

## EARNINGS UPDATE – Q4 FY13



**May, 2013**

**SKS Microfinance Limited**

BSE: 533228 • NSE: SKSMICRO

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

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# RECENT UPDATE

## RECENT UPDATE – Q4 FY13

- Incremental draw-downs of Rs.1,704 crs in Q4-FY13 (Rs.566 crs for Q3FY13). Full year incremental drawdowns in FY13 were Rs.2,875 crs compared to Rs.1,484 crs in FY12. (growth of 94% YoY)
- Loan Disbursements rose by 65% (QoQ), and Non-AP Portfolio grows by 35% (QoQ) to Rs.2,016 crs.
- Collection efficiency in Non-AP states continues to be robust at 99.9% (99.8% in Q3FY13)
- Cash & Bank balance stood at Rs.895 crs.
- Reports profit of Rs.2.7 crs for Q4FY13 compared to loss of Rs.330 crs for Q4FY12 and profit of Rs.1.2 crs for Q3FY13.
- Networth of Rs.390 crs and capital adequacy at 32.2%\* as of 31<sup>st</sup> March, 2013.
- The un-availed deferred tax benefit stands at Rs.555 crs and will be available to offset tax on future taxable income. Deferred Tax assets will be recognised on the books upon virtual certainty of future taxable profits supported by convincing evidence as per AS-22. For Q4FY13, the company has posted net profit of Rs.2.7 crs and given the carried forward tax loss, no current tax provision is required.
- Received interim relief from Supreme Court to resume operations in AP, subject to Sec 9 and 16 of the AP MFI Act, which prescribes the ceiling on amount recoverable on loans in respect of interest and provides the penalty for any coercive actions.
- Ms. Ranjana Kumar has been appointed as an Independent Director on the Board of SKS Microfinance Limited w.e.f. March 08, 2013. Ms. Ranjana Kumar served as the CMD of Indian Bank and NABARD. She also held the constitutional post of Vigilance Commissioner in Central Vigilance Commission.

Note::

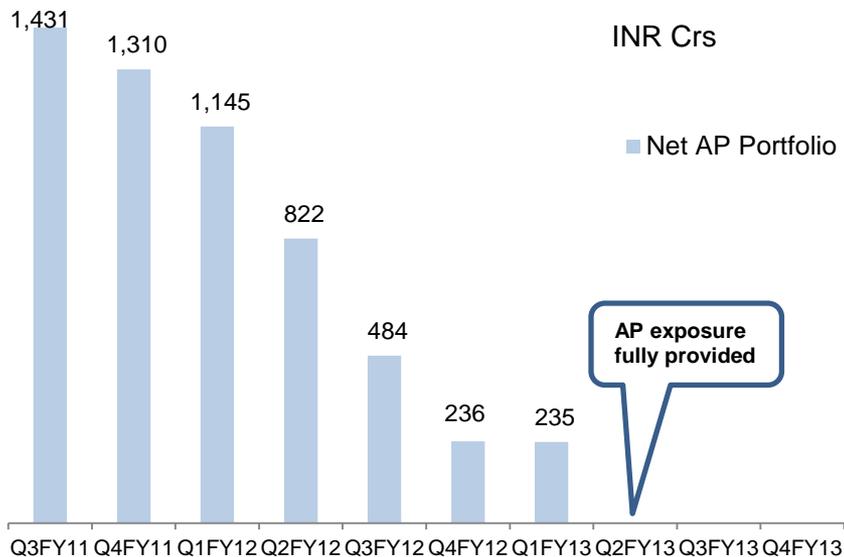
\*Capital adequacy without RBI dispensation on AP provisioning is 19.5%

Figures rounded off to nearest digit across the presentation

# **SKS TURNED AROUND**

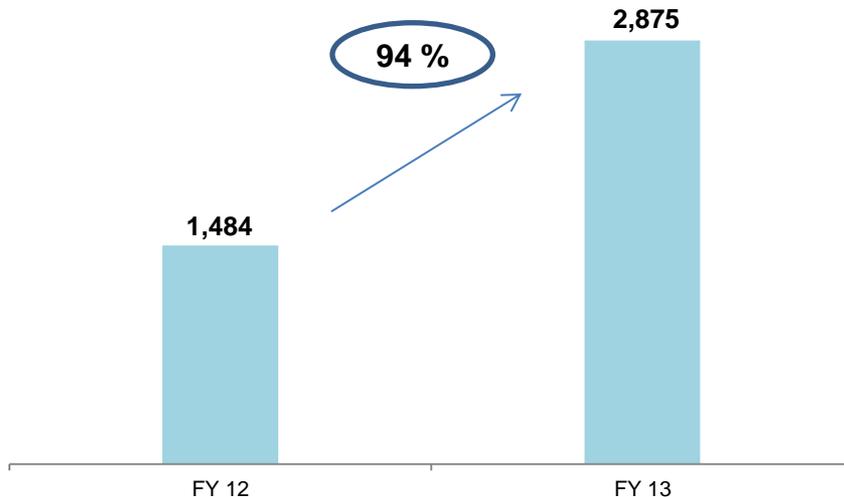
# BUILDING BLOCKS OF SKS TURNAROUND STRATEGY

## Balance Sheet Cleansed



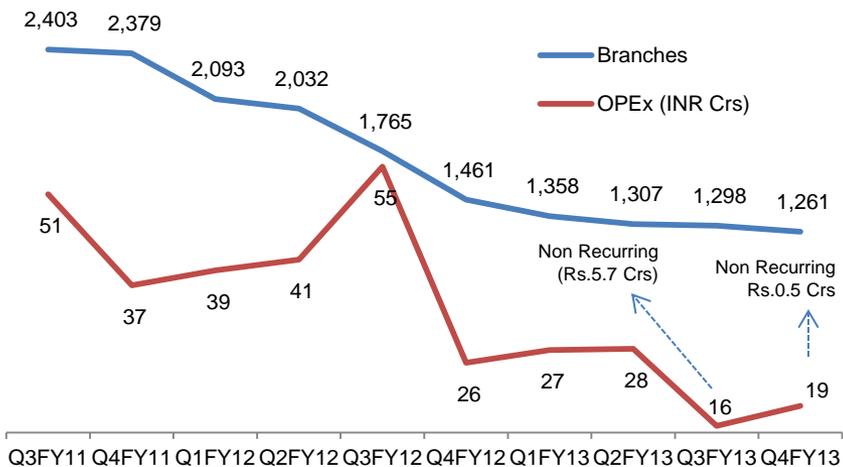
## Supply Side Shock Managed

Drawdowns INR Crs.

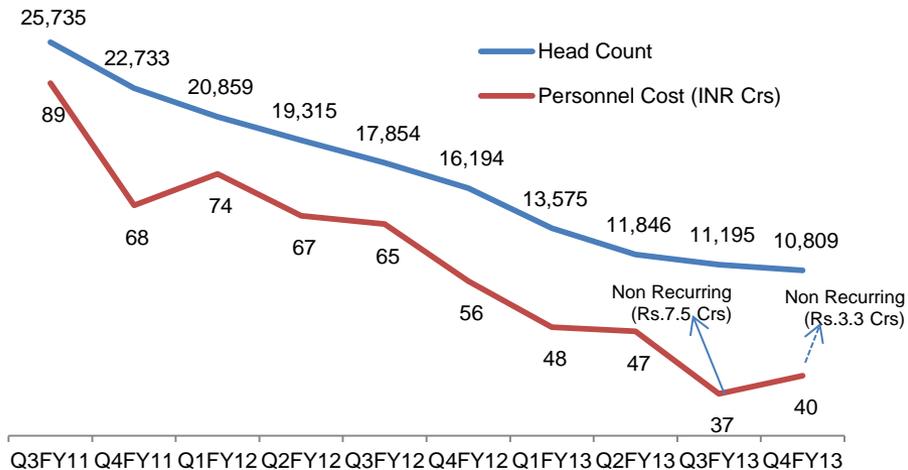


# COST STRUCTURE OPTIMISATION

## Branch Network Consolidated

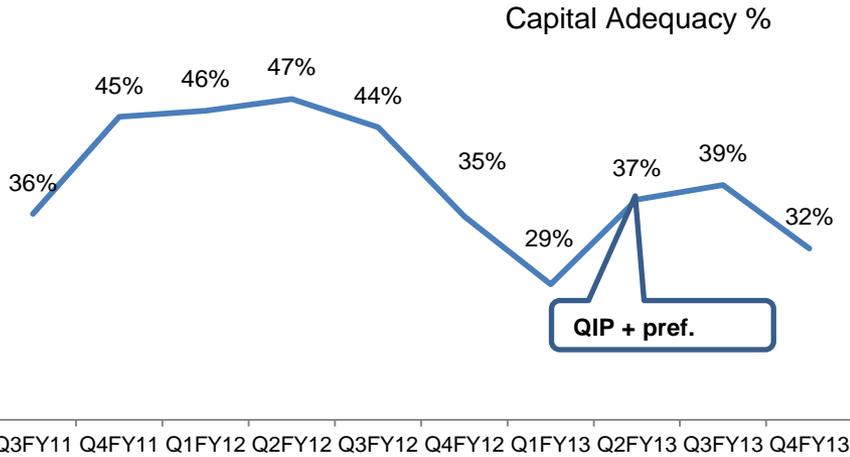


## Head-Count Rationalised

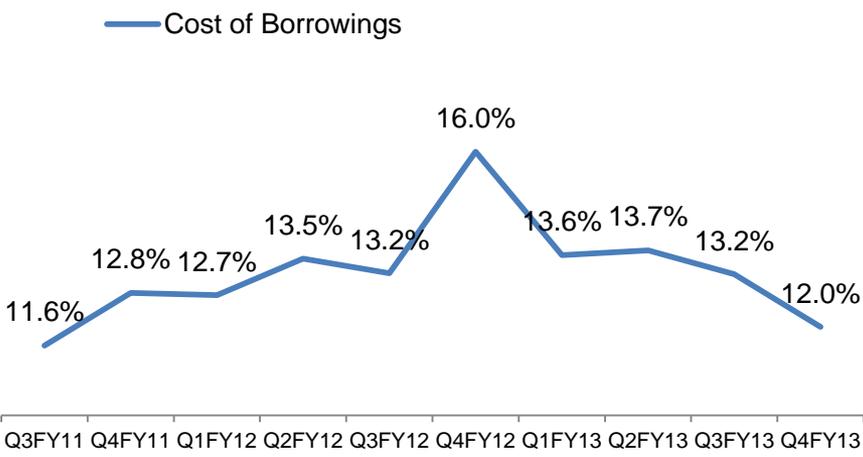


# BUILDING BLOCKS OF SKS TURNAROUND STRATEGY ...CONTD.

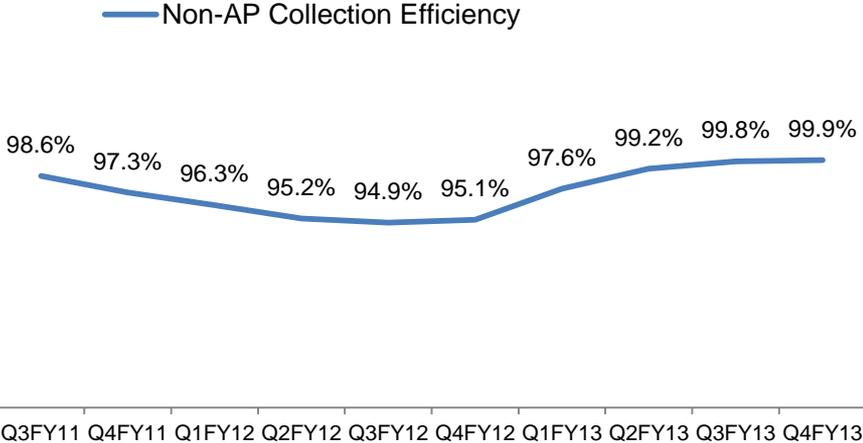
## Capital Raised



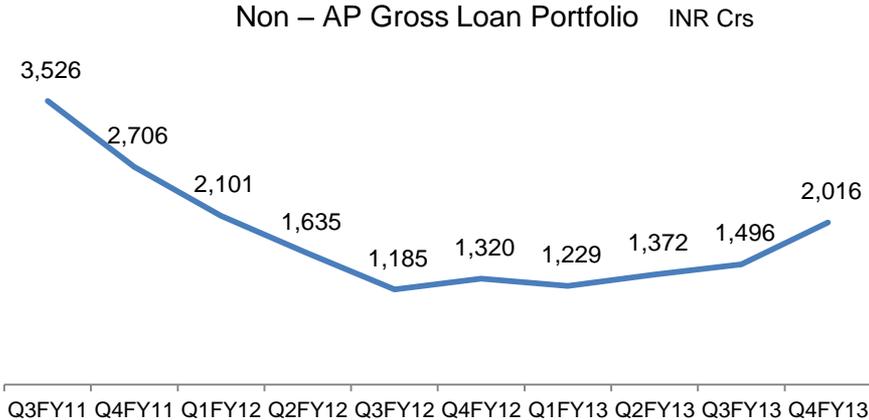
## Cost of Borrowings Reduced



## Portfolio Protected



## Credit Growth Resumed



**THESE STRATEGIES HELPED SKS TO RETURN TO PROFITABILITY IN Q3FY13 AND THE TURNAROUND IS SUSTAINED WITH HIGHER PROFIT OF RS.2.7 CRS IN Q4FY13**

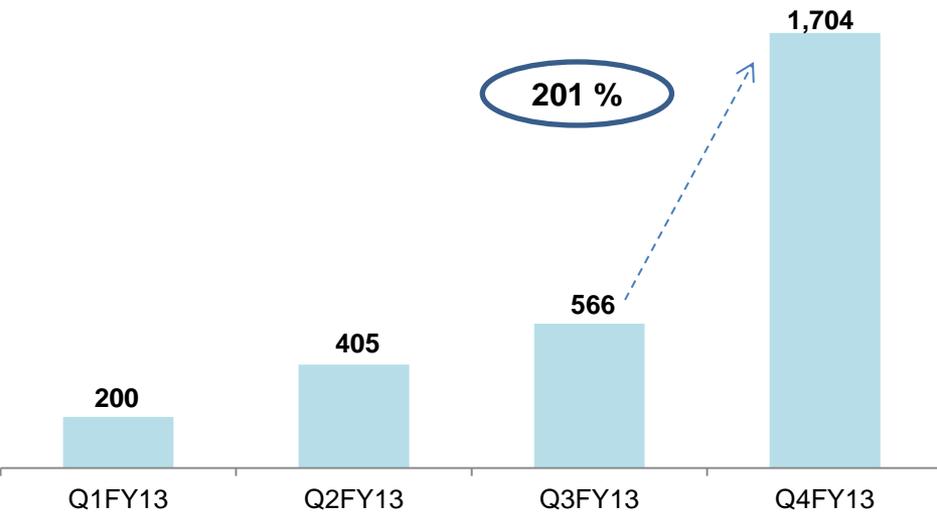
INR Crs.

	<b>PAT</b>
Q4FY11	(70)
Q1FY12	(219)
Q2FY12	(385)
Q3FY12	(428)
Q4FY12	(330)
Q1FY13	(39)
Q2FY13	(262)
Q3FY13	1.2
Q4FY13	2.7

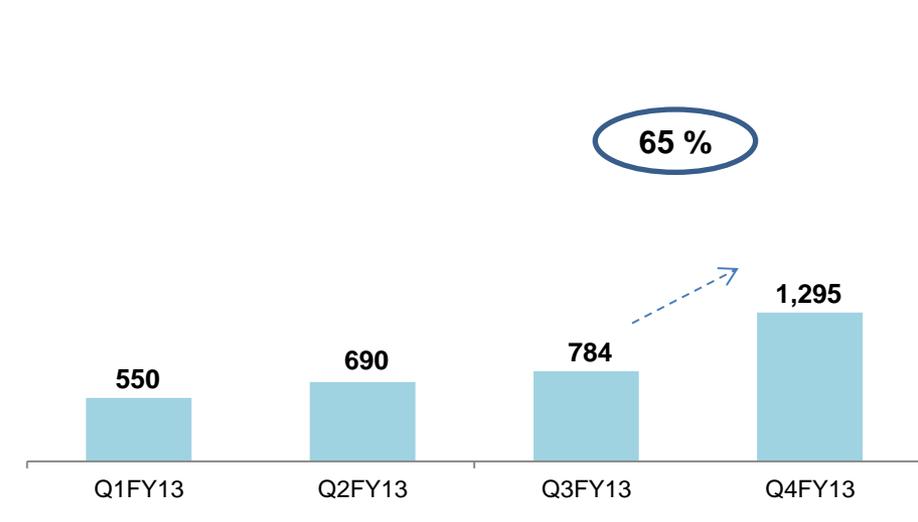
# **OPERATIONAL HIGHLIGHTS**

# GROWTH MOMENTUM CONTINUES

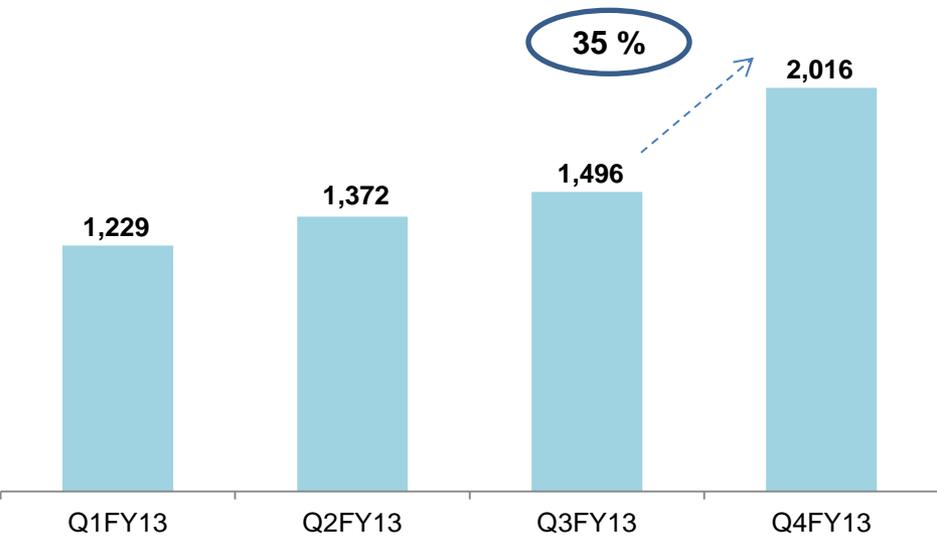
## Drawdowns



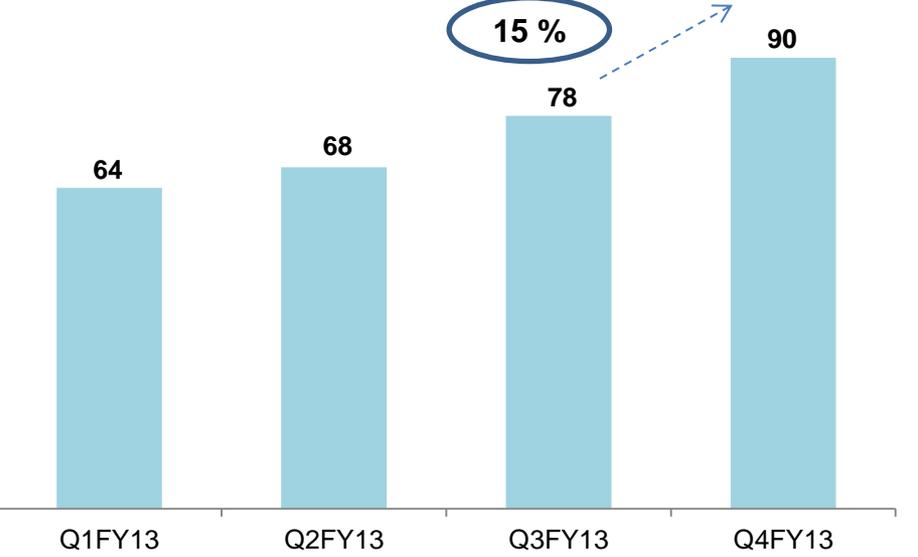
## Disbursement



## Non-AP Loan Portfolio Outstanding



## Non-AP Core Interest Income\*



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

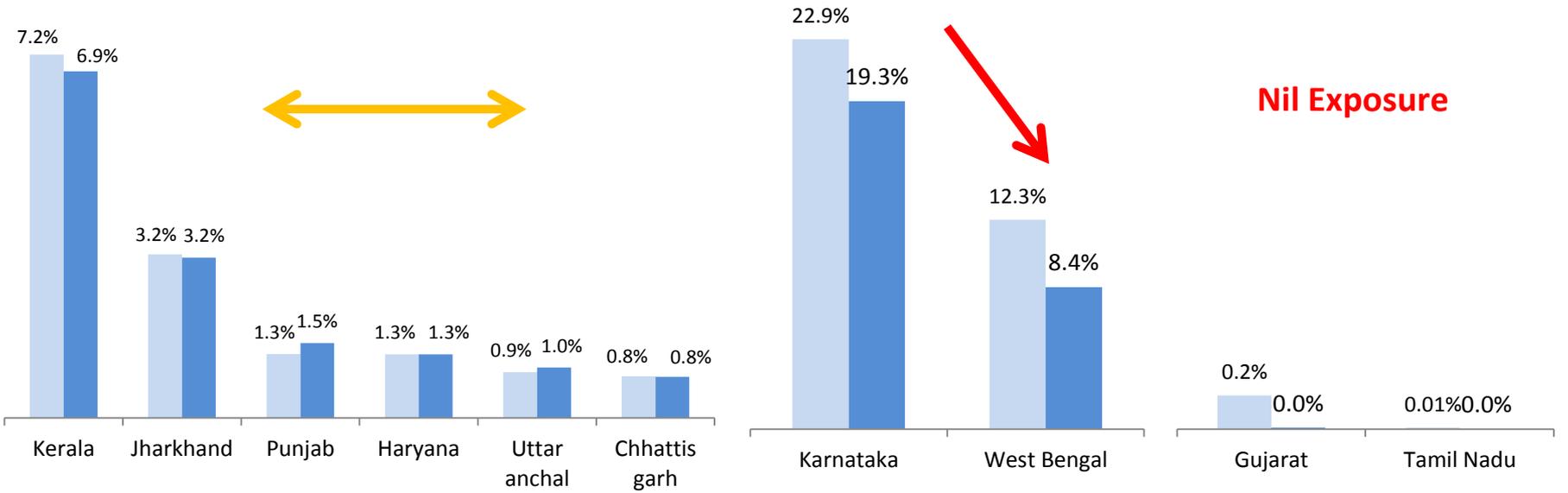
