

## EARNINGS UPDATE – Q4FY14



**April 2014**

### **SKS Microfinance Limited**

BSE: 533228 • NSE: SKSMICRO

Corporate Identity No. L65999MH2003PLC250504

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

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- Turnaround Achieved
- Positive Developments Post-AP-MFI Crisis
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## STRONG PERFORMANCE IN Q4FY14

- Incremental drawdowns of Rs.1,713 crore in Q4FY14 (Rs. 566 crore in Q3FY14). Full year drawdowns in FY14 were Rs.3,503 crore (growth of 22% YoY).
- SKS completed Rs. 1,144 crore (Rs.1,817 crore in FY14) securitization transactions rated AA(SO) & A1+(SO).
- Loan disbursement grew by 22% (YoY) and 13% (QoQ) to Rs. 1,580 crore in Q4FY14. Full year disbursement in FY14 was Rs. 4,788 crore (growth of 44% YoY).
- Non-AP Portfolio grew by 41% (YoY) and 20% (QoQ) to Rs. 2,837 crore as of March 31, 2014.
- The un-availed deferred tax benefit stood at Rs. 558 crore as of March 31, 2014 and will be available to offset tax on future taxable income. Given the carried forward tax loss, no tax provision was required in FY14.
- PAT of Rs. 27.1 crore in Q4FY14 and Rs. 21.4 crore in Q3FY14. PAT of Rs.70 crore in FY14 compared to a loss of Rs. 297 crore in FY13.
- Networth of Rs. 459 crore and capital adequacy at 27.2%\* as of March 31, 2014.
- Cash & Bank Balance of Rs. 671 crore.
- ROA (including Managed loans) and ROE in FY14 at 2.3% and 16.7%.

Note:

\*Capital adequacy without RBI dispensation on AP provisioning was 20.7%

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

# TURNAROUND ACHIEVED

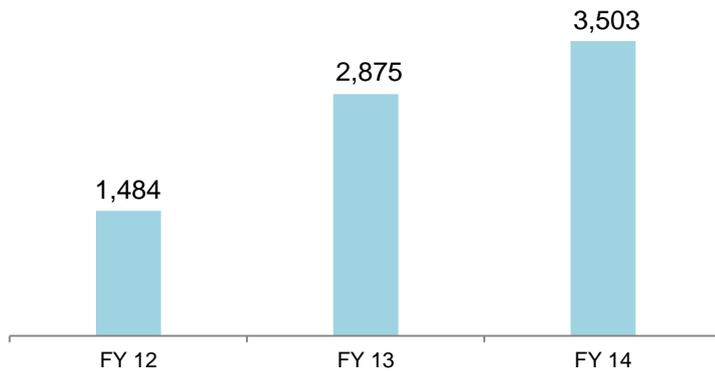
INR crore

## Balance Sheet Cleansed

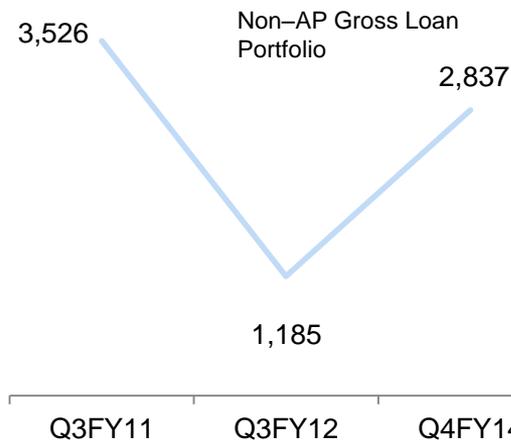
AP exposure of Rs. 1,360 crore written off/ provided for

## Supply-side Shock Managed

### Drawdowns



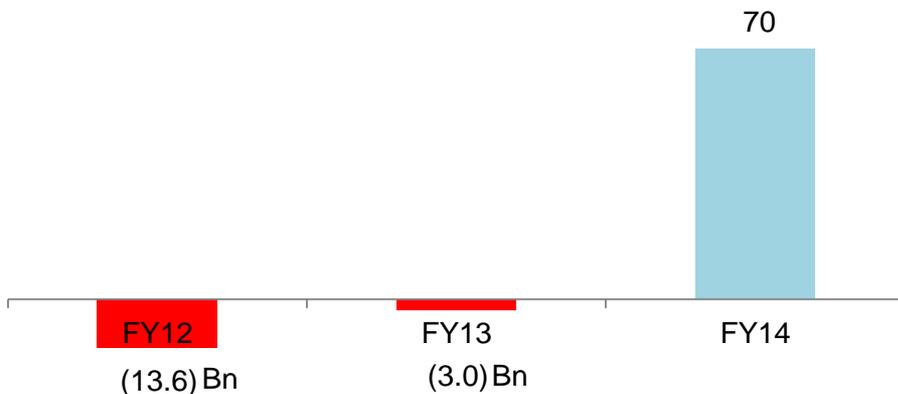
## Credit Growth Resumed



## 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



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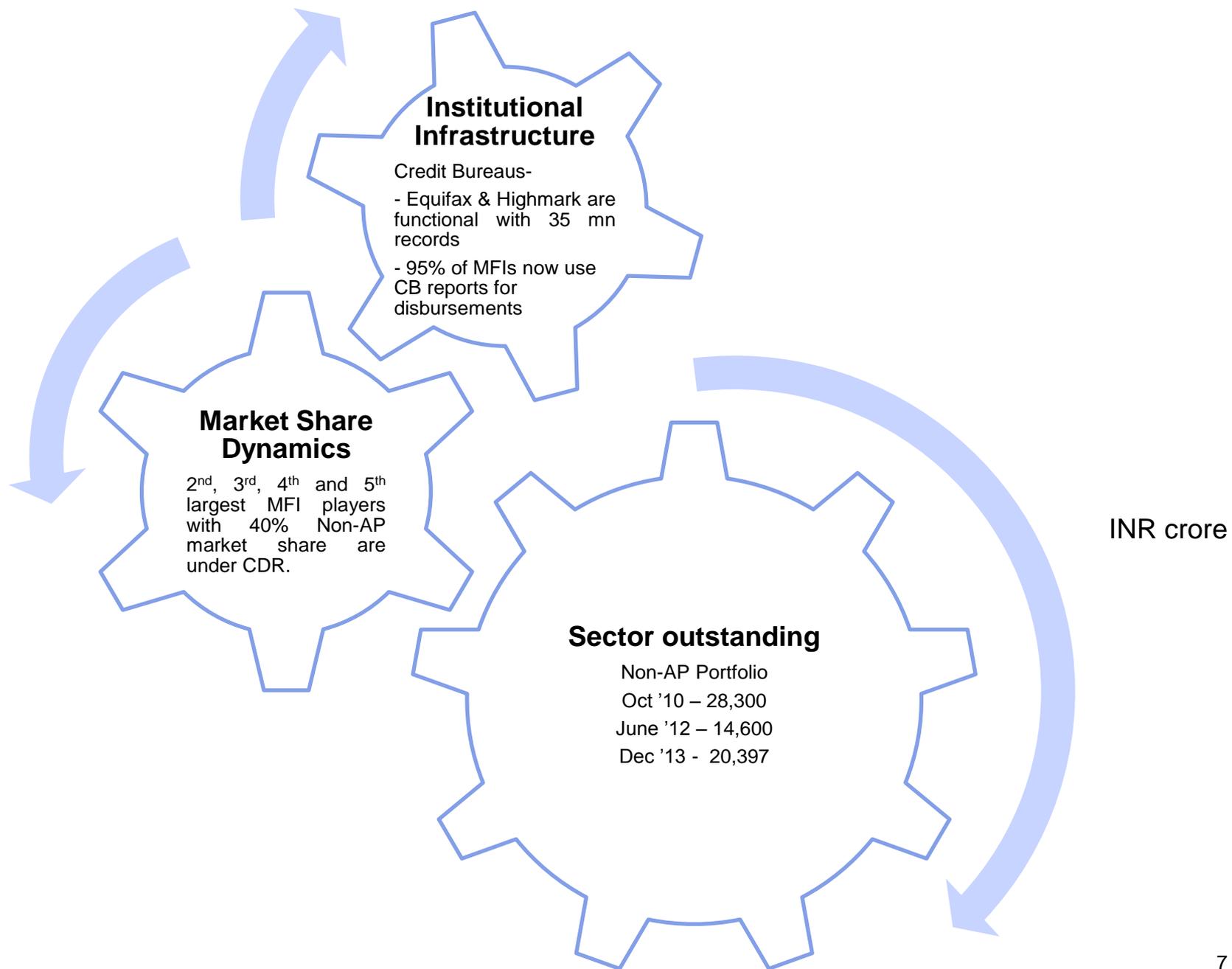
# **CLARITY ON MAJOR UNCERTAINTIES POST-AP-MFI CRISIS**

