

## EARNINGS UPDATE – Q3 FY12



**January 2012**

**SKS Microfinance Limited**

BSE: 533228 NSE: SKSMICRO

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

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# PERFORMANCE HIGHLIGHTS

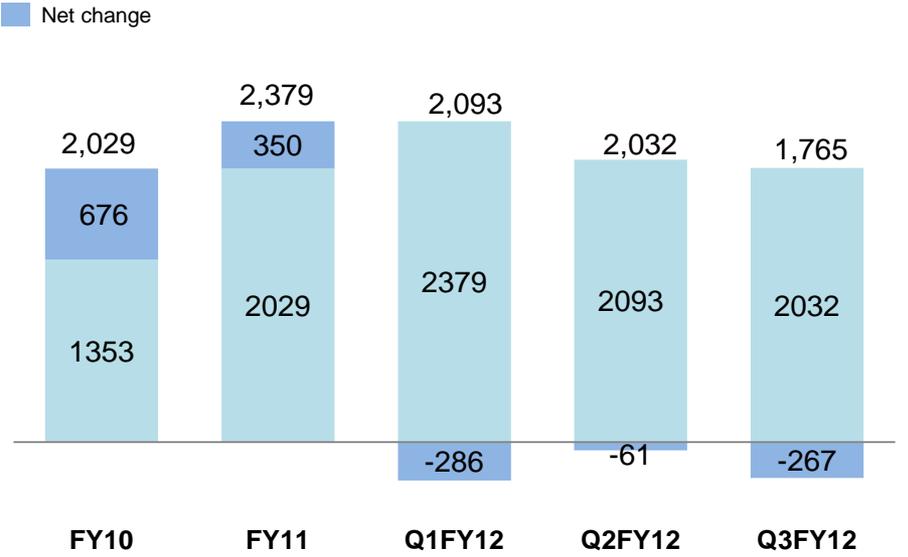
## HIGHLIGHTS – Q3 FY12

- RBI notifies a comprehensive regulatory framework for MFIs with creation of a separate category of “NBFC-MFIs” on December 2, 2011, ushering in more regulatory clarity.
- RBI relaxes ECB norms and permits NBFC-MFIs to borrow upto USD 10 million per financial year.
- Networth of Rs. 762 crores and cash & bank balances of Rs. 292 crores as at 31<sup>st</sup> December, 2011.
- Capital adequacy at 44.3%.
- Non-AP portfolio in 18 other States post a healthy collection efficiency of 95%.
- Exposure at risk in AP state is substantially dealt with in the books of accounts. Residual exposure at risk on AP is nil after adjusting for un-availed DTA and accounting for tax break on future write-offs. *(Further details in slide no.23)*
- Reported loss of Rs. 428 crores for Q3-FY12 is largely on account of credit cost of Rs. 359 crores and not availing deferred tax benefit. An amount of Rs. 332 crores pertaining to AP portfolio was written off during the quarter, in excess of RBI provisioning norms.

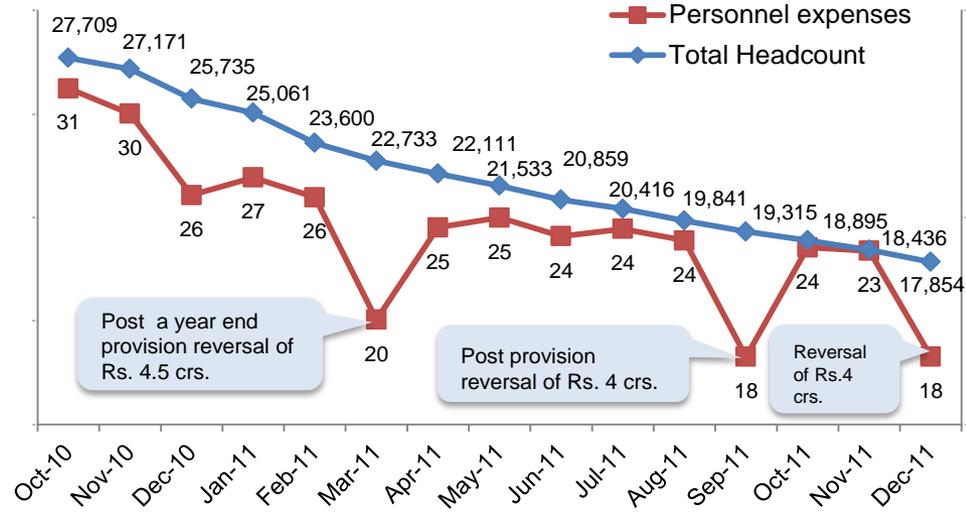
# **OPERATIONAL HIGHLIGHTS**

# CONSOLIDATION TO ADD COST EFFICIENCY

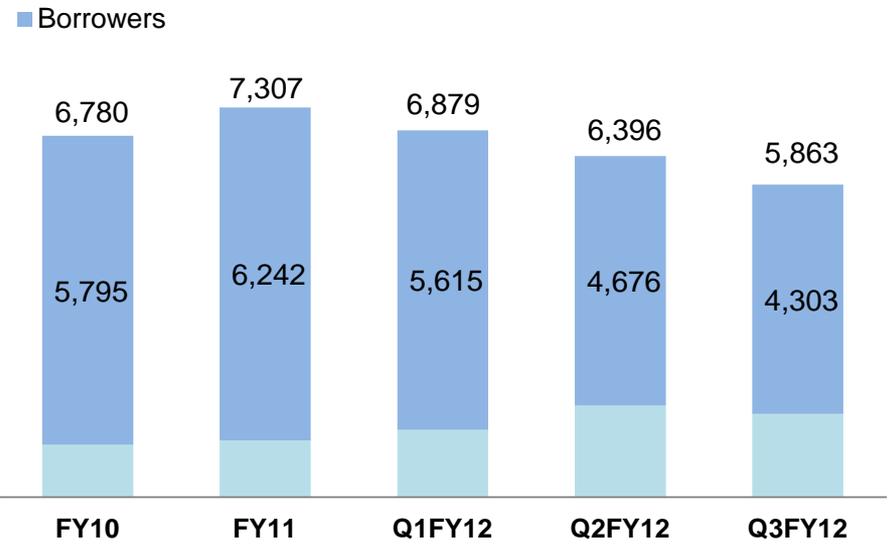
## Branches



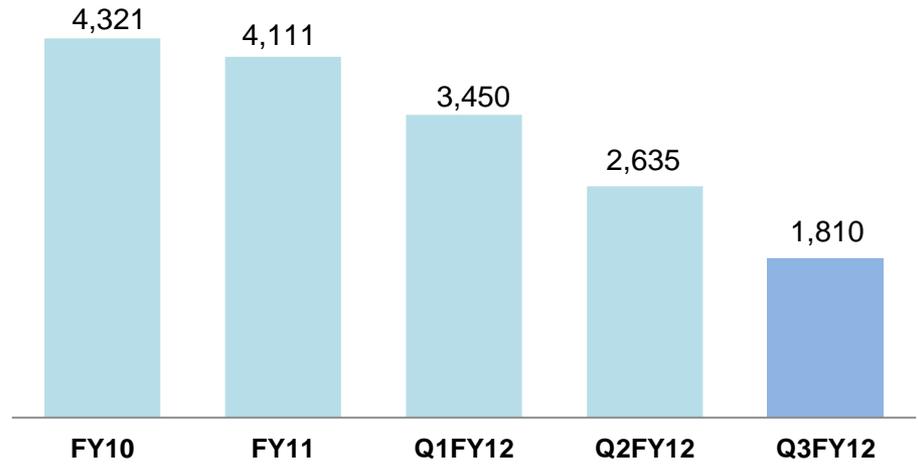
## Personnel cost (2/3<sup>rd</sup> of operating cost)



## Members (in '000)



## Loan Portfolio Outstanding (INR Crs)



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

# CONSOLIDATED OPERATIONAL HIGHLIGHTS

| Particulars  | Dec-10  | Dec-11  | YoY% | Sep-11  | QoQ% |
|--|---------|---------|------|---------|------|
| Branches#  | 2,403   | 1,765   | -27% | 2,032   | -13% |
| Centers (Sangam)   | 279,781 | 244,595 | -13% | 258,748 | -5%  |
| Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)           | 25,735  | 17,854  | -31% | 19,315  | -8%  |
| • Field Staff (i) + (ii) + (iii) + (iv) + (v)              | 25,303  | 17,510  | -31% | 18,964  | -8%  |
| – Sangam Managers* (i)                                     | 15,920  | 11,485  | -28% | 12,595  | -9%  |
| – Sangam Managers Trainees(ii)                             | 2,278   | 100     | -96% | 118     | -15% |
| – Branch Management Staff (iii)                            | 4,137   | 3,449   | -17% | 3,630   | -5%  |
| – Area Managers (iv)                                       | 193     | 141     | -27% | 146     | -3%  |
| – Regional Office Staff (v)                                | 2,775   | 2,335   | -16% | 2,475   | -6%  |
| • Head Office Staff (vi)                                   | 432     | 344     | -20% | 351     | -2%  |
| Members (in '000)  | 7,715   | 5,863   | -24% | 6,396   | -8%  |
| – Members in non-AP States (in '000)                       | 5,653   | 3,940   | -30% | 4,468   | -12% |
| Active borrowers (in '000)                                 | 6,663   | 4,303   | -35% | 4,676   | -8%  |
| – Active borrowers in non-AP States (in '000)              | 4,837   | 2,575   | -47% | 2,938   | -12% |
| No. of loans disbursed (in '000)                           | 1,348   | 337     | -75% | 781     | -57% |
| Disbursements (for the quarter) (INR Crs)                  | 1,590   | 322     | -80% | 721     | -55% |
| Off-take Avg (Disbursements / No of Loans disbursed )(INR) | 11,793  | 9,536   | -19% | 9,237   | 3%   |
| Gross loan portfolio (INR Crs) (A+B)                       | 5,028   | 1,810   | -64% | 2,635   | -31% |
| • Loans outstanding (A)                                    | 4,762   | 1,645   | -65% | 2,424   | -32% |
| • Assigned loans (B)                                       | 266     | 164     | -38% | 211     | -22% |
| <b>Operational Efficiency:</b>                             |         |         |      |         |      |
| Gross loan portfolio/ No. of Sangam managers (Rs. '000)    | 3,158   | 1,576   | -50% | 2,092   | -25% |
| Gross loan portfolio/ Active Borrowers (INR)               | 7,546   | 4,206   | -44% | 5,634   | -25% |
| Members / No. of Branches                                  | 3,210   | 3,322   | 3%   | 3,148   | 6%   |
| Members / No. of Sangam managers                           | 485     | 510     | 5%   | 508     | 1%   |

\*Sangam Managers are our loan officers, who manage our centers (also called as Sangams). #Includes 46 Gold Loan Branches.

