

## EARNINGS UPDATE – Q1 FY11



**October 2010**

**SKS Microfinance Limited**

BSE: 533228 NSE: SKSMICRO

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

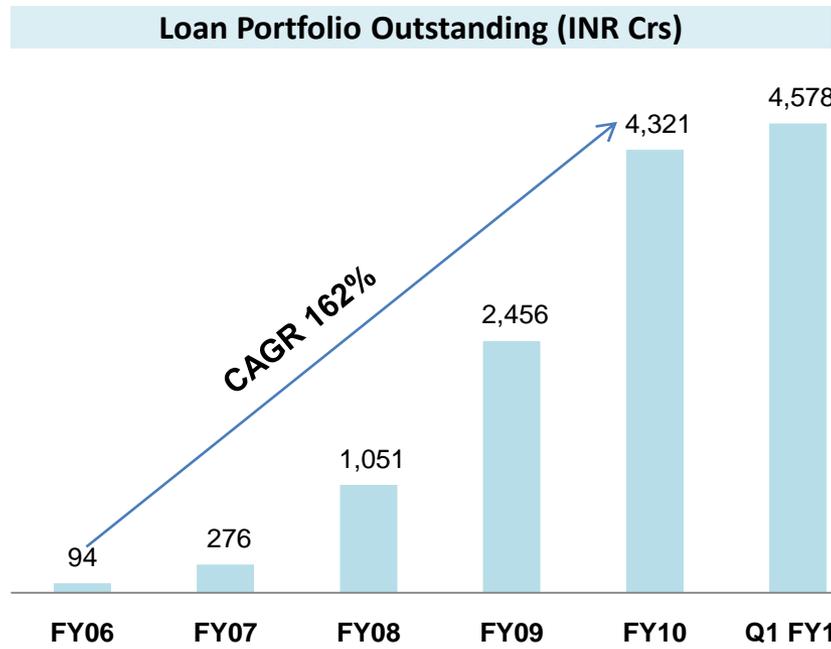
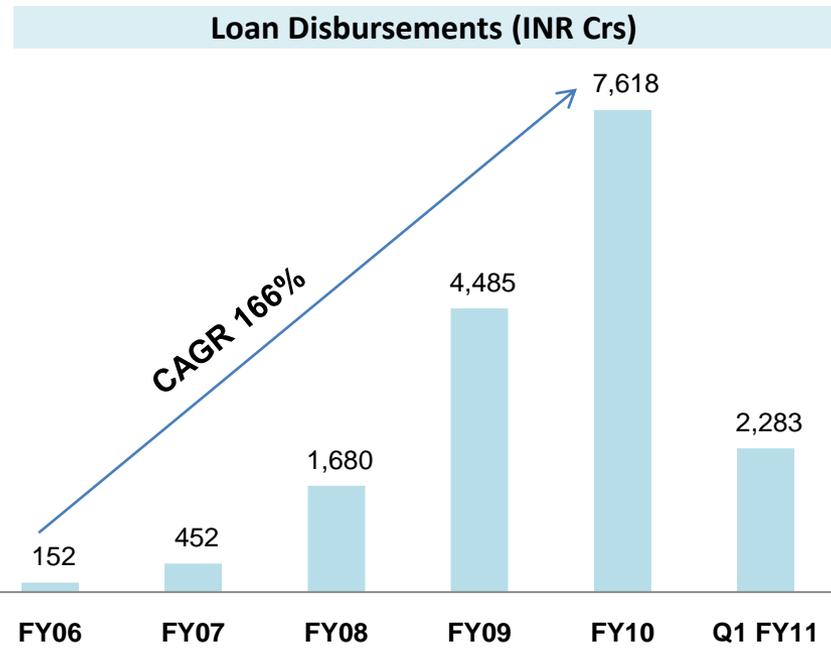
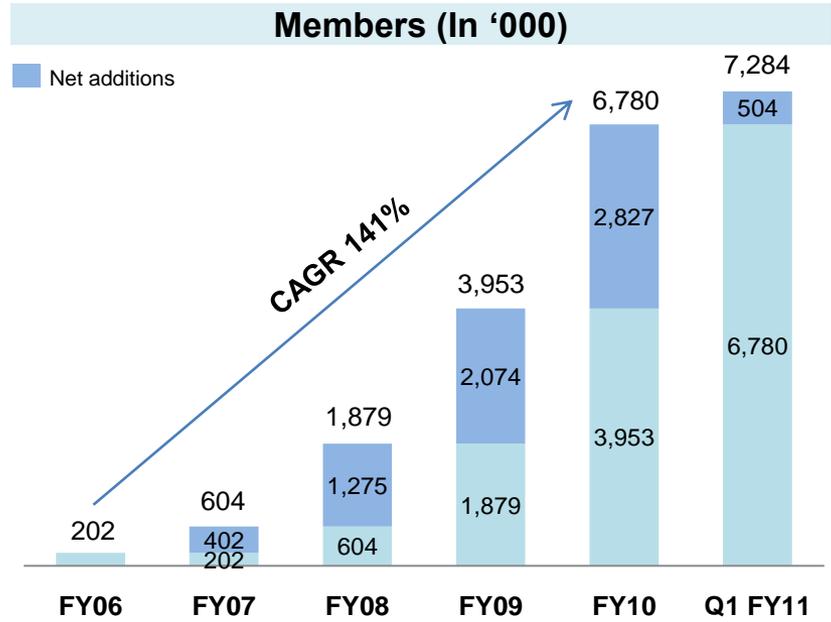
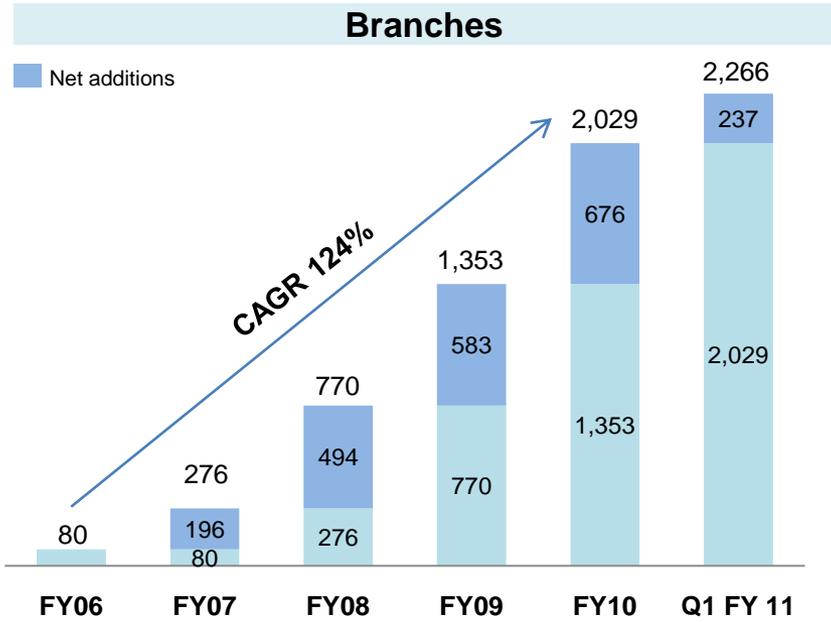
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# HIGHLIGHTS – Q1 FY11

- Increased network to 2,266 branches across 19 States
- Increased total member base to 7.3 million
- Incremental loan disbursements of Rs.2,283 crores for Q1 – FY11 (up 81% YoY)
- Gross Loan portfolio increased to Rs.4,578 crores (up 80% YoY) including assigned loans of Rs.1,002 crores
- Revenue of Rs.314 crores for Q1 -FY11 (up 82% YoY)
- PAT of Rs.67 crores for Q1-FY11 (up 265% YoY)
- Management expects revenue growth of 60% YoY and PAT growth of 80% YoY for FY11
- Networth of Rs.1,016 crores as at June 30, 2010
- CRISIL has assigned the highest MFI grading “mfR1’ to us
- CRISIL has assigned “P1+” (Highest safety) rating to our Rs.7.5 billion Short-Term Debt Programme. SKS becomes the first and only MFI to have P1+ rating from CRISIL.