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

Concerns	Clarity
<p><b>Will there be multiple regulators?</b></p>	<ul style="list-style-type: none"> <li>Regulatory clarity – RBI to be the sole regulator</li> </ul>
<p><b>Funding uncertainty?</b></p>	<ul style="list-style-type: none"> <li>Priority sector status will continue</li> <li>MFIs to be the only indirect priority sector dispensation</li> </ul>
<p><b>Will there be contagion?</b></p>	<ul style="list-style-type: none"> <li>No contagion. 99.9% repayment in all non-AP states</li> <li>More than 3.5 years -- no other state has followed suit</li> </ul>
<p><b>Has the business model been challenged?</b></p>	<ul style="list-style-type: none"> <li>Collection efficiency maintained despite disbursements being a fraction of collections. This validates the operating model and dispels the myth of ever-greening</li> <li>No alternative credit delivery model has gained currency</li> </ul>
<p><b>How will the AP situation get resolved?</b></p>	<ul style="list-style-type: none"> <li>Legal relief</li> <li>Customer sentiment</li> <li>Central legislation</li> </ul>
<p><b>What will be the economics under regulated interest rate regime?</b></p>	<ul style="list-style-type: none"> <li>RoA of 3-4% on a steady-state basis</li> </ul>

# COMPETITIVE LANDSCAPE CHANGES TO SKS' ADVANTAGE



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

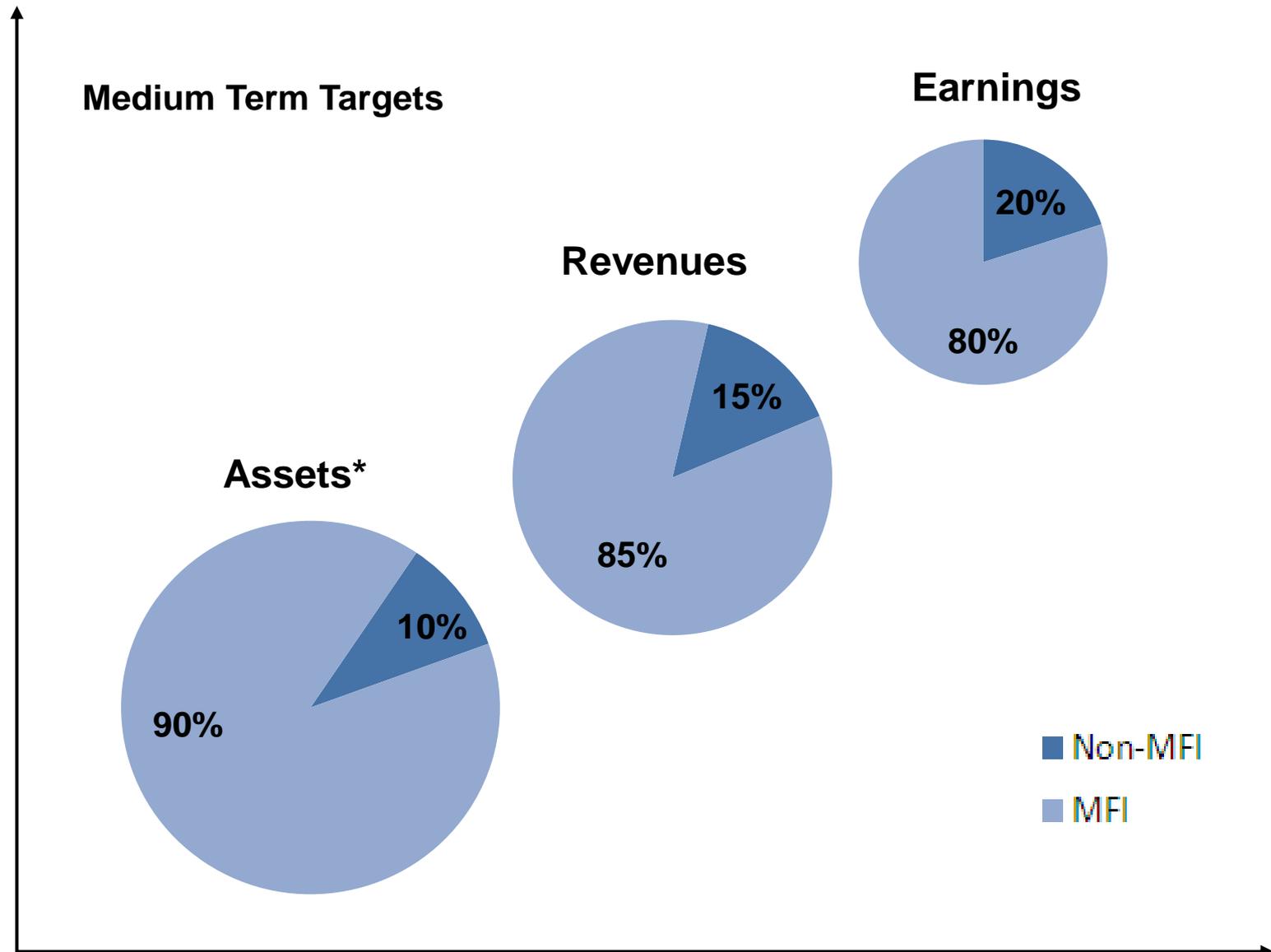
	Best before AP MFI crisis	Worst during AP MFI crisis	Q4FY14
<b><u>Productivity – Non-AP:</u></b>			
Borrowers/ SM	489*	287	721
Gross Loan Portfolio/ SM ('000)	3,640*	1,320	6,275
Offtake Avg.	10,299*	9,237	11,849
<b><u>Cost Efficiency:</u></b>			
Cost of borrowings %	10.3%^	16.0%^	13.8%#
Opex/ Gross Loan Portfolio %	10.4%	21.7%	8.8%
Cost to Income Ratio	52.4%	275%	69.0%
<b><u>Credit Quality - Non-AP:</u></b>			
Gross NPA%	0.20%*	5.5%	0.1%
Net NPA%	0.16%*	2.9%	0.1%
Collection Efficiency %	99.8%*	94.9%	99.9%
<b><u>Leverage:</u></b>			
Debt : Equity	2.8	1.1	3.3
Debt : Equity (Incl. Managed Loans)	4.3	1.2	6.0
<b><u>Profitability:</u></b>			
ROA (Incl. Managed Loans)	3.7%	-54.8%	3.2%
ROE%	22%	-220%	24.3%

