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EARNINGS UPDATE – Q4 FY12



May, 2012

SKS Microfinance Limited

BSE: 533228 ● NSE: SKSMICRO

www.sksindia.com

CONTENTS

PERFORMANCE HIGHLIGHTS

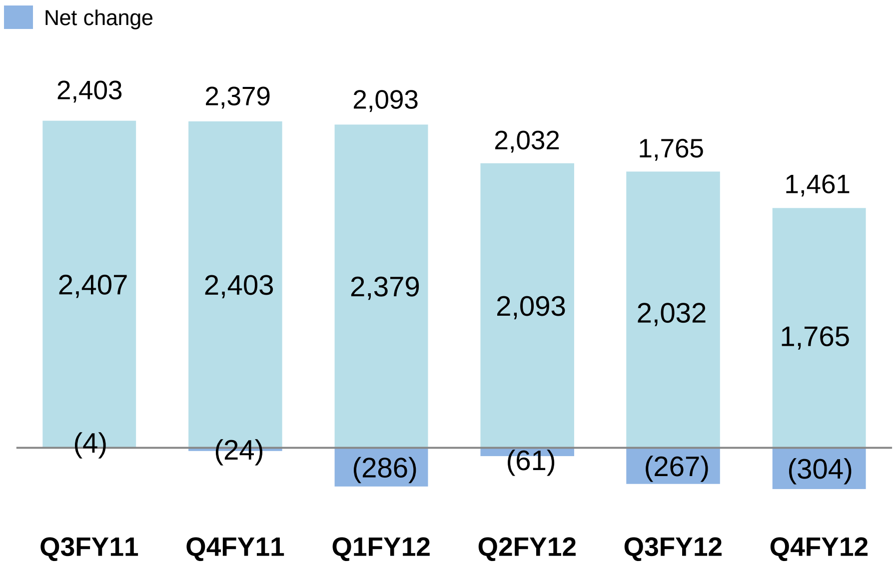
HIGHLIGHTS – Q4 FY12

- SKS obtains incremental draw-downs of Rs.998 crores in Q4-FY12, 2.4 times larger than the sum of Rs.417 crores obtained in 9MFY12.
- The rated and unrated pool assignments of Rs.909 crores brings in concomitant capital relief of Rs.136 crores.
- Loan disbursement was Rs. 793 crores in Q4-FY12 compared to Rs. 322 crores in Q3-FY12 and Rs. 786 crores in Q4-FY11.
- Non-AP portfolio grows to Rs.1,320 crores i.e., up 11.0% (QoQ) in Q4-FY12 reversing the declining trend over the previous 5 quarters.
- Healthy cash and bank balances of Rs. 690 crores.
- Networth of Rs. 435 crores and strong capital adequacy at 35.4% as of 31st March, 2012. In addition, the un-availed deferred tax benefit stands at Rs. 460 crores.
- Branch consolidation from 2,379 (Q4-FY11), 1,765 (Q3-FY12) to 1,461 (Q4-FY12) and head count reduction from 22,733 (Q4-FY11), 17,854 (Q3-FY12) to 16,194 (Q4-FY12) helps reduce the operating costs from Rs. 106 crores (Q4-FY11), 120 crores (in Q3-FY12) to Rs.81 crores (in Q4-FY12).
- Collection efficiency of 95 % maintained in Non-AP portfolio covering 17 states.
- We have written-off Rs. 272 crores in Q4-FY12 and brought down the residual AP exposure to Rs. 236 crores from a high of Rs. 1,491 crores in October 2010.

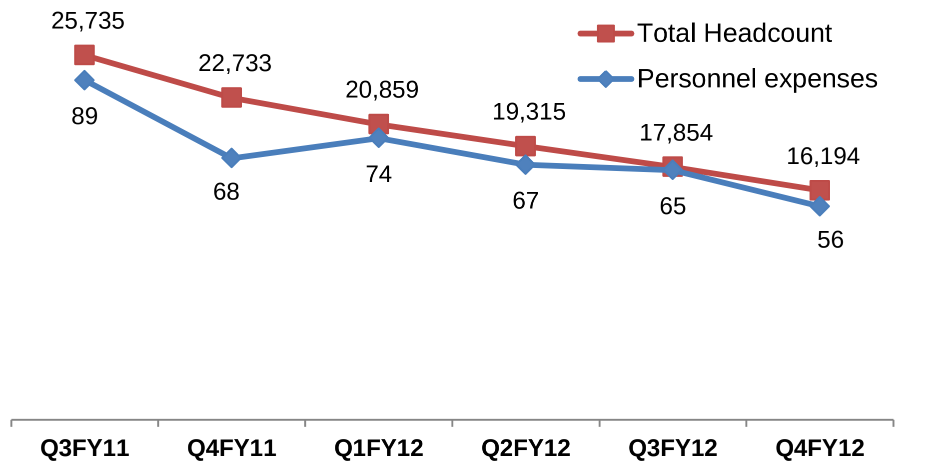
OPERATIONAL HIGHLIGHTS

CONSOLIDATION TO ADD COST EFFICIENCY

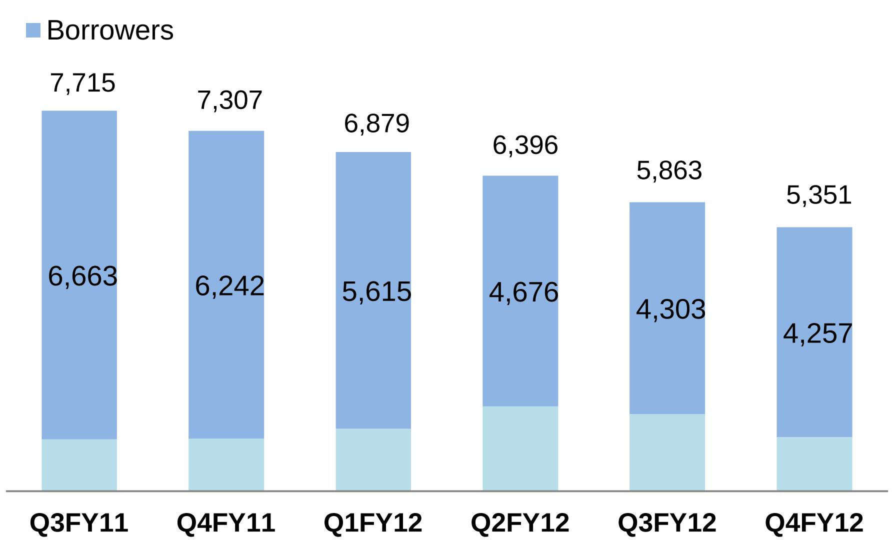
Branches



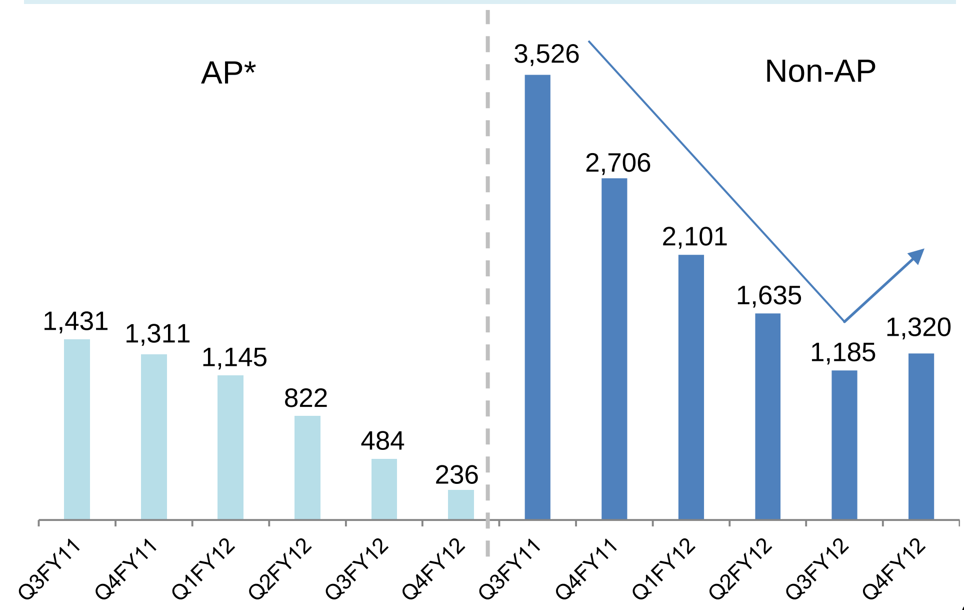
Personnel cost (2/3rd of operating cost)