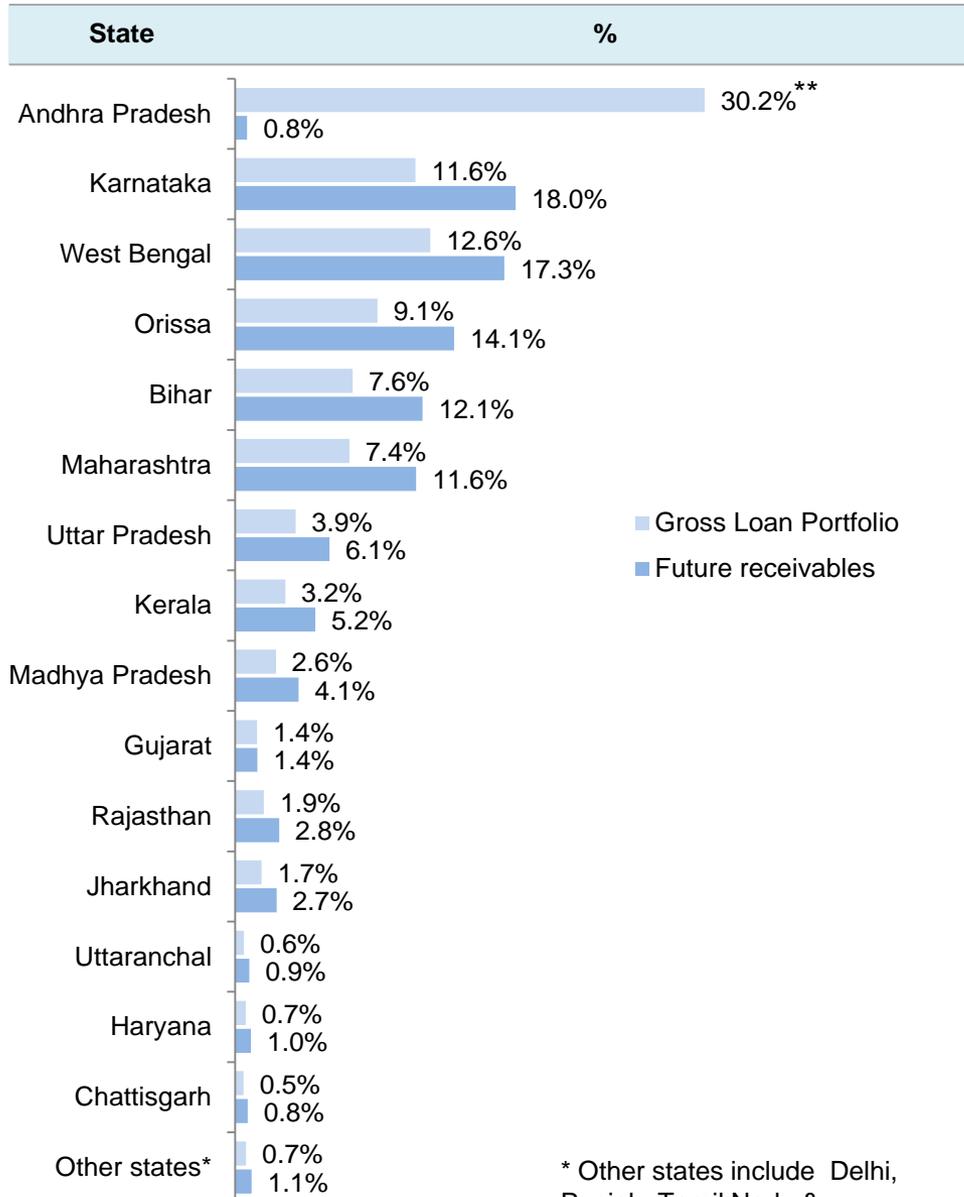
# GOLD LOAN OPERATIONAL HIGHLIGHTS

| Particulars                                      | Dec-11 | Sep-11 |
|--|--------|--------|
| Branches*  | 46     | 44     |
| Employees  | 344    | 310    |
| Active borrowers as on date                      | 7,957  | 4,600  |
| Disbursements (for the quarter) (INR Crs)        | 23     | 13     |
| Gross loan portfolio (INR Crs)                   | 24     | 12     |
| <b>Operational Efficiency:</b>                   |        |        |
| Gross loan portfolio/ No. of Branches (Rs. '000) | 5,223  | 2,836  |
| Gross loan portfolio/ Active Borrowers (INR)     | 30,197 | 27,131 |
| Active Borrowers / No. of Branches               | 173    | 105    |
| Loan to Value                                    | 70%    | 73%    |

\* Branches spread in Karnataka, Gujarat, Maharashtra and U.P.

# AP EXPOSURE REDUCES AND THERE IS NO SIGN OF CONTAGION IN NON-AP STATES

State wise – Portfolio Mix Q3FY12



State wise – Collection Efficiency#

| State                      | Q3FY12       |
|----------------------------|--------------|
| Andhra Pradesh             | 25.2%        |
| Karnataka                  | 99.9%        |
| West Bengal                | 81.7%        |
| Orissa                     | 96.7%        |
| Bihar                      | 99.6%        |
| Maharashtra                | 99.4%        |
| Uttar Pradesh              | 99.5%        |
| Kerala                     | 100.0%       |
| Madhya Pradesh             | 98.2%        |
| Gujarat                    | 69.3%        |
| Rajasthan                  | 99.2%        |
| Jharkhand                  | 99.8%        |
| Uttaranchal                | 99.7%        |
| Haryana                    | 100.0%       |
| Chhattisgarh               | 99.9%        |
| Other states*              | 97.3%        |
| <b>Total non-AP States</b> | <b>94.9%</b> |

\* Other states include Delhi, Punjab, Tamil Nadu & Himachal Pradesh

# Total collection in quarter divided by scheduled dues in quarter

\*\* Net AP Portfolio (after provision)

# ALL RATED POOL ASSIGNMENTS COMPLETED BY SKS POST AP MFI ACT ALSO EXHIBIT A COLLECTION EFFICIENCY OF ABOVE 97% WITH HIGHEST RATINGS

| Particulars                             | Transaction 1# | Transaction 2# | Transaction 3# | Transaction 4# | Transaction 5 | Transaction 6 |
|---|----------------|----------------|----------------|----------------|---------------|---------------|
| <b>Deal Date</b>                        | Feb-11         | Mar-11         | Mar-11         | May-11         | Jun-11        | Sep-11        |
| <b>Rating</b>                           | A1+(SO)*       | A1+(SO)        | A1+(SO)        | A1+(SO)        | A1+(SO)       | A1+(SO)       |
| <b>Pool Amount (Rs. Cr.)</b>            | 58             | 232            | 312            | 50             | 40            | 38            |
| <b>Month Post Transaction</b>           | 10             | 9              | 8              | 8              | 7             | 4             |
| <b>Cumulative Collection Efficiency</b> | 97.9%          | 97.8%          | 98.4%          | 97.2%          | 97.7%         | 99.4%         |

\* Upgraded in July '11

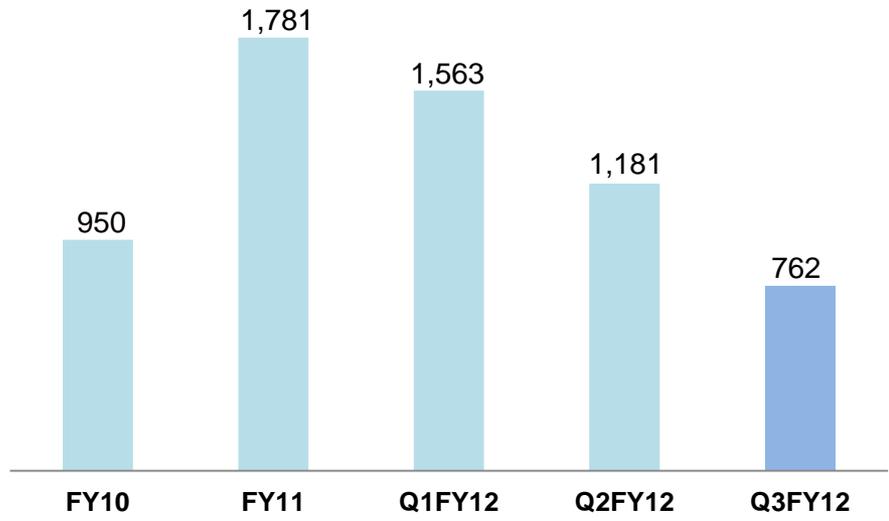
# Transaction closed in this fiscal

# REVIEW OF FINANCIALS

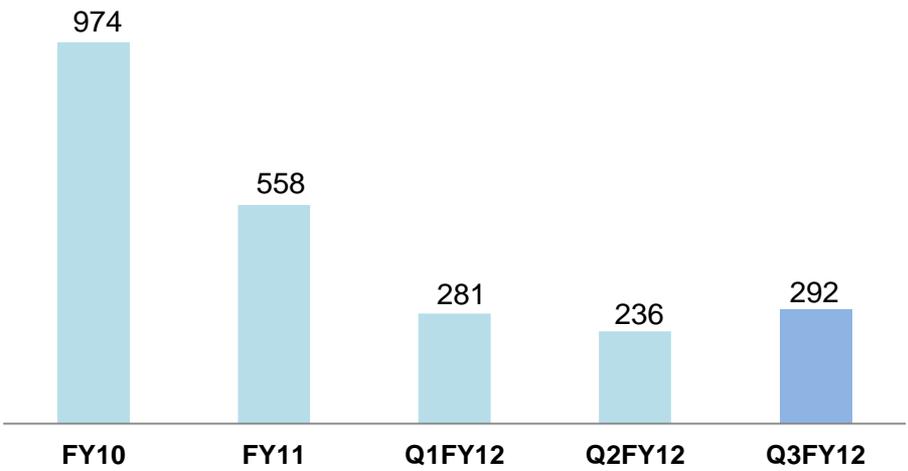
# STRONG SOLVENCY AND LIQUIDITY

INR Crs.

