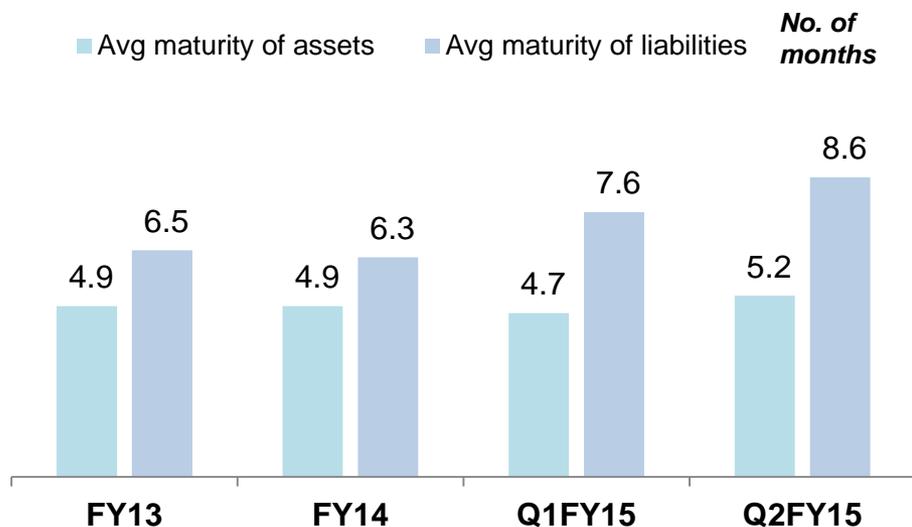
# FINANCIAL ARCHITECTURE (1/2)

## SOURCES OF FUNDING



Mix of Funding of total assets including off-balance sheet

## Positive ALM Mismatch



Funding partners mix and ALM data includes securitized/ assigned/ managed loans

## Funding Mix

On Balance Sheet	Sep - 14	Jun - 14	Sep-13
Yes Bank	20.0%	23.3%	12.9%
ICICI Bank	10.5%	7.7%	15.3%
Bank of India	8.3%	-	-
Bank of Maharashtra	8.3%	11.9%	0.0%
IndusInd Bank	8.1%	4.6%	10.7%
Axis Bank	7.5%	7.1%	3.9%
State Bank Group	5.7%	8.5%	5.0%
Andhra Bank	5.0%	4.7%	3.0%
HDFC Bank	4.9%	7.6%	3.3%
SIDBI	3.9%	7.6%	7.2%
IDFC	3.1%	-	-
Kotak Mahindra Bank	3.1%	-	-
Dena Bank	2.9%	5.4%	8.2%
IDBI Bank	1.8%	5.8%	23.1%
Reliance Capital	1.7%	1.4%	2.0%
DCB Bank	1.6%	1.6%	1.6%
Citi Bank	1.2%	2.2%	1.4%
HSBC Bank	1.0%	-	-
South Indian Bank	1.0%	-	-
<b>Others</b>	<b>0.1%</b>	<b>0.7%</b>	<b>2.3%</b>
<b>Total (INR crs)</b>	<b>2,402</b>	<b>1,675</b>	<b>1,404</b>

# FINANCIAL ARCHITECTURE (2/2)

## Funding Cost Analysis

Metric	FY14	H1FY15	Q1FY15	Q2FY15
Cost of interest bearing liabilities (excluding processing fee paid & other charges)	12.7%	12.2%	12.0%	12.4%
Cost of interest bearing liabilities (including processing fee paid on Loans on Balance sheet)	13.6%	13.2%	12.6%	13.8%
Cost of interest bearing liabilities (including processing fee and other charges paid for On & Off B/S loans)	14.2%	13.5%	12.8%	14.0%
Loan Processing Fees (INR crore)	13.1	8.7	2.4	6.3
Drawdowns (INR crore)	3,503	1,675	575	1,100
Financial Cost <sup>^</sup>	8.3%	7.4%	6.3%	8.6%