Members (in '000)



Loan Portfolio Outstanding (INR Crs)



*Net AP loan portfolio

CONSOLIDATED OPERATIONAL HIGHLIGHTS

Particulars	Mar-11	Mar-12	YoY%	Dec-11	QoQ%
Branches#	2,379	1,461	-39%	1,765	-17%
Centers (Sangam)	274,782	229,600	-16%	244,595	-6%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	22,733	16,194	-29%	17,854	-9%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	22,332	15,867	-29%	17,510	-9%
– Sangam Managers* (i)	15,331	10,354	-32%	11,485	-10%
– Sangam Managers Trainees(ii)	95	8	-92%	100	-92%
– Branch Management Staff (iii)	3,957	3,234	-18%	3,449	-6%
– Area Managers (iv)	177	123	-31%	141	-13%
– Regional Office Staff (v)	2,772	2,148	-23%	2,335	-8%
• Head Office Staff (vi)	401	327	-18%	344	-5%
Members (in '000)	7,307	5,351	-27%	5,863	-9%
– Members in non-AP States (in '000)	5,325	3,431	-36%	3,940	-13%
Active borrowers (in '000)	6,242	4,257	-32%	4,303	-1%
– Active borrowers in non-AP States (in '000)	4,446	2,536	-43%	2,575	-2%
No. of loans disbursed (in '000)	727	722	-1%	337	114%
Disbursements (for the quarter) (INR Crs)	786	793	1%	322	147%
Off-take Avg (Disbursements / No of Loans disbursed)(INR)	10,811	10,987	2%	9,536	15%
Gross loan portfolio (INR Crs) (A+B)	4,111	1,669	-59%	1,810	-8%
• Loans outstanding (A)	3,479	765	-78%	1,645	-54%
• Assigned loans (B)	632	904	43%	164	450%
Operational Efficiency:					
Gross loan portfolio/ No. of Sangam managers (Rs. '000)	2,683	1,612	-40%	1,576	2%
Gross loan portfolio/ Active Borrowers (INR)	6,585	3,921	-40%	4,206	-7%
Members / No. of Branches	3,071	3,662	19%	3,322	10%
Members / No. of Sangam managers	477	517	8%	510	1%

***Sangam Managers are our loan officers, who manage our centers (also called as Sangams). #Includes 49 Gold Loan Branches.

GOLD LOAN OPERATIONAL HIGHLIGHTS

Particulars	Mar-12	Dec-11
Branches*	49	46
Employees	326	344
Active borrowers as on date	9,521	7,957
Disbursements (for the quarter) (INR Crs)	12	23
Gross loan portfolio (INR Crs)	26	24
Operational Efficiency:		
Gross loan portfolio/ No. of Branches (Rs. '000)	5,636	5,223
Gross loan portfolio/ Active Borrowers (INR)	27,821	30,197
Active Borrowers / No. of Branches	203	173
Loan to Value#	68%	70%

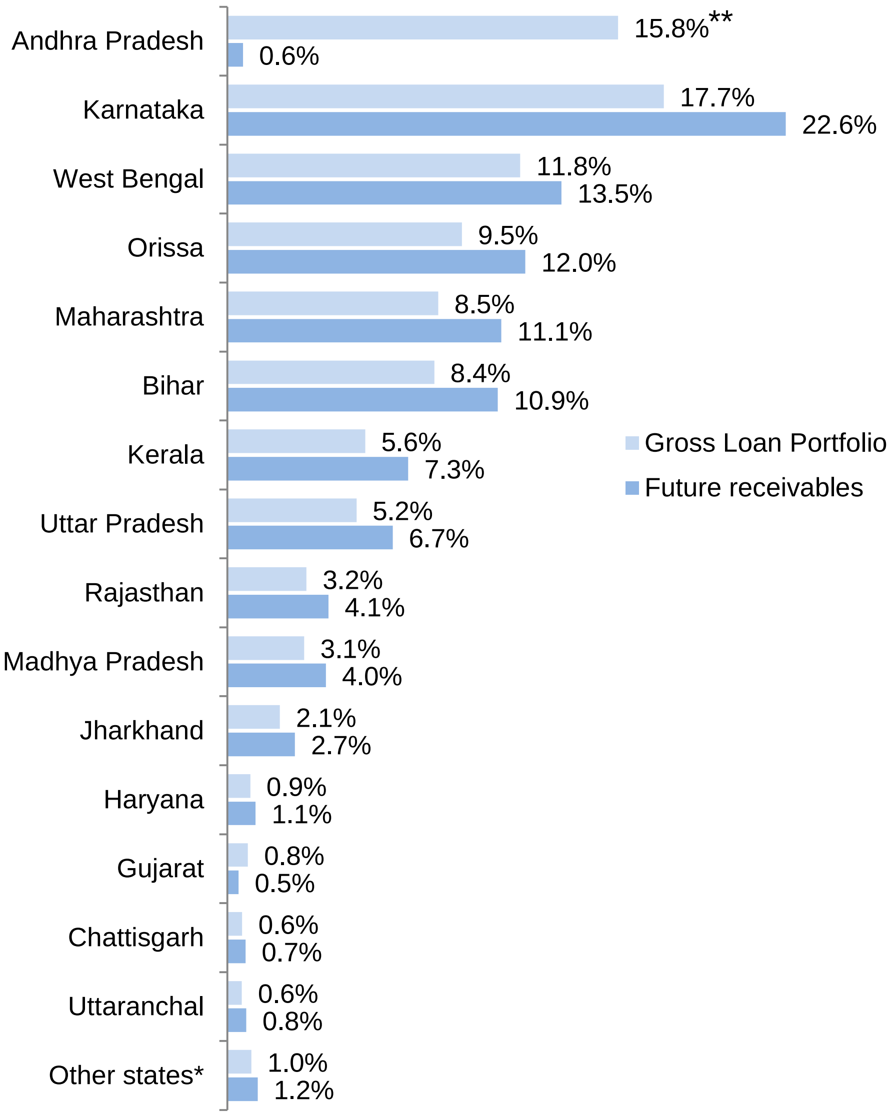
* Branches spread in Karnataka, Gujarat, Maharashtra and U.P.

Loan to Value reduced to 60% for new loans from 22nd March, 2012.

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

State wise – Portfolio Mix Q4FY12

State	%



State wise – Collection Efficiency#

State	Q4FY12	Q3FY12
Karnataka	100.0%	99.9%
West Bengal	80.2%	81.7%
Orissa	97.9%	96.7%
Maharashtra	99.9%	99.4%
Bihar	99.9%	99.6%
Kerala	100.0%	100.0%
Uttar Pradesh	99.8%	99.5%
Rajasthan	100.0%	99.2%
Madhya Pradesh	99.3%	98.2%
Jharkhand	100.0%	99.8%
Haryana	100.0%	100.0%
Gujarat	58.5%	69.3%
Chhattisgarh	100.0%	99.9%
Uttaranchal	100.0%	99.7%
Other states*	99.9%	97.3%
Total non-AP States	**95.1%**	**94.9%**