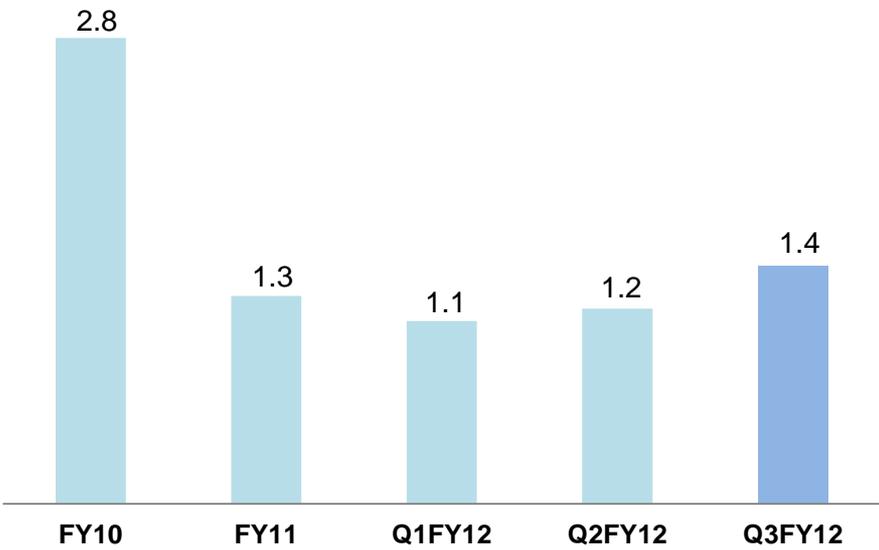
## Networth



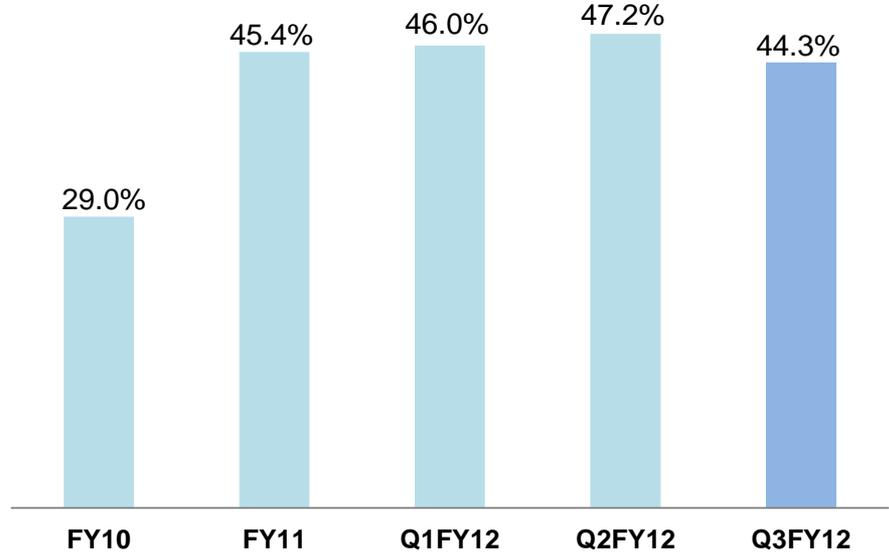
## Cash and Bank



## Debt/Equity



## Capital Adequacy



# PROFIT AND LOSS STATEMENT FOR THE QUARTER ENDED

INR Crs.

| Particulars                          | Q3 FY11    | Q3 FY12      | YoY%          | Q3 FY12<br>As % of Total<br>Revenue | Q2 FY12      | QoQ%        |
|--------------------------------------|------------|--------------|---------------|-------------------------------------|--------------|-------------|
| <b><u>Income from Operations</u></b> |            |              |               |                                     |              |             |
| Interest income on Portfolio loans   | 342        | 77*          | -78%          | 83%                                 | 104*         | -27%        |
| Income from Assigned loans           | 20         | 2            | -88%          | 3%                                  | 8            | -70%        |
| Membership fee                       | 2          | -            | -99%          | -                                   | -            | -           |
| Loan processing fees                 | -          | 3            | -             | 3%                                  | 2            | 46%         |
| <b><u>Other Income</u></b>           |            |              |               |                                     |              |             |
| Insurance commission                 | 2          | 1            | -64%          | 1%                                  | 1            | -24%        |
| Group Insurance admin. charges       | 19         | 1            | -97%          | 1%                                  | 5            | -89%        |
| Income on Investments                | 4          | 5            | 41%           | 6%                                  | 3            | 53%         |
| Miscellaneous Income                 | 1          | 5            | 262%          | 5%                                  | 7            | -38%        |
| <b>Total Revenue</b>                 | <b>389</b> | <b>93</b>    | <b>-76%</b>   | <b>100%</b>                         | <b>131</b>   | <b>-29%</b> |
| <b>Financial expenses</b>            | <b>97</b>  | <b>41</b>    | <b>-58%</b>   | <b>44%</b>                          | <b>53</b>    | <b>-22%</b> |
| Personnel expenses                   | 89         | 65           | -26%          | 70%                                 | 67           | -2%         |
| Operating and other expenses         | 47         | 53^          | 11%           | 57%                                 | 39           | 37%         |
| Depreciation and amortization        | 4          | 2            | -35%          | 3%                                  | 3            | -7%         |
| <b>Total Operating Cost</b>          | <b>140</b> | <b>120</b>   | <b>-14%</b>   | <b>130%</b>                         | <b>108</b>   | <b>12%</b>  |
| <b>Provision &amp; Write-offs</b>    | <b>101</b> | <b>359</b>   | <b>256%</b>   | <b>387%</b>                         | <b>353</b>   | <b>2%</b>   |
| <b>Total Expenditure</b>             | <b>338</b> | <b>520</b>   | <b>54%</b>    | <b>561%</b>                         | <b>514</b>   | <b>1%</b>   |
| <b>Profit before Tax</b>             | <b>52</b>  | <b>(427)</b> | <b>-925%</b>  | <b>-461%</b>                        | <b>(383)</b> | <b>12%</b>  |
| Tax expense                          | 18         | 0.4          | -97%          | 0.5%                                | 2            | -76%        |
| <b>Profit after Tax</b>              | <b>34</b>  | <b>(428)</b> | <b>-1353%</b> | <b>-461%</b>                        | <b>(385)</b> | <b>-11%</b> |

^After adjusting for one-off/non-recurring expenditure of Rs. 19 crs., the operating and other expenses for Q3FY12 is Rs. 34 crs. (Q2FY12 Rs. 39 crs.)

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

# PROFIT AND LOSS STATEMENT FOR THE NINE MONTHS ENDED

INR Crs.

| Particulars                          | 9M FY11      | 9M FY12        | YoY%         | 9M FY12<br>As % of Total<br>Revenue |
|--------------------------------------|--------------|----------------|--------------|-------------------------------------|
| <b><u>Income from Operations</u></b> |              |                |              |                                     |
| Interest income on Portfolio loans   | 868          | 309*           | -64%         | 77%                                 |
| Income from Assigned loans           | 111          | 32             | -71%         | 8%                                  |
| Membership fee                       | 10           | -              | -100%        | -                                   |
| Loan processing fees                 | -            | 5              | -            | 1%                                  |
| <b><u>Other Income</u></b>           |              |                |              |                                     |
| Insurance commission                 | 9            | 3              | -72%         | 1%                                  |
| Group Insurance admin. charges       | 55           | 17             | -69%         | 4%                                  |
| Income on Investments                | 13           | 14             | 13%          | 4%                                  |
| Miscellaneous Income                 | 9            | 21             | 132%         | 5%                                  |
| <b>Total Revenue</b>                 | <b>1,076</b> | <b>401</b>     | <b>-63%</b>  | <b>100%</b>                         |
| <b>Financial expenses</b>            | <b>261</b>   | <b>157</b>     | <b>-40%</b>  | <b>39%</b>                          |
| Personnel expenses                   | 258          | 205            | -20%         | 51%                                 |
| Operating and other expenses         | 137          | 128            | -6%          | 32%                                 |
| Depreciation and amortization        | 13           | 8              | -41%         | 2%                                  |
| <b>Total Operating Cost</b>          | <b>407</b>   | <b>341</b>     | <b>-16%</b>  | <b>85%</b>                          |
| <b>Provision &amp; Write-offs</b>    | <b>130</b>   | <b>896</b>     | <b>589%</b>  | <b>224%</b>                         |
| <b>Total Expenditure</b>             | <b>799</b>   | <b>1,394</b>   | <b>75%</b>   | <b>348%</b>                         |
| <b>Profit before Tax</b>             | <b>277</b>   | <b>(993)</b>   | <b>-458%</b> | <b>-248%</b>                        |
| Tax expense                          | 96           | 38             | -60%         | 9%                                  |
| <b>Profit after Tax</b>              | <b>181</b>   | <b>(1,031)</b> | <b>-668%</b> | <b>-257%</b>                        |

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

# DEFERRED TAX BENEFIT TO BE AVAILED IN FUTURE

Rs. 355 Crs. of DTA will be available to off-set taxes on future taxable income and to add to the reported PBT

*INR Crs.*

| <b>Deferred Tax Asset</b>         | <b>Amount</b> |
|-----------------------------------|---------------|
| Opening 31 <sup>st</sup> March'11 | 36            |
| Add: DTA eligibility in Q1FY12    | 59            |
| Add: DTA eligibility in Q2FY12    | 123           |
| Add: DTA eligibility in Q3FY12    | 136           |
| <b>Total un-availed DTA</b>       | <b>355</b>    |

# PROVISIONS & WRITE OFF IN PROFIT AND LOSS ACCOUNT

INR Crs.

| Particulars                         | Q3 FY11     |             |              | Q4 FY11     |             |              |
|-------------------------------------|-------------|-------------|--------------|-------------|-------------|--------------|
|                                     | AP          | Non-AP      | Total        | AP          | Non-AP      | Total        |
| Provision for Standard & NPAs       | 9.4         | 21.2        | 30.6         | (10.6)      | 27.4        | 16.8         |
| Bad debts written off               | 1.2         | 7.4         | 8.6          | 37.9        | 13.9        | 51.8         |
| Loss on short collection on Off B/S | 56.2        | 5.4         | 61.6         | 29.4        | 8.3         | 37.6         |
| <b>Total</b>                        | <b>66.8</b> | <b>34.0</b> | <b>100.8</b> | <b>56.6</b> | <b>49.6</b> | <b>106.2</b> |

| Particulars                         | Q1 FY12      |             |              | Q2 FY12      |             |              | Q3 FY12      |             |              |
|-------------------------------------|--------------|-------------|--------------|--------------|-------------|--------------|--------------|-------------|--------------|
|                                     | AP           | Non AP      | Total        | AP           | Non AP      | Total        | AP           | Non AP      | Total        |
| Provision for Standard/ NPAs        | 109.8        | (20.3)      | 89.4         | (24.7)       | (6.8)       | (31.6)       | (35.8)       | (3.9)       | (39.7)       |
| Bad debts written off               | 11.6         | 76.0        | 87.6         | 326.0        | 50.2        | 376.3        | 368.4        | 28.8        | 397.2        |
| Loss on short collection on Off B/S | 4.8          | 1.7         | 6.5          | 1.4          | 7.1         | 8.6          | (0.1)        | 1.3         | 1.2          |
| <b>Total</b>                        | <b>126.2</b> | <b>57.4</b> | <b>183.6</b> | <b>302.7</b> | <b>50.5</b> | <b>353.3</b> | <b>332.5</b> | <b>26.2</b> | <b>358.7</b> |

# STRONG CAPITAL BASE DRIVES SKS' BALANCE SHEET

INR Crs.