\*Enterprise figures - includes figures from AP state

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

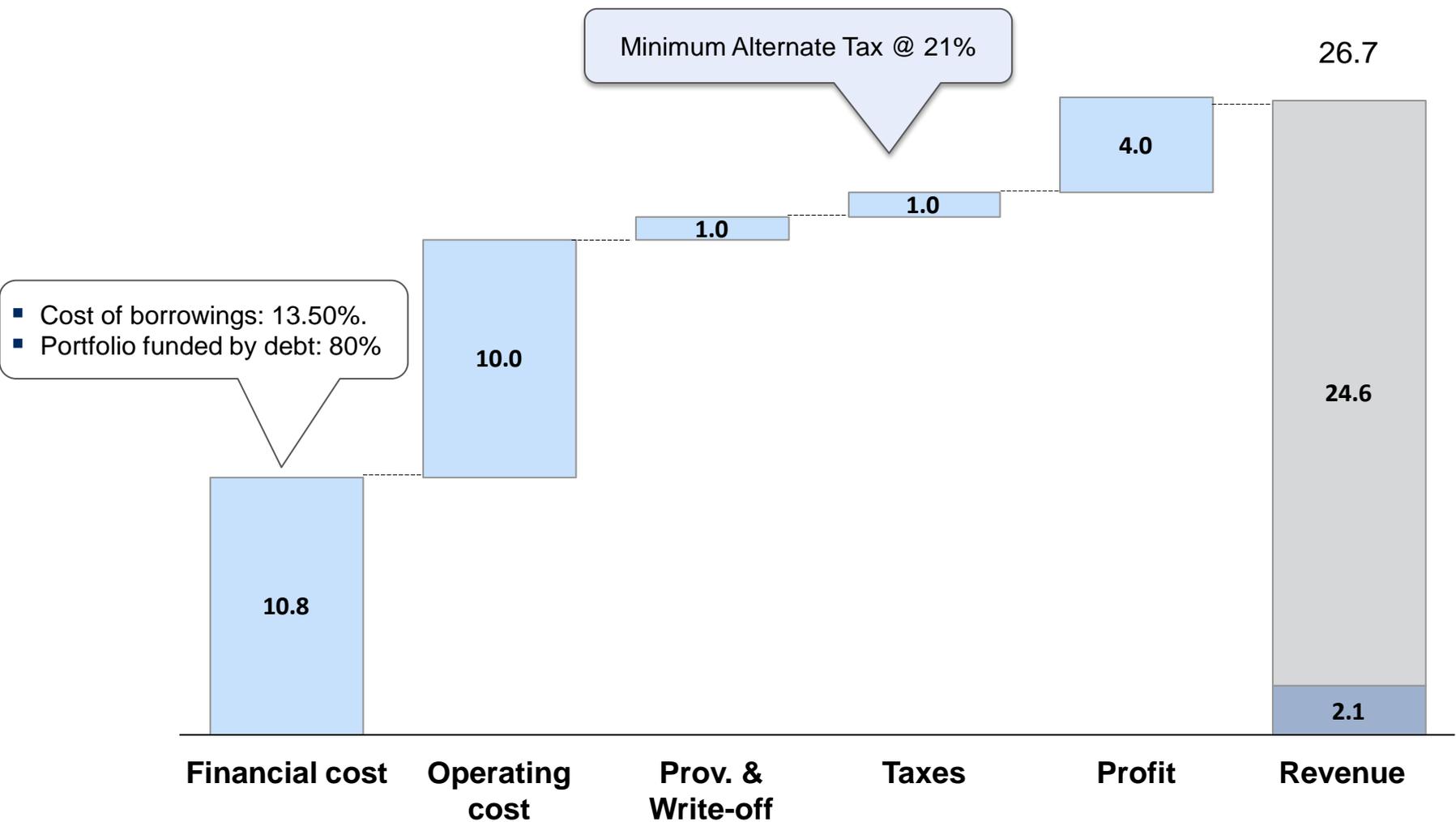
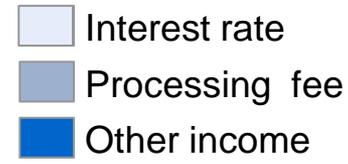
# Includes processing fee for on b/s funding only