** Net AP Portfolio (after provision)

* Other states include Delhi, Punjab & Tamil Nadu

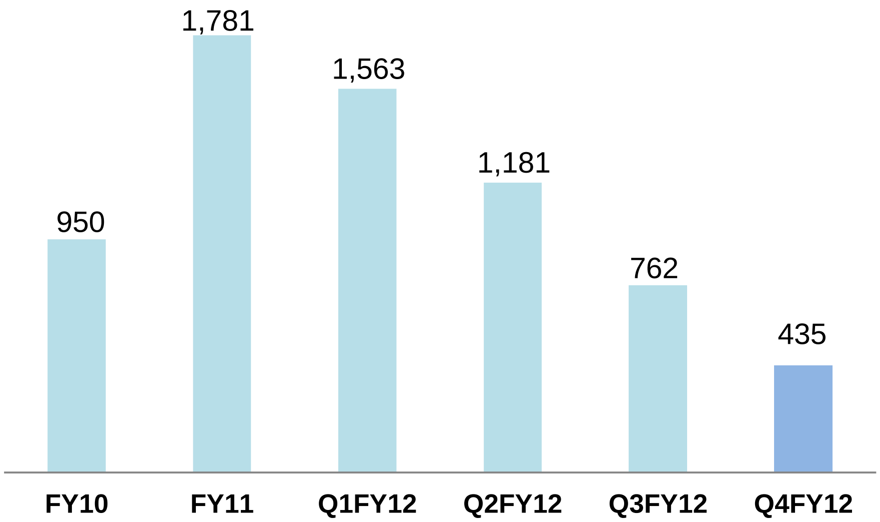
Total collection in quarter divided by scheduled dues in quarter

REVIEW OF FINANCIALS

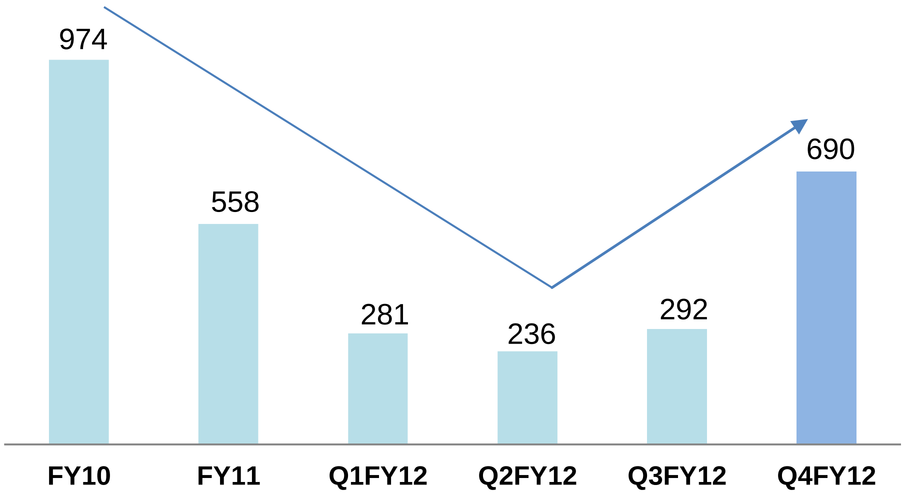
STRONG SOLVENCY AND LIQUIDITY

INR crores

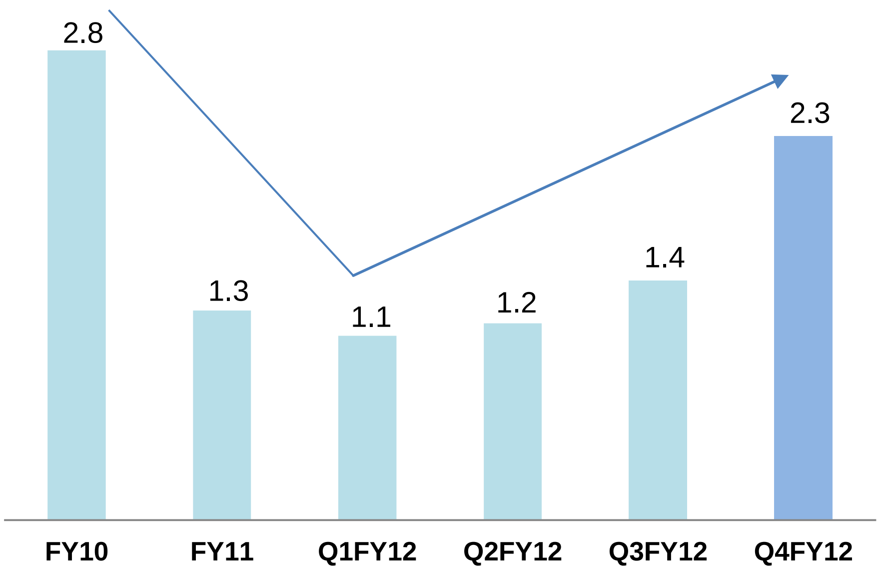
Networth



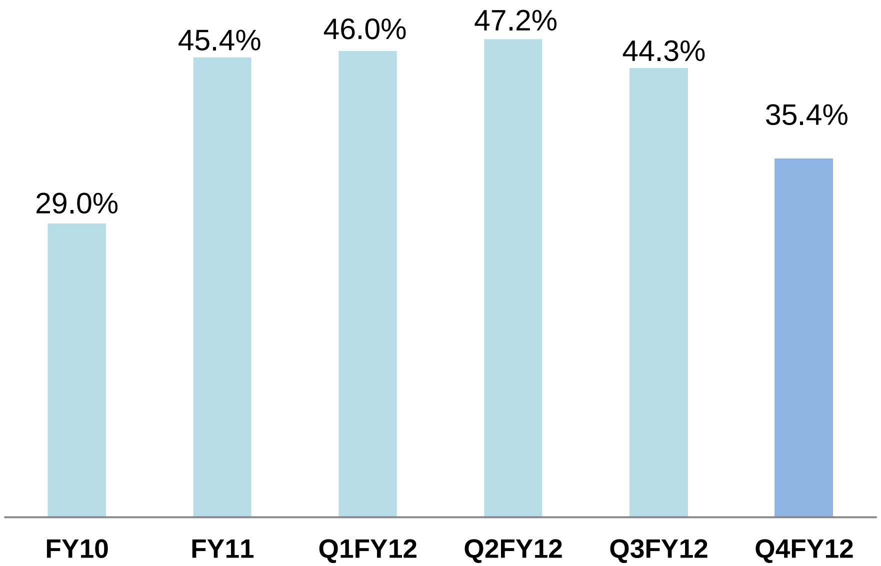
Cash and Bank



Debt/Equity



Capital Adequacy



PROFIT AND LOSS STATEMENT FOR THE QUARTER ENDED

INR crores

Particulars	Q4 FY11	Q4 FY12	YoY%	Q4 FY12 As % of Total Revenue	Q3 FY12	QoQ%
Income from Operations						
Interest income on Portfolio loans	162	50*	-69%	70%	77*	-35%
Income from Assigned loans	9	3	-68%	4%	2	16%
Membership fee	-	-	-	-	-	-
Loan processing fees	-	4	-	5%	3	36%
Other Income						
Insurance commission	1	-	-118%	-	1	-132%
Group Insurance admin. charges	16	-	-100%	-	1	-100%
Income on Investments	3	7	106%	10%	5	38%
Miscellaneous Income	3	8	198%	11%	5	78%
Total Revenue	**194**	**72**	**-63%**	**100%**	**93**	**-23%**
Financial expenses	**87**	**42**	**-51%**	**59%**	**41**	**3%**
Personnel expenses	68	56	-18%	78%	65	-15%
Operating and other expenses	34	23	-32%	32%	53	-56%
Depreciation and amortization	3	2	-26%	3%	2	1%
Total Operating Cost	**106**	**81**	**-23%**	**113%**	**120**	**-33%**
Provision & Write-offs	**106**	**278**	**162%**	**388%**	**359**	**-23%**
Total Expenditure	**299**	**401**	**34%**	**560%**	**520**	**-23%**
Profit before Tax	**(105)**	**(330)**	**215%**	**-460%**	**(427)**	**-23%**
Tax expense	(35)	-	-100%	-	0.4	-100%
Profit after Tax	**(70)**	**(330)**	**372%**	**-460%**	**(428)**	**-23%**