| Particulars                                     | Q3 FY11      | Q3 FY12      | YoY%        | Q2 FY12      | QoQ%        |
|---|--------------|--------------|-------------|--------------|-------------|
| Equity share capital                            | 73           | 77           | 5%          | 72           | 6%          |
| Stock options outstanding                       | 10           | 16           | 70%         | 12           | 42%         |
| Reserves and surplus                            | 1,762        | 669          | -62%        | 1,097        | -39%        |
| <b>Capital &amp; Reserves</b>                   | <b>1,845</b> | <b>762</b>   | <b>-59%</b> | <b>1,181</b> | <b>-35%</b> |
| Loan funds                                      | 3,206        | 1,093        | -66%        | 1,392        | -22%        |
| Current liabilities and provisions              | 365          | 128          | -65%        | 127          | 1%          |
| Provision for standard and non performing asset | 48           | 83           | 73%         | 123          | -32%        |
| <b>Liabilities</b>                              | <b>3,619</b> | <b>1,304</b> | <b>-64%</b> | <b>1,642</b> | <b>-21%</b> |
| <b>Total Liabilities</b>                        | <b>5,464</b> | <b>2,066</b> | <b>-62%</b> | <b>2,822</b> | <b>-27%</b> |
| Fixed assets                                    | 24           | 18           | -24%        | 20           | -9%         |
| Intangible assets                               | 8            | 7            | -12%        | 8            | -8%         |
| Investment                                      | 4            | 0.2          | -95%        | 0.2          | 0%          |
| Deferred tax assets (net)                       | 37           | -            | -100%       | -            | -           |
| Cash and bank balances                          | <b>398</b>   | <b>292</b>   | <b>-27%</b> | <b>236</b>   | <b>24%</b>  |
| Sundry debtors                                  | 2            | 2            | 3%          | 3            | -26%        |
| Other current assets                            | 76           | 17           | -77%        | 23           | -25%        |
| Portfolio loans                                 | 4,762        | 1,645        | -65%        | 2,424        | -32%        |
| Other loans and advances                        | 152          | 83           | -45%        | 109          | -24%        |
| <b>Total Loans and Advances</b>                 | <b>4,915</b> | <b>1,728</b> | <b>-65%</b> | <b>2,532</b> | <b>-32%</b> |
| <b>Total Assets</b>                             | <b>5,464</b> | <b>2,066</b> | <b>-62%</b> | <b>2,822</b> | <b>-27%</b> |
| Note: 1.Assigned Portfolio                      | <b>266</b>   | <b>164</b>   | <b>-38%</b> | <b>211</b>   | <b>-22%</b> |
| 2.Gross Loan Portfolio                          | <b>5,028</b> | <b>1,810</b> | <b>-64%</b> | <b>2,635</b> | <b>-31%</b> |

# HIGHER CREDIT COST IMPACTS PROFITABILITY FOR Q3 FY12

| Particulars   |                | Q3 FY11 | Q2 FY12 | Q3 FY12 |
|---|----------------|---------|---------|---------|
| <b>Spread Analysis ( as % of Avg. Gross Loan Portfolio)</b> |                |         |         |         |
| Gross Yield   | (I)            | 29.8%   | 17.2%*  | 16.7%*  |
| Portfolio Yield   |                | 27.7%   | 14.7%*  | 14.2%*  |
| Financial Cost  | (a)            | 7.4%    | 6.9%    | 7.6%    |
| Operating Cost  | (b)            | 10.7%   | 14.2%   | 21.7%   |
| Provision and Write-offs                                    | (c)            | 7.7%    | 46.5%   | 64.6%   |
| Taxes   | (d)            | 1.3%    | 0.2%    | 0.1%    |
| Total Expense   | II = (a+b+c+d) | 27.2%   | 67.8%   | 93.7%   |
| Return on Avg. Gross Loan Portfolio                         | (I) - (II)     | 2.6%    | -50.6%  | -77.0%  |
| <b>Efficiency:</b>  |                |         |         |         |
| Cost to Income  |                | 47.8%   | 137.4%  | 232.7%  |
| <b>Leverage:</b>  |                |         |         |         |
| Debt : Equity (on Balance Sheet)                            |                | 1.7     | 1.2     | 1.4     |
| <b>Capital Adequacy:</b>                                    |                |         |         |         |
|   |                | 35.65%  | 47.19%  | 44.33%  |
| <b>Profitability:</b>                                       |                |         |         |         |
| Return on Avg. Assets                                       |                | 2.4%    | -47.3%  | -70.0%  |
| Return on Avg. Assets (incl. assigned loans)                |                | 2.3%    | -43.3%  | -65.0%  |
| ROE   |                | 7.5%    | -112.1% | -176.2% |
| EPS - Diluted (INR)   |                | 4.47    | (53.15) | (59.12) |
| Book Value (INR)  |                | 255.82  | 163.15  | 105.32  |

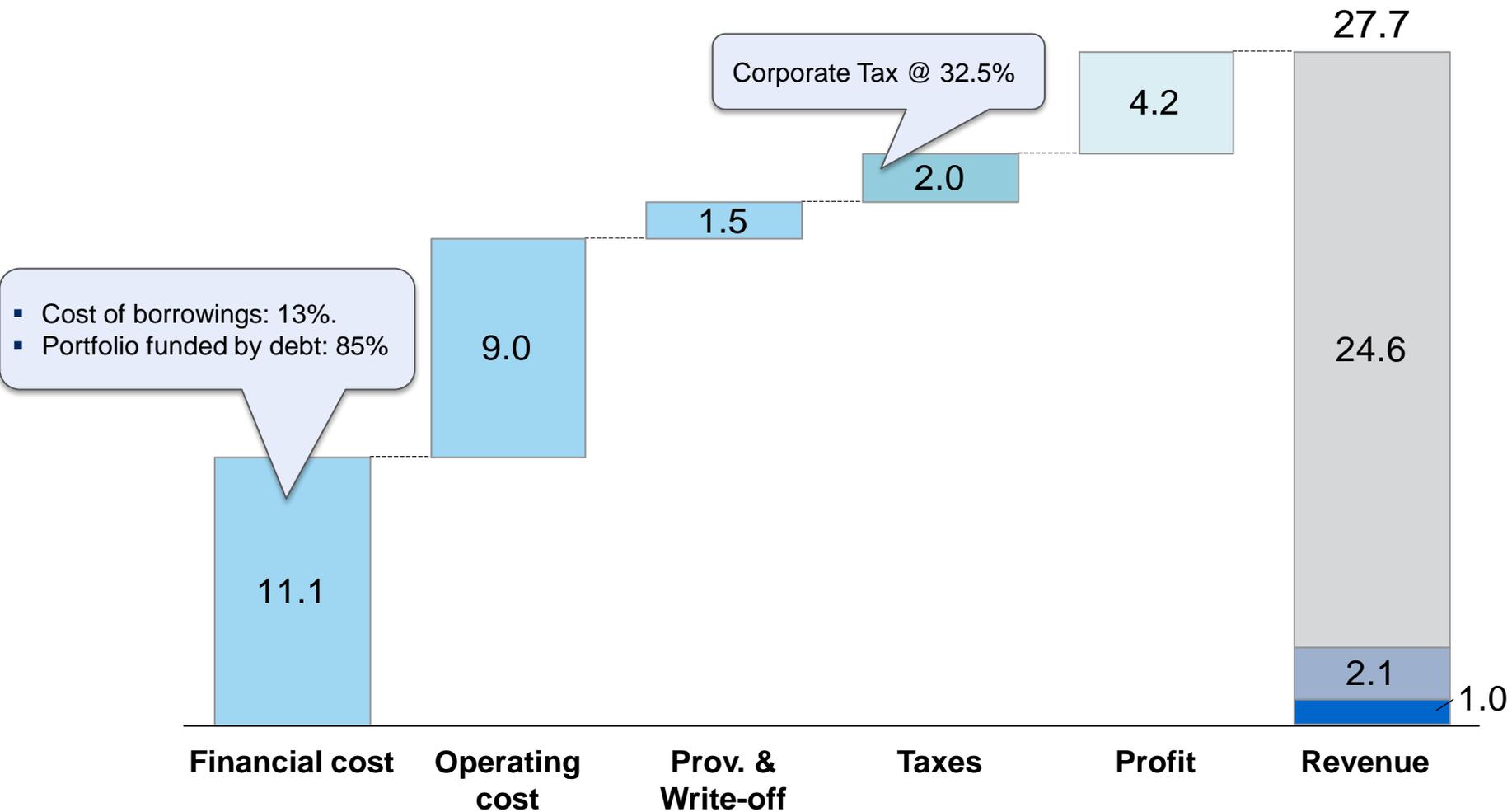
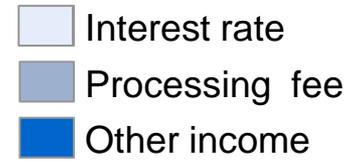
\* Income on AP portfolio recognised not on accrual basis, but on cash basis

# HIGHER CREDIT COST IMPACTS PROFITABILITY FOR 9M FY12

| Particulars   |                | 9M FY11       | 9M FY12       |
|---|----------------|---------------|---------------|
| <b>Spread Analysis ( as % of Avg. Gross Loan Portfolio)</b> |                |               |               |
| Gross Yield   | (I)            | 30.7%         | 17.8%*        |
| Portfolio Yield   |                | 27.9%         | 15.1%*        |
| Financial Cost  | (a)            | 7.4%          | 7.0%          |
| Operating Cost  | (b)            | 11.6%         | 15.2%         |
| Provision and Write-offs                                    | (c)            | 3.7%          | 39.8%         |
| Taxes   | (d)            | 2.7%          | 1.7%          |
| Total Expense   | II = (a+b+c+d) | 25.5%         | 63.6%         |
| Return on Avg. Gross Loan Portfolio                         | (I) - (II)     | 5.2%          | -45.8%        |
| <b>Efficiency:</b>  |                |               |               |
| Cost to Income  |                | 50.0%         | 139.9%        |
| <b>Leverage:</b>  |                |               |               |
| Debt : Equity (on Balance Sheet)                            |                | 1.7           | 1.4           |
| <b>Capital Adequacy:</b>                                    |                | <b>35.65%</b> | <b>44.33%</b> |
| <b>Profitability:</b>                                       |                |               |               |
| Return on Avg. Assets                                       |                | 5.1%          | -42.7%        |
| Return on Avg. Assets (incl. assigned loans)                |                | 4.3%          | -38.5%        |
| ROE   |                | 17.3%         | -104.0%       |
| EPS - Diluted (INR)   |                | 24.93         | (142.52)      |
| Book Value (INR)  |                | 255.82        | 105.32        |

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

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



# **ANDHRA PRADESH UPDATE**

# SUMMARY OF AP PORTFOLIO FROM OCTOBER'10 TO DECEMBER'11

INR Crs.

| Particulars   |            |
|---|------------|
| Opening Gross Portfolio (1-Oct-10)                          | 1,491      |
|   |            |
| <b>During Oct'10 to Dec'11:</b>                             |            |
| Add: Disbursements  | 194        |
| Less: Principal collected                                   | 317        |
| Less: Write offs / loss on short collections already booked | 831        |
|   |            |
| Closing Gross Portfolio (31-Dec-11)                         | 537        |
| Less: Provisions  | 53         |
| <b>Closing Net Portfolio (31-Dec-11)</b>                    | <b>484</b> |

# LOOKING BEYOND THE AP CRISIS

- Exposure at risk in AP is largely dealt within the books of accounts

## Summary of AP exposure:

*INR Crs.*

|                                       |                   |            |
|---------------------------------------|-------------------|------------|
| <b>Net AP Portfolio (31-Dec-11)</b>   | <b>A</b>          | <b>484</b> |
| DTA un-availed (till 31-Dec-11)       |                   | 355        |
| Tax break in case of future write-off | <b>32.5% of A</b> | 157        |
| <b>Total cushion available</b>        | <b>B</b>          | <b>512</b> |
| <b>Residual AP Portfolio exposure</b> | <b>C = A - B</b>  | <b>Nil</b> |

- Residual AP exposure (net of cushion) is nil.
- Net AP portfolio reduces to Rs. 484 crores.
- AP exposure on future receivables basis reduces to less than 1%.
- 123 branches were merged in AP in Q3 FY12.