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

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

**The above percentages are based on monthly averages (except financial cost %).**

# EXTERNAL ASSESSMENT

Rating Agency	Grading / Rating
<b>CARE</b>	MFI Grading: 'MFI 1'
	Bank Loan Rating for a limit up to Rs. 2,500 Crs.- <ul style="list-style-type: none"> <li>▪ Long-term Bank facility 'CARE A+'</li> <li>▪ Short-term Bank facility 'CARE A1+'</li> </ul>
	Short-term Debt (CP/NCD) for a limit up to Rs. 100 Crs.: 'CARE A1+'
	Securitisation Pool rating in FY14- <ul style="list-style-type: none"> <li>▪ Four transactions rated 'CARE A1+(SO)'</li> <li>▪ Three transactions rated 'CARE AA(SO)'</li> <li>▪ Three transactions rated 'CARE A+(SO)'</li> </ul>
<b>CRISIL</b>	Securitisation Pool rating in FY14- <ul style="list-style-type: none"> <li>▪ Three transactions rated 'CRISIL AA (SO)'</li> </ul>
<b>ICRA (iMaCS)</b>	Code of Conduct Assessment Report: Score upgraded from 7.1/10 (in Dec'11) to 7.9/10 (in Mar'14)

## ADJUSTED PRICE TO BOOK COMPUTATION

	Sep-14
Book value per share (INR) (A)	75
Present value of DTA per share (B)^	24
<b>Book value per share – Including PV of DTA (INR) (A+B)</b>	<b>99</b>
<b>Adjusted Price to Book Ratio (times)</b>	<b>3.1</b>

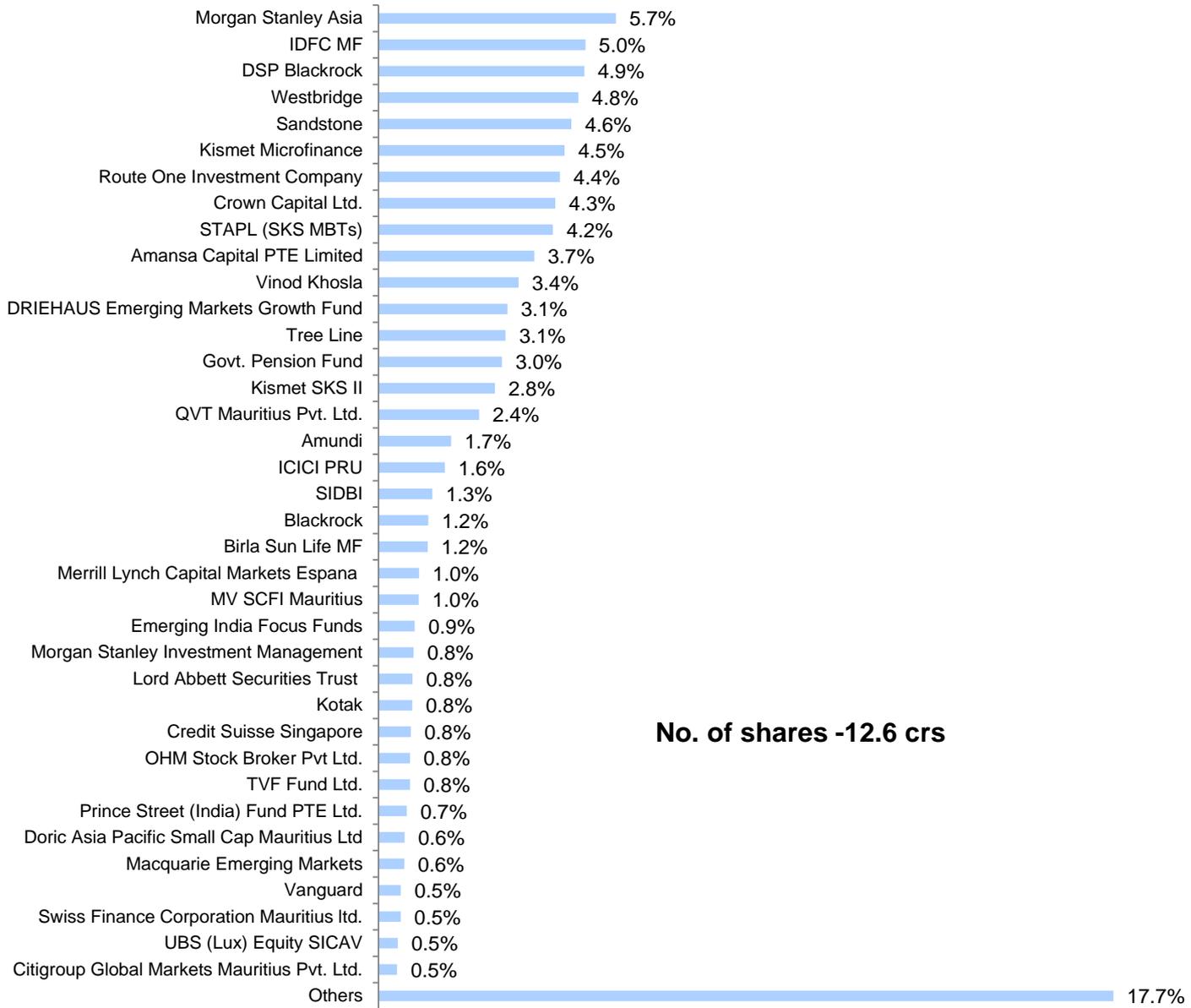
### Note:

^ Estimated Present Value of Deferred Tax Assets not recognized in books per share.

DTA as on Sep 30, 2014 is Rs. 522 crore. Discount rate assumed at 13.5% and applied over next 8 years' estimated profit.

SKS Market Price as of Oct 20, 2014 – Rs. 312

# CAPITAL STRUCTURE AS ON 30<sup>TH</sup> SEPTEMBER 2014



**No. of shares -12.6 crs**

\*Includes Kumaon Investment

Note: The Investment under different accounts by the fund are clubbed under their respective names

# ANNEXURES

# OUR PROVISIONING POLICY FOR MICROFINANCE LOANS

## 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)	0.25-1% 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.

Note: The old AP portfolio i.e. before April 2013 has been fully provided for

# COMPLIANCE WITH RBI NBFC-MFI REGULATORY FRAMEWORK (1/2)

## RBI PSL 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 70% of loans for income generation activities
- Qualifying assets - 95%
  - Income generation loans - 97%

## Qualifying Assets Criteria\*

### Income of Borrower's Family

- Rural : <=Rs.60,000
  - Non-Rural : <=Rs. 1,20,000
- ✓

### Ticket Size

- <= 35,000 – 1<sup>st</sup> cycle
  - <= Rs.50,000 – Subsequent cycle
- ✓

### Indebtedness

- <= 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 95% of total loans.