# SKS HAS DEMONSTRATED ABILITY TO SCALE UP SIGNIFICANTLY



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

# OPERATIONAL HIGHLIGHTS

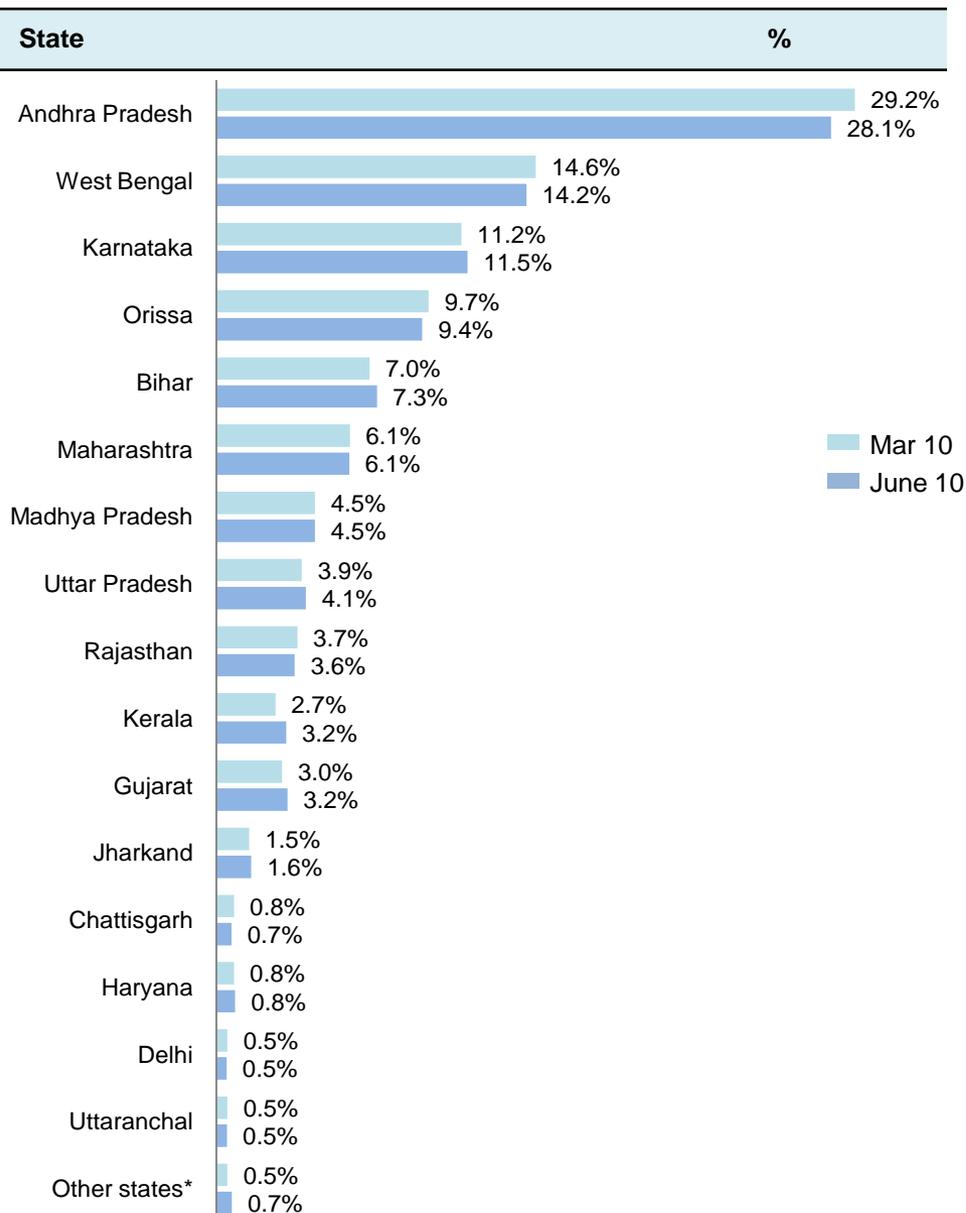
Particulars	Jun-09	Jun-10	YOY%	Mar-10	QoQ%
Branches	1,436	2,266	58%	2,029	12%
Centers (Sangam)	145,914	249,621	71%	226,017	10%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	14,831	23,313	57%	21,154	10%
▪ <i>Field Staff (i) + (ii) + (iii) + (iv) + (v)</i>	14,521	22,885	58%	20,757	10%
– <i>Sangam Managers* (i)</i>	8,195	12,785	56%	11,878	8%
– <i>Sangam Managers trainees(ii)</i>	2,202	3,600	63%	3,011	20%
– <i>Branch Management Staff (iii)</i>	2,366	3,746	58%	3,455	8%
– <i>Area Managers (iv)</i>	148	208	41%	198	5%
– <i>Regional Staff (v)</i>	1,610	2,546	58%	2,215	15%
▪ <i>Head Office Staff (vi)</i>	310	428	38%	397	8%
Members (in '000)	4,427	7,284	65%	6,780	7%
Active borrowers (in '000)	3,766	6,231	65%	5,795	8%
No. of loans disbursed** (in '000)	1,323	2,181	65%	2,200	-1%
Disbursements (for the quarter) (INR Crs.)	1,263	2,283	81%	2,336	-2%
Offtake Avg (Disbursements / No of Loans disbursed) (INR)	9,546	10,468	10%	10,620	-1%
Gross loan portfolio (INR Crs.) (A+B)	2,544	4,578	80%	4,321	6%
▪ <i>Loans outstanding (A)</i>	1,887	3,577	90%	2,937	22%
▪ <i>Assigned loans (B)</i>	657	1,002	53%	1,384	-28%
<b>Operational Efficiency:</b>					
Gross loan portfolio/ No. of Sangam Managers (Rs. '000)	3,104	3,581	15%	3,638	-2%
Gross loan portfolio/ Active Borrowers (INR)	6,756	7,347	9%	7,456	-1%
Members / No. of Branches	3,083	3,214	4%	3,342	-4%
Members / No. of Sangam Managers	540	570	5%	571	-0.2%

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

\*\* Doesn't include life insurance and housing loans

# SKS MITIGATES CONCENTRATION RISK THROUGH GEOGRAPHICAL DIVERSIFICATION

## State wise - Gross Loan portfolio



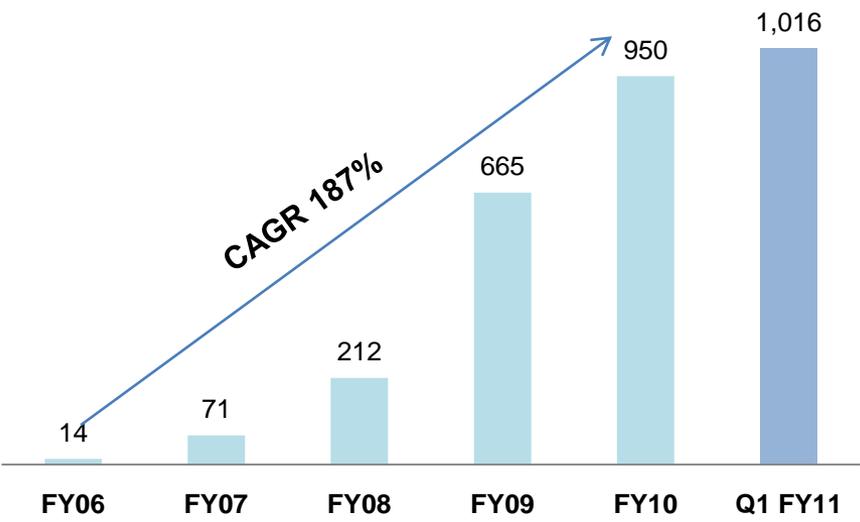
## State wise - Portfolio At Risk (PAR)