# WAY OUT FOR AP SITUATION

## Legal Relief

- SKS files writ petition against AP MFI act in the Honourable High court of Andhra Pradesh.

## Central Legislation

- Draft MFI bill appointing RBI as sole regulator, to overwrite the AP MFI act upon passage in the Parliament.

## Diplomacy

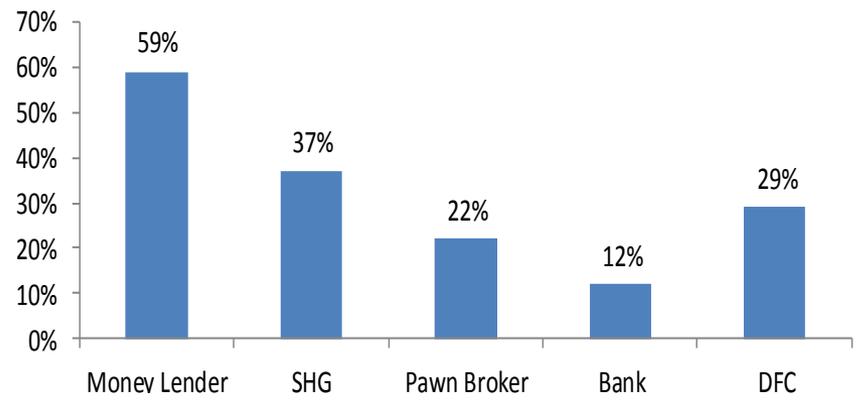
- RBI, MFIN and SIDBI are reportedly in dialogue with the AP Govt.

## Customer Sentiment

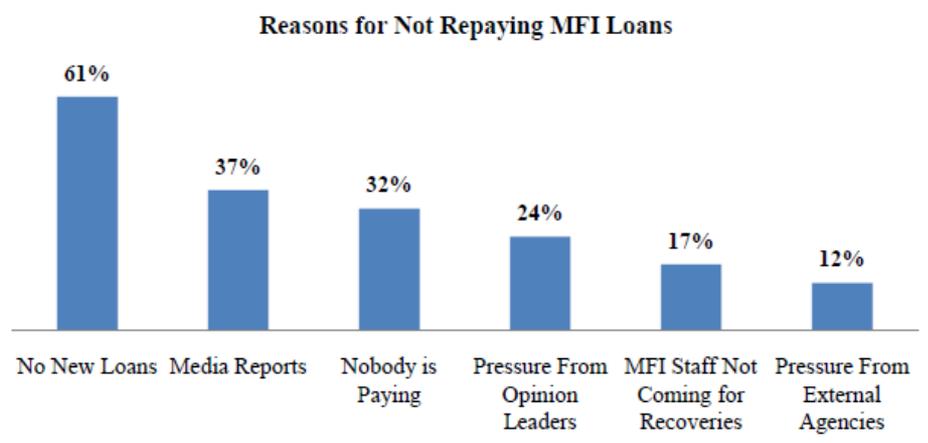
- Substantial reduction or No access to credit for the financially excluded.
- Increase in borrowing costs from borrowing from moneylenders.

# WAY OUT FOR AP SITUATION- CUSTOMER SENTIMENT IN AP

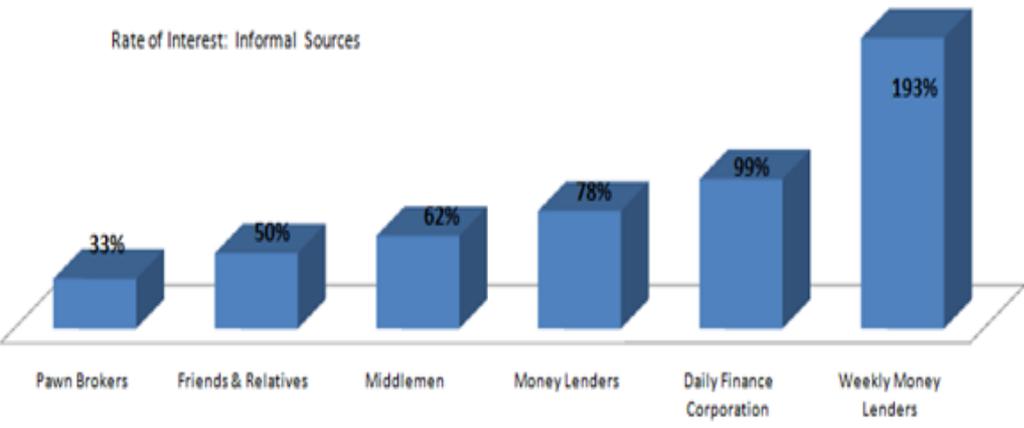
## Sources of Credit (in absence of MFI Loans)



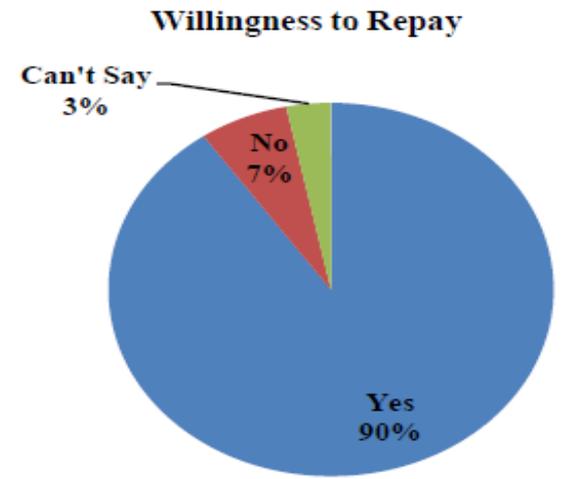
## Reasons for not repaying MFI loans



## Interest rates charged by Informal Sources (in absence of MFIs)



## Willingness to repay



Source: "What are Clients doing post the Andhra Pradesh MFI Crisis?", MicroSave, 2011

# STRATEGY

# NEW STRATEGIC PRIORITIES

**C**lient protection initiatives

**C**redit growth in non-AP book

**C**ross sale initiatives

**C**ompliance, Governance, Risk & Audit framework

**C**apital raise

# STRATEGIC PRIORITY 1 – CLIENT PROTECTION



### Action points

- Expert inputs
- External validation
- Realign the incentive system
- Process tightening
- Board and top management commitment
- Budget allocation
- Dedicated talent

# STRATEGIC PRIORITY 2 – NON-AP GROWTH

## Non-AP Credit Demand Supply gap

- Demand: Rs. 3,00,000 Crs\*
- Supply: ~Rs. 20,000 Crs\*\*
- Sector portfolio outstanding reduces by Rs. 10,000 Crs post AP MFI crisis^

## Consolidation blues chokes supply

- Large MFIs under CDR had 40% non-AP market share
- Small and medium MFIs find it difficult to obtain bank fund and struggle to meet Net Owned Funds of Rs. 5 Crs. and enhanced capital adequacy of 15%

## Rural buoyancy drives demand

- Government expenditure on rural projects/ schemes has doubled over last 3 years
- Minimum Support Prices have increased three-fold over last 3 years
- Record food production (FY11)
- MFI borrowers are either insulated or benefit out of recent rising food inflation

**Favourable non-AP Credit Experience i.e. 95% collection efficiency endorses the non-AP strategy**

\* Intellectap - Inverting the Pyramid, 2009

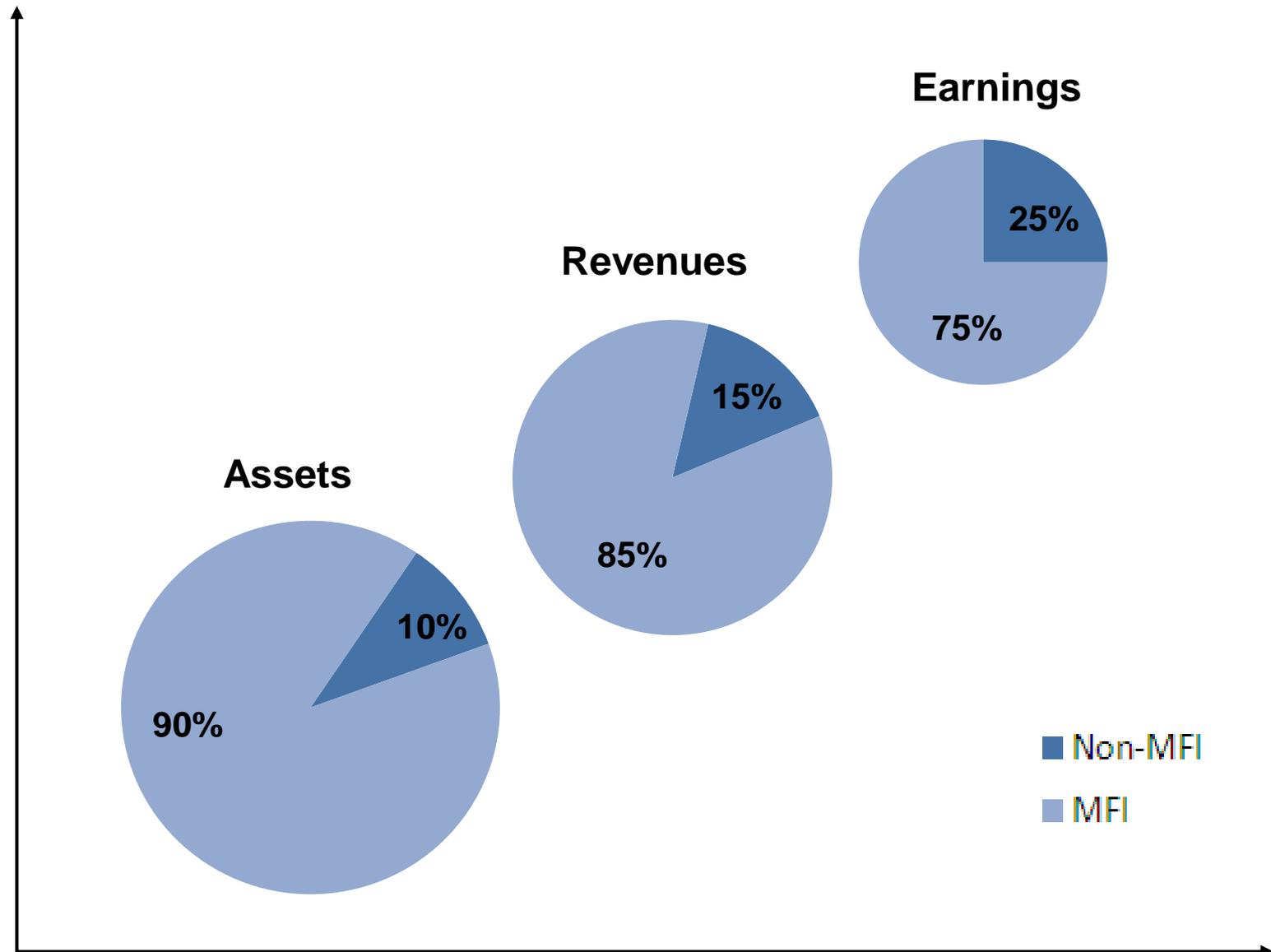
\*\* NABARD - Annual Report, 2010; CRISIL- India Top 50 MFIs Report and Sa-dhan