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

PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED FY12

INR crores

Particulars	FY11	FY12	YoY%	FY12 As % of Total Revenue
<u>Income from Operations</u>				
Interest income on Portfolio loans	1,031	359*	-65%	76%
Income from Assigned loans	119	35	-71%	7%
Membership fee	10	-	-100%	-
Loan processing fees	-	9	-	2%
<u>Other Income</u>				
Insurance commission	11	2	-77%	1%
Group Insurance admin. charges	71	17	-76%	4%
Income on Investments	16	22	33%	5%
Miscellaneous Income	12	29	146%	6%
Total Revenue	**1,270**	**472**	**-63%**	**100%**
Financial expenses	**350**	**200**	**-43%**	**42%**
Personnel expenses	326	261	-20%	55%
Operating and other expenses	170	151	-11%	32%
Depreciation and amortization	16	10	-38%	2%
Total Operating Cost	**513**	**422**	**-18%**	**89%**
Provision & Write-offs	**236**	**1,173**	**397%**	**248%**
Total Expenditure	**1,099**	**1,796**	**63%**	**380%**
Profit before Tax	**171**	**(1,324)**	**-875%**	**-280%**
Tax expense	59	37	-38%	8%
Profit after Tax	**112**	**(1,361)**	**-1319%**	**-288%**

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

PROVISIONS & WRITE OFF IN PROFIT AND LOSS ACCOUNT

INR crores

Particulars	Q3 FY11			Q4 FY11			Q1 FY12		
	AP	Non-AP	Total	AP	Non-AP	Total	AP	Non AP	Total
Provision for Standard & NPAs	9.4	21.2	30.6	(10.6)	27.4	16.8	109.8	(20.3)	89.4
Bad debts written off	1.2	7.4	8.6	37.9	13.9	51.8	11.6	76.0	87.6
Loss on short collection on Off B/S	56.2	5.4	61.6	29.4	8.3	37.6	4.8	1.7	6.5
Total	**66.8**	**34.0**	**100.8**	**56.6**	**49.6**	**106.2**	**126.2**	**57.4**	**183.6**

Particulars	Q2 FY12			Q3 FY12			Q4 FY12		
	AP	Non AP	Total	AP	Non AP	Total	AP	Non AP	Total
Provision for Standard & NPAs	(24.7)	(6.8)	(31.6)	(35.8)	(3.9)	(39.7)	(27.2)	(11.7)	(38.9)
Bad debts written off	326.0	50.2	376.3	368.4	28.8	397.2	271.7	35.8	307.5
Loss on short collection on Off B/S	1.4	7.1	8.6	(0.1)	1.3	1.2	1.2	8.0	9.2
Total	**302.7**	**50.5**	**353.3**	**332.5**	**26.2**	**358.7**	**245.70**	**32.1**	**277.8**

MANY CHALLENGES BUT NEITHER SOLVENCY NOR LIQUIDITY IS ONE OF THEM

INR crores

Particulars	Q4 FY11	Q4 FY12	YoY%	Q3 FY12	QoQ%
Equity share capital	72	72	0%	72	0%
Stock options outstanding	9	19	103%	16	13%
Reserves and surplus	1,699	344	-80%	673	-49%
Capital & Reserves	**1,781**	**435**	**-76%**	**762**	**-43%**
Loan funds	2,236	1,021	-54%	1,093	-7%
Current liabilities and provisions	240	173	-28%	128	35%
Provision for standard and non performing asset	69	52	-25%	83	-38%
Liabilities	**2,545**	**1,246**	**-51%**	**1,304**	**-4%**
Total Liabilities	**4,326**	**1,681**	**-61%**	**2,066**	**-19%**
Fixed assets	22	16	-26%	18	-11%
Intangible assets	9	4	-52%	7	-39%
Investment	4	0.2	-95%	0.2	-
Deferred tax assets (net)	36	-	-100%	-	-
Cash and bank balances	**558**	**690**	**24%**	**292**	**136%**
Sundry debtors	2	0.2	-86%	2	-90%
Other current assets	45	20	-56%	17	14%
Portfolio loans	3,479	765	-78%	1,645	-54%
Other loans and advances	172	185	8%	83	123%
Total Loans and Advances	**3,651**	**950**	**-74%**	**1,728**	**-45%**
Total Assets	**4,326**	**1,681**	**-61%**	**2,066**	**-19%**
Note: 1.Assigned Portfolio	632	904	43%	164	450%
2.Gross Loan Portfolio	4,111	1,669	-59%	1,810	-8%

HIGHER CREDIT COST IMPACTS PROFITABILITY FOR Q4 FY12

Particulars		Q4 FY11	Q3 FY12	Q4 FY12
Spread Analysis (as % of Avg. Gross Loan Portfolio)				
Gross Yield	(I)	17.0%	16.7%*	16.5%*
Portfolio Yield		15.0%	14.2%*	12.1%*
Financial Cost	(a)	7.6%	7.6%	9.7%
Operating Cost	(b)	9.2%	21.7%	18.7%
Provision and Write-offs	(c)	9.3%	64.6%	63.9%
Taxes	(d)	-3.1%	0.1%	-
Total Expense	II = (a+b+c+d)	23.1%	93.7%	92.3%
Return on Avg. Gross Loan Portfolio	(I) - (II)	-6.1%	-77.0%	-75.8%
Efficiency:				
Cost to Income		98.6%	232.7%	275.2%
Leverage:				
Debt : Equity (on Balance Sheet)		1.3	1.4	2.3
Capital Adequacy:		**45.4%**	**44.3%**	**35.4%**
Profitability:				
Return on Avg. Assets		-5.7%	-70.0%	-70.4%
Return on Avg. Assets (incl. assigned loans)		-5.2%	-65.0%	-54.8%
ROE		-15.4%	-176.2%	-220.3%
EPS - Diluted (INR)		(9.18)	(59.12)	(45.54)
Book Value (INR)		246.23	105.32	60.07

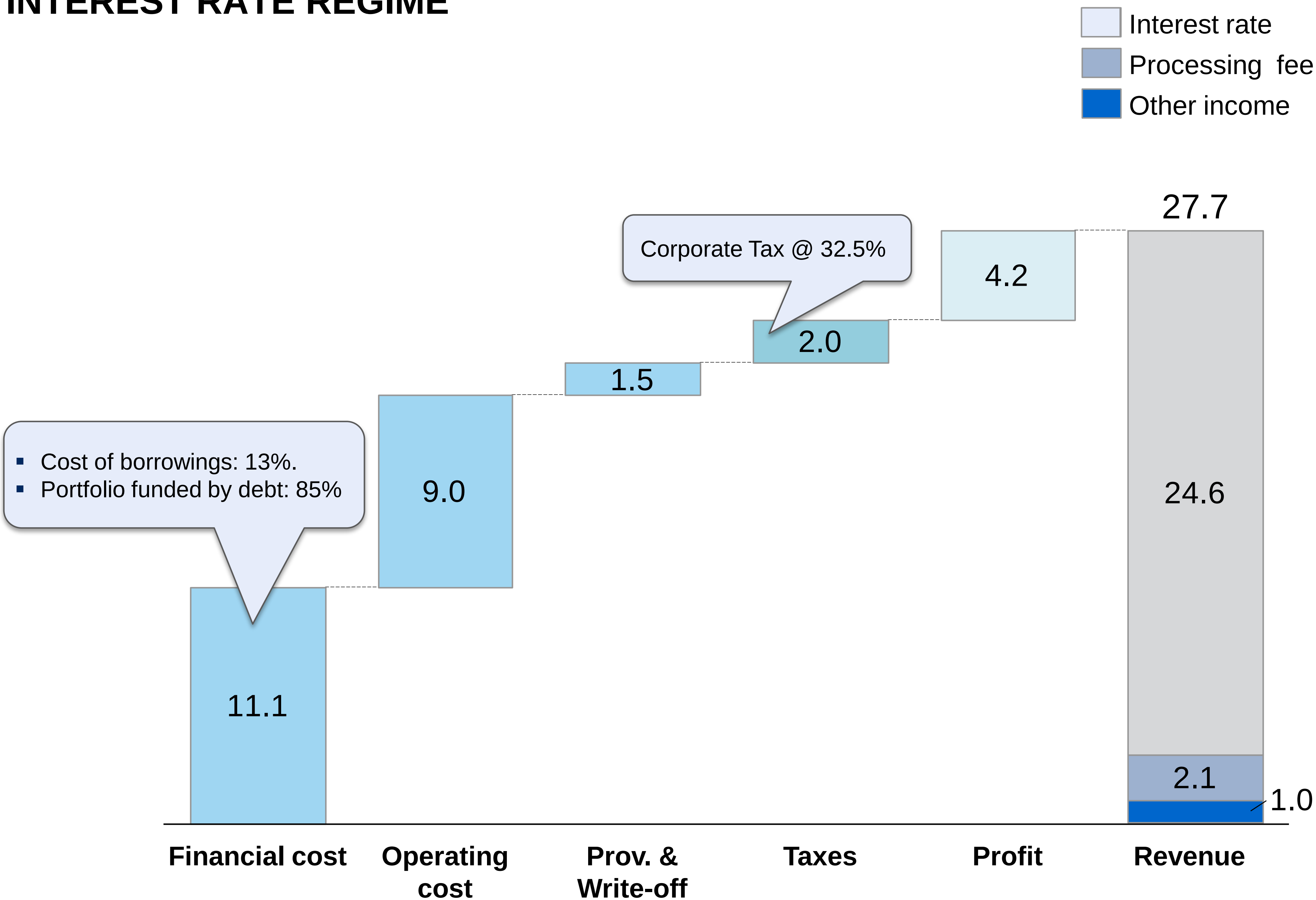
* Income on AP portfolio recognised not on accrual basis, but on cash basis