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

RBI PSL norms for NBFC-MFIs

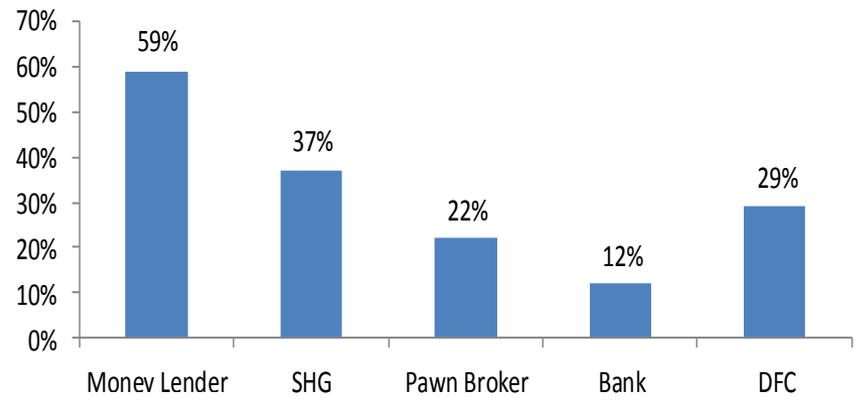
SKS compliance

## Pricing Guidelines

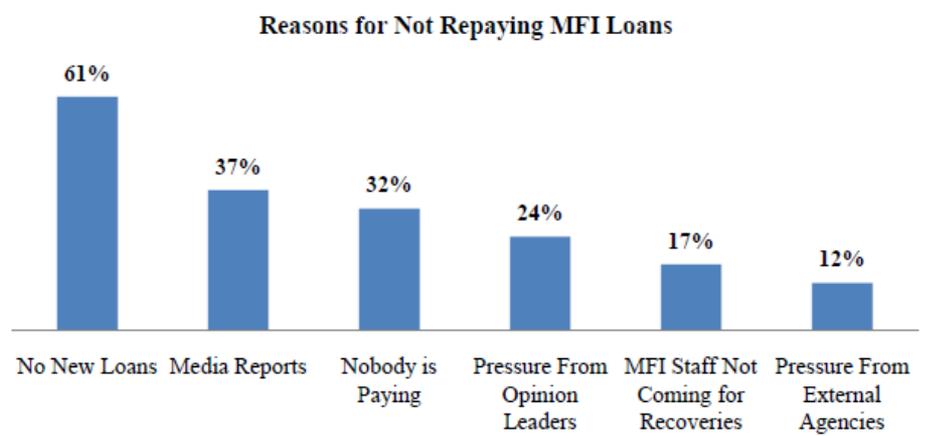
<b>Interest Rate</b>	▪ Margin cap – 10% above cost of borrowings	✓
<b>Processing Fees</b>	▪ <= 1% of loan amt.	✓
<b>Insurance Premium</b>	▪ Actual cost of insurance can be recovered from borrower and spouse ▪ Administrative charges can be recovered as per IRDA guidelines	✓
<b>Penalty</b>	▪ No penalty for delayed payment	✓
<b>Security Deposit</b>	▪ No security deposit/ margin to be taken	▪ SKS has never taken security deposit/ margin

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

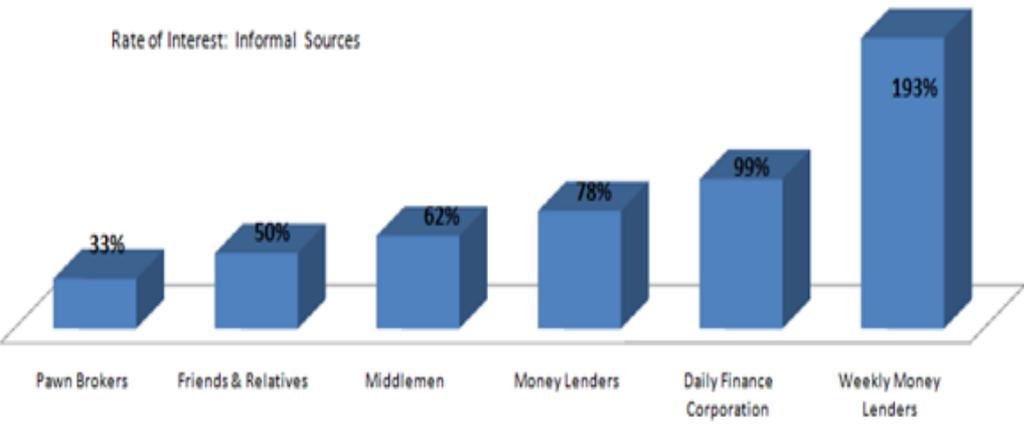
## Sources of Credit (in the absence of MFI Loans)



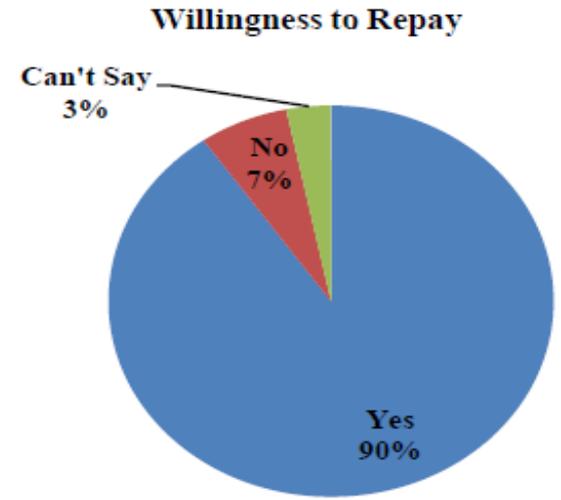
## Reasons for not repaying MFI loans



## 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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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