^ Business Standard

# STRATEGIC PRIORITY 3 – A WELL BALANCED CROSS-SALE APPROACH

| <b>Product</b>                  | <b>Pilot results</b>  | <b>Current status</b>                                      | <b>Future plans</b>                                     |
|---------------------------------|---|--|---|
| <b>Existing Rollout</b>         |   |  |   |
| <b>Mobile phone loans</b>       | Pilot successful  | 2.8 lakh Mobile handsets YTD                               | 7.5 lac Mobile handsets in FY13                         |
| <b>Sangam Stores</b>            | Pilot successful  | Currently 9,000 stores                                     | 40,000 stores by FY13                                   |
| <b>Existing Pilot</b>           |   |  |   |
| <b>Gold Loans</b>               | 5 branches successfully running                               | Branches: 47<br>Portfolio o/s: Rs 23 Crs                   | 400 branches in phase 2 through a downstream subsidiary |
| <b>Housing loan</b>             | Pilot   | Currently on hold, repayment continues for current clients |   |
| <b>Future rollout</b>           |   |  |   |
| <b>Endowment/Term Insurance</b> | To be piloted with new product design, processes and software |  |   |

# CREATIVE DISTURBANCE TO ASSET-REVENUE-EARNING CORRELATION



# STRATEGIC PRIORITY 4 – BUILD ON THE CURRENT GOVERNANCE PLATFORM

## Related parties disclosure

- AS18 standards for key managerial personnel
- All transactions are priced, charged and disclosed

## Accounting and audit quality

- Quality of earnings
  - Deferred income credit
  - Accelerated provisioning and write-offs
  - Acceleration of charges and expenses
  - DTA not availed
- Audit quality
  - Audit – E&Y
  - Internal Audit for HO – KPMG
  - Internal Audit ISO 9001 certified

## Managerial remuneration

- Disclosure as per section 217
- Compliance with section 269

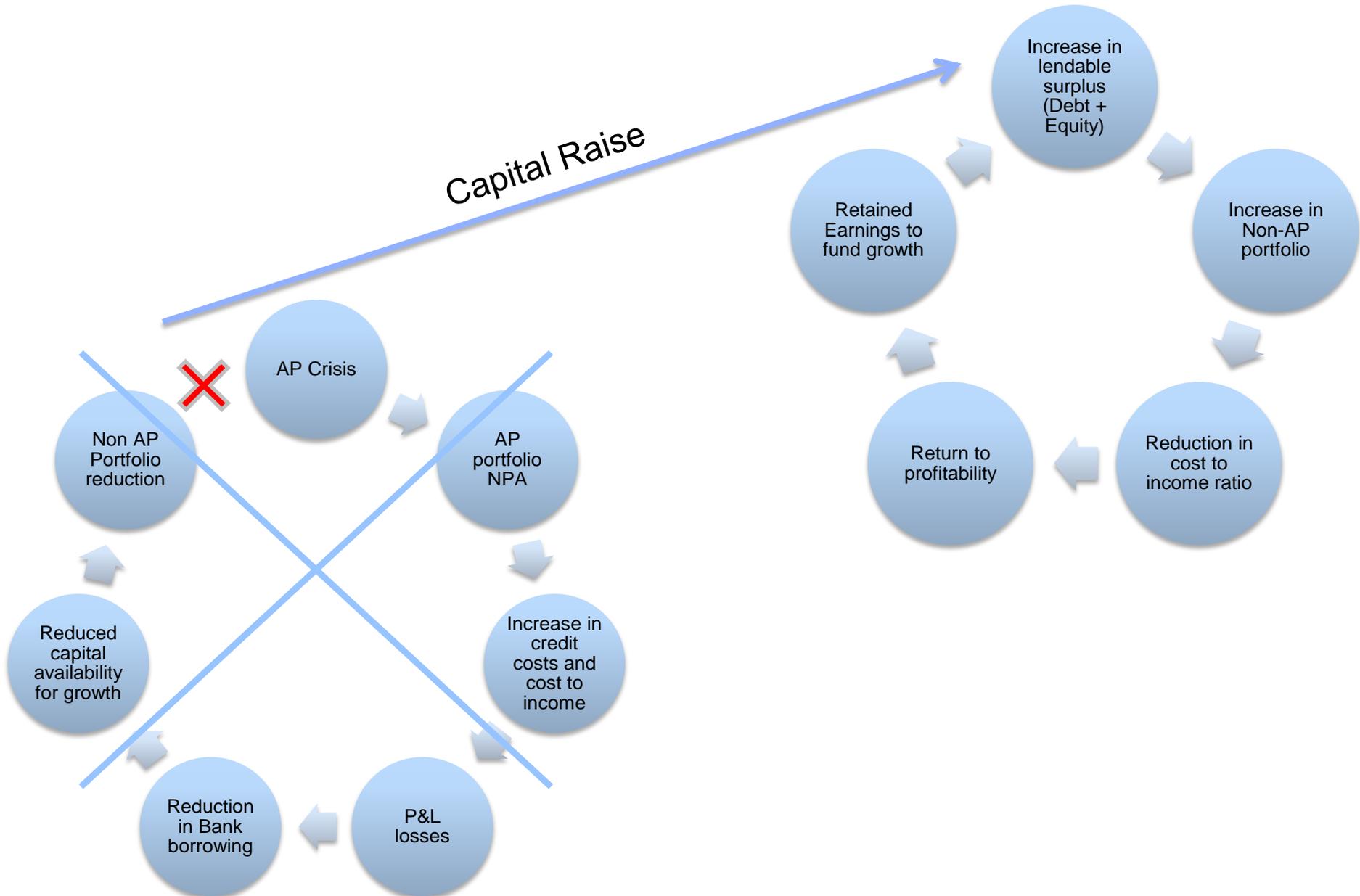
## Board constitution

- Clause 49 compliance
- Varied skill sets of independent directors
- Board committees – Audit, Finance, ALM /Risk management, Compensation, Nomination, Investor grievance
- No inter-se relationships between board members

## Ownership and management separation

- Broad based promoter composition
- Non-promoter share holding: 63%
- Professional management

# STRATEGIC PRIORITY 5 – CAPITAL RAISE TO BREAK THE CYCLE AND FUND FUTURE GROWTH



# STRATEGIC REDIRECTION PROVIDES A CLEAR PATH TO PROFITABILITY

|                 | Q1FY13  | Q2FY13  | FY14  |
|-----------------|---|---|---|
| <b>Target</b>   | <ul style="list-style-type: none"> <li>Reduce operating cost by 20% QoQ</li> </ul>  | <ul style="list-style-type: none"> <li>Enterprise profit</li> </ul>   | <ul style="list-style-type: none"> <li>Enterprise profit with Steady state RoA of 4% (MFI + Non-MFI)</li> </ul>   |
| <b>Strategy</b> | <ul style="list-style-type: none"> <li>Optimise the cost structure</li> </ul>   | <ul style="list-style-type: none"> <li>Broad base the revenue stream</li> <li>De-risk the business model</li> </ul>         | <ul style="list-style-type: none"> <li>Financial leverage</li> </ul>  |
| <b>Drivers</b>  | <ul style="list-style-type: none"> <li>Merger of AP branches ~150</li> <li>Merger of ~250 branches in Non-AP</li> <li>No fresh hiring at the field level</li> <li>No branch opening and new client acquisition</li> </ul> | <ul style="list-style-type: none"> <li>Cross sale initiatives start yielding results</li> <li>Start availing DTA</li> </ul> | <ul style="list-style-type: none"> <li>Debt equity to raise from 1.2 to 3 times</li> <li>New client acquisition</li> <li>Cross sale contributes 25% to the bottom line</li> </ul> |