State	Mar 2010 %	June 2010 %
Andhra Pradesh	0.19	0.16
West Bengal	0.77	0.65
Karnataka	0.14	0.03
Orissa	0.26	0.33
Bihar	0.09	0.07
Maharashtra	0.05	0.03
Madhya Pradesh	0.04	0.04
Uttar Pradesh	0.16	0.07
Rajasthan	0.17	0.18
Kerala	0.07	0.04
Gujarat	0.23	0.22
Jharkhand	0.83	0.14
Chhattisgarh	5.16	1.23
Haryana	0.87	0.33
Delhi	1.85	1.90
Uttaranchal	0.16	0.04
Other states*	0.03	0.02
<b>Enterprise PAR</b>	<b>0.33</b>	<b>0.22</b>

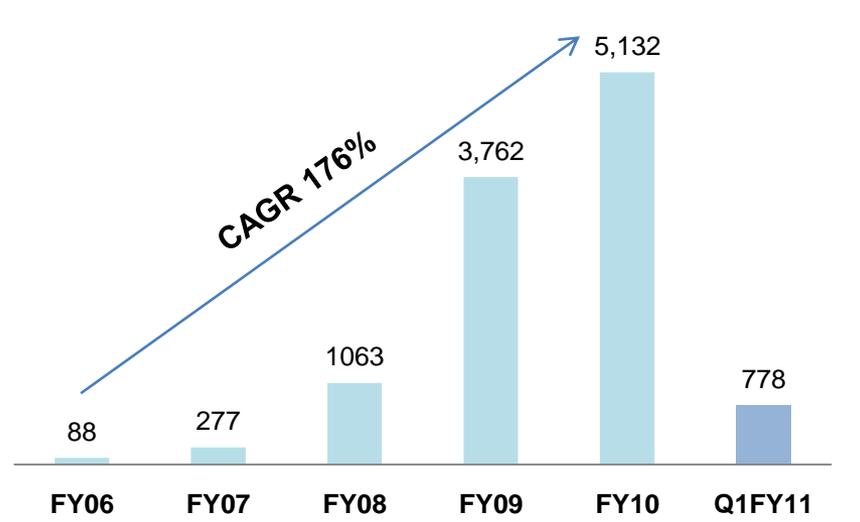
\* Other states include Punjab, Tamil Nadu & HP

# SKS HAS ACHIEVED EXPONENTIAL GROWTH

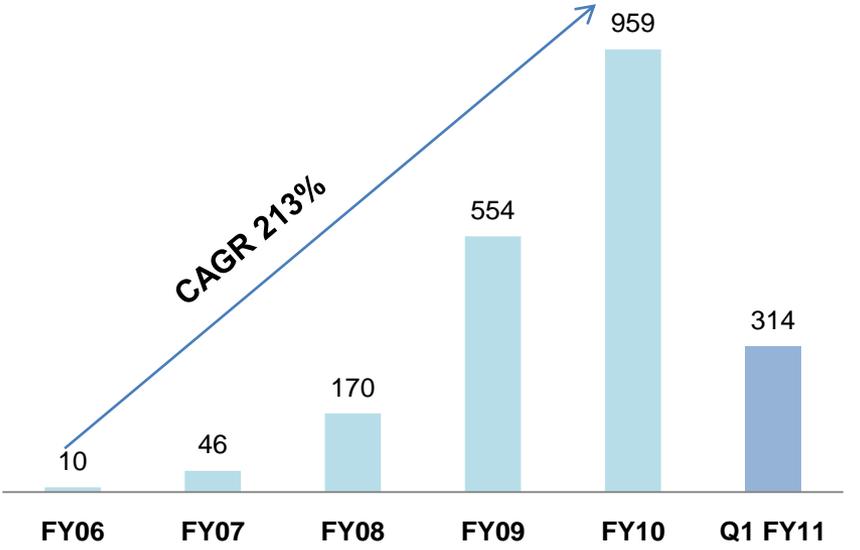
### Networth



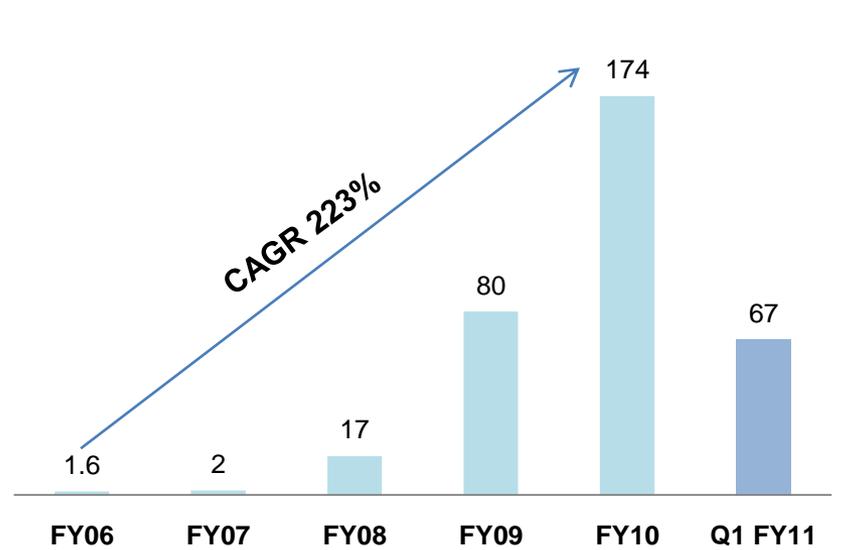
### Incremental Debt Raised



### Gross Revenue

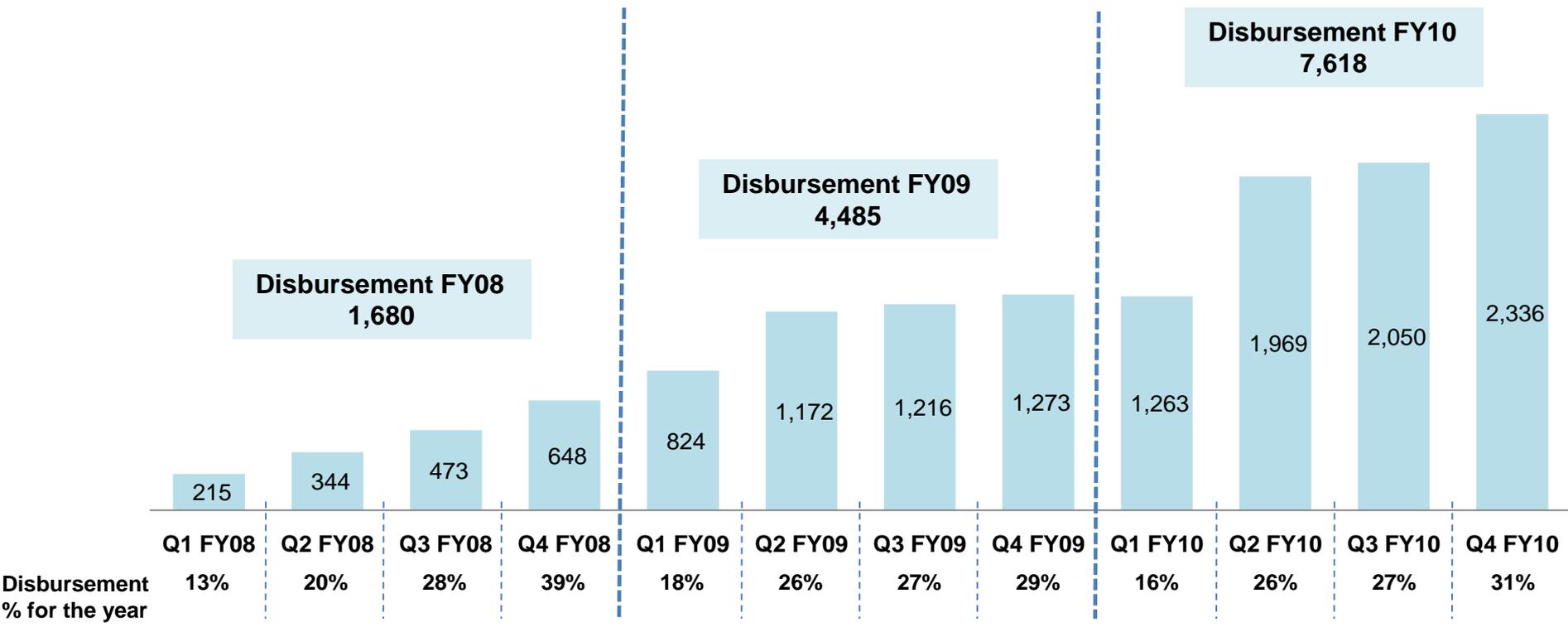


### Profit After Tax



# OUR DISBURSEMENT PATTERN IS SKEWED TOWARDS H2

INR Crs



# PROFIT AND LOSS STATEMENT FOR THE QUARTER ENDED

INR Crs.

Particulars	June 30 2009	June 30 2010	YoY %	June 30, 2010 As % of Total Revenue	Mar 31 2010	QoQ %
<b>Income from Operations</b>						
Interest income on Portfolio loans	115	225	96%	72%	239	-6%
Income from Assigned loans	31	55	79%	18%	38	44%
Membership fee	2	4	53%	1%	5	-21%
<b>Other Income</b>						
Insurance commission	1	4	149%	1%	4	-3%
Group Insurance admin. charges	4	17	334%	5%	13	28%
Income on Investments	18	5	-72%	2%	3	74%
Miscellaneous Income	1	4	390%	1%	3	51%
<b>Total Revenue</b>	<b>172</b>	<b>314</b>	<b>82%</b>	<b>100%</b>	<b>305</b>	<b>3%</b>
<b>Financial expenses</b>	<b>63</b>	<b>73</b>	<b>16%</b>	<b>23%</b>	<b>82</b>	<b>-11%</b>
Personnel expenses	45	82	81%	26%	65	25%
Operating and other expenses	21	41	93%	13%	40	2%
Depreciation and amortization	2	4	72%	1%	4	3%
<b>Total Operating Cost</b>	<b>69</b>	<b>127</b>	<b>84%</b>	<b>40%</b>	<b>109</b>	<b>16%</b>
<b>Provision &amp; Write-offs</b>	<b>11</b>	<b>12</b>	<b>6%</b>	<b>4%</b>	<b>15</b>	<b>-22%</b>
<b>Total Expenditure</b>	<b>144</b>	<b>212</b>	<b>48%</b>	<b>68%</b>	<b>207</b>	<b>3%</b>
<b>Profit before Tax</b>	<b>29</b>	<b>102</b>	<b>256%</b>	<b>32%</b>	<b>98</b>	<b>4%</b>
Tax expense	10	35	238%	11%	35	-1%
<b>Profit after Tax</b>	<b>18</b>	<b>67</b>	<b>265%</b>	<b>21%</b>	<b>63</b>	<b>6%</b>

Note: Figures rounded wherever necessary; percentages are based on decimals

# ULTRA CONSERVATIVE INCOME RECOGNITION LENDS STABILITY TO THE FUTURE REVENUE STREAM

*INR Crs*

<b>Policy</b>	<b>FY10 PBT Deferred</b>	<b>Q1 FY11 PBT Deferred</b>
Income on assignment transactions deferred over the loan period and not recognized upfront	50	21
Group insurance administrative charges deferred over the loan period	32	34
Upfront interest deferred over the loan period	20	26
<b>Total</b>	<b>101</b>	<b>81</b>
Profit before tax	268	102
% of PBT	38%	79%

*Note: Figures rounded wherever necessary; percentages are based on decimals*

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

INR Crs.

Particulars	30-Jun 2009	30-Jun 2010	YoY %	31-Mar 2010	QoQ %
Equity share capital	50	65	30%	65	0%
Preference share capital	9	-	-100%	-	-
Stock options outstanding	2	6	227%	4	53%
Reserves and surplus	672	956	42%	889	7%
<b>Capital &amp; Reserves</b>	<b>733</b>	<b>1,027</b>	<b>40%</b>	<b>958</b>	<b>7%</b>
Loan funds	1,921	2,762	44%	2,695	2%
Current liabilities and provisions	291	433	48%	403	7%
<b>Liabilities</b>	<b>2,213</b>	<b>3,194</b>	<b>44%</b>	<b>3,097</b>	<b>3%</b>
<b>Total</b>	<b>2,946</b>	<b>4,221</b>	<b>43%</b>	<b>4,055</b>	<b>4%</b>
Fixed assets	13	22	67%	19	15%
Intangible assets	6	8	34%	6	53%
Investment	-	0.2		0.2	0%
Deferred tax assets (net)	6	11	83%	9	12%
Security Deposit	124	172	39%	193	-11%
Fixed Deposit	585	1	-100%	555	-100%
Current account bal. and cash in hand	263	296	12%	225	31%
<b>Total Cash &amp; Cash equivalent</b>	<b>848</b>	<b>296</b>	<b>-65%</b>	<b>781</b>	<b>-62%</b>
Sundry Debtors	3	3	4%	3	15%
Other current assets	35	64	84%	62	2%
Portfolio loans	1,887	3,577	90%	2,937	22%
Other loans and advances	24	57	139%	38	51%
<b>Total Loans and advances</b>	<b>1,911</b>	<b>3,634</b>	<b>90%</b>	<b>2,975</b>	<b>22%</b>
Miscellaneous Expenditure	-	11	-	8	37%
<b>Total Assets</b>	<b>2,946</b>	<b>4,221</b>	<b>43%</b>	<b>4,055</b>	<b>4%</b>
Note 1: Assigned Portfolio	657	1,002	53%	1,384	-28%
2: Gross Loan Portfolio	2,544	4,578	80%	4,321	6%

Note: Figures rounded wherever necessary; percentages are based on decimals

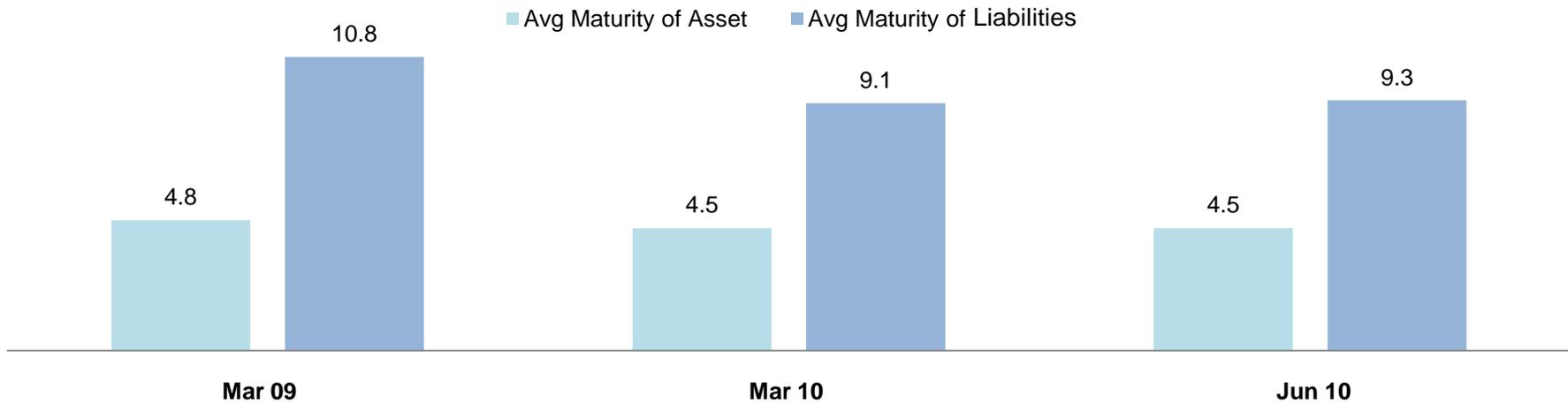
# PROFITABILITY IS ACCELERATING WITH SCALE AND PRODUCTIVITY

Particulars		Q1 FY10	Q4 FY10	Q1 FY11	FY10
<b>Spread analysis ( as % of Avg. Gross Loan Portfolio)</b>					
Gross Yield	(I)	27.5%	30.1%	28.2%	28.3%
Portfolio Yield		23.3%	27.5%	25.2%	25.3%
Financial Cost	(a)	10.1%	8.1%	6.6%	8.5%
Operating Cost	(b)	11.0%	10.8%	11.4%	10.4%
Provision and Write-offs	(c)	1.8%	1.5%	1.1%	1.5%
Taxes	(d)	1.6%	3.5%	3.1%	2.8%
Total Expense	II = (a+b+c+d)	24.6%	23.9%	22.2%	23.2%
<b>Return on Avg. Gross Loan Portfolio</b>	(I) - (II)	2.9%	6.2%	6.0%	5.1%
<b>Efficiency:</b>					
Cost to Income		63.3%	49.2%	52.8%	52.4%
<b>Asset Quality:</b>					
Gross NPA		0.38%	0.33%	0.23%	0.33%
Net NPA		0.20%	0.16%	0.11%	0.16%
Gross NPA (INR crs)		7.2	9.6	8.1	9.6
Net NPA (INR crs)		3.8	4.8	4.0	4.8
<b>Leverage:</b>					
Debt : Equity		2.6	2.8	2.7	2.8
<b>Capital Adequacy:</b>					
		<b>31.15%</b>	<b>28.32%</b>	<b>24.96%</b>	<b>28.32%</b>
<b>Profitability:</b>					
Return on Avg. Assets		2.4%	6.3%	6.4%	4.9%
Return on Avg. Assets (Including assigned loans)		1.9%	5.2%	5.0%	3.7%
ROE		10.4%	27.8%	27.1%	21.5%
ROE adjusted (Assuming RBI mandated 15% CAR)		21.7%	52.5%	45.1%	40.7%
EPS (In Rs.) (Diluted)		2.94	9.61	10.04	27.33
Book Value (In Rs.)		120.72	147.27	157.50*	147.27

Note: Post-IPO proceeds , the book value is Rs.265 per share (excluding profit realised after Q1FY11)

# ROBUST FINANCIAL ARCHITECTURE (1/3)

## Positive Asset Liability Management Structure



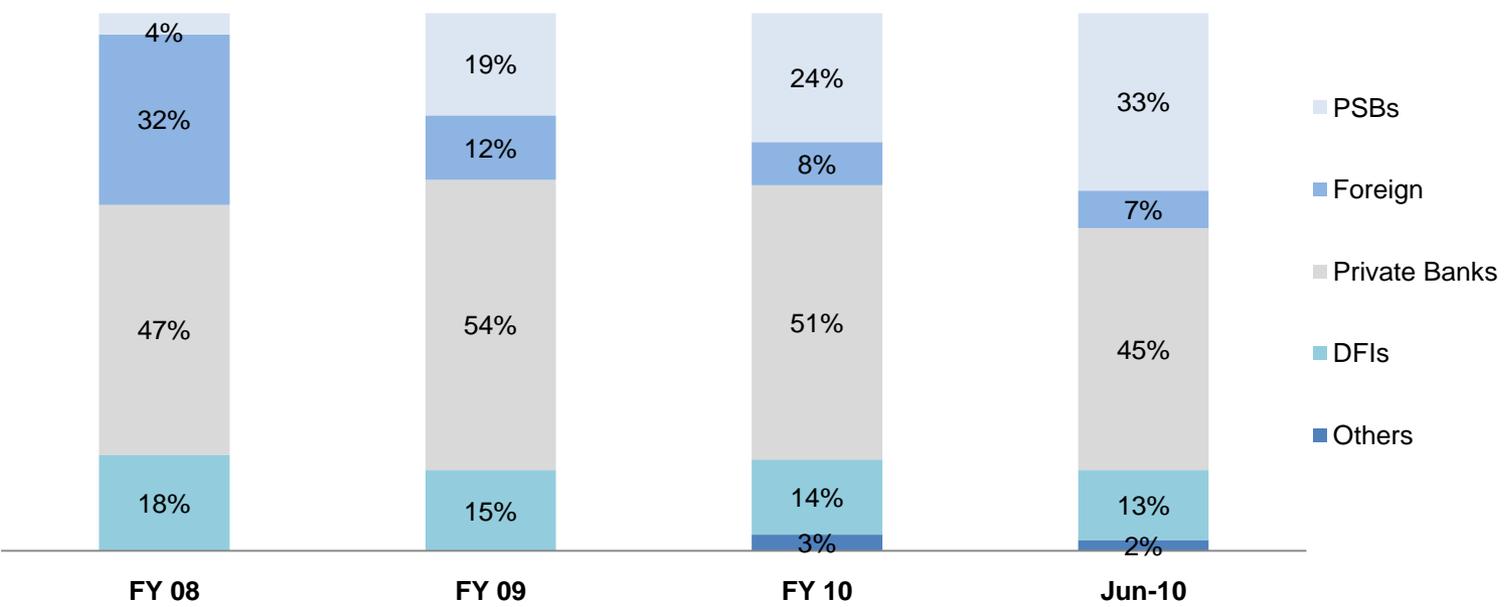
\* Note: Assets and Liabilities include off-balance sheet figures ; Figures are in no. of months

## Scientific liquidity management

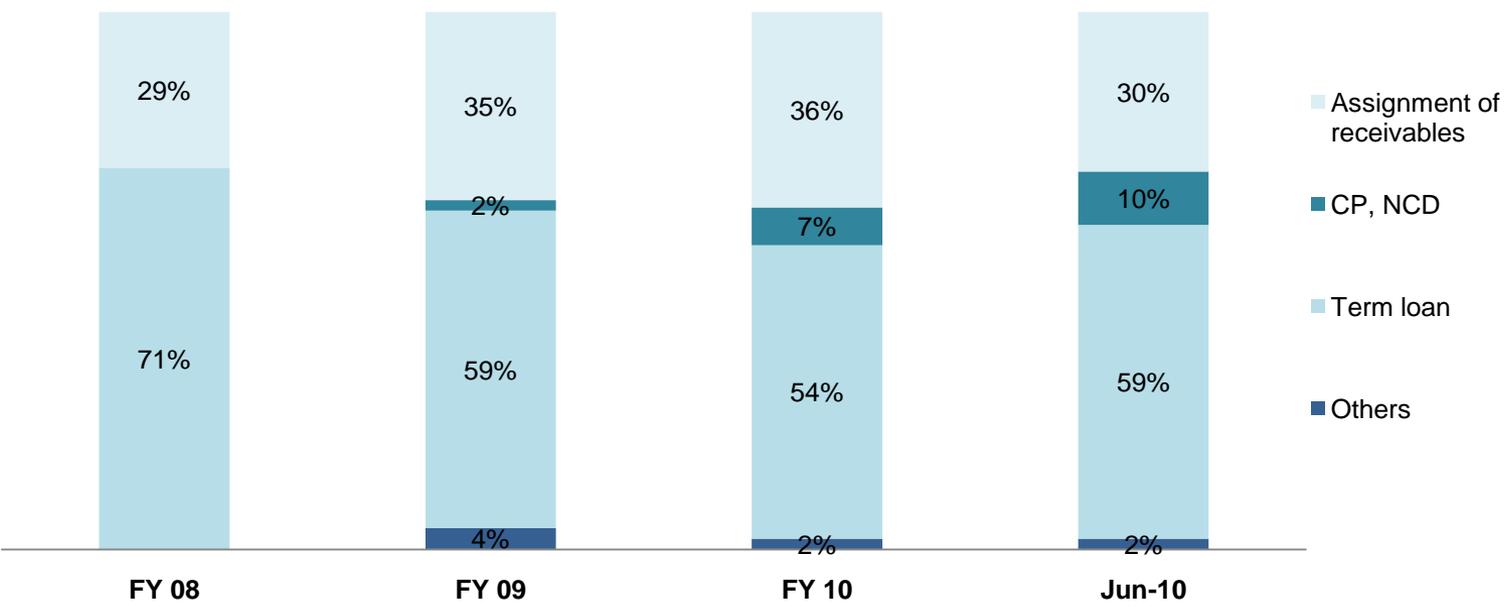
		No. of months	
		Test	Result
<b>Cash Burn Test</b>	Opening cash = 6 Months Opex	6	6.0
<b>Business Continuity Test</b>	Cash + repayments from customers (97.5%) + 95% of sanctions = Opex 6m + debt repayments for 6 m + disbursement to existing customers for 6m	6	6.8
<b>Growth Test</b>	Cash + repayments from customers (97.5%) for 6 m + sanctions in hand = Opex 6 m + debt repayments 6 m + disbursement to existing customers 6 m+ disbursement to new customers for 3m	3	3.2

# ROBUST FINANCIAL ARCHITECTURE (2/3)

**Stable Funding Partners**

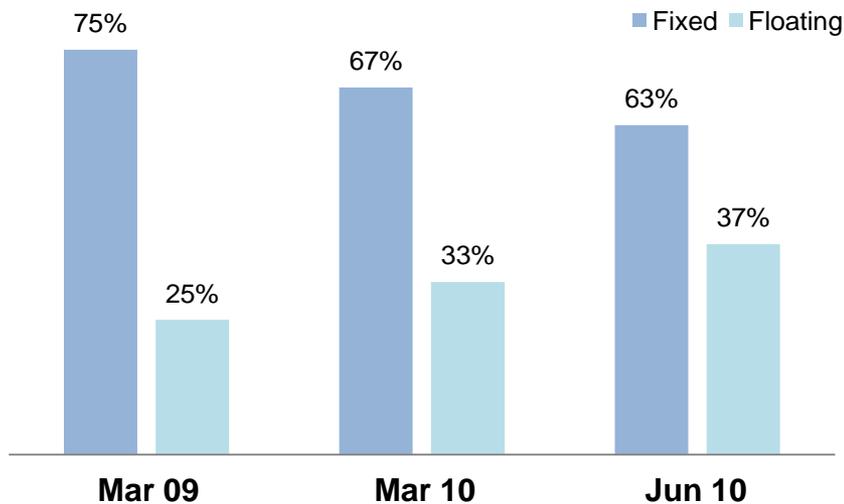


**Diversified Sources Mix**



# ROBUST FINANCIAL ARCHITECTURE (3/3)

## Interest Rate Risk Analysis



## Significant Reduction in Funding Cost

Metric	FY 09	FY 10	Q1 FY11
Marginal Cost	12.45%	9.83%	9.69%
Weighted Average Cost	12.23%	10.28%	10.28%
Financial Cost*	11.10%	8.50%	6.60%

\* As % of Avg. Gross Loan Portfolio

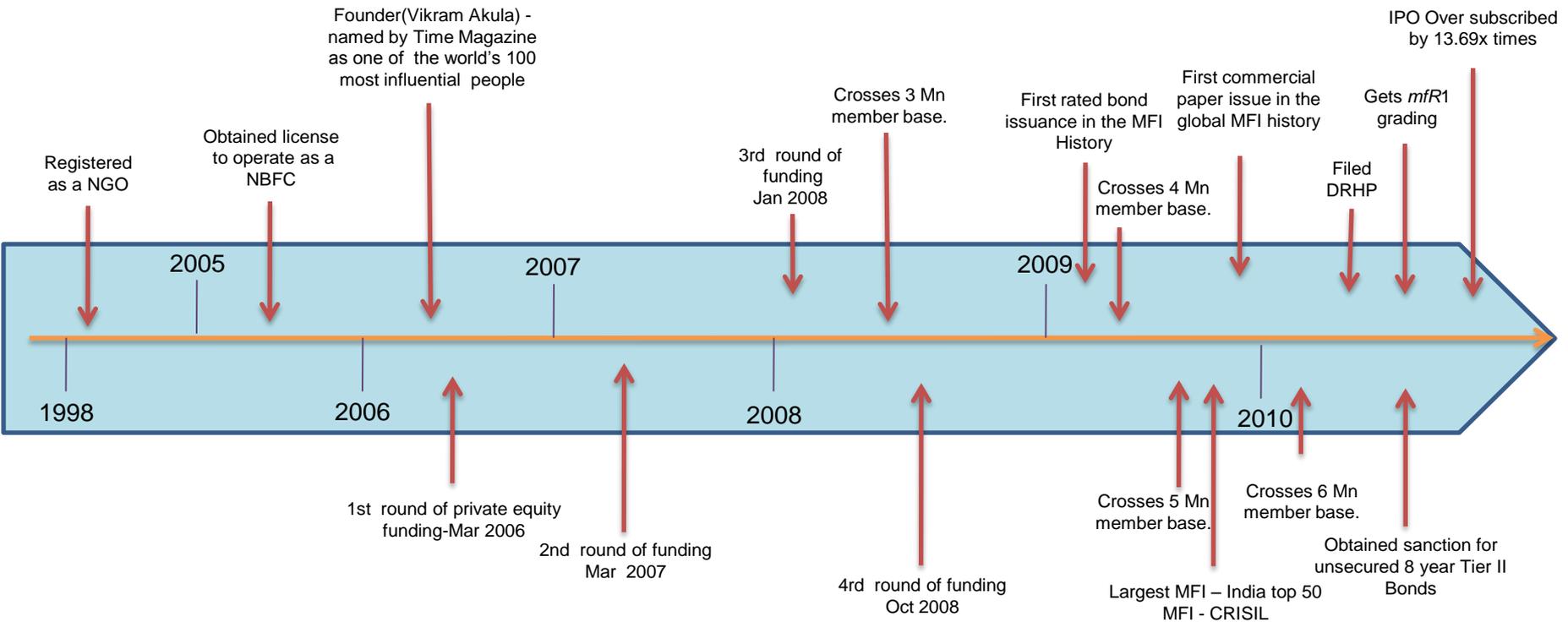
## Funding Mix-Devoid of Dependence Risk

Banks/FIs	Jun 10 % on Total o/s
ICICI Bank	14%
SIDBI	13%
Yes Bank	9%
IDBI	7%
Central Bank of India	6%
HDFC Bank	5%
Kotak Mahindra Bank	5%
Syndicate Bank	4%
Axis Bank	3%
ING Vysya Bank	3%
Citi Bank	3%
J&K Bank	2%
Standard Chartered Bank	2%
State Bank of Patiala	2%
Indusind Bank	2%
State Bank of Mysore	2%
Corporation Bank	2%
Andhra Bank	1%

# SKS PROFILE

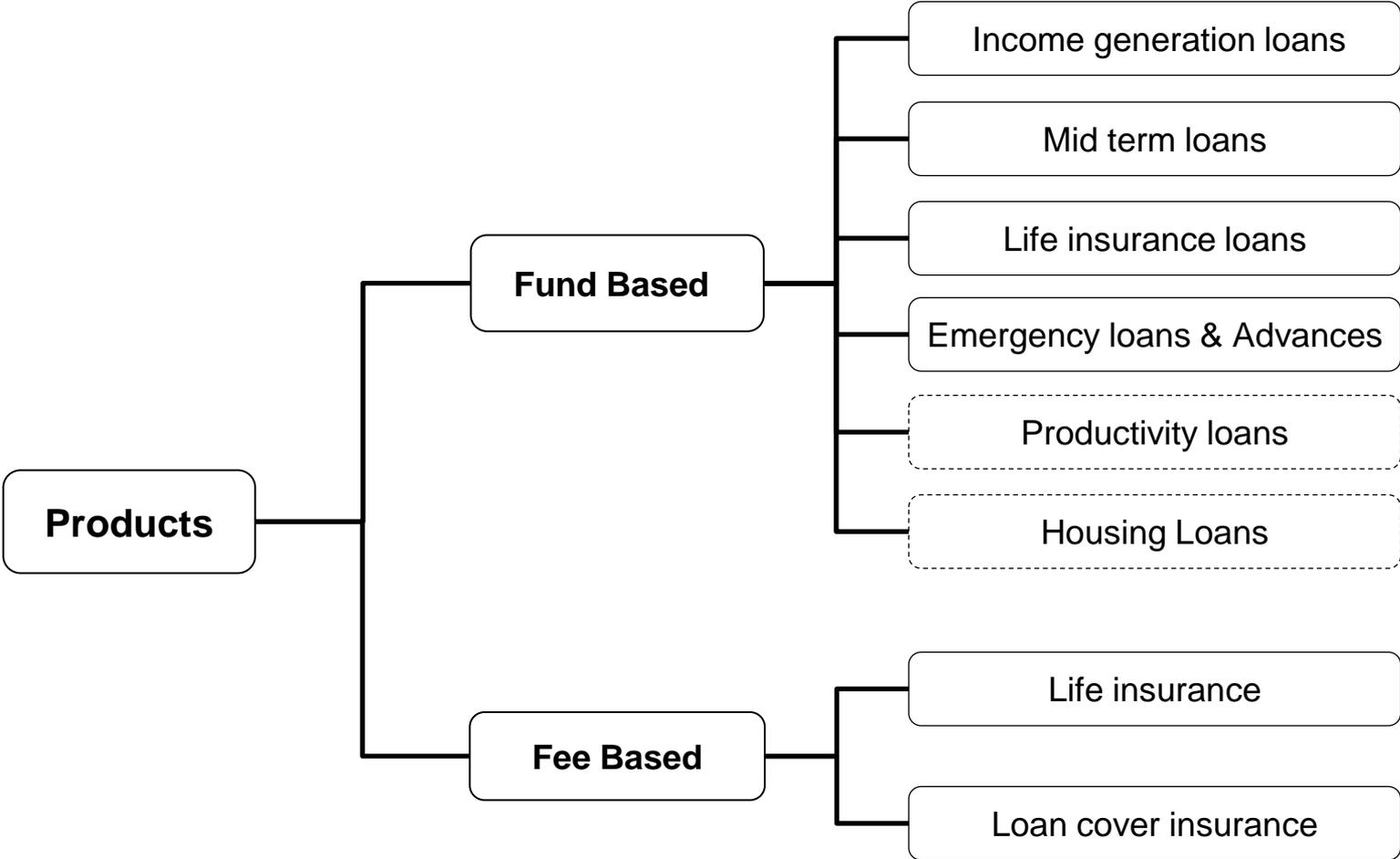
- SKS is a microfinance institution, which provides financial products to poor women and enables them to generate income, build assets and become self-reliant
- Network spread covering ~ 100,000 villages through 2,266 branches across India
- SKS is India's Largest Microfinance Institution with 7.3 million registered members, disbursements of Rs. 16,670 crores\* and loan portfolio outstanding of Rs.4,578 crores

## Milestones



\* Loan disbursements figure: since inception

# PRODUCTS AND SERVICES



Current  
Pilot

# STRENGTHS

Market leadership

Expertise in microfinance

Diversified - Sources of revenue, product offerings, geographies

Pan-India rural distribution network

Superior asset quality

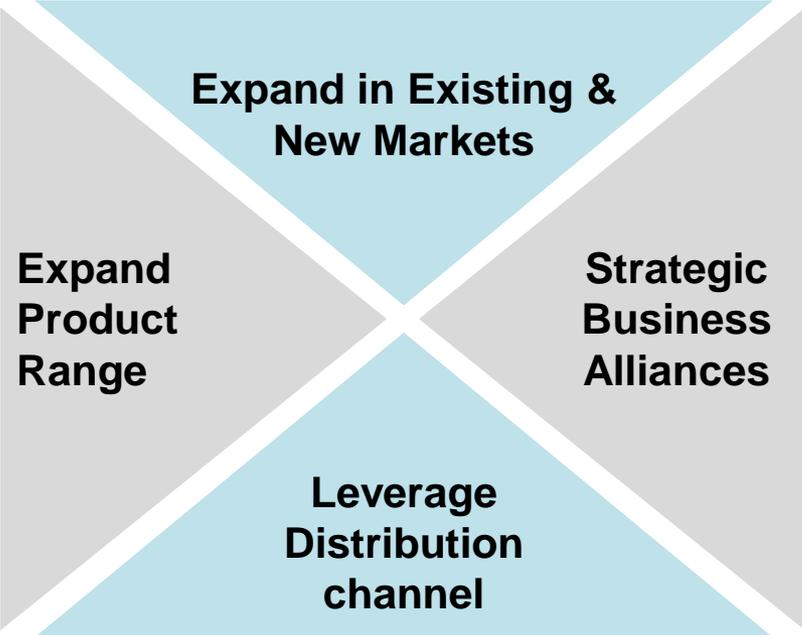
Scalable operating model

Access to multiple sources of capital and emphasis on asset / liability and liquidity management

Experienced management team and board of directors

# STRATEGY

- Establish branches in new geographies
- Increase membership in existing branches
- Establish additional branches in existing areas



- Productivity loans
- Mobile loans
- Working capital loans for members owning Kirana stores
- Housing Finance

- Strategic alliances with Nokia, Airtel, Bajaj Allianz, HDFC METRO and others to provide various offerings
- Leverage our unique knowledge, experience and business models to expand in other countries

- Distribute financial products of other institutions to our members at a lower cost
- Distribute Life Insurance product

# RISK MANAGEMENT

Risks	Mitigation Steps
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## Financial Risks:

### Credit risk

- Joint Liability Group guarantee
- Income generating loan
- Loan utilisation check
- Close-to-customer model with high touch points
- Progressive lending
- Small, weekly repayments mimic cash flows of our borrowers

### Liquidity risk

- Positive Asset liability management structure

### Interest rate risk

- Balanced mix of Fixed and Floating rate of Interest

## Operational Risks:

### Cash handling

- Online integrated cash management system in 1,685 branches
- Cash in transit insurance; Cash in safe insurance

### Information and technology risk

- External data centre
- Disaster recovery site and plan

### Fraud risk

- Robust recruitment process – procurement of Indemnity bond by field staff
- Rotation of Sangam Managers every 6 months; Branch Managers every 12 months
- All branches are audited monthly + Surprise Audit
- Strong headcount of 416 Internal Audit staff
- Fidelity Insurance Cover

## External Risks:

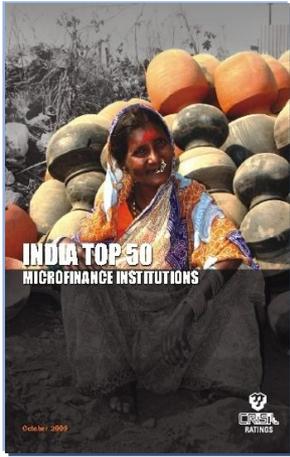
### Political risk

- Policy advocacy, superior disclosure standards, customer grievance redressal

### Concentration Risk

- Geographic diversification

# RECENT AWARDS AND RECOGNITIONS



SKS was rated first among top 50 MFIs in India by CRISIL in October 2009.



SKS was awarded the Silver Certificate by CGAP with Michael & Susan Dell Foundation, for implementing standards in microfinance operations providing services to the poor – October 2009



Vikram Akula was awarded the “Business Transformation Entrepreneur” award in February 2010

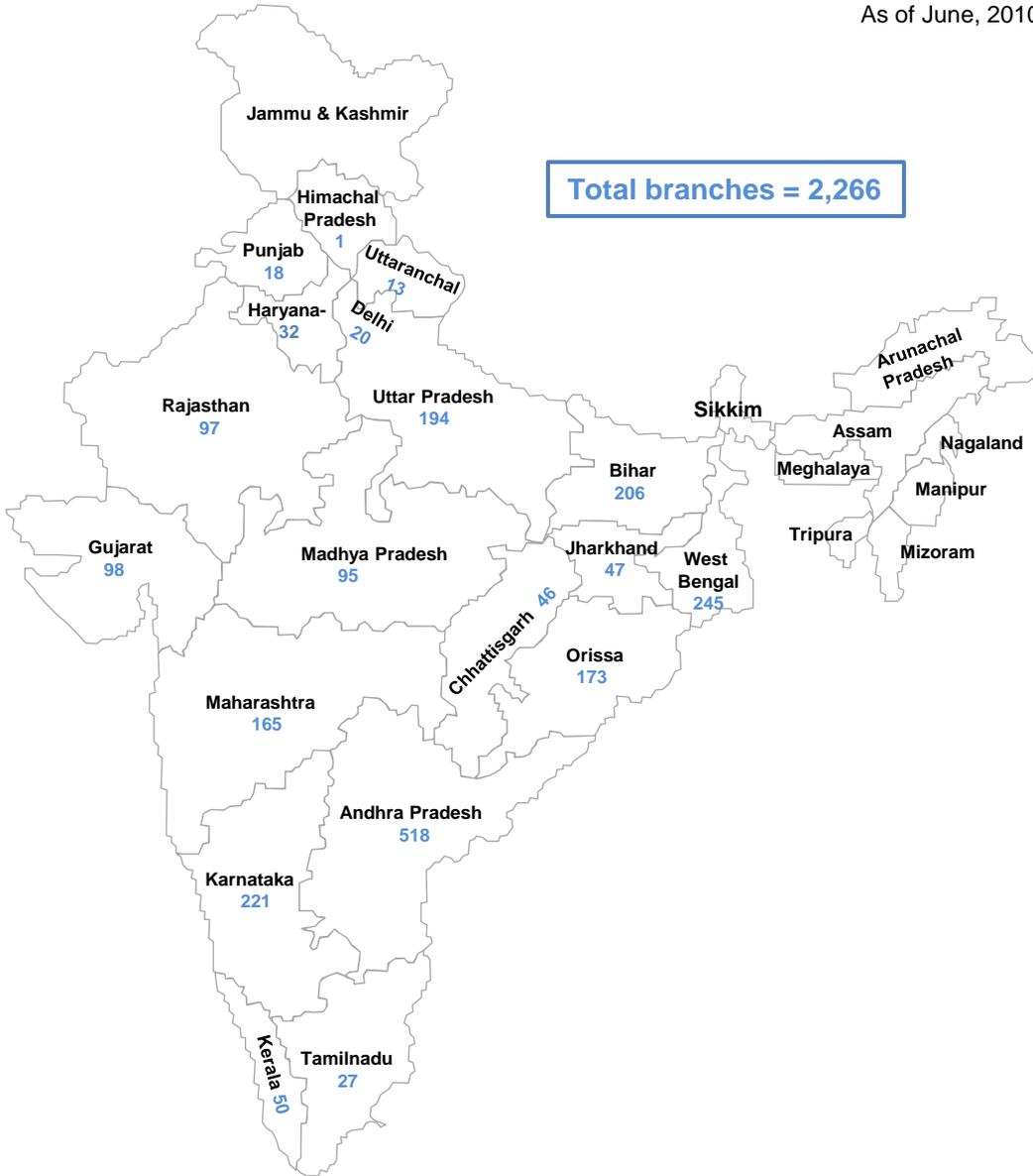
# HIGHEST RATINGS ACROSS INSTRUMENTS

Rating agency	Instrument	Rating
CRISIL	Short term debt programme	P1+
CRISIL	MFI Grading	mfR1
CARE	Commercial Paper	PR1+
CARE	Non Convertible Debenture	PR1+
CARE	Assigned Pool	PR1+ (SO)
CRISIL	Assigned Pool	P1+ (SO)
ICRA	Assigned Pool	A1+ (SO)

# ANNEXURE

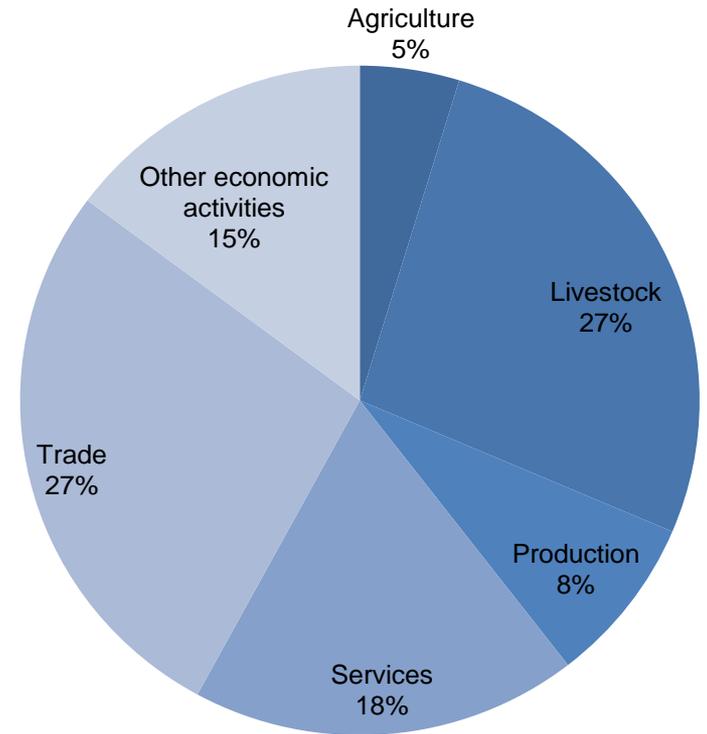
## Pan India Distribution Network

As of June, 2010



## Loan Outstanding by Economic Activity

As of June, 2010



# SOCIAL INITIATIVES



*MBTs owns 10.7 % of Co.'s equity*

**Community ownership – MBTs**



*2.8 mn interest free loans to members for endowment insurance till date*

**Interest free loans**



*Rs 30.4 mn interest free advances for funeral and hospitalization in FY10*

**Funeral and Hospitalization loans**



*Rs.1 cr donated to NGO for Education, Ultra poor program and healthcare*

**Donation to NGO**



*SKS loan officers helped de-worm 1,34,583 children in South India*

**Deworming tablets distribution**



*Donated Rs 5.02 mn for flood relief in FY10*

**Flood relief donation**

# BEST PRACTICES IN CUSTOMER HANDLING

**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.

**Customer grievance cell**

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
2	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
3	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
4	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
5	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
6	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
7	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
8	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
9	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
10	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
11	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
12	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
13	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
14	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
15	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
16	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
17	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
18	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
19	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
20	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
21	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000

*Simplified calculation of principal and interest rates*

**Passbook – Simplified**



*All transactions recorded in members' passbook*

**Passbook – Comprehensive**



*2.45 mn group training sessions on basic financial literacy in FY 10*

**Financial literacy**



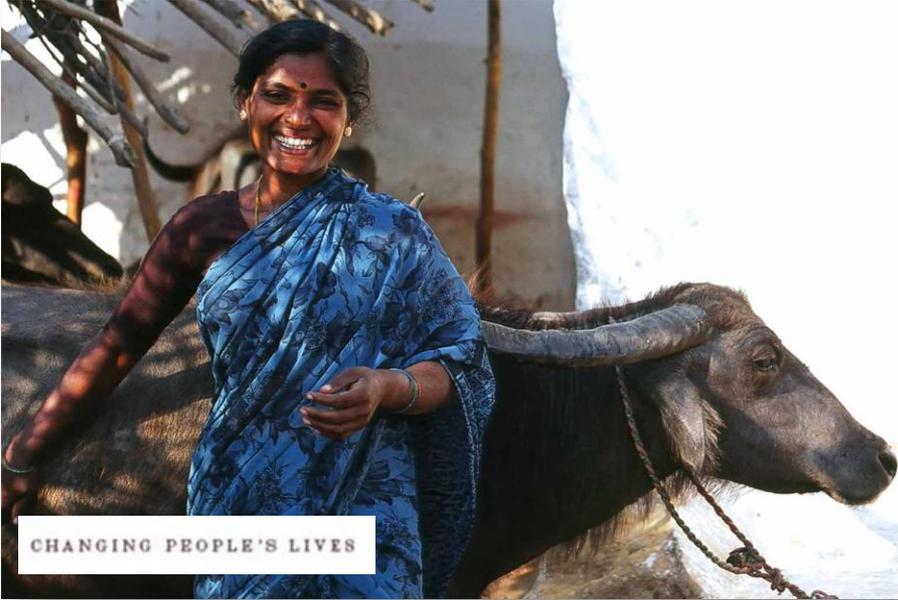
*39 Sangam Leader Meetings, attended by 13,212 Sangam Leaders in FY 10*

**Sangam Leader meetings**



*About 3,672 responses received in the last survey*

**Group leaders' feedback**



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