

## EARNINGS UPDATE – Q1 FY14



**July, 2013**

**SKS Microfinance Limited**

BSE: 533228 NSE: SKSMICRO

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

# CONTENTS

- **Recent Update**
- **SKS Turned Around**
- **Operational Highlights**
- **Review of Financials**
- **Financial Architecture**

# RECENT UPDATE

# RECENT UPDATE – Q1 FY14

- Avg. Non – AP Portfolio for Q1FY14 grows by 14% (QoQ) and 58% (YoY). Non AP Portfolio as on 30<sup>th</sup> June 2013 stands at Rs. 2,003 crs.
- Loan Disbursements of Rs. 830 crs for Q1FY14.
- Collection efficiency continues to remain at 99.9%
- **Operating Profit (i.e. before provisions & write-off) up by 4 times (QoQ) to Rs. 16 crs for Q1FY14 from Rs. 4 crs for Q4FY13.**
- **Increase in provisioning for standard Non-AP portfolio from 0.25% to 1% on the basis of RBI guidelines for NBFC-MFIs, resulted in additional provisioning of Rs. 12 crs for Q1FY14. The entire provisioning for Q1FY14 relates fully to Standard Asset Provisioning. The company chooses to adopt the new Standard Asset Provisioning norms by RBI wef. 1<sup>st</sup> April 2013 itself.**
- Reports PAT of Rs. 5 crs for Q1FY14 compared to profit of Rs.2.7 crs for Q4FY13 and loss of Rs.39 crs for Q1FY13.
- Networth of Rs. 395 crs and capital adequacy at 30.2%\* as of 30<sup>th</sup> June, 2013.
- Cash & Bank balance stood at Rs.310 crs.
- The un-availed deferred tax benefit stands at Rs. 580 crs and will be available to offset tax on future taxable income. The company reported a PAT of Rs.5 crs for Q1FY14 and given the carried forward tax loss and unabsorbed depreciation, no tax provision is required for this quarter.

Note:

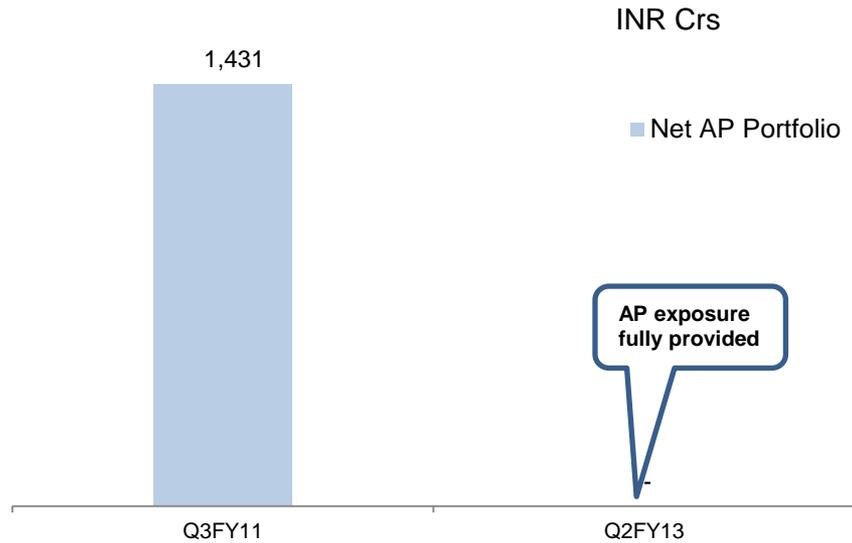
\*Capital adequacy without RBI dispensation on AP provisioning is 21.6%

Figures rounded off to nearest digit across the presentation

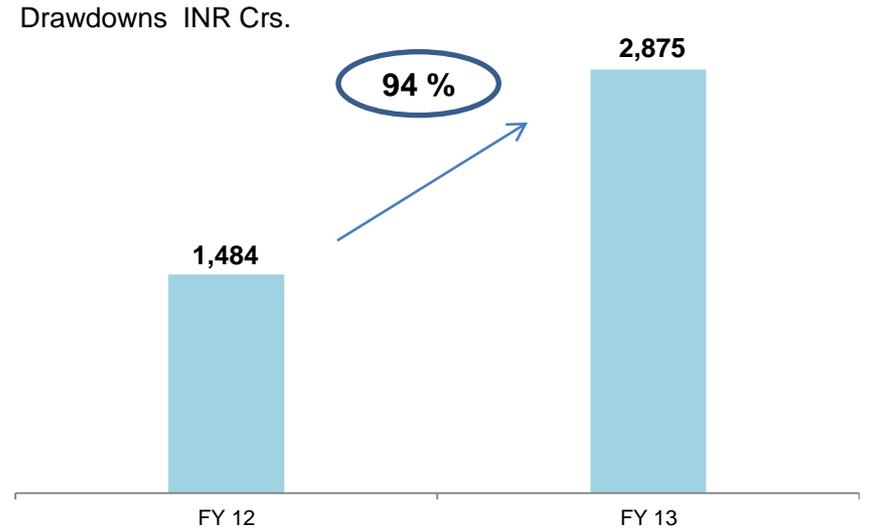
# **SKS TURNED AROUND**

# BUILDING BLOCKS OF SKS TURNAROUND STRATEGY

## Balance Sheet Cleansed



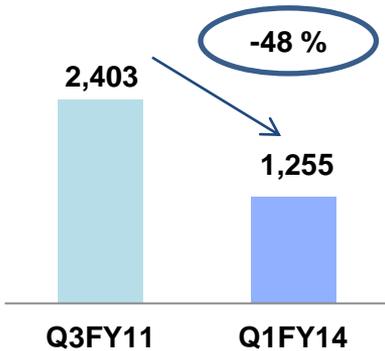
## Supply Side Shock Managed



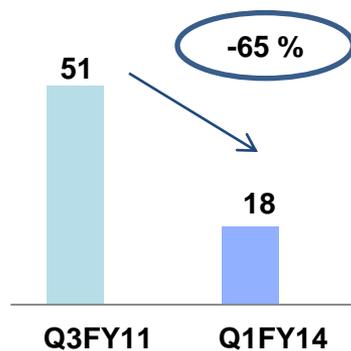
# COST STRUCTURE OPTIMISATION

## Branch Network Consolidated

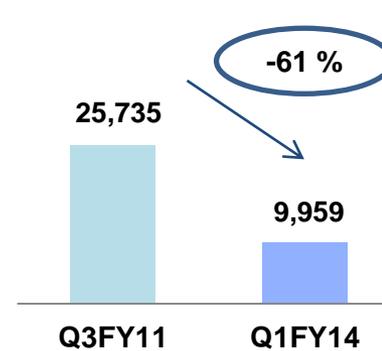
### Branches



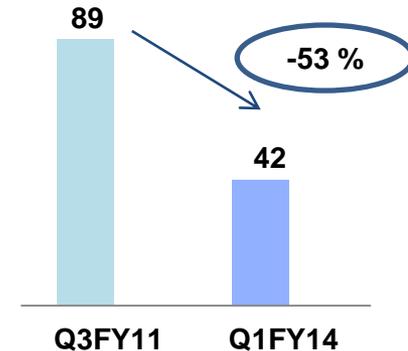
### Other Opex



### Headcount



### Personnel cost

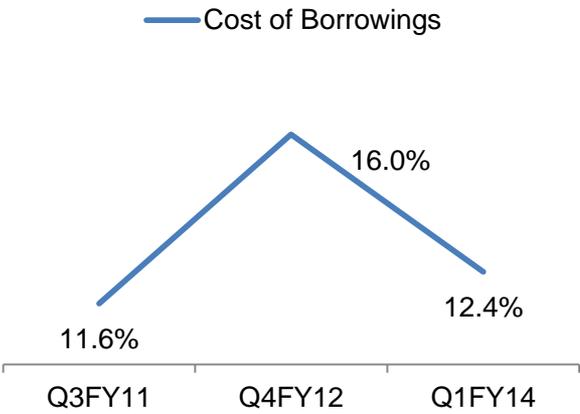


# BUILDING BLOCKS OF SKS TURNAROUND STRATEGY CONTD.

## Capital Raised

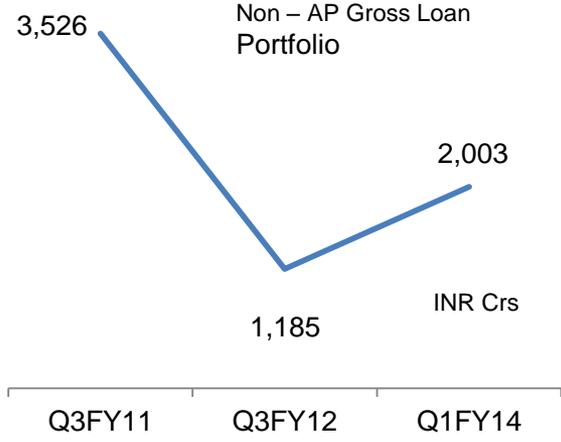
Raised Rs. 263.5 crs through QIP & Preferential Allotment in July '12

## Cost of Borrowings Reduced

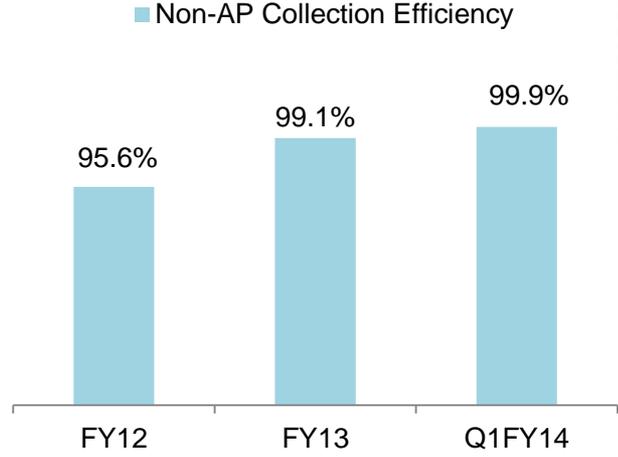


THESE STRATEGIES HELPED SKS TO RETURN TO PROFITABILITY IN Q3FY13 AND THE TURNAROUND IS SUSTAINED WITH HIGHER PROFIT OF RS. 5 CRS IN Q1FY14

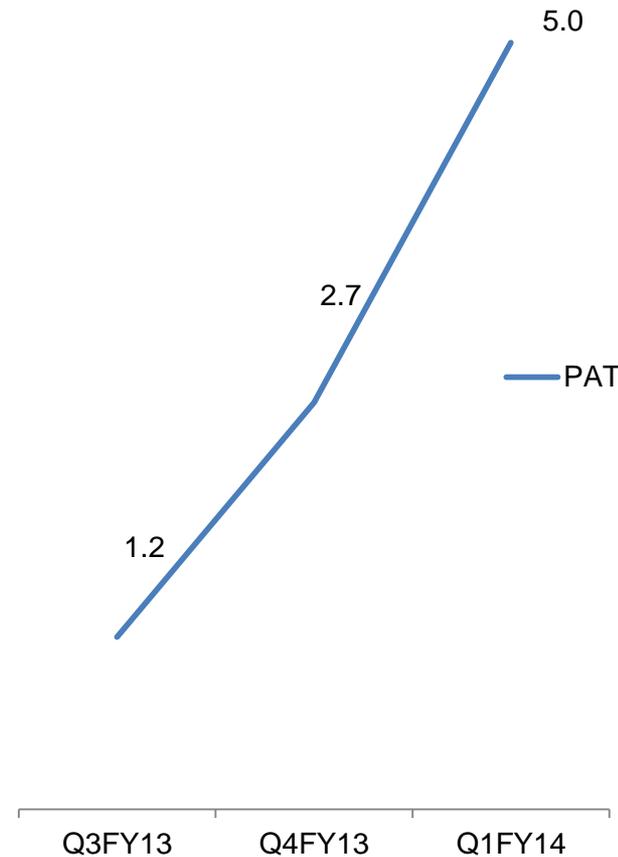
## Credit Growth Resumed



## Portfolio Protected



INR Crs



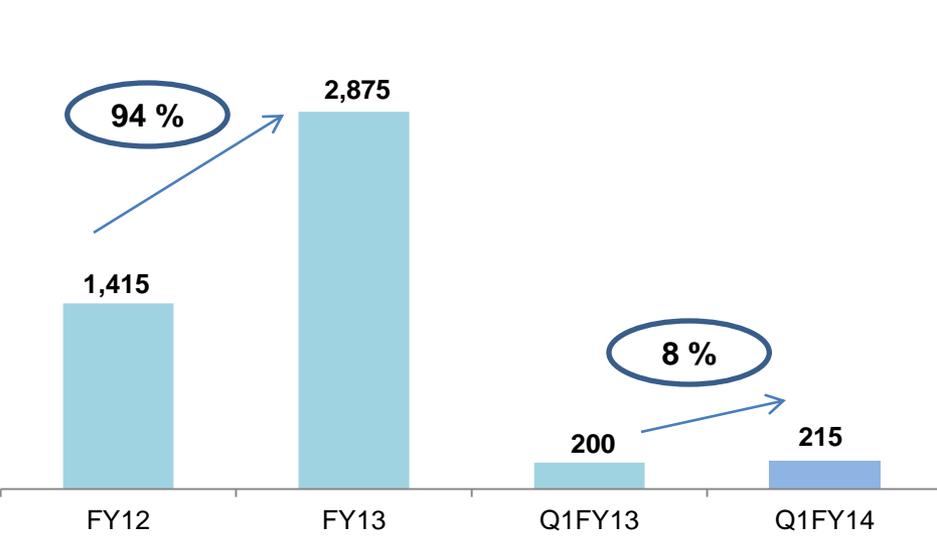
PAT

# **OPERATIONAL HIGHLIGHTS**

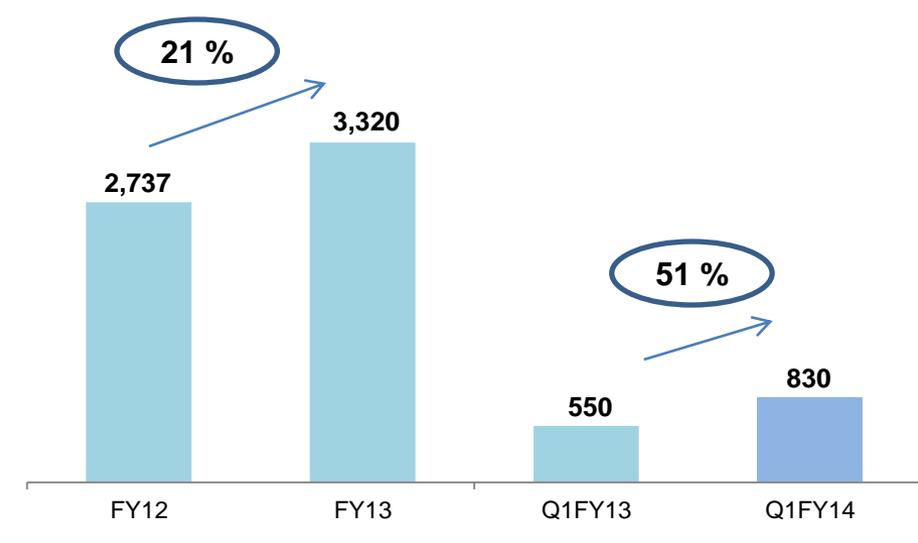
# ROBUST GROWTH IN CREDIT ASSETS AND CORE INCOME (YoY)

INR Crs

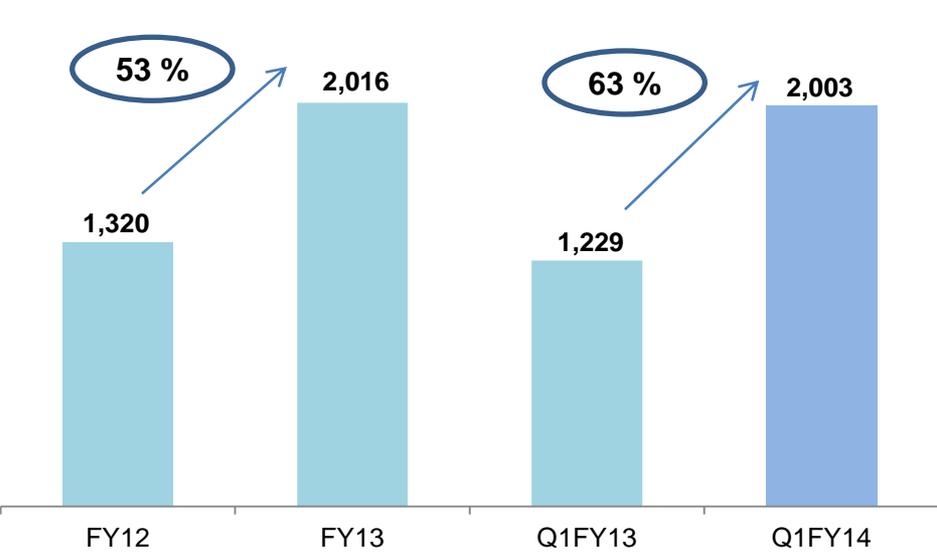
## Drawdowns



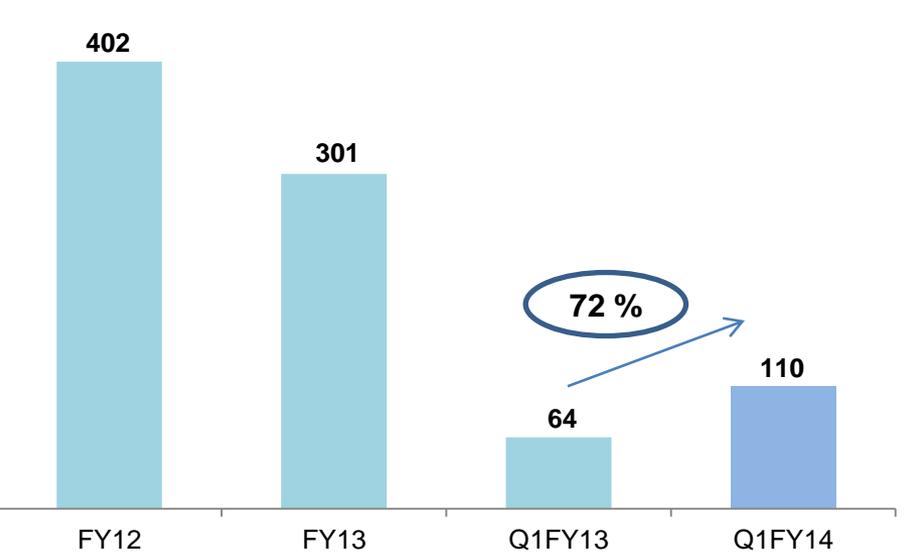
## Disbursement



## Non-AP Loan Portfolio Outstanding



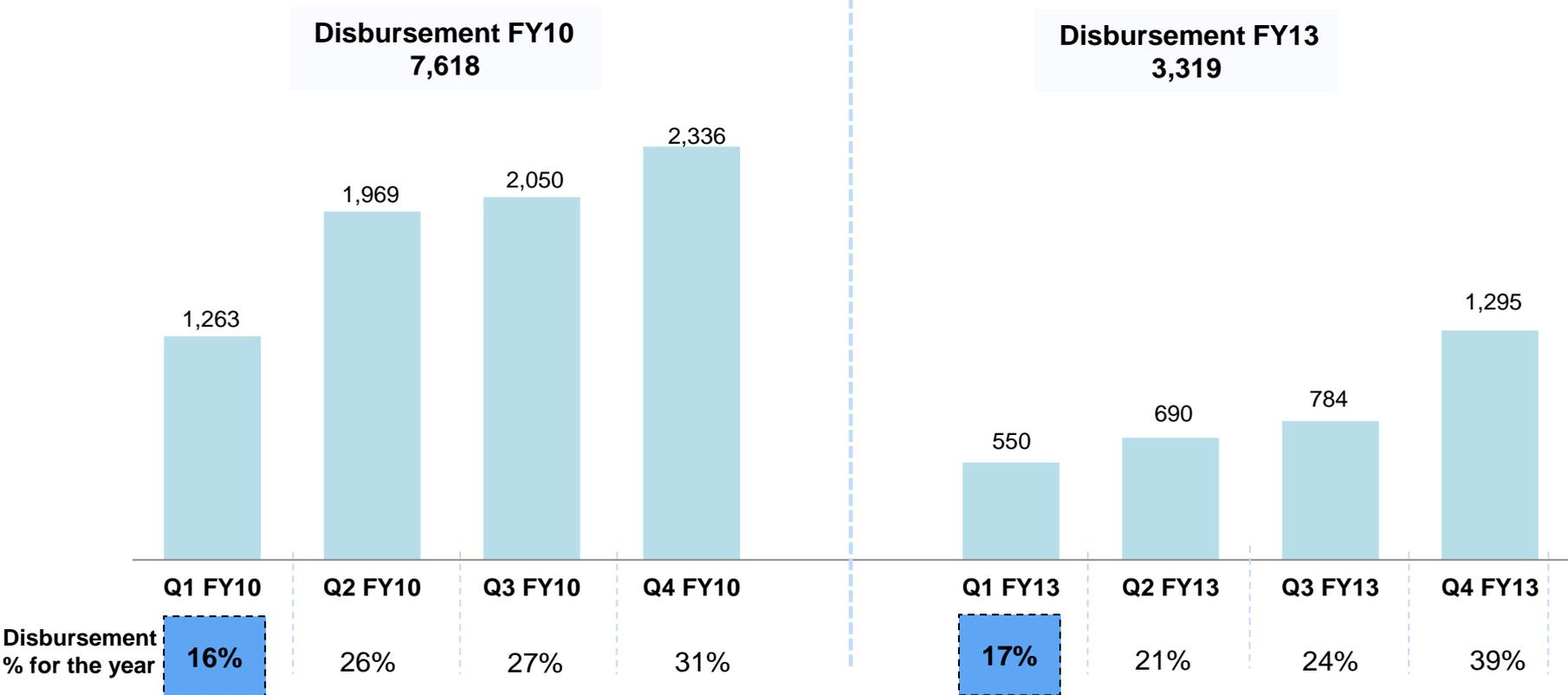
## Non-AP Core Interest Income\*



\*Includes Interest income on Portfolio loans, Income from Assignment/Securitisation & Loan processing fees

# Q1FY14 DISBURSEMENT IS IN LINE WITH HISTORICAL TREND OF SEASONALITY

INR Crs



**Loan Disbursements of Rs. 830 crs for Q1FY14 is 17% of FY14 guidance i.e. Rs. 4,500–4,800 crs.**

*Note : FY11 and FY12 data are not presented as disbursement and its pattern was affected by challenges related to AP MFI crisis*

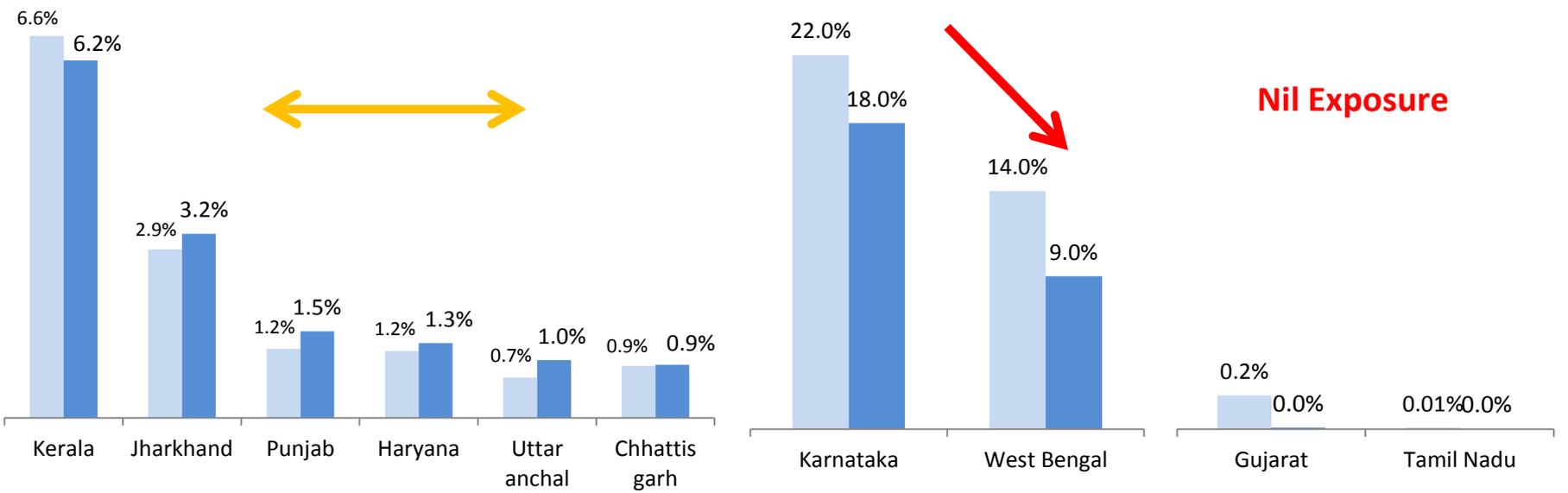
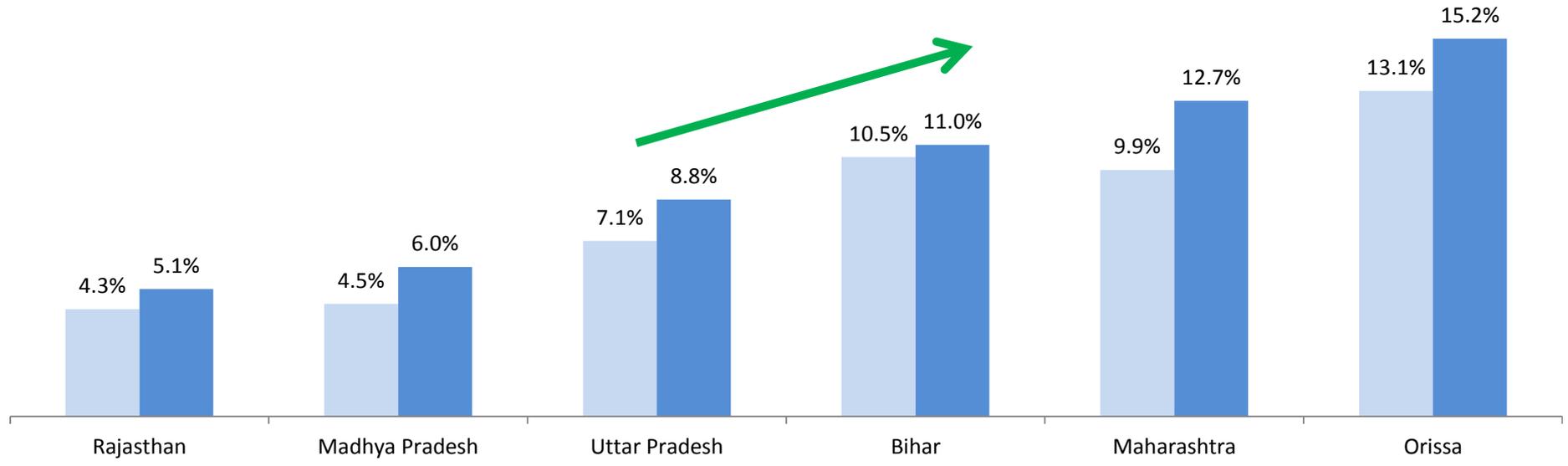
# CONSOLIDATED OPERATIONAL HIGHLIGHTS

Particulars	June-12	June-13	YoY%	Mar-13	QoQ%
Branches#	1,358	1,255	-8%	1,261	-0.5
Centers (Sangam)	220,819	213,114	-3%	216,234	-1%
- Centers in non-AP States	150,242	142,534	-5%	145,655	-2%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	13,575	9,959	-27%	10,809	-8%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	13,258	9,725	-27%	10,551	-8%
– Sangam Managers* (i)	8,362	6,429	-23%	6,746	-5%
– Sangam Managers Trainees(ii)	123	92	-25%	149	-38%
– Branch Management Staff (iii)	2,674	2,150	-20%	2,259	-5%
– Area Managers (iv)	124	87	-30%	93	-6%
– Regional Office Staff (v)	1,975	967	-51%	1,304	-26%
• Head Office Staff (vi)	317	234	-26%	258	-9%
Members (in '000)	5,075	5,074	0%	5,021	1%
– Members in non-AP States (in '000)	3,155	3,154	0%	3,101	2%
Active borrowers (in '000)	3,946	4,439	12%	4,308	3%
– Active borrowers in non-AP States (in '000)	2,229	2,729	22%	2,596	5%
No. of loans disbursed (in '000)	473	742	57%	1,160	-36%
Disbursements (for the quarter) (INR Crs)	550	830	51%	1,295	-36%
Off-take Avg (Disbursements / No of Loans disbursed )(INR)	11,629	11,194	-4%	11,159	0%
Gross loan portfolio – Non-AP (INR Crs) (A+B)	1,229	2,003	63%	2,016	-1%
• Loans outstanding (A)	663	1,611	143%	1,233	31%
• Assigned loans (B)	565	392	-31%	783	-50%
<b>Operational Efficiency – Non-AP :</b>					
Gross loan portfolio/ No. of Sangam managers (Rs. '000)	1,694	3,598	112%	3,445	4%
Gross loan portfolio/ Active Borrowers (INR)	5,514	7,338	33%	7,763	-5%
Members / No. of Branches	2,550	2,743	8%	2,683	2%
Members / No. of Sangam managers	435	567	30%	530	7%

\*Sangam Managers are our loan officers, who manage our centers (also called as Sangams). #Includes 48 Gold Loan Branches.

# PORTFOLIO GROWTH APPROACH

Q1-FY13    Q1-FY14



Note: %s are based on Gross Loan Portfolio

# UPDATE ON GOLD LOANS - PILOT PROGRAMME

INR crs

Particulars	June-13
Total Gold Loan Portfolio Outstanding	61
Current Gold Holding Value *	83
Security Coverage (83/61 Crs)	136%
SKS Non-AP Gross Loan Portfolio	2,003
<b>Gold loans as % of SKS Non-AP Gross Loan Portfolio</b>	<b>3%</b>

## Notes:

\* Based on Current value Rs. 2,425/gm .- 8<sup>th</sup> July 2013 and applied on Net weight of Gold i.e. after deduction for stones and impurities on Gross Weight)

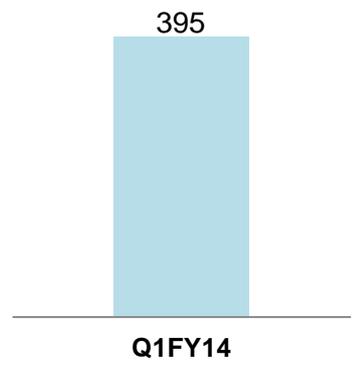
(Source: indiagoldrate.com – 22 carat spot rate in Mumbai )

# REVIEW OF FINANCIALS

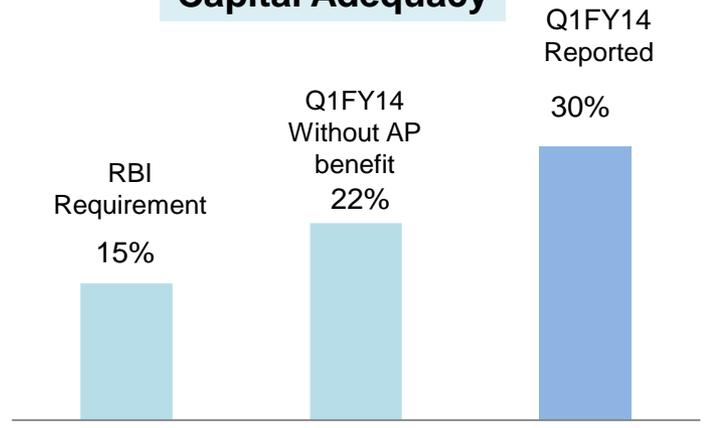
# STRONG SOLVENCY AND SUFFICIENT LIQUIDITY

INR Crs

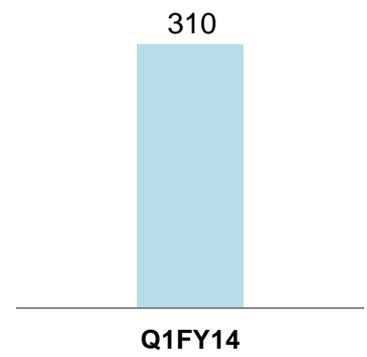
## Networth



## Capital Adequacy

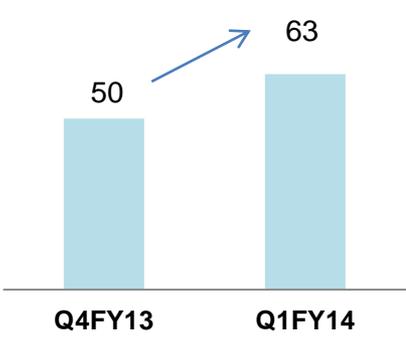


## Cash and Bank Bal.

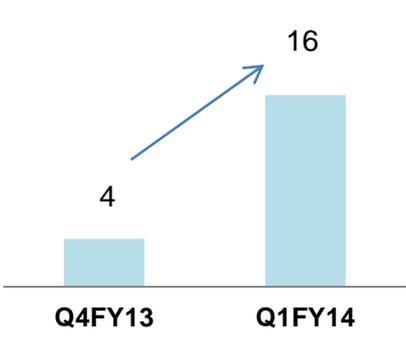


# CORE EARNINGS GROWTH DRIVES PROFITABILITY

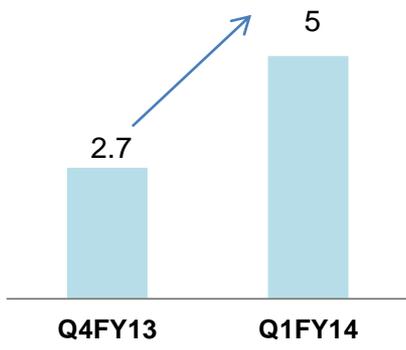
## Net Interest Income\*



## Operating Profit^



## PAT



\*Net Interest Income = Int. income on Portfolio loans + Income from Assigned Loans + Loan Processing Fee – Financial Cost

^ Operating Profit = Profit before provision & write-off

# CREDIT GROWTH AND COST EFFICIENCY IMPROVE PROFITABILITY

INR Crs

Particulars	Q1 FY13	Q1 FY14	YoY%	Q1 FY14 As % of Total Revenue	Q4 FY13	QoQ%
<b><u>Income from Operations</u></b>						
Interest income on Portfolio loans	*42	*88	110%	72%	*65	35%
Income from Assigned loans	17	15	-12%	12%	18	-17%
Loan processing fees	5	7	40%	6%	7	-
<b><u>Other Income</u></b>						
Insurance commission	-	-	-	-	-	-
Group Insurance admin. charges	-	-	-	-	-	-
Income on Investments	10	8	-20%	7%	4	100%
Recovery against loans written off	5	2	-60%	2%	2	-
Other Miscellaneous Income	0.3	2	-	2%	6	-67%
<b>Total Revenue</b>	<b>79</b>	<b>123</b>	<b>56%</b>	<b>100%</b>	<b>102</b>	<b>21%</b>
<b>Financial expenses</b>	<b>33</b>	<b>47</b>	<b>42%</b>	<b>38%</b>	<b>40</b>	<b>18%</b>
Personnel expenses	48	42	-13%	34%	40	5%
Operating and other expenses	26	17	-35%	14%	17	-
Depreciation and amortization	2	1	-50%	1%	1	-
<b>Total Operating Cost</b>	<b>75</b>	<b>60</b>	<b>-20%</b>	<b>49%</b>	<b>58</b>	<b>3%</b>
<b>Provision &amp; Write-offs</b>	<b>10</b>	<b>11</b>	<b>10%</b>	<b>9%</b>	<b>1</b>	<b>-</b>
<b>Total Expenditure</b>	<b>118</b>	<b>118</b>	<b>-</b>	<b>96%</b>	<b>99</b>	<b>19%</b>
<b>Profit before Tax</b>	<b>-39</b>	<b>5.0</b>	<b>-</b>	<b>4%</b>	<b>2.7</b>	<b>85%</b>
Tax expense	-	-	-	-	-	-
<b>Profit after Tax</b>	<b>-39</b>	<b>5.0</b>	<b>-</b>	<b>4%</b>	<b>2.7</b>	<b>85%</b>

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

# FY14 OUTLOOK

INR Crs.

	<b>FY13</b>	<b>FY14 Guidance</b>
Non-AP Disbursement	3,320	4,500 - 4,800
Non-AP Gross Loan Portfolio	2,016	2,800 - 3,000
Profit Before tax	(297)	70 - 76
Profit After Tax (Post MAT @ 21%)	(297)	55 – 60

\* Estimated

Note: We haven't factored in upside recovery from fully provided/written off AP portfolio for FY14 estimates.

STRONG CAPITAL BASE AND ROBUST LIQUIDITY DRIVES SKS BALANCE SHEET						INR Crs
Particulars	Q1 FY13	Q1 FY14	YoY%	Q4 FY13	QoQ%	
Equity share capital	73	108	48%	108	-	
Stock options outstanding	20	20	-	21	-5%	
Reserves and surplus	305	266	-13%	261	2%	
<b>Capital &amp; Reserves</b>	<b>398</b>	<b>395</b>	<b>-1%</b>	<b>390</b>	<b>1%</b>	
Loan funds	927	1,404	51%	1,618	-13%	
Payable towards assignment/Securitisation	104	111	7%	141	-21%	
Expenses & other payables	21	12	-43%	13	-15%	
Provision for Taxation	13	20	54%	20	-	
Unammortised loan processing fees	9	15	67%	15	-	
Employee benefits payable	15	5	-67%	5	-	
Interest accrued but not due on borrowings	6	7	17%	7	-	
Interest accrued and due on borrowings	-	-	-	2	-	
Provision for leave benefits & gratuity	7	9	29%	8	13%	
Statutory dues payable	2	2	-	2	-	
Unrealised gain on securitisation transactions	23	12	-49%	27	-56%	
Provision for standard and NPA - Non-AP	8	17	113%	6	183%	
Provision for standard and NPA – AP	26	257	-	258	-	
<b>Liabilities</b>	<b>1,160</b>	<b>1,871</b>	<b>61%</b>	<b>2,121</b>	<b>-12%</b>	
<b>Total Liabilities</b>	<b>1,558</b>	<b>2,266</b>	<b>45%</b>	<b>2,511</b>	<b>-10%</b>	
Fixed assets	13	8	-38%	8	-	
Intangible assets	4	3	-25%	3	-	
Investment	0.2	0.2	-	0.2	-	
Cash and bank balances	403	310	-23%	895	-65%	
Sundry debtors	0.1	0.2	100%	1	-1%	
Interest accrued and due on loans	1	0.2	-80%	0.4	-50%	
Interest accrued but not due on loans	26	9	-65%	6	50%	
Interest accrued but not due on deposits with banks	9	9	-	6	49%	
Interest strip on securitisation transactions	23	12	-49%	27	-56%	
Portfolio loans - Non-AP	663	1,611	143%	1,233	31%	
Portfolio loans - AP (Fully Provided)	260	257	-1%	258	-	
Loans placed as collateral	120	22	-82%	40	-45%	
Security Deposits for Rent and other utilities	6	4	-33%	4	-	
Advances for Loan cover Insurance	1	1	-	1	-	
Surrender amount receivable from Insurance co.	16	1	-94%	4	-75%	
Loans to SKS employee benefit trust	5	5	-	5	-	
Advance Income Tax	5	10	100%	9	11%	
Prepaid Insurance	2	1	-50%	3	-67%	
Other advances	-	3	-	8	-65%	
<b>Total Assets</b>	<b>1,558</b>	<b>2,266</b>	<b>45%</b>	<b>2,511</b>	<b>-10%</b>	
Note:1 Assigned Portfolio (Incl. Loans placed as collateral)	<b>565</b>	<b>392</b>	<b>-31%</b>	<b>783</b>	<b>-50%</b>	
2. Gross loan Portfolio	1,576	2,345	49%	2,359	0.3	

# IMPROVED COST TO INCOME AND NEGLIGIBLE CREDIT COSTS

Particulars		Q1 FY13	Q4 FY13	Q1 FY14
<b>Spread Analysis ( as % of Avg. Gross Loan Portfolio)</b>				
Gross Yield	(I)	19.6%	19.4%	20.9%
Portfolio Yield		14.5%	15.8%	17.5%
Financial Cost	(a)	8.2%	7.6%	8.0%
Operating Cost	(b)	18.6%	11.1%	10.2%
Provision and Write-offs	(c)	2.4%	0.2%	1.9%
Taxes	(d)	-	-	-
Total Expense	II = (a+b+c+d)	29.2%	18.9%	20.0%
Return on Avg. Gross Loan Portfolio	(I) - (II)	<b>-9.6%</b>	<b>0.5%</b>	<b>0.9%</b>
<b>Efficiency:</b>				
Cost to Income		163.3%	94.1%	79.0%
<b>Asset Quality – Non-AP :</b>				
Collection Efficiency		97.6%	99.9%	99.9%
Gross NPA		1.1%	0.5%	0.3%
Net NPA		0.8%	0.4%	0.3%
Gross NPA (INR crs)		7.5	5.6	5.1
Net NPA (INR crs)		5.3	5.0	4.5
<b>Leverage:</b>				
Debt : Equity		2.3	4.1	3.6
Debt : Equity (Incl. assigned loans)		3.5	6.3	4.6
<b>Capital Adequacy:</b>				
		<b>28.6%</b>	<b>32.2%</b>	<b>30.2%</b>
<b>Profitability:</b>				
Return on Avg. Assets		-9.7%	0.5%	0.8%
Return on Avg. Assets (incl. assigned loans)		-6.5%	0.4%	0.7%
ROE		-37.3%	2.8%	5.1%
EPS - Diluted (INR) (Not Annualised)		(5.32)	0.25	0.46
Book Value (INR)		54.3	36.08	36.5

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

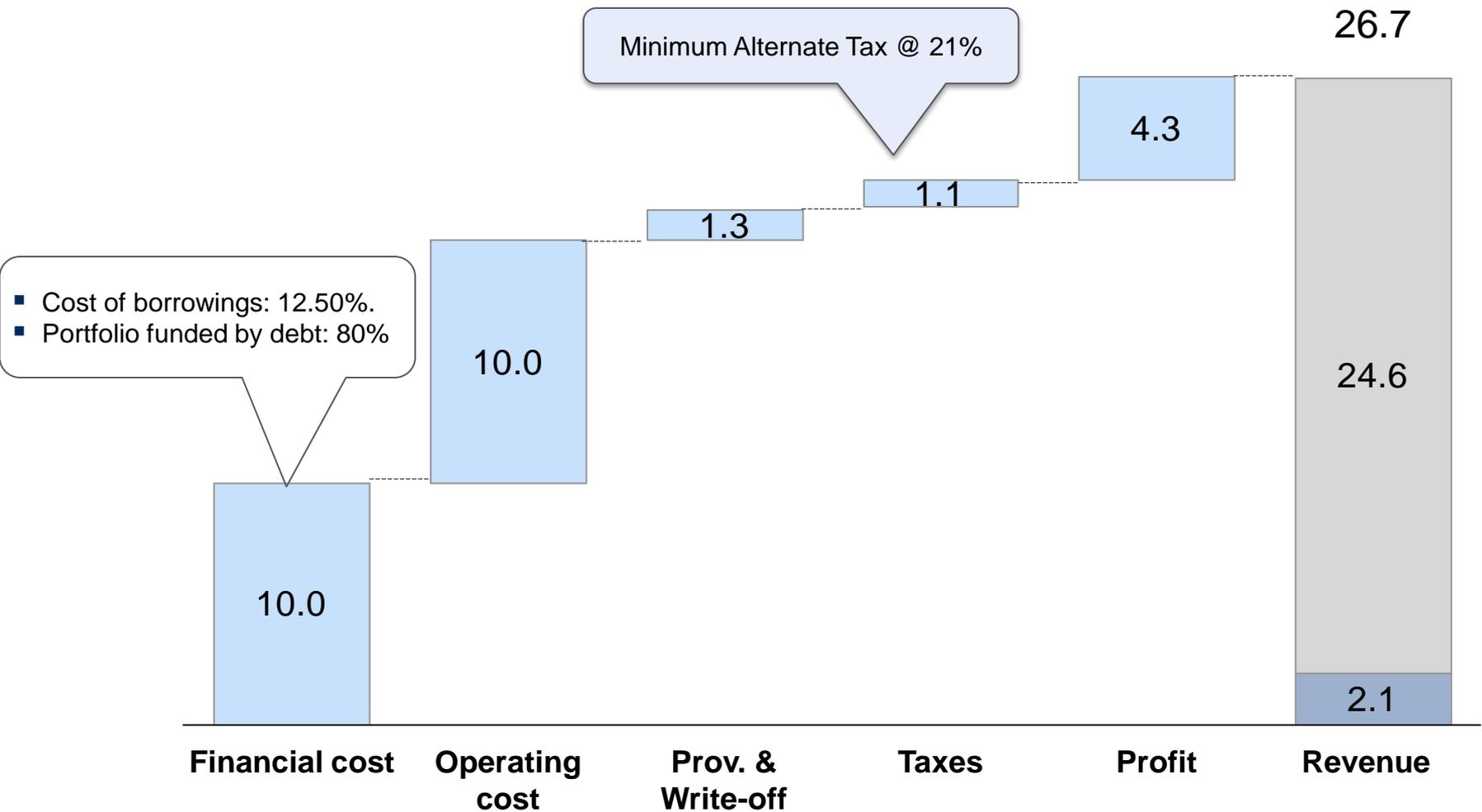
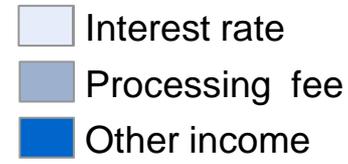
^ Capital adequacy without RBI dispensation on AP provisioning is 21.6% for Q1FY14

# PRODUCTIVITY GAINS & COST EFFICEINCY IN Q1FY14 COMPARED TO BEST BEFORE AND WORST DURING THE AP MFI CRISIS

	Best before AP MFI crisis	Worst during AP MFI crisis	Q1FY14
<b><u>Productivity – Non-AP:</u></b>			
Borrowers/SM	489*	287	490
Gross Loan Portfolio /SM('000)	3,640*	1,320	3,598
Offtake Avg.	10,299*	9,237	11,194
<b><u>Cost Efficiency:</u></b>			
Cost of borrowings %	10.3%	16.0%	12.4%
Opex / Gross Loan Portfolio %	10.4%	21.7%	10.2%
Cost to Income Ratio	52.4%	275%	79.0%
<b><u>Credit Quality - Non-AP:</u></b>			
Gross NPA%	0.20%*	5.5%	0.3%
Net NPA%	0.16%*	2.9%	0.3%
Collection Efficiency%	99.8%*	94.9%	99.9%
<b><u>Leverage:</u></b>			
Debt: Equity	2.8	1.1	3.6
Debt (including off B/S) :Equity	4.3	1.2	4.6
<b><u>Profitability:</u></b>			
ROA%	4.9%	-70.4%	0.8%
ROA (including Managed portfolio) %	3.7%	-54.8%	0.7%
ROE%	22%	-220%	5.1%

\* Enterprise figures - includes figures from AP state

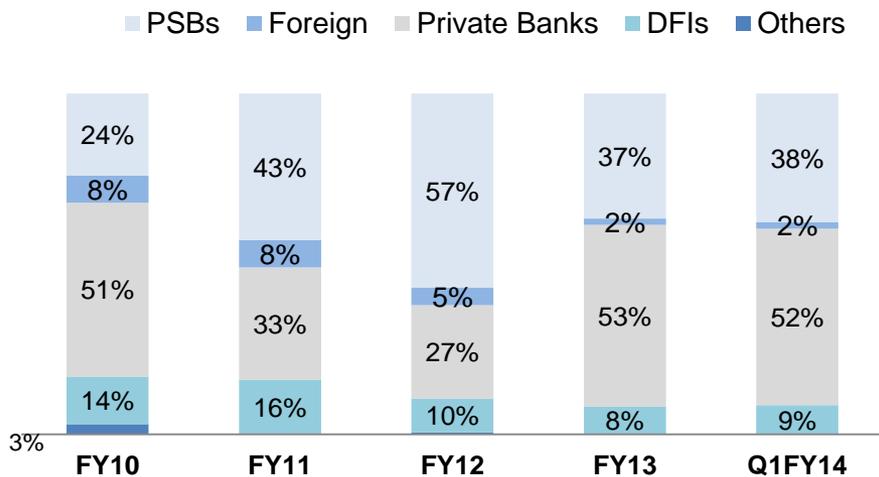
# STEADY STATE ROA OF 4% CAN BE TARGETED UNDER REGULATED INTEREST RATE REGIME



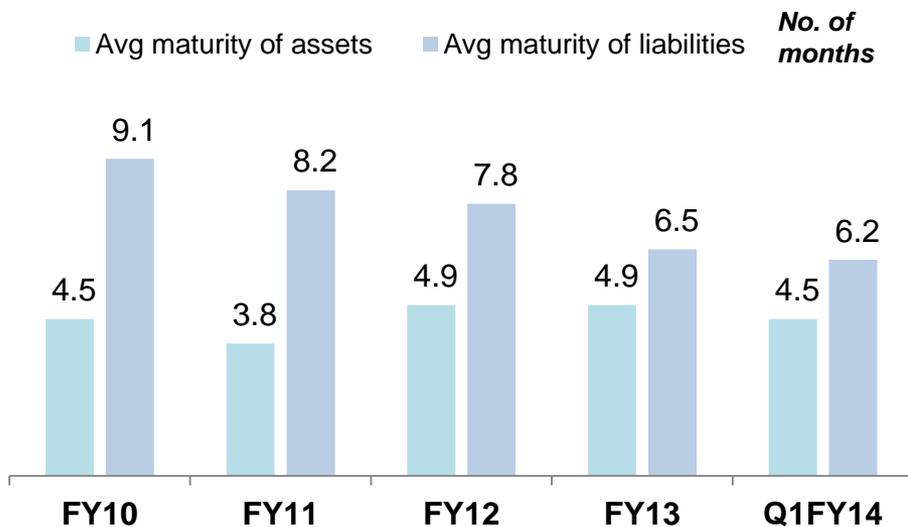
# FINANCIAL ARCHITECTURE

# FINANCIAL ARCHITECTURE (1/2)

## Stable Funding Partners



## Positive ALM Mismatch



## Funding Mix

Bank/FI	ON B/S	
	Mar-13	June-13
Yes Bank	30%	23%
IDBI Bank	20%	22%
SIDBI	11%	11%
Indusind Bank	2%	7%
ICICI Bank	7%	6%
State Bank Group	6%	6%
Andhra Bank	4%	5%
Dena Bank	4%	4%
Axis Bank	3%	4%
HDFC Bank	3%	3%
Citi Bank	3%	3%
Corporation Bank	2%	1%
Indian Overseas Bank	1%	1%

Bank/FI	OFF B/S	
	Mar-13	June-13
IDBI Bank	33%	30%
Yes Bank	19%	25%
Indusind Bank	23%	22%
ICICI Bank	7%	8%
DCB Bank	8%	7%
Axis Bank	7%	6%

Total amount outstanding as of June'13: Rs 1,836 crs.  
Concentration risk on rest of the 6 banks is below 1%.

# FINANCIAL ARCHITECTURE (2/2)

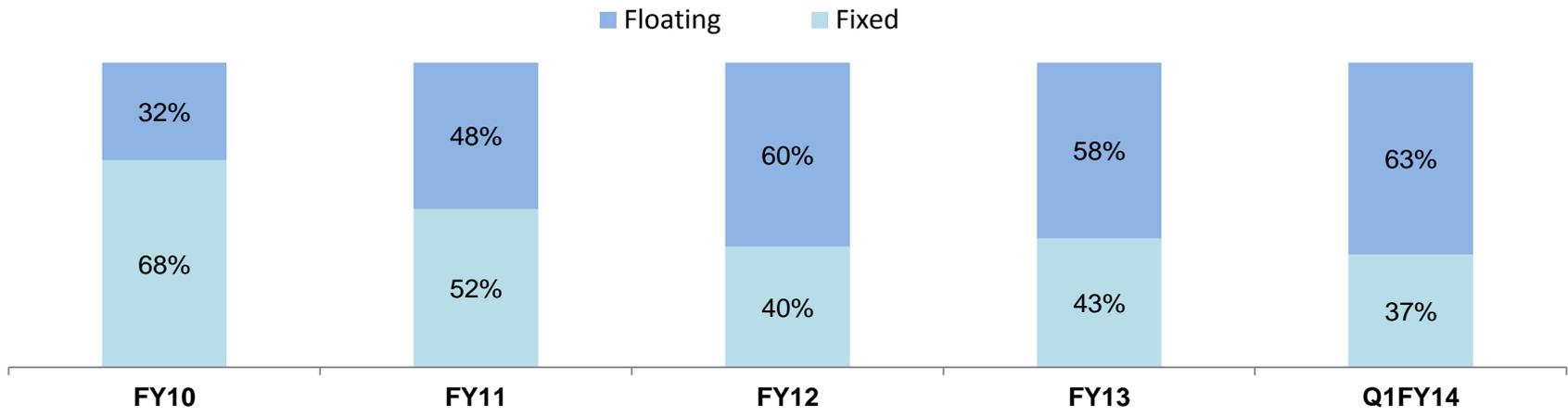
## Funding Cost Analysis

Metric	FY10	FY11	FY12	FY13	Q1FY14
Cost of interest bearing liabilities (including loan processing fee paid upfront)	12.3%	12.1%	13.4%	12.5%	12.4%
Financial Cost <sup>^</sup>	8.5%	7.4%	7.3%	7.8%	8.0%

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

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

## Mitigation of Interest Rate Risk



# OUR PROVISIONING POLICY FOR NON-AP PORTFOLIO

## Asset Classification

	<u>RBI NBFC MFI norms</u>	<u>SKS compliance</u>
<b>Standard Assets</b>	<90 days	<8 weeks (i.e. <56 days)
<b>Sub-Standard Assets</b>	90 days & above	8-25 weeks (i.e. 56-175 days)
<b>Loss Assets</b>	-	>25 weeks (i.e. >175 days)

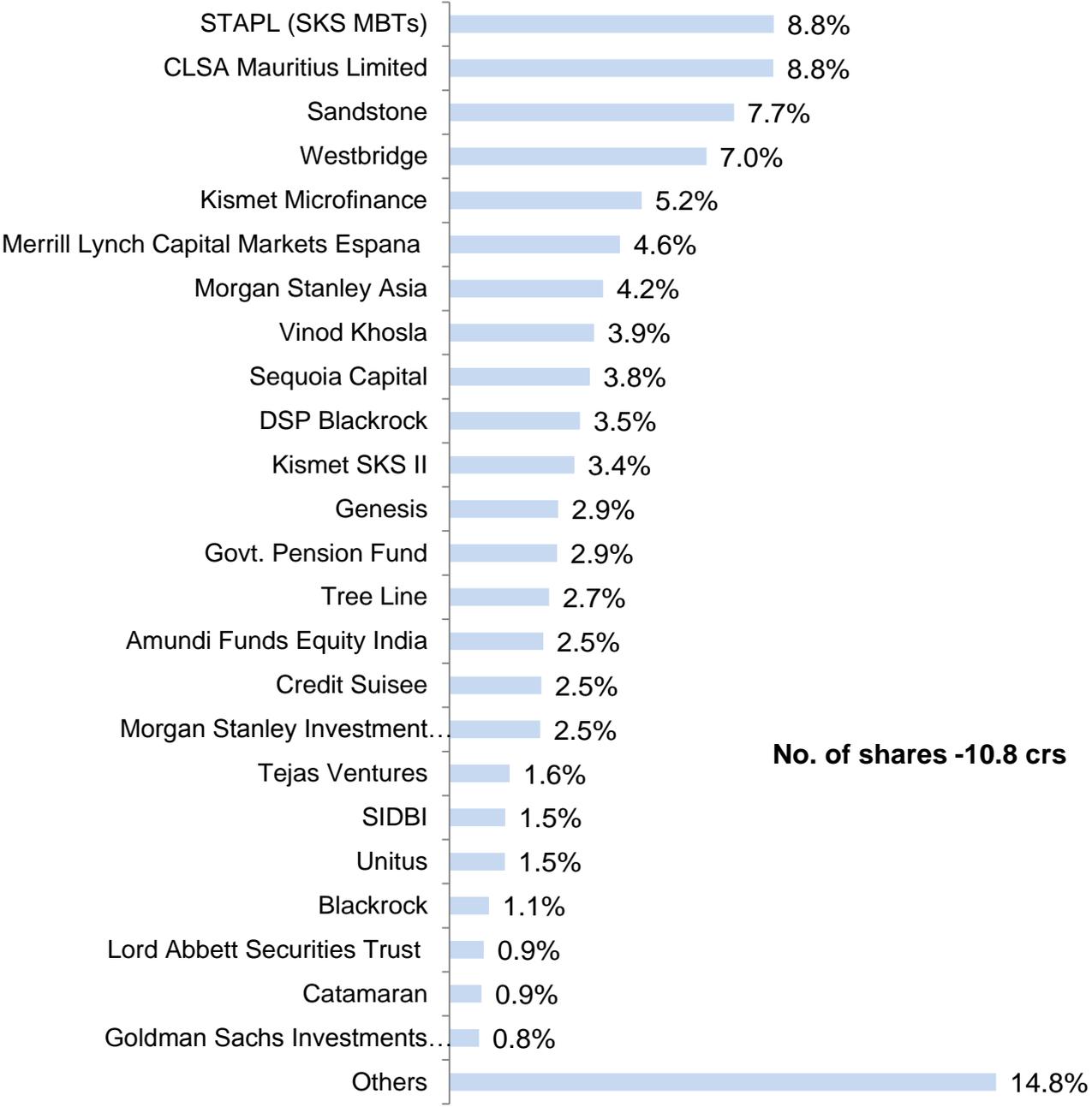
## Provisioning Norms

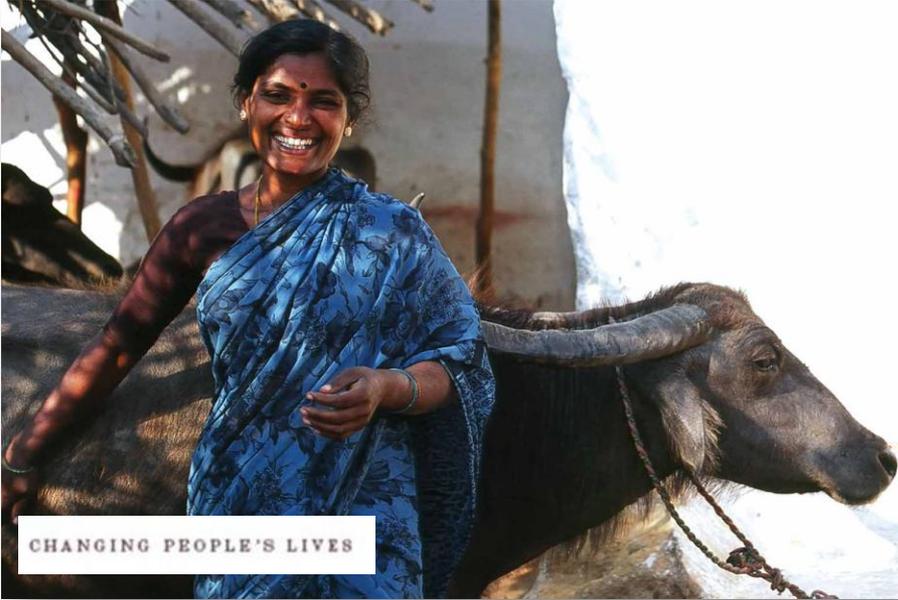
<b>Standard Assets</b>	1% of overall Portfolio reduced by Provision for NPA (If provision for NPA < 1% of overall Portfolio)	0.25-1% depending upon NPA or as stipulated by RBI, whichever is higher
<b>Sub-Standard Assets</b>	50% of installments overdue for 90-180 days*	50% of outstanding Principal*
	100% of installments overdue for greater than 180 days*	
<b>Loss Assets</b>	-	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

# CAPITAL STRUCTURE AS ON 30<sup>TH</sup> June 2013





This report is for information purposes only and does not constitute to be any investment, legal or taxation advice. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Any action taken by you on the basis of the information contained herein is your responsibility alone and SKS and its subsidiaries or its employees or directors, associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained herein, but do not represent that it is accurate or complete. SKS or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this publication. The recipient of this report should rely on their own investigations. SKS and/or its subsidiaries and/or directors, employees or associates may have interests or positions, financial or otherwise in the securities mentioned in this report

**Forward Looking Statement**

Certain statements in this document with words or phrases such as “will”, “should”, etc., and similar expressions or variation of these expressions or those concerning our future prospects are forward looking statements. Actual results may differ materially from those suggested by the forward looking statements due to a number of risks or uncertainties associated with the expectations. These risks and uncertainties include, but are not limited to, our ability to successfully implement our strategy and changes in government policies. The company may, from time to time, make additional written and oral forward looking statements, including statements contained in the company’s filings with the stock exchanges and our reports to shareholders. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company