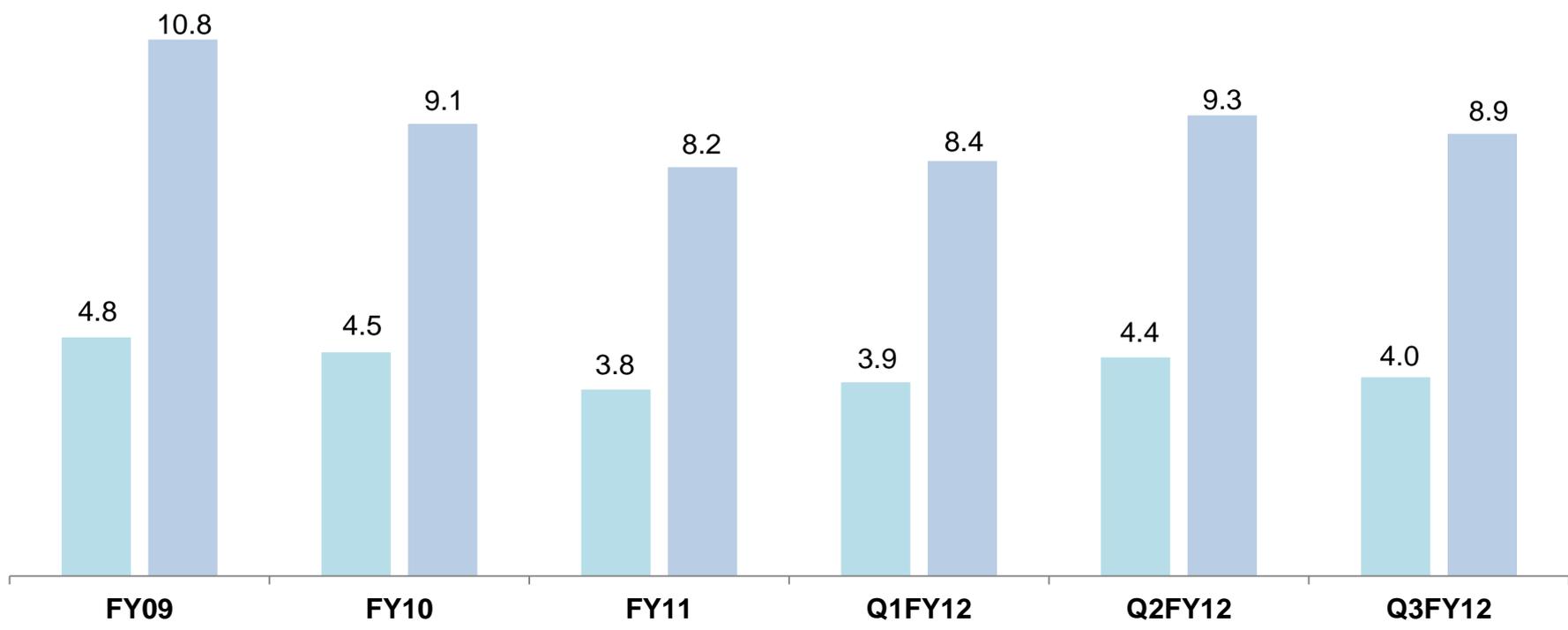
# **FINANCIAL ARCHITECTURE**

# FINANCIAL ARCHITECTURE (1/3)

## Positive Asset Liability Management Structure

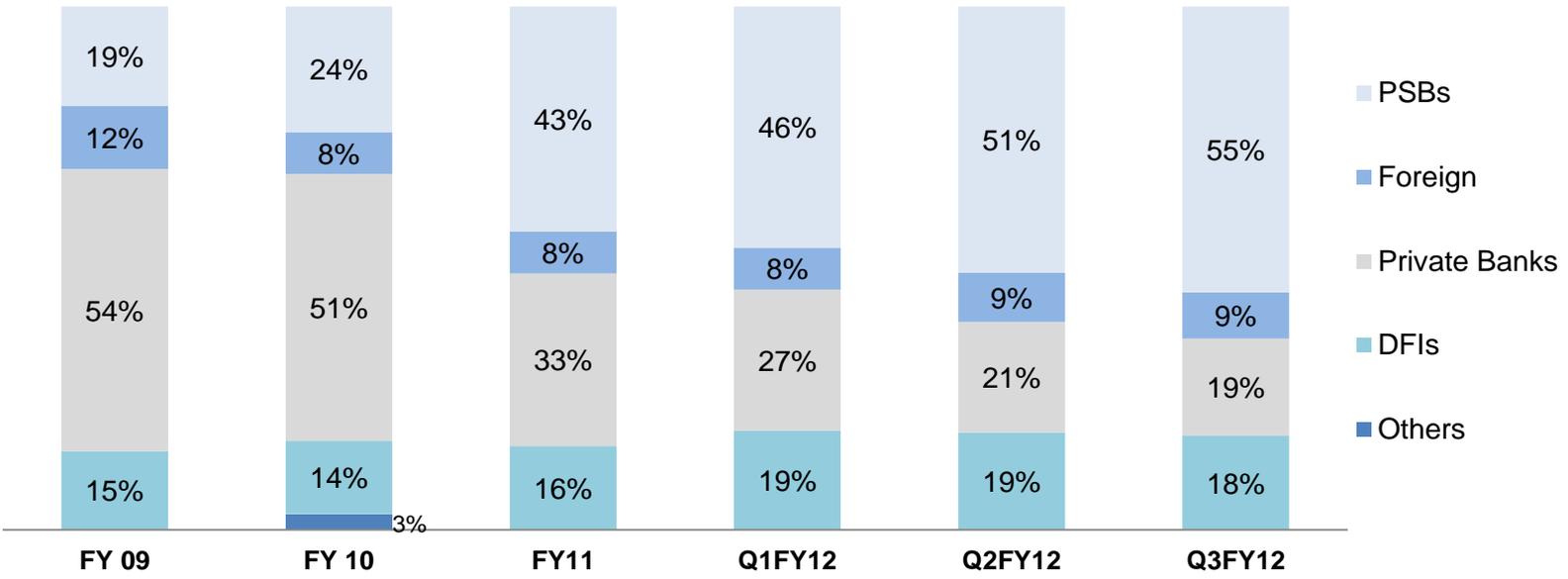
*No. of months*

■ Avg maturity of assets   ■ Avg maturity of liabilities

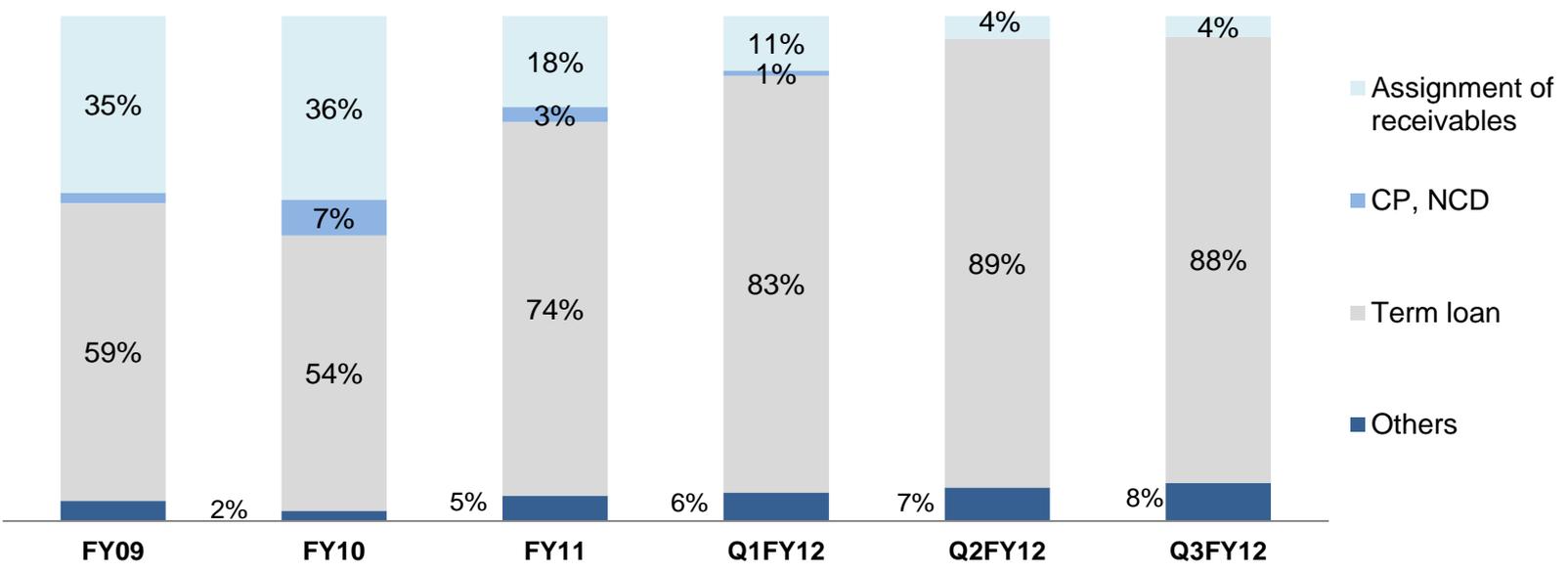


# FINANCIAL ARCHITECTURE (2/3)

**Lender Group Analysis**

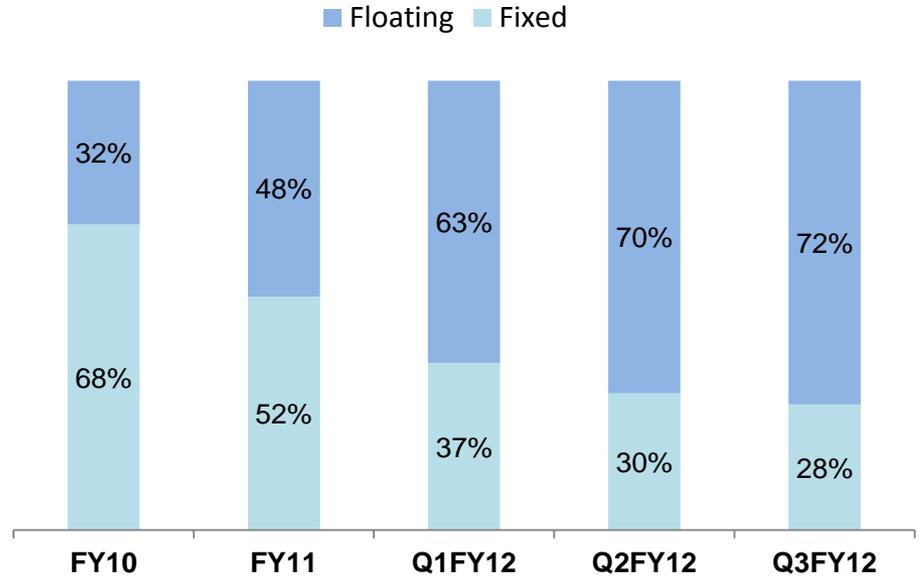


**Sources Mix**



# FINANCIAL ARCHITECTURE (3/3)

## Interest Rate Risk Analysis



## Funding Cost Analysis

| Metric                               | FY10   | FY11   | Q4FY11 | Q1FY12 | Q2FY12 | Q3FY12 |
|--------------------------------------|--------|--------|--------|--------|--------|--------|
| Cost of interest bearing liabilities | 11.94% | 12.08% | 12.77% | 12.72% | 13.54% | 13.53% |
| Financial Cost*                      | 8.5%   | 7.4%   | 7.6%   | 6.7%   | 6.9%   | 7.6%   |

## Funding Mix-Devoid of Dependence Risk

| Banks                 | December 31, 2011 |
|-----------------------|-------------------|
| SIDBI                 | 13%               |
| SBI Group             | 13%               |
| Central Bank of India | 11%               |
| Citi Bank             | 9%                |
| Axis Bank             | 8%                |
| Andhra Bank           | 8%                |
| J&K Bank              | 6%                |
| Corporation Bank      | 6%                |
| Syndicate Bank        | 5%                |
| Indian Overseas Bank  | 3%                |
| Reliance Capital      | 3%                |
| IDBI Bank             | 3%                |
| HDFC Bank             | 2%                |
| Vijaya Bank           | 1%                |
| TATA Capital          | 1%                |
| Punjab & Sind Bank    | 1%                |
| Yes Bank              | 1%                |
| ICICI Bank            | 1%                |

**Total amount outstanding as of December'11: Rs 1,138 crs. Concentration risk on rest of the 11 banks is below 1%.**

\* Financial expenses to Avg. Gross Loan Portfolio

# **REGULATORY UPDATE**

# SKS IS FULLY EQUIPPED TO COMPLY WITH NEW RBI REGULATORY FRAMEWORK (1/2)

|                                    | RBI PSL Norms for NBFC-MFIs   | SKS compliance |
|------------------------------------|---|----------------|
| <b>NBFC – MFIs</b>                 | <ul style="list-style-type: none"> <li>Qualifying assets to constitute not less than 85% of its total assets (excluding cash and bank balances)</li> <li>Atleast 75% of loans for Income generation activities</li> </ul> | ✓              |
| <b>Qualifying Assets Criteria*</b> |   |                |
| <b>Income of Borrower’s Family</b> | <ul style="list-style-type: none"> <li>Rural : &lt;=Rs.60,000</li> <li>Non-Rural : &lt;=Rs. 1,20,000</li> </ul>   | ✓              |
| <b>Ticket Size</b>                 | <ul style="list-style-type: none"> <li>&lt;= 35,000 – 1<sup>st</sup> cycle</li> <li>&lt;= Rs.50,000 – Subsequent cycle</li> </ul>   | ✓              |
| <b>Indebtedness</b>                | <ul style="list-style-type: none"> <li>&lt;= Rs. 50,000</li> </ul>  | ✓              |
| <b>Tenure</b>                      | <ul style="list-style-type: none"> <li>If loan amt. &gt; Rs.15,000, then &gt;= 24 months</li> </ul>   | ✓              |
| <b>Collateral</b>                  | <ul style="list-style-type: none"> <li>Without collateral</li> </ul>  | ✓              |
| <b>Repayment Model</b>             | <ul style="list-style-type: none"> <li>Weekly, Fortnightly and Monthly</li> </ul>   | ✓              |

\* SKS compliance relates to Income generation loans which contributes to 95% of total loans.