# CREATIVE DISTURBANCE TO ASSET-REVENUE-EARNING CORRELATION



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

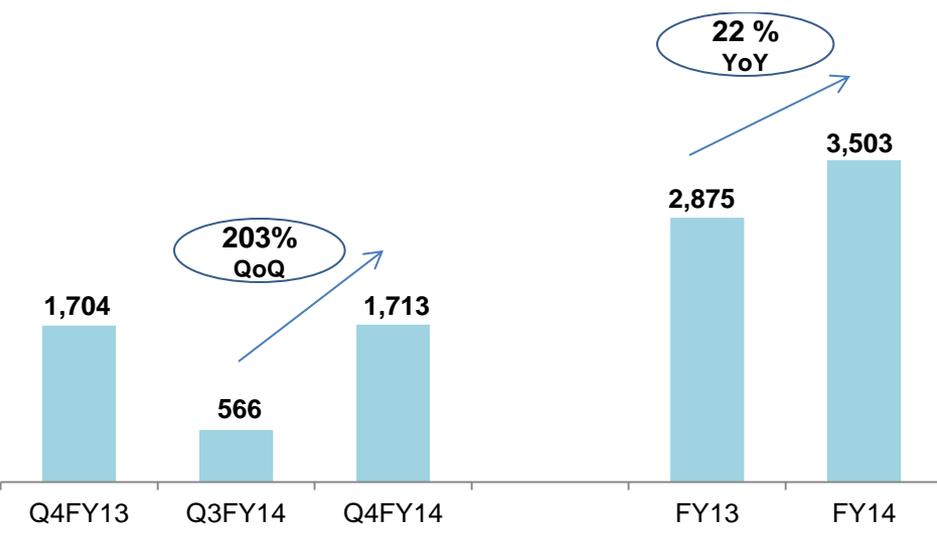
# STEADY-STATE ROA OF 4% CAN BE TARGETED UNDER REGULATED INTEREST RATE REGIME



# **OPERATIONAL HIGHLIGHTS**

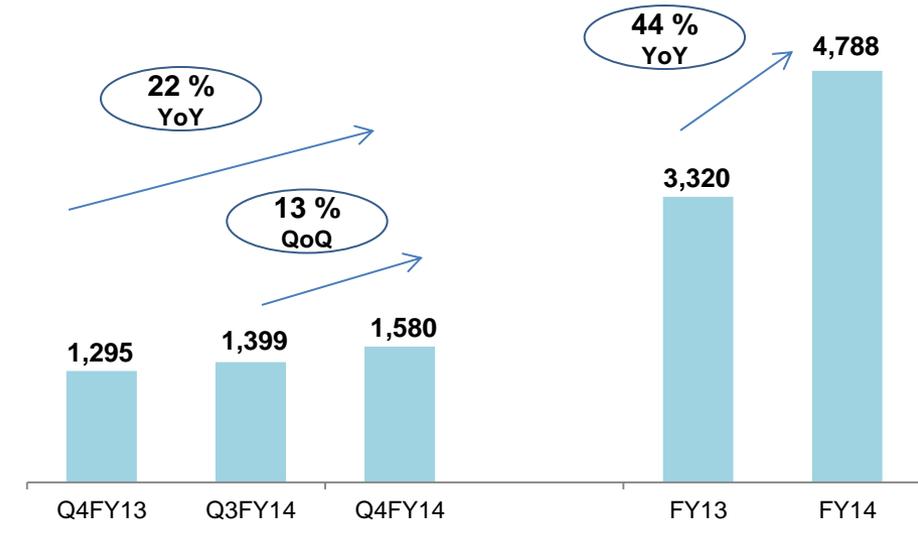
# ROBUST GROWTH IN INCREMENTAL DRAWDOWNS AND CREDIT ASSETS

## Drawdowns

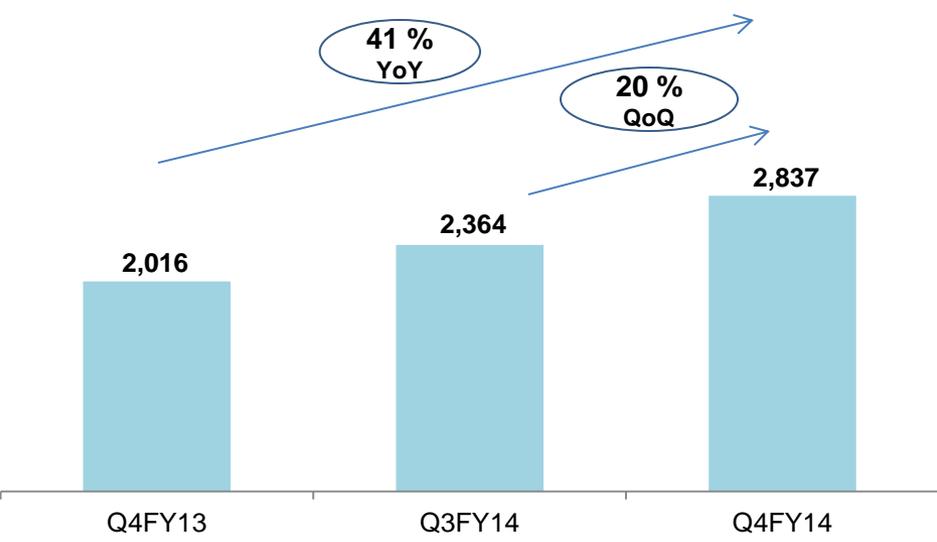


## Disbursement

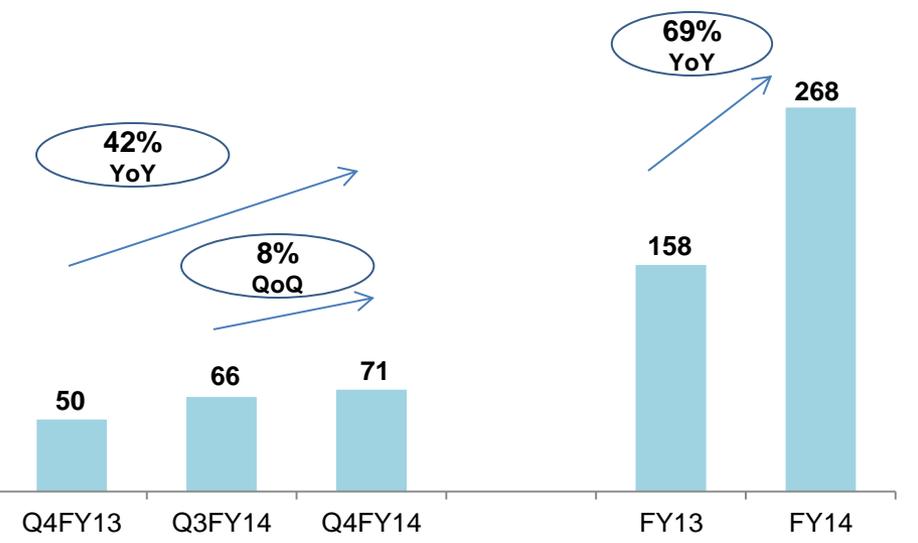
INR crore



## Non-AP Loan Portfolio Outstanding



## Net Interest Income\*



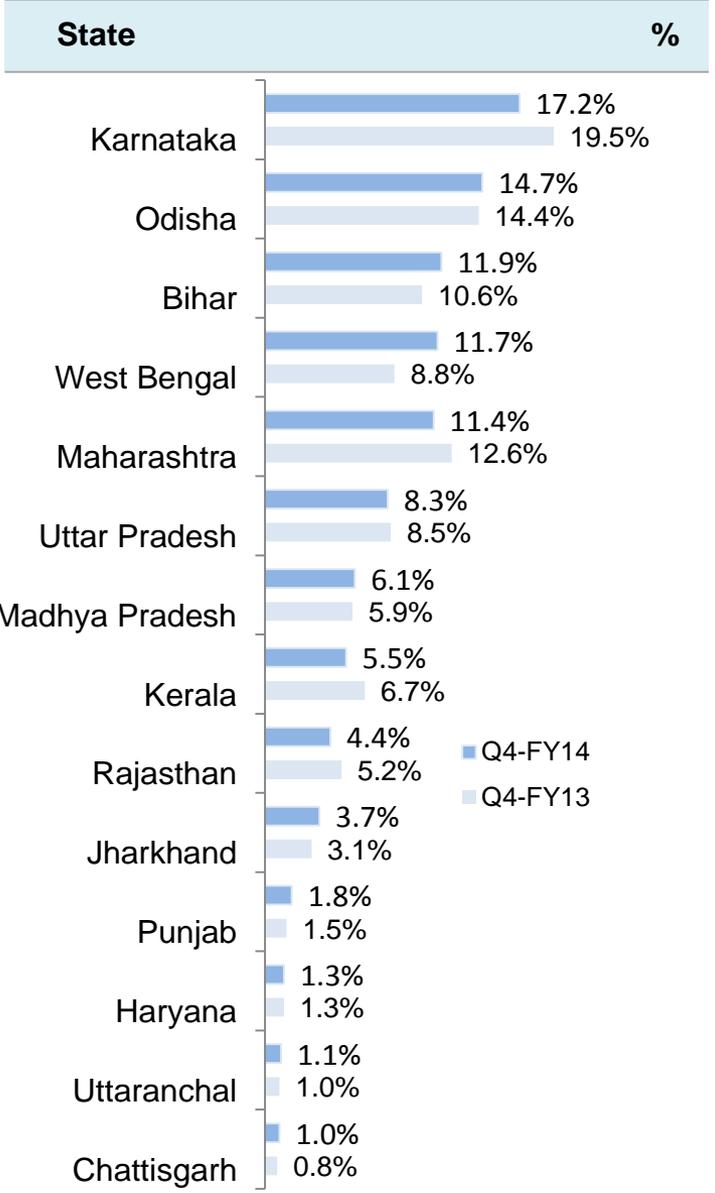
\*Interest income on Portfolio loans + Income from Assignment/ Securitization + Loan processing fees – Financial Cost

# OPERATIONAL HIGHLIGHTS

Particulars	Mar-13	Mar-14	YoY%	Dec-13	QoQ%
Branches#	1,261	1,255	-	1,256	-
Centers (Sangam)	216,234	228,188	5%	221,584	3%
- Centers in non-AP States	145,655	157,511	8%	150,907	-
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	10,809	8,932	-17%	8,958	-
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	10,551	8,681	-18%	8,707	-
– Sangam Managers* (i)	6,746	5,259	-22%	5,350	-2%
– Sangam Manager Trainees(ii)	149	281	89%	214	31%
– Branch Management Staff (iii)	2,259	2,191	-3%	2,185	-
– Area Managers (iv)	93	85	-9%	84	1%
– Regional Office Staff (v)	1,304	865	-34%	874	-1%
• Head Office Staff (vi)	258	251	-3%	251	-
Members (in '000)	5,021	5,783	15%	5,491	5%
– Members in non-AP States (in '000)	3,101	3,864	25%	3,571	8%
Active borrowers (in '000)	4,308	4,963	15%	4,744	5%
– Active borrowers in non-AP States (in '000)	2,596	3,262	26%	3,041	7%
No. of loans disbursed (in '000)	1,160	1,336	15%	1,166	15%
Disbursements (for the quarter) (INR crore)	1,295	1,580	22%	1,399	13%
Gross loan portfolio – Non-AP (INR crore) (A+B)	2,016	2,837	41%	2,364	20%
• Loans outstanding (A)	1,233	1,528	24%	1,783	-14%
• Securitized/ Assigned/ Managed loans (B)	783	1,309	67%	582	125%
<b>Operational Efficiency – Non-AP :</b>					
Off-take Avg (Disbursements/ No of Loans disbursed )(INR)	11,206	11,849	6%	12,023	-1%
Gross loan portfolio/ Active Borrowers (INR)	7,763	8,698	12%	7,775	12%
Gross loan portfolio/ No. of Sangam Managers (Rs. '000)	3,445	6,275	82%	5,165	21%
Active borrowers / No. of Branches	2,246	2,864	27%	2,667	7%
Active borrowers / No. of Sangam Managers	444	721	63%	664	9%

\*Sangam Managers are our loan officers who manage our centers (also called Sangams). As of Mar '14, we had 4,521 Sangam Managers in Non-AP States 13

# PORTFOLIO MIX



# CONCENTRATION NORMS

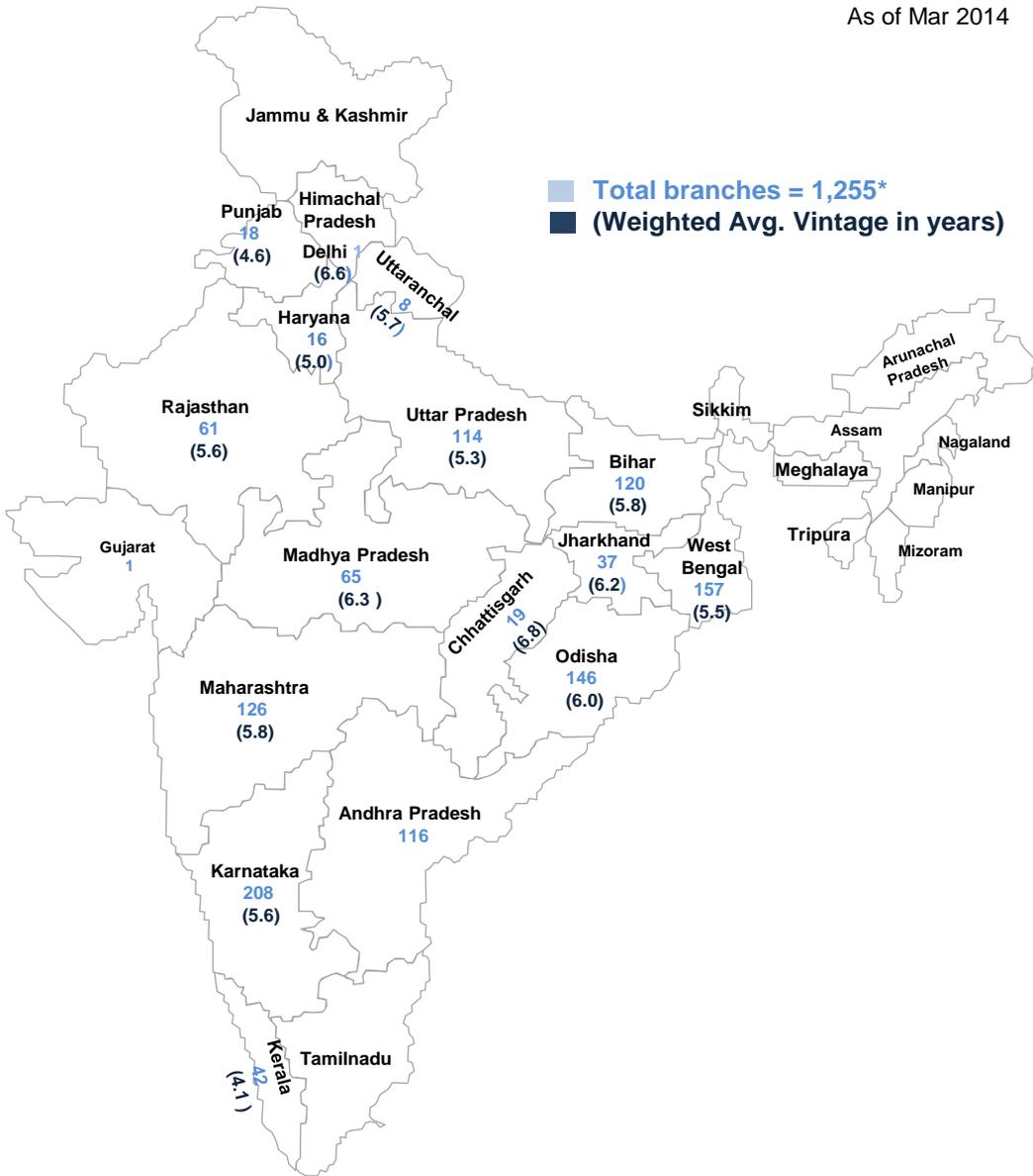
Metric	% Cap on Disbursement*	POS % Cap of Network
<b>State</b>	<ul style="list-style-type: none"> <li>&lt;15%</li> <li>(20% for Karnataka)</li> </ul>	<ul style="list-style-type: none"> <li>50%</li> <li>(75% for Karnataka and Odisha)</li> </ul>
<b>District</b>	<ul style="list-style-type: none"> <li>&lt;3 %</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 CROSSES 5.6 YEARS

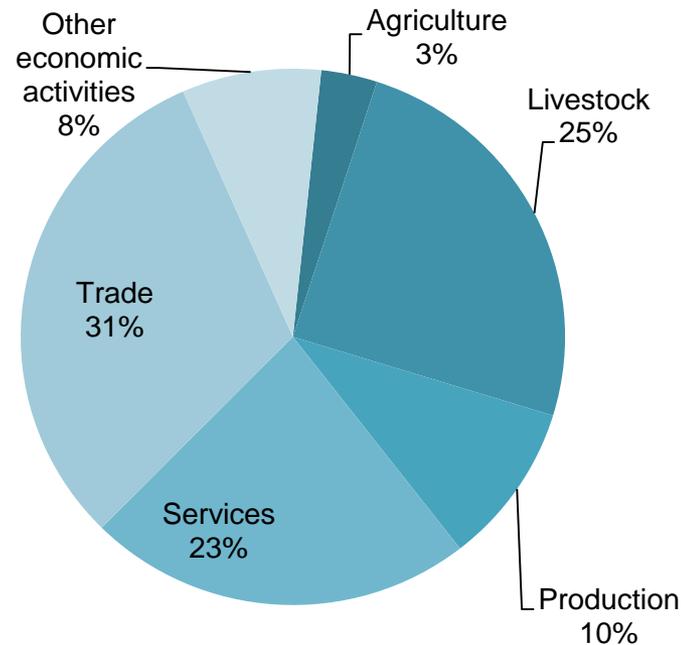
## Pan-India Distribution Network

As of Mar 2014



## Portfolio Outstanding by Economic Activity

As of Mar 2014



\* Includes 44 Gold Loan Branches.

# UPDATE ON GOLD LOANS - PILOT PROGRAMME

INR crore

Particulars	Mar 14
Total Gold Loan Portfolio Outstanding	56
Current Gold Holding Value *	88.8
Security Coverage (88.8/56 crores)	159%
SKS Non-AP Gross Loan Portfolio	2,837
<b>Gold loans as % of SKS Non-AP Gross Loan Portfolio</b>	<b>2.0%</b>

## Notes:

\* Based on Current value of Rs. 2,689/ gm – March 31, 2014 and applied on net weight of gold i.e. after deduction for stones and impurities on gross weight)

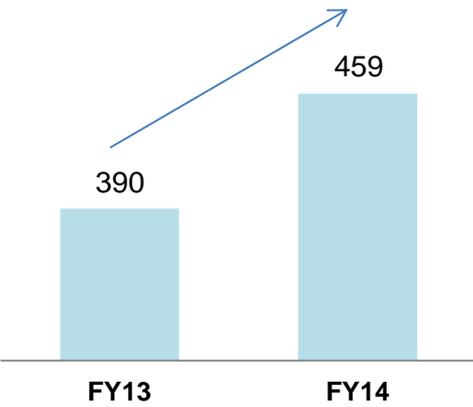
(Source: indiagoldrate.com – 22 carat spot rate in Mumbai )

# REVIEW OF FINANCIALS

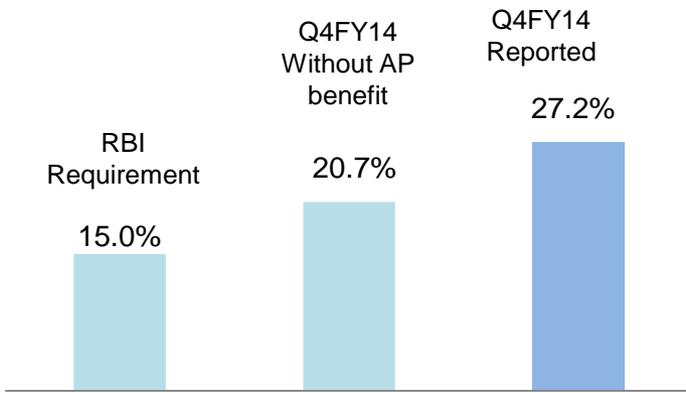
# STRONG SOLVENCY AND SUFFICIENT LIQUIDITY

INR crore

## Networth



## Capital Adequacy

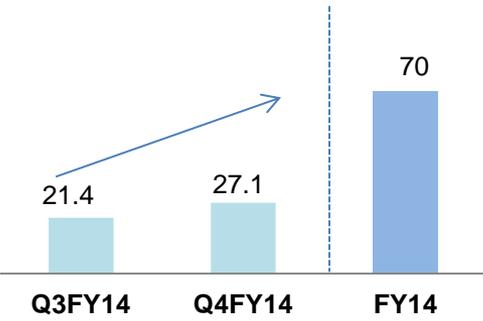


## Cash and Bank Bal.

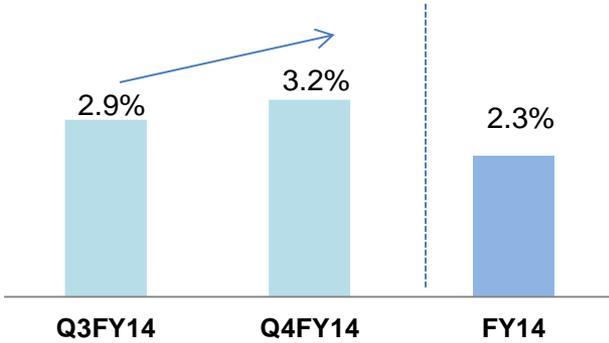


# IMPROVED PROFITABILITY

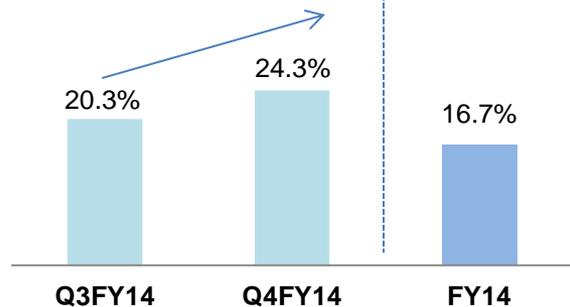
## PAT



## ROA (Incl. Managed Loans)



## ROE



# COST EFFICIENCY DRIVES PROFITABILITY

INR crore

Particulars	Q4FY13	Q4FY14	YoY%	Q4FY14 As % of Total Revenue	Q3FY14	QoQ%
<b><u>Income from Operations</u></b>						
Interest income on Portfolio loans	65	95	46%	64%	106	-10%
Income from Assigned loans	18	22	23%	15%	9	141%
Loan processing fees	7	9	33%	6%	9	5%
<b><u>Other Income</u></b>						
Income on investments	4	5	17%	3%	7	-33%
Recovery against loans written off	2	8	-	5%	5	59%
Other miscellaneous income	6	9	38%	6%	4	114%
<b>Total Revenue</b>	<b>102</b>	<b>147</b>	<b>45%</b>	<b>100%</b>	<b>140</b>	<b>6%</b>
<b>Financial expenses</b>	<b>40</b>	<b>55</b>	<b>38%</b>	<b>37%</b>	<b>58</b>	<b>-4%</b>
Personnel expenses	40	43	8%	29%	41	4%
Operating and other expenses	17	20	13%	13%	20	-2%
Depreciation and amortization	1.4	1.0	-25%	1%	1.0	1%
<b>Total Operating Cost</b>	<b>58</b>	<b>64</b>	<b>9%</b>	<b>43%</b>	<b>62</b>	<b>2%</b>
<b>Provision &amp; Write-offs</b>	<b>1.0</b>	<b>1.5</b>	<b>55%</b>	<b>1%</b>	<b>(1.7)</b>	<b>-</b>
<b>Total Expenditure</b>	<b>99</b>	<b>120</b>	<b>21%</b>	<b>82%</b>	<b>118</b>	<b>1.7%</b>
<b>Profit before Tax</b>	<b>2.7</b>	<b>27.1</b>	<b>-</b>	<b>18%</b>	<b>21.4</b>	<b>27%</b>
Tax expense						
<b>Profit after Tax</b>	<b>2.7</b>	<b>27.1</b>	<b>-</b>	<b>18%</b>	<b>21.4</b>	<b>27%</b>

# PROFIT AND LOSS STATEMENT FOR FY14

INR crore.

Particulars	FY13	FY14	YoY%	FY14 As % of Total Revenue
<b><u>Income from Operations</u></b>				
Interest income on Portfolio loans	220	393	79%	72%
Income from Assigned loans	58	56	-4%	10%
Loan processing fees	23	34	47%	6%
<b><u>Other Income</u></b>				
Income on Investments	24	25	4%	5%
Recovery against loans written off	16	18	10%	3%
Other miscellaneous Income	11	19	77%	3%
<b>Total Revenue</b>	<b>353</b>	<b>545</b>	<b>55%</b>	<b>100%</b>
<b>Financial expenses</b>	<b>143</b>	<b>214</b>	<b>50%</b>	<b>39%</b>
Personnel expenses	173	166	-4%	30%
Operating and other expenses	83	77	-8%	14%
Depreciation and amortization	6	4	-37%	1%
<b>Total Operating Cost</b>	<b>263</b>	<b>246</b>	<b>-6%</b>	<b>45%</b>
<b>Provision &amp; Write-offs</b>	<b>244</b>	<b>15</b>	<b>-94%</b>	<b>3%</b>
<b>Total Expenditure</b>	<b>650</b>	<b>475</b>	<b>-27%</b>	<b>87%</b>
<b>Profit before Tax</b>	<b>(297)</b>	<b>70</b>	<b>-</b>	<b>13%</b>
Tax expense				
<b>Profit after Tax</b>	<b>(297)</b>	<b>70</b>	<b>-</b>	<b>13%</b>

# FY15 OUTLOOK

INR crore

	<b>FY14 Guidance</b>	<b>FY14 Actual</b>	<b>FY15 Guidance</b>
Non-AP Disbursement	4,500 - 4,800	4,788	6,000
Non-AP Gross Loan Portfolio	2,800 - 3,000	2,837	4,000
Profit After Tax (Post MAT @ 21%)	55 – 60	70	125 - 150

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

Particulars	Q4FY13	Q4FY14	YoY%	Q3FY14	QoQ%
Equity share capital	108	108	-	108	-
Stock options outstanding	21	20	-5%	20	-
Reserves and surplus	261	331	27%	304	9%
<b>Capital &amp; Reserves</b>	<b>390</b>	<b>459</b>	<b>18%</b>	<b>432.0</b>	<b>6%</b>
Loan funds	1,618	1,531	-5%	1,530	-
Payable towards assignment/ Securitization	141	180	28%	93	94%
Expenses & other payables	13	28	122%	21	32%
Provision for Taxation	20	6	-68%	21	-70%
Unammortised loan processing fees	15	21	35%	18	19%
Employee benefits payable	5	7	56%	7	6%
Interest accrued but not due on borrowings	7	6	-17%	8	-18%
Interest accrued and due on borrowings	2	2	-8%	-	-
Provision for leave benefits & gratuity	8	11	33%	10	5%
Statutory dues payable	2	1	-47%	2	-43%
Unrealized gain on securitization transactions	27	37	38%	11	242%
Provision for standard and NPA -- Non-AP	6	29	-	25	19%
Provision for standard and NPA -- AP	258	179	-31%	209	-14%
<b>Liabilities</b>	<b>2,121</b>	<b>2,038</b>	<b>-4%</b>	<b>1,953</b>	<b>4%</b>
<b>Total Liabilities</b>	<b>2,511</b>	<b>2,497</b>	<b>-1%</b>	<b>2,385</b>	<b>5%</b>
Fixed assets	8	7	-22%	7	-7%
Intangible assets	3	5	62%	4	15%
Investment	0.2	0.2	-	0.2	0%
Cash and bank balances	895	671	-25%	309	117%
Sundry debtors	0.6	5	-	4	32%
Interest accrued and due on loans	0	1	-	3	-51%
Interest accrued but not due on loans	6	7	23%	8	-4%
Interest accrued but not due on deposits with banks	6	10	60%	7	39%
Interest strip on securitization transactions	27	37	38%	11	-
Portfolio loans -- Non-AP	1,233	1,460	18%	1,750	-17%
Portfolio loans -- AP	258	193	-25%	219	-12%
Loans placed as collateral	40	68	68%	32	110%
Security deposits for rent and other utilities	4	4	2%	4	0%
Advances for Loan Cover Insurance	1	1	-2%	1	3%
Surrender amount receivable from insurance co.	4	0.3	-91%	1	-71%
Loans to SKS employee benefit trust	5	5	-	5	0%
Advance Income Tax	9	14	48%	13	11%
Prepaid insurance	3	2	-9%	3	-29%
Other advances	8	6	-24%	4	63%
<b>Total Assets</b>	<b>2,511</b>	<b>2,497</b>	<b>-1%</b>	<b>2,385</b>	<b>5%</b>
Note:1 Non-AP Assigned Portfolio	783	1,309	67%	582	125%
2. Non-AP Gross Loan Portfolio	2,016	2,837	41%	2,364	20%

# OPERATING AND FINANCIAL LEVERAGE START PLAYING OUT

Particulars		Q4 FY13	Q3 FY14	Q4 FY14
<b>Spread Analysis (as % of Avg. Gross Loan Portfolio)</b>				
Gross Yield	(I)	19.4%	22.3%	20.4%
Portfolio Yield		15.8%	18.3%	16.2%
Financial Cost	(a)	7.6%	9.2%	7.6%
Operating Cost	(b)	11.1%	9.9%	8.8%
Provision and Write-offs	(c)	0.2%	-0.3%	0.2%
Taxes	(d)	-	-	-
Total Expense	II = (a+b+c+d)	18.9%	18.9%	16.6%
Return on Avg. Gross Loan Portfolio	(I) - (II)	<b>0.5%</b>	<b>3.4%</b>	<b>3.8%</b>
<b>Efficiency:</b>				
Cost to Income		94.1%	76.0%	69.0%
<b>Asset Quality – Non-AP:</b>				
Collection Efficiency		99.9%	99.8%	99.9%
Gross NPA		0.5%	0.06%	0.1%
Net NPA		0.4%	0.04%	0.1%
Gross NPA (INR crore)		5.6	1.0	1.9
Net NPA (INR crore)		5.0	0.8	1.6
<b>Leverage:</b>				
Debt : Equity		4.1	3.5	3.3
Debt : Equity (Incl. Managed Loans)		6.3	4.7	6.0
<b>Capital Adequacy*:</b>				
		<b>32.2%</b>	<b>28.1%</b>	<b>27.2%</b>
<b>Profitability:</b>				
ROA (Incl. Managed Loans)		0.4%	2.9%	3.2%
ROE		2.8%	20.3%	24.3%
EPS - Diluted (INR) (Not Annualised)		0.25	1.98	2.50
Book Value (INR)		36.08	39.92	42.4

\*Capital adequacy without RBI dispensation on AP provisioning is 20.7% for Q4FY14

## OPERATING AND FINANCIAL LEVERAGE START PLAYING OUT - CONTD.

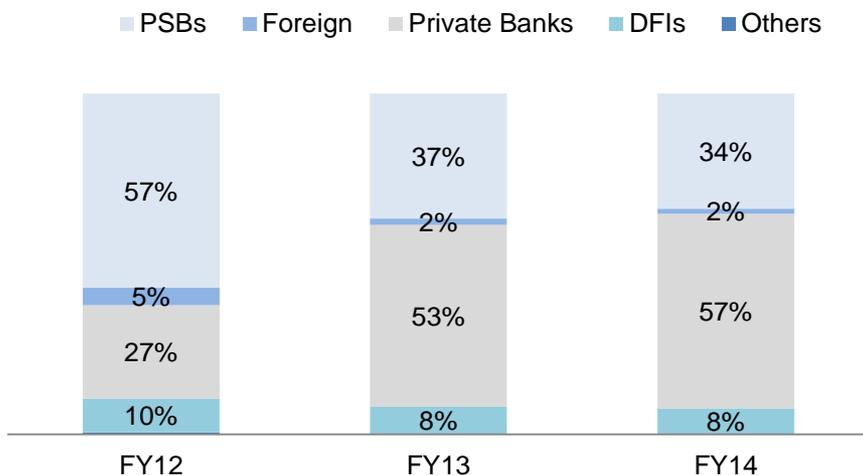
Particulars		FY13	FY14
<b>Spread Analysis (as % of Avg. Gross Loan Portfolio)</b>			
Gross Yield	(I)	19.2%	21.2%
Portfolio Yield		15.2%	17.5%
Financial Cost	(a)	7.8%	8.3%
Operating Cost	(b)	14.3%	9.6%
Provision and Write-offs	(c)	13.3%	0.6%
Taxes	(d)	-	-
Total Expense	II = (a+b+c+d)	35.4%	18.5%
<b>Return on Avg. Gross Loan Portfolio</b>	(I) - (II)	-16.2%	2.7%
<b>Efficiency:</b>			
Cost to Income		125.1%	74.5%
<b>Leverage:</b>			
Debt : Equity		4.1	3.3
Debt : Equity (Incl. Managed Loans)		6.3	6.0
<b>Capital Adequacy*:</b>		<b>32.2%</b>	<b>27.2%</b>
<b>Profitability:</b>			
ROA (Incl. Managed Loans)		-12.4%	2.3%
ROE		-74.2%	16.7%
EPS - Diluted (INR)		(30.56)	6.44
Book Value (INR)		36.08	42.4

\*Capital adequacy without RBI dispensation on AP provisioning is 20.7% for Q4FY14

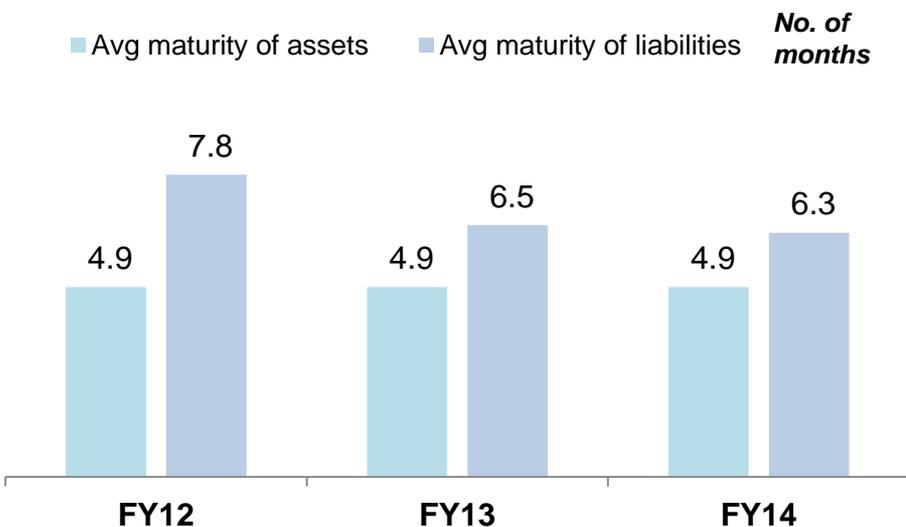
# FINANCIAL ARCHITECTURE

# FINANCIAL ARCHITECTURE (1/2)

## Stable Funding Partners



## Positive ALM Mismatch



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

## Funding Mix

On Balance Sheet	Mar - 14	Mar - 13
Yes Bank	19.1%	30.3%
IDBI Bank	13.1%	20.1%
SIDBI	10.8%	10.7%
State Bank Group	9.4%	5.5%
IndusInd Bank	8.9%	2.5%
ICICI Bank	8.2%	7.1%
Dena Bank	7.2%	3.7%
Andhra Bank	5.7%	4.5%
Axis Bank	5.3%	3.1%
HDFC Bank	2.9%	3.1%
Reliance Capital	2.9%	-
Citi Bank	2.8%	2.9%
DCB Bank	2.5%	0.9%

Total amount of Term Loans & CC outstanding as of Mar '14: Rs. 1,531 crore and Off B/S is Rs. 1,205 crore. Concentration risk on remaining 3 banks is below 1%.

# FINANCIAL ARCHITECTURE (2/2)

## Funding Cost Analysis

Metric	Q1FY14	Q2FY14	Q3FY14	Q4FY14
Cost of interest bearing liabilities (excluding processing fee paid & other charges)	12.2%	12.7%	12.9%	12.8%
Cost of interest bearing liabilities (including processing fee paid on Loans on Balance sheet)	13.2%	13.6%	13.4%	13.8%
Cost of interest bearing liabilities (including processing fee and other charges paid for On & Off B/S loans)	13.5%	14.3%	13.8%	14.9%
Loan Processing Fees (INR crore)	3.8	4.4	3.0	6.0
Drawdowns (INR crore)	Rs. 215 crore	Rs. 1,010 crore	Rs. 566 crore	Rs. 1,713 crore
Financial Cost <sup>^</sup>	8.0%	9.3%	9.2%	7.6%

<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.

## Interest Rate Mix

■ Floating ■ Fixed



## ADJUSTED PRICE TO BOOK COMPUTATION

	March 2014
Book value per share (INR) (A)	42
Present value of DTA per share (B)^	29
<b>Book value per share – Including PV of DTA (INR) (A+B)</b>	<b>71</b>
<b>Adjusted Price to Book Ratio (times)</b>	<b>3.6</b>

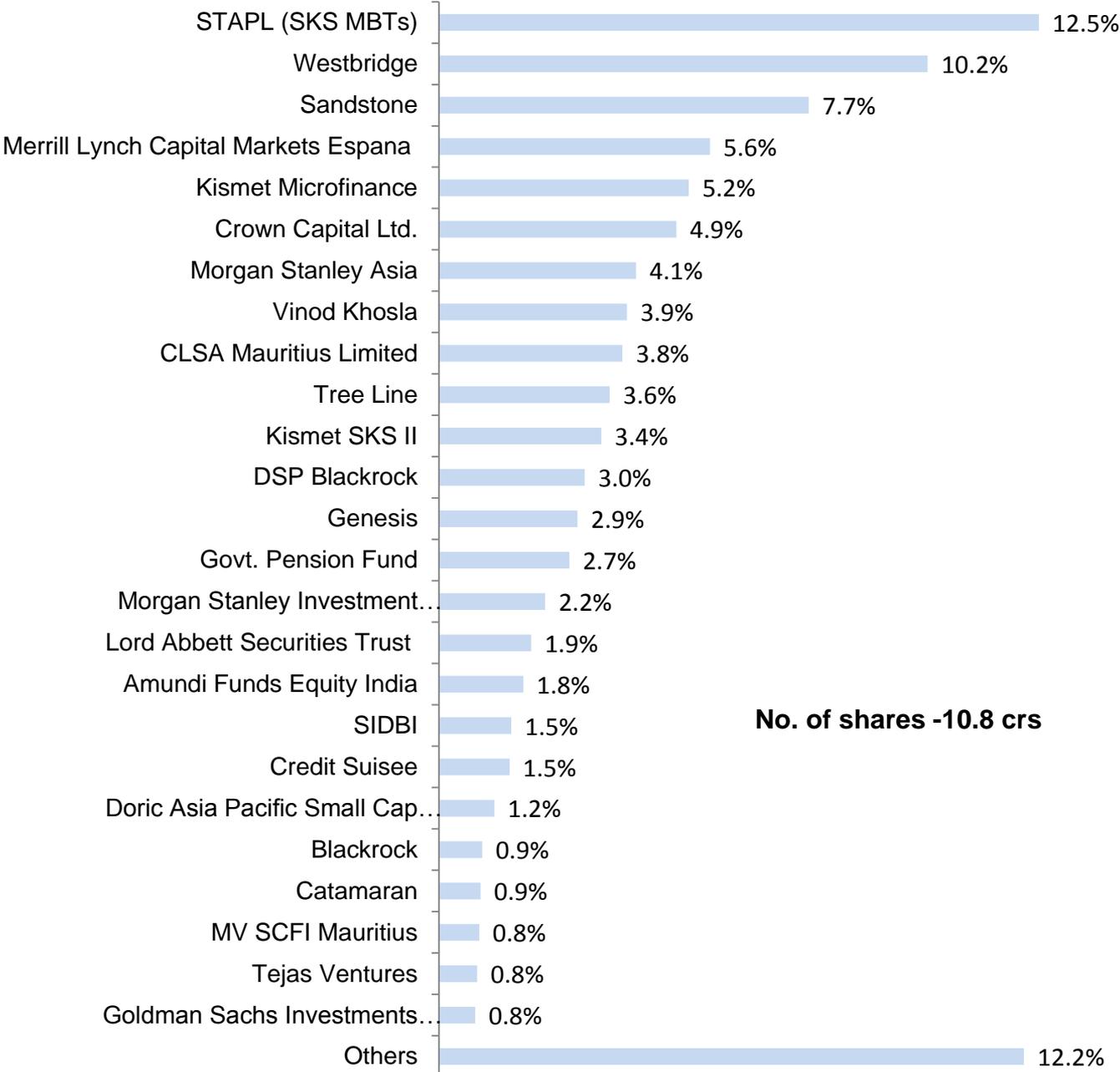
### Note:

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

DTA as on March 31, 2014 is Rs. 558 crore. Discount rate assumed at 13.5% and applied over next 8 years' estimated profit.

SKS Market Price as of April 28, 2014 – Rs. 254

# CAPITAL STRUCTURE AS ON MARCH 31, 2014



# 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)	0.25-1% 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: AP portfolio 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 - 90%
  - Income generation loans >95%

## 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

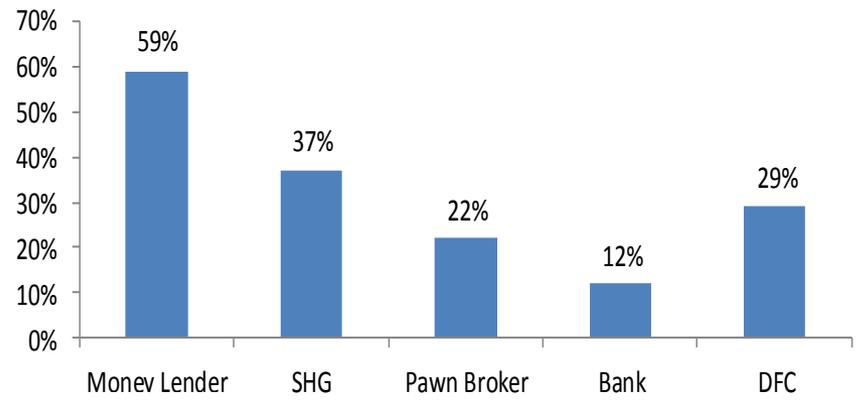
SKS compliance

## Pricing Guidelines

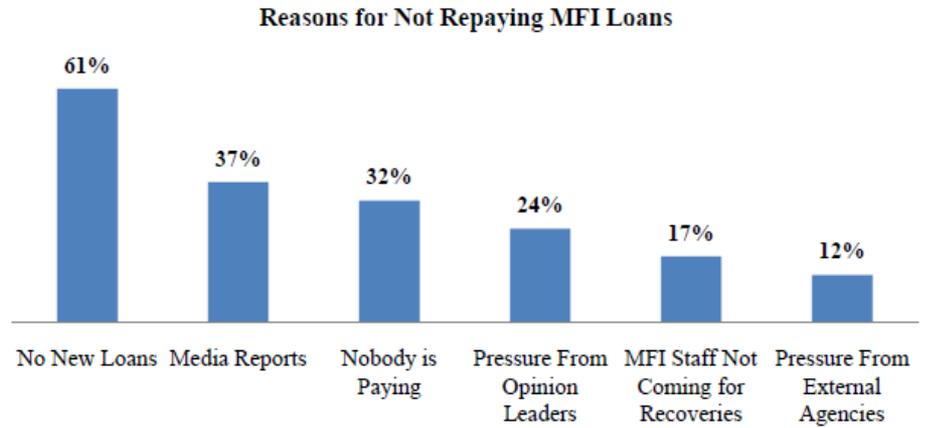
<b>Interest Rate</b>	<ul style="list-style-type: none"><li>▪ Margin cap – 10% above cost of borrowings</li></ul>	✓
<b>Processing Fees</b>	<ul style="list-style-type: none"><li>▪ &lt;= 1% of loan amt.</li></ul>	✓
<b>Insurance Premium</b>	<ul style="list-style-type: none"><li>▪ Actual cost of insurance 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>

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

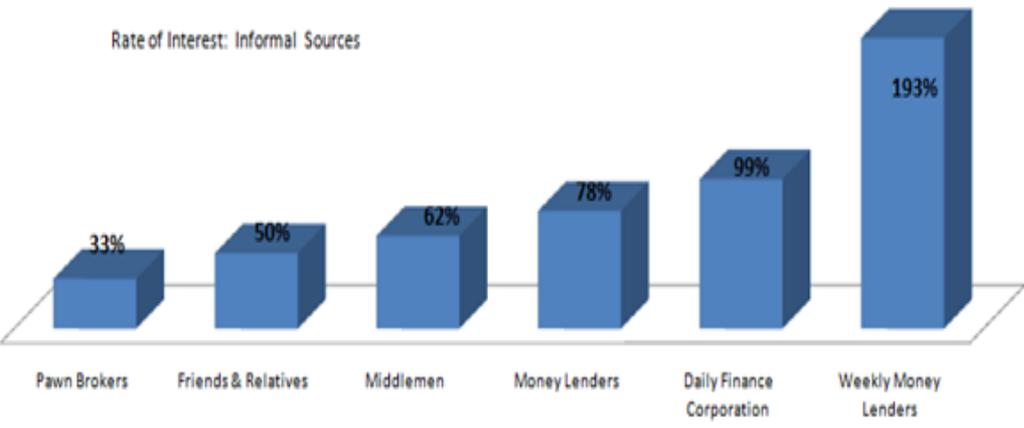
## Sources of Credit (in the absence of MFI Loans)



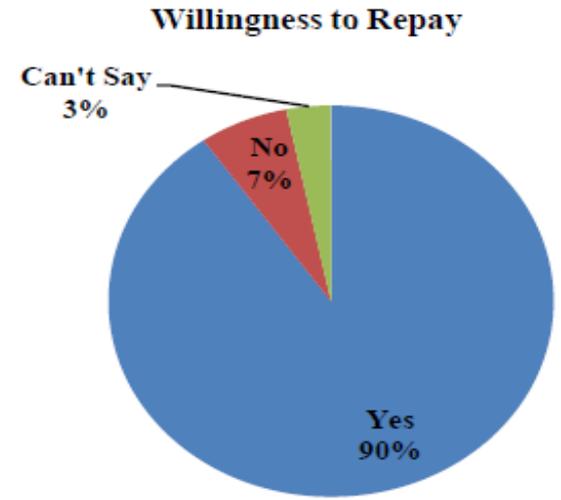
## Reasons for not repaying MFI loans



## 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