HIGHER CREDIT COST IMPACTS PROFITABILITY FOR FY12

Particulars		FY11	FY12
Spread Analysis (as % of Avg. Gross Loan Portfolio)			
Gross Yield	(I)	27.0%	17.3%*
Portfolio Yield		24.5%	14.4%*
Financial Cost	(a)	7.4%	7.3%
Operating Cost	(b)	10.9%	15.4%
Provision and Write-offs	(c)	5.0%	42.9%
Taxes	(d)	1.3%	1.3%
Total Expense	II = (a+b+c+d)	24.7%	67.0%
Return on Avg. Gross Loan Portfolio	(I) - (II)	2.4%	-49.8%
Efficiency:			
Cost to Income		55.7%	155.2%
Leverage:			
Debt : Equity (on Balance Sheet)		1.3	2.3
Capital Adequacy:		**45.4%**	**35.4%**
Profitability:			
Return on Avg. Assets		2.3%	-46.7%
Return on Avg. Assets (incl. assigned loans)		2.0%	-40.3%
ROE		7.5%	-118.9%
EPS - Diluted (INR)		15.24	(188.06)
Book Value (INR)		246.23	60.07

* 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

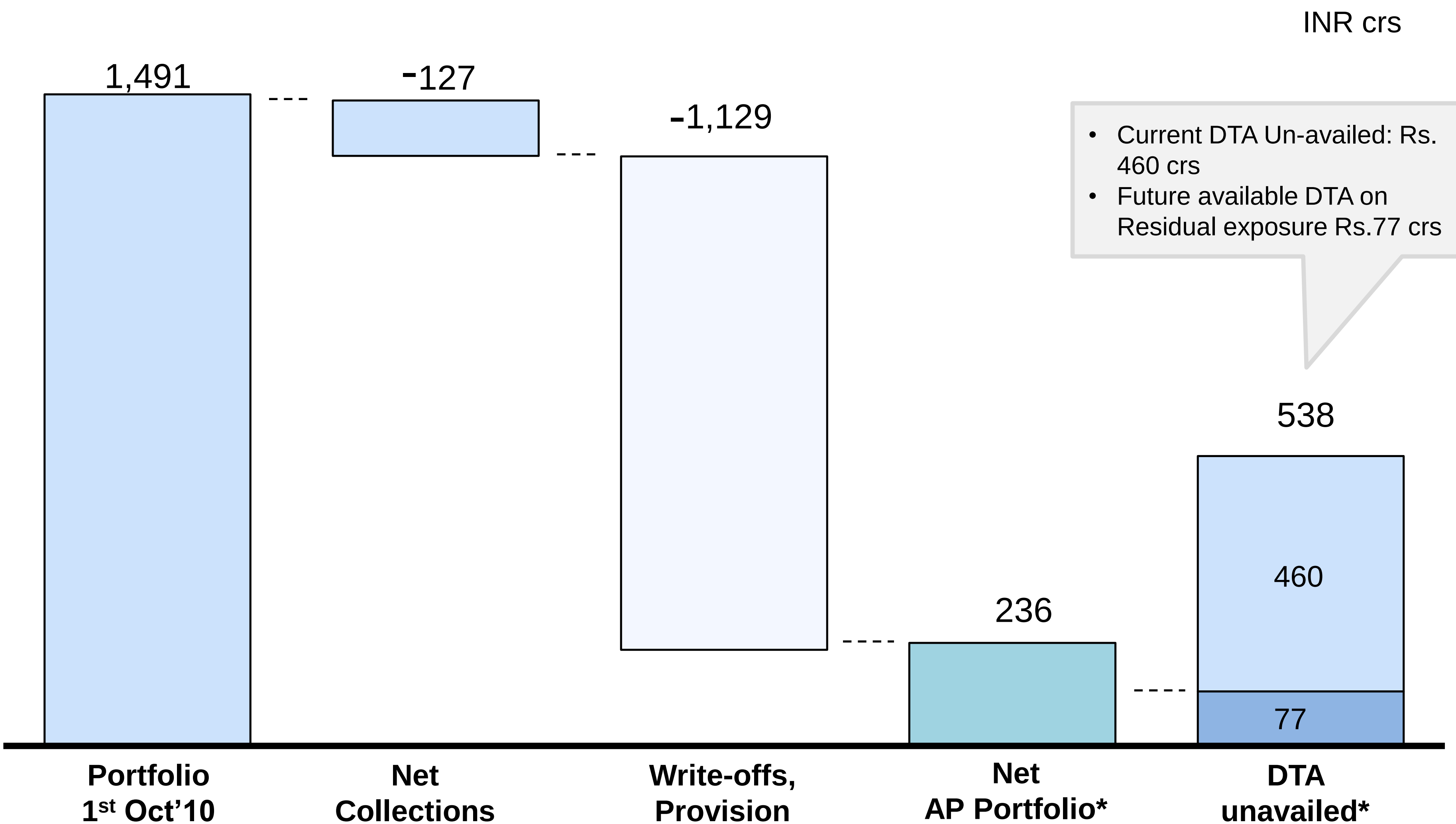


PATH TO PROFITABILITY

	Q1FY13	Q2FY13	FY14
Target	▪ Reduce operating cost by 20% QoQ	▪ Enterprise profit	▪ Enterprise profit with Steady state RoA of 4% (MFI + Non-MFI)
Strategy	▪ Consolidate the Operations	▪ Optimise the cost structure	▪ Financial leverage ▪ Broad base the revenue stream ▪ De-risk the business model
Drivers	▪ Merger of AP branches ~50 ▪ Merger of ~125 branches in Non-AP ▪ No fresh hiring at the field level ▪ No branch opening and new client acquisition	▪ Start availing DTA ▪ No fresh hiring at the field level ▪ No branch opening and new client acquisition	▪ Debt equity to raise from 2.3 to 5 times ▪ New client acquisition ▪ Non-fund based initiatives to contribute 25% to the bottom line

ANDHRA PRADESH UPDATE

EXPOSURE AT RISK IN AP IS SUBSTANTIALLY DEALT IN THE BOOKS OF ACCOUNTS



* As on 31st Mar'2012

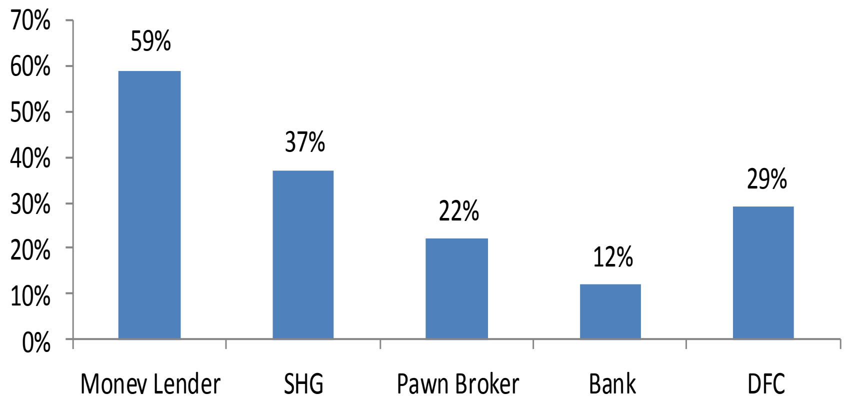
AP exposure on future receivables reduces to less than 1%

WAY OUT FOR AP SITUATION

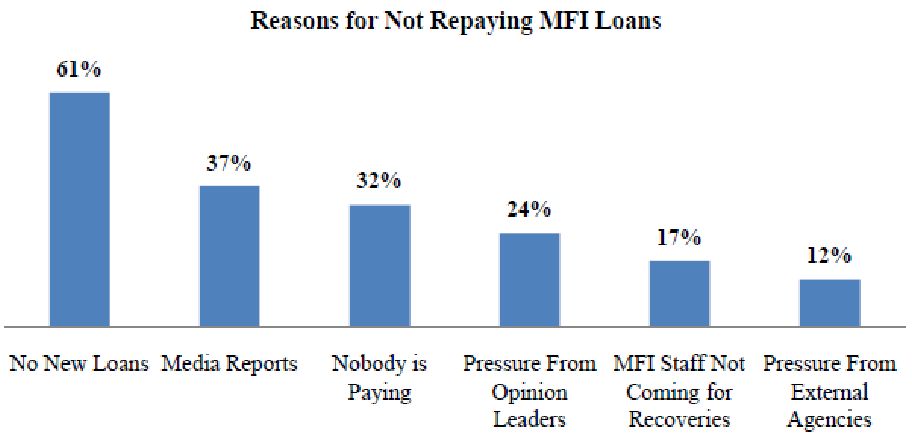
Legal Relief	▪ SKS files writ petition against AP MFI act in the Honourable High court of Andhra Pradesh.
Central Legislation	▪ Draft MFI bill appointing RBI as sole regulator, to overwrite the AP MFI act upon passage in the Parliament.
Diplomacy	▪ RBI, MFIN and SIDBI are reportedly in dialogue with 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

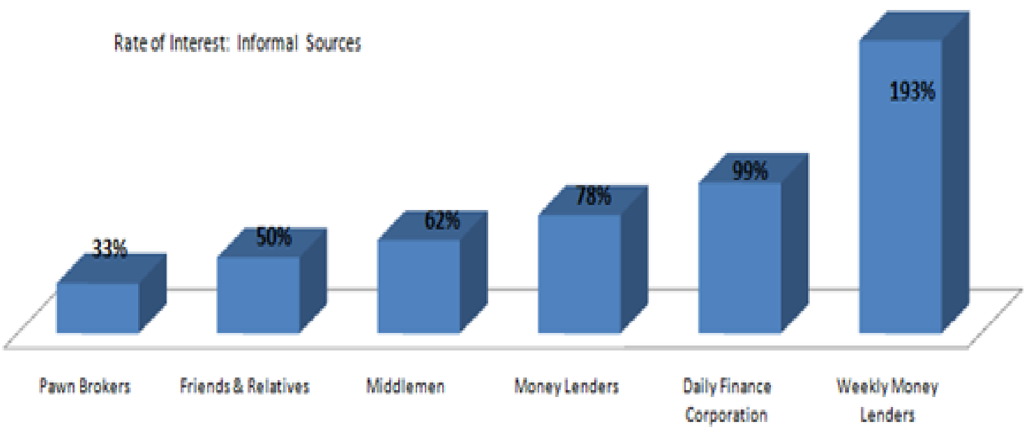
Sources of Credit (in absence of MFI Loans)



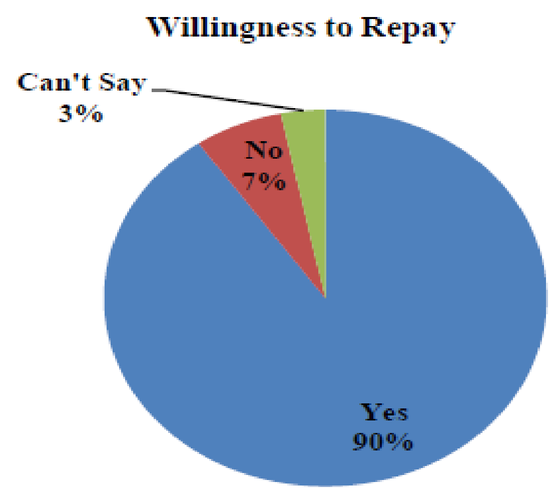
Reasons for not repaying MFI loans



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



Willingness to repay

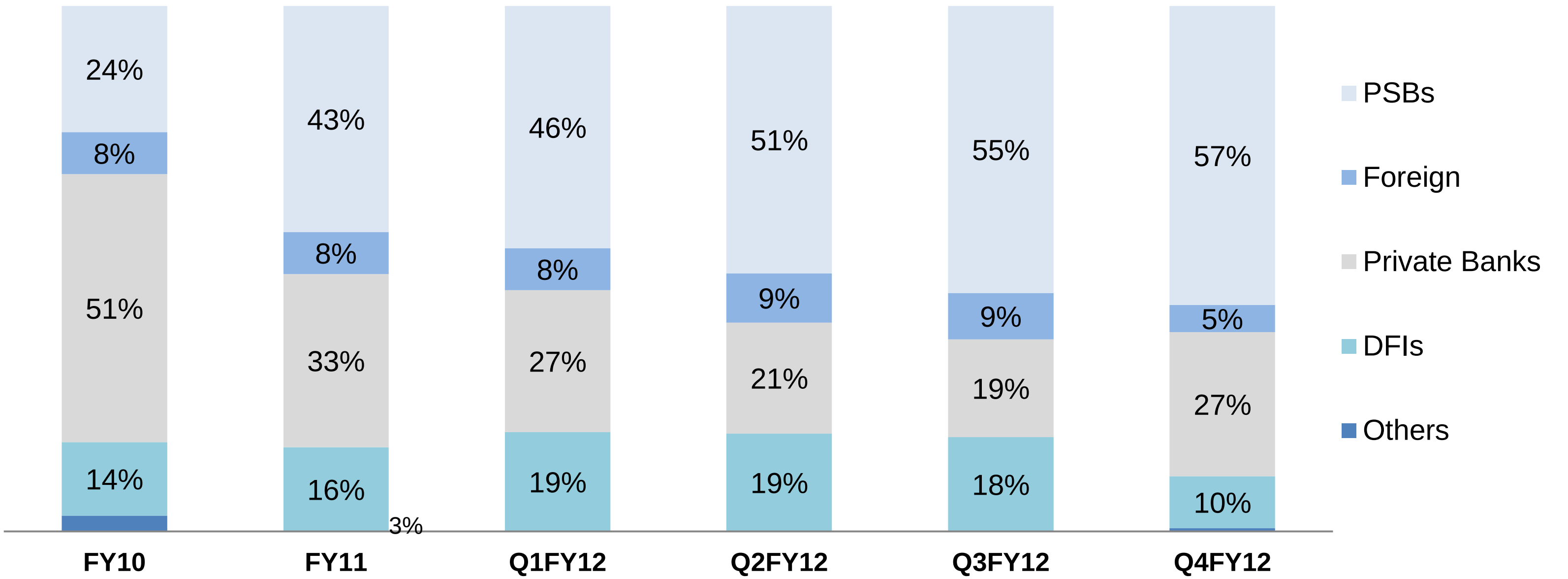


Source: *"What are Clients doing post the Andhra Pradesh MFI Crisis?", MicroSave, 2011*

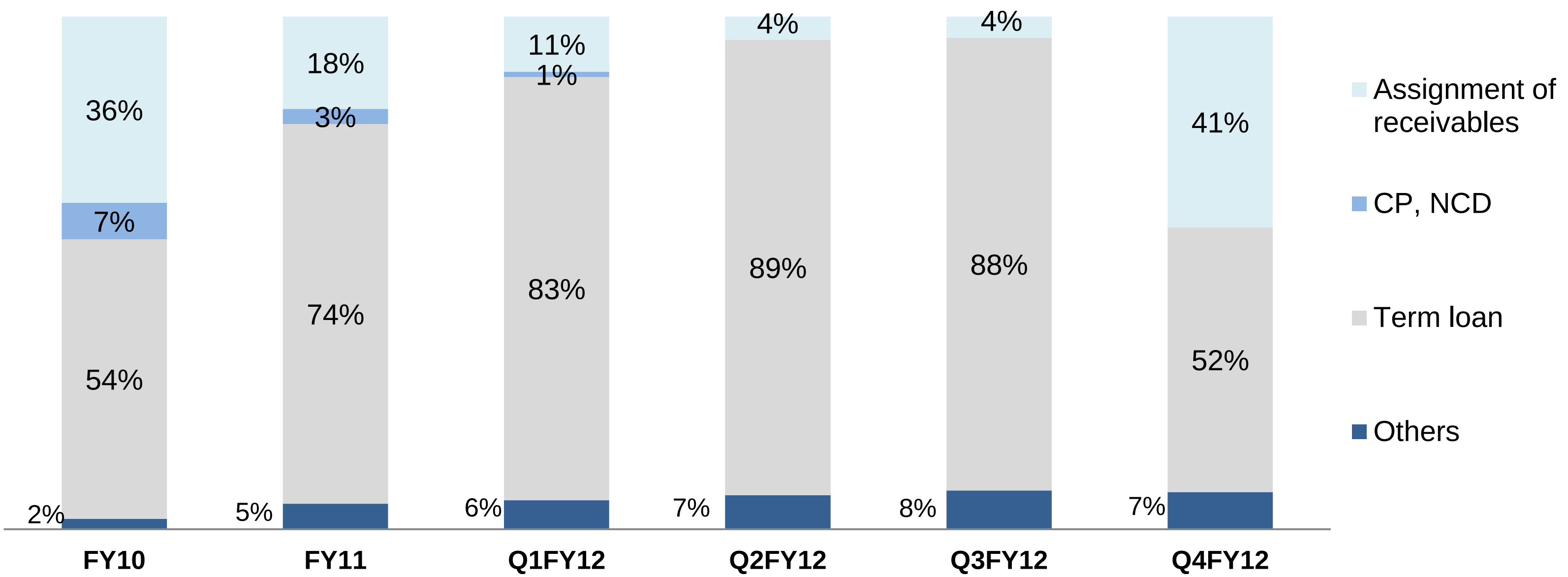
FINANCIAL ARCHITECTURE

FINANCIAL ARCHITECTURE (1/2)

Lender Group Analysis

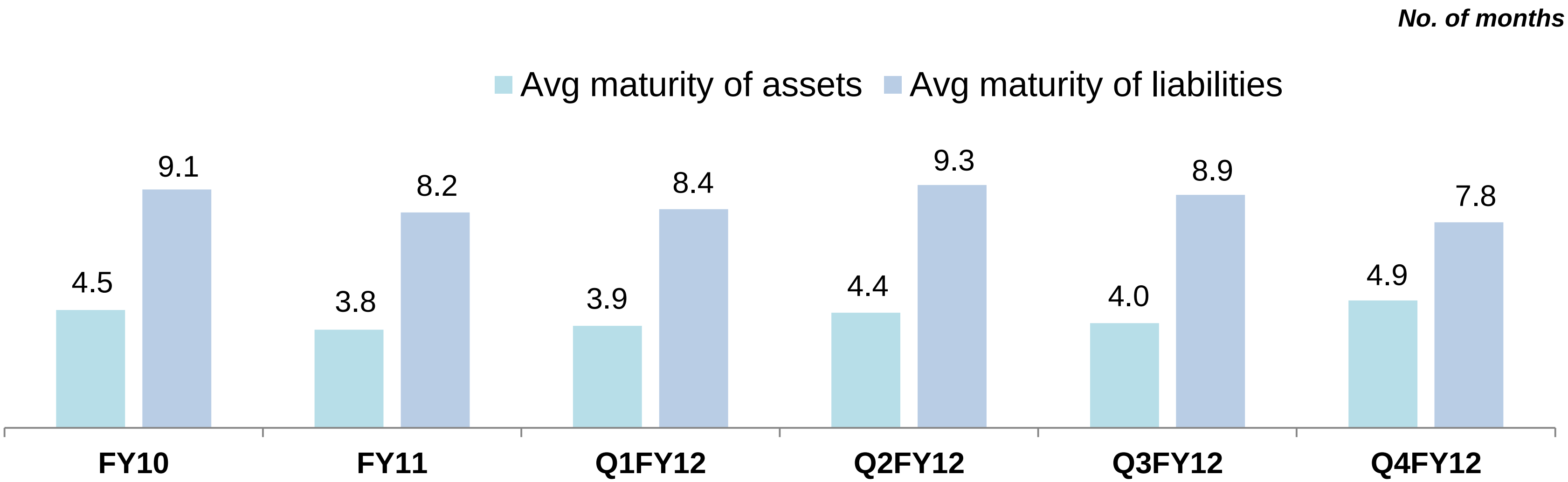


Sources Mix

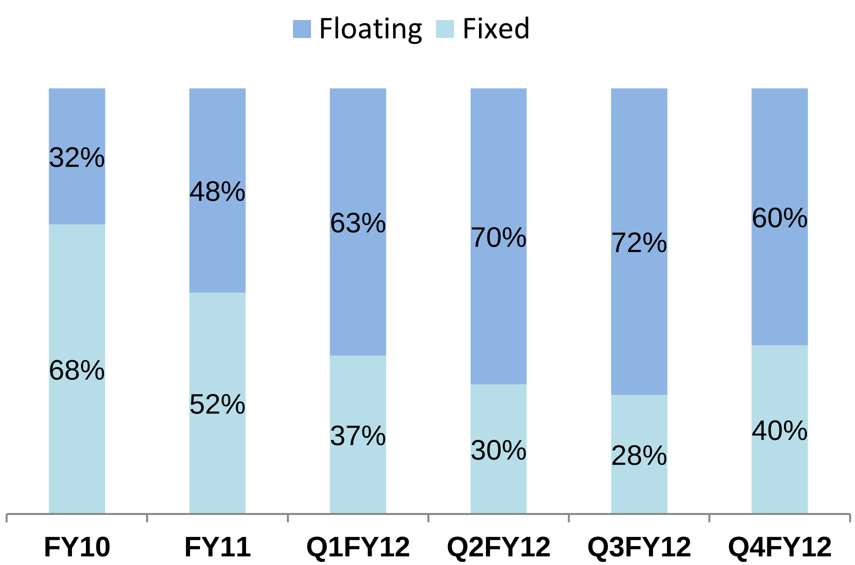


FINANCIAL ARCHITECTURE (2/2)

Positive Asset Liability Management Structure



Interest Rate Risk Analysis



Funding Cost Analysis

Metric	FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Cost of interest bearing liabilities	12.1%	12.8%	12.7%	13.5%	13.5%	12.9%
Financial Cost*	7.4%	7.6%	6.7%	6.9%	7.6%	9.7%

* Financial expenses to Avg. Gross Loan Portfolio

ANNEXURE

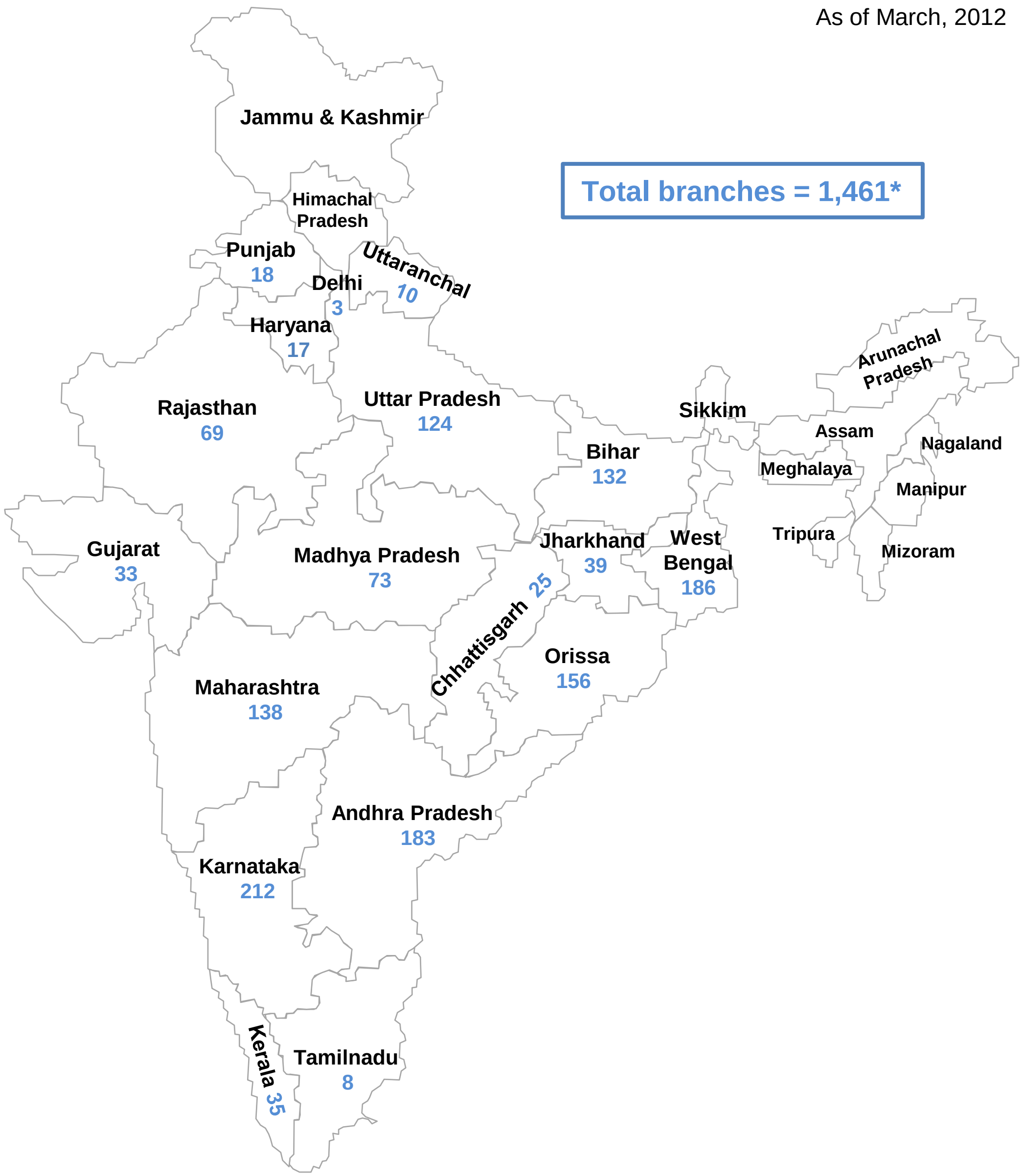
OUR PROVISIONING POLICY

		RBI norms	SKS compliance	
			A.P.	Non A.P.
Asset Classification	**Standard Assets**	Up to 180 days	Up to 180 days	0-8 weeks
	Sub-Standard Assets	180-720 days	180-720 days	8-25 weeks
	Loss Assets	> 720days	>720 days	> 25 weeks

			A.P.	Non A.P.
Provisioning Norms	**Standard Assets**	0.25%	0.25%	0.25-1%
	Sub-Standard Assets	10%	10%	50%
	Loss Assets	100% provision / Write off	100% provision / Write off	100%

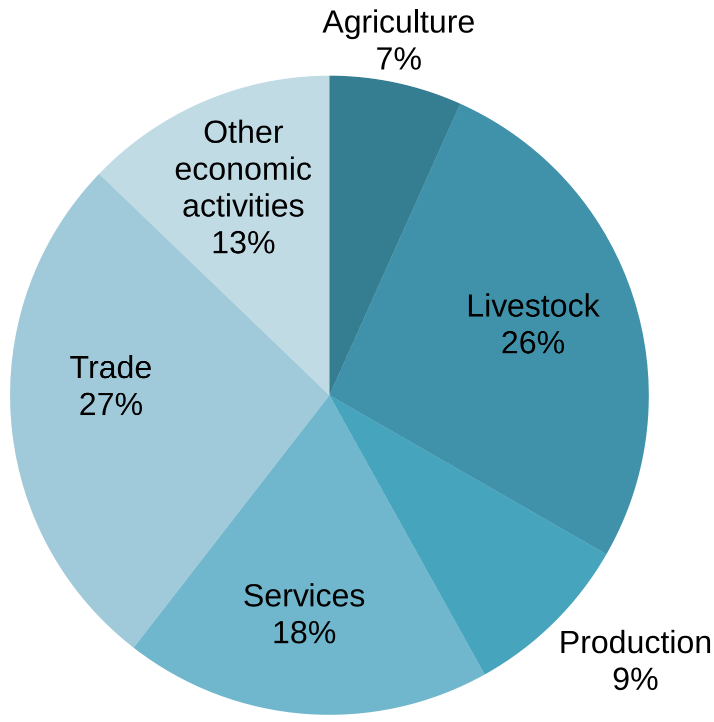
Pan India Distribution Network

As of March, 2012

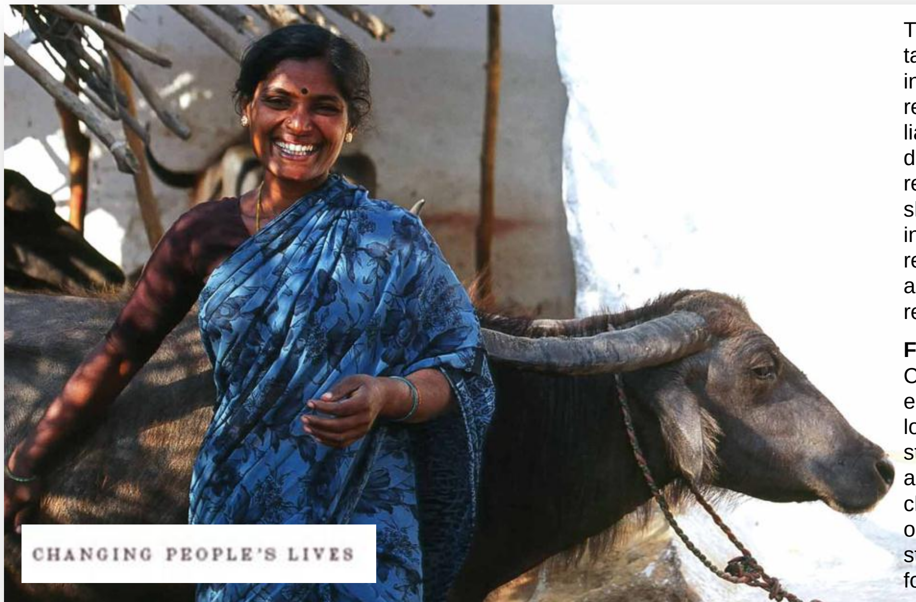


Loan Outstanding by Economic Activity

As of March, 2012



* Includes 49 Gold Loan Branches.



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