# SKS IS FULLY EQUIPPED TO COMPLY WITH NEW RBI 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 – 12% above cost of borrowings</li> <li>Maximum rate – 26% p.a.</li> </ul>   | <ul style="list-style-type: none"> <li>24.6%</li> </ul>  |
| <b>Processing Fees</b>   | <ul style="list-style-type: none"> <li>&lt;= 1% of loan amt.</li> </ul>  | <ul style="list-style-type: none"> <li>✓</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> | <ul style="list-style-type: none"> <li>✓</li> </ul>  |
| <b>Penalty</b>           | <ul style="list-style-type: none"> <li>No penalty for delayed payment</li> </ul>   | <ul style="list-style-type: none"> <li>✓</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> |

# ANNEXURE

# OUR PROVISIONING POLICY

|                             |                            | RBI norms                  | SKS compliance                |            |
|-----------------------------|----------------------------|----------------------------|-------------------------------|------------|
|                             |                            |                            | A.P.                          | Non A.P.   |
| <b>Asset Classification</b> | <b>Standard Assets</b>     | Up to 180 days             | Up to 180 days                | 0-8 weeks  |
|                             | <b>Sub-Standard Assets</b> | 180-720 days               | 180-720 days                  | 8-25 weeks |
|                             | <b>Loss Assets</b>         | > 720days                  | >720 days                     | > 25 weeks |
|                             |                            |                            |                               |            |
| <b>Provisioning Norms</b>   | <b>Standard Assets</b>     | 0.25%                      | 0.25%                         | 0.25-1%    |
|                             | <b>Sub-Standard Assets</b> | 10%                        | 10%                           | 50%        |
|                             | <b>Loss Assets</b>         | 100% provision / Write off | 100% provision /<br>Write off | 100%       |

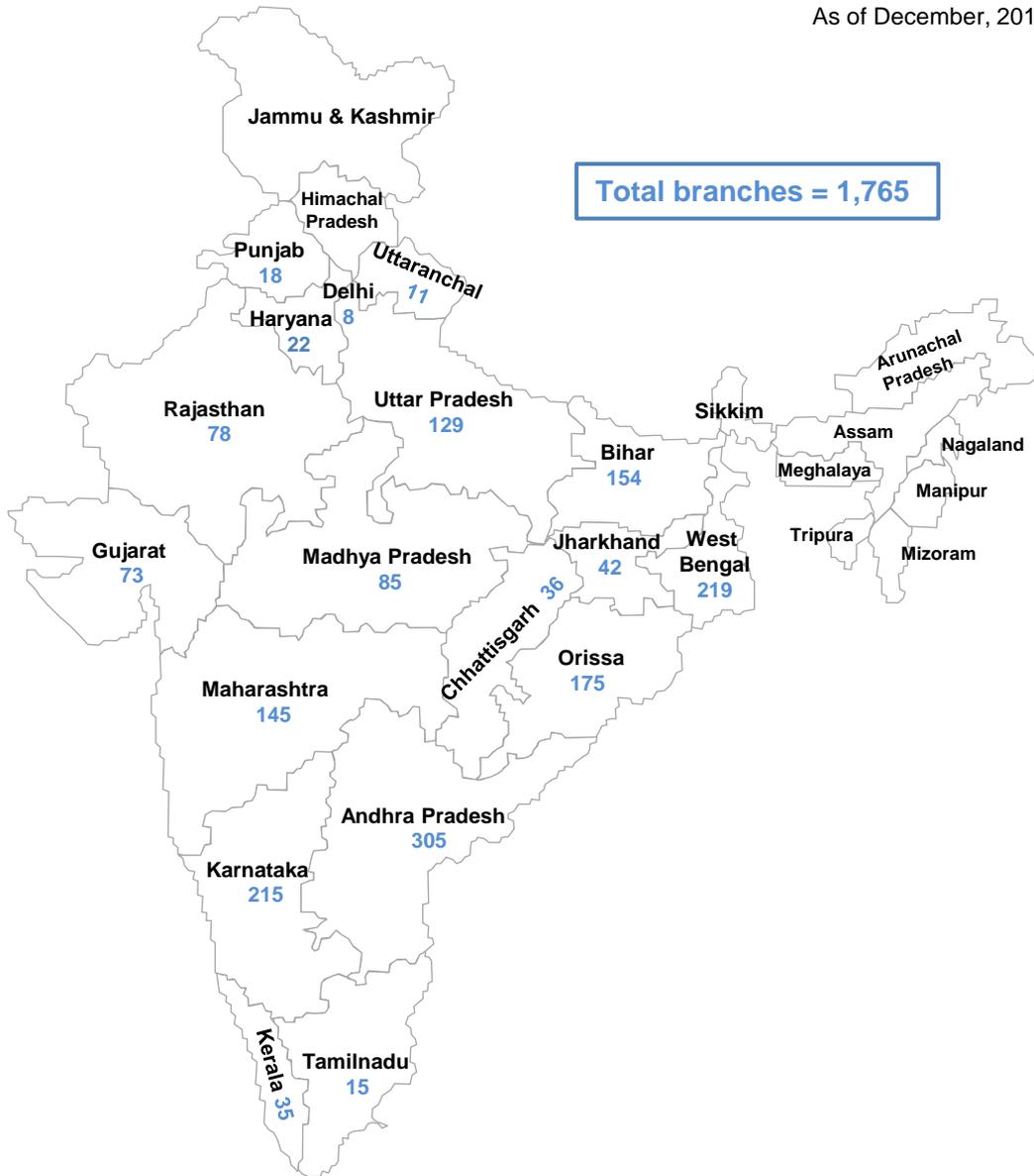
# HIGHEST SAFETY RATINGS ACROSS INSTRUMENTS

| Rating Agency | Instrument       | Rating        |
|---------------|------------------|---------------|
| CARE          | MFI Grading      | MFI 2+        |
| CARE          | Short Term Debt* | CARE A1       |
| CARE          | Securitisation   | CARE A1+ (SO) |

\* CARE has put the short term debt ratings on Credit Watch

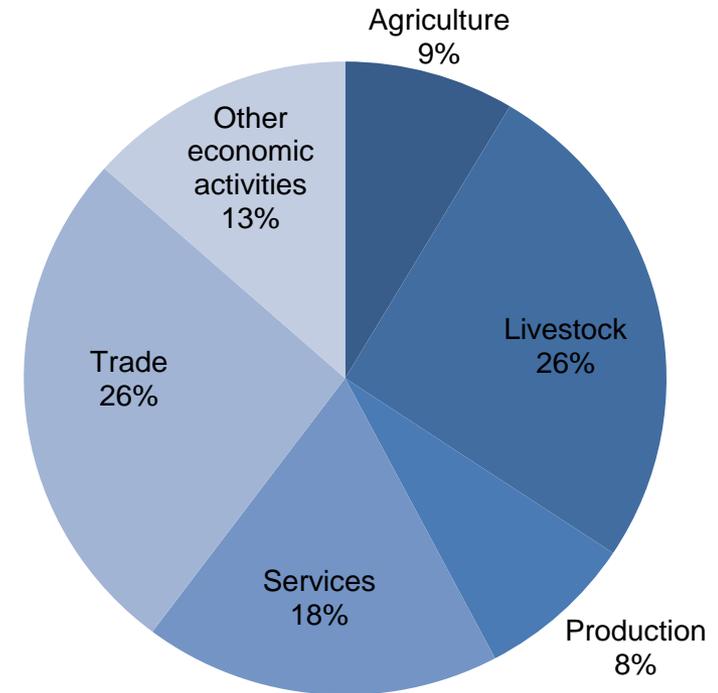
## Pan India Distribution Network

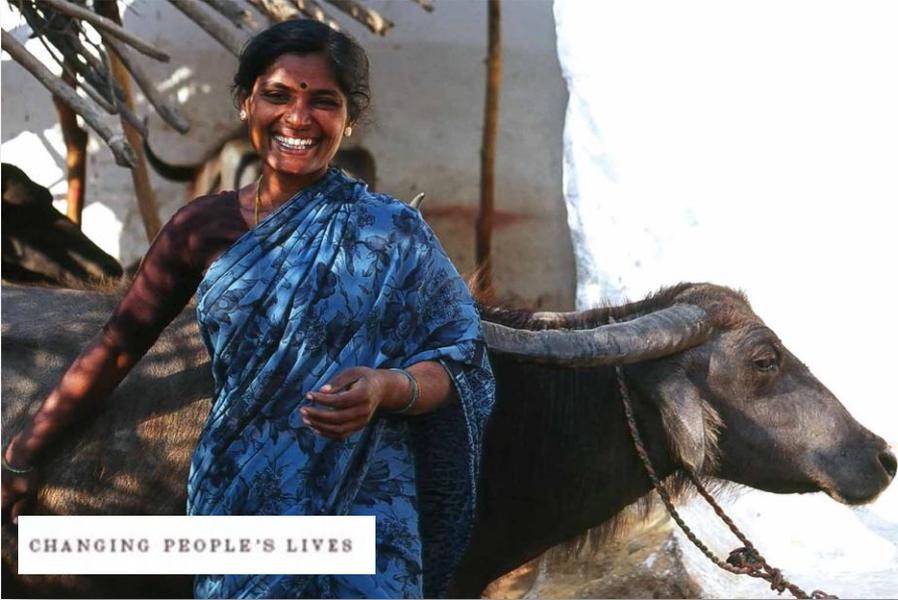
As of December, 2011



## Loan Outstanding by Economic Activity

As of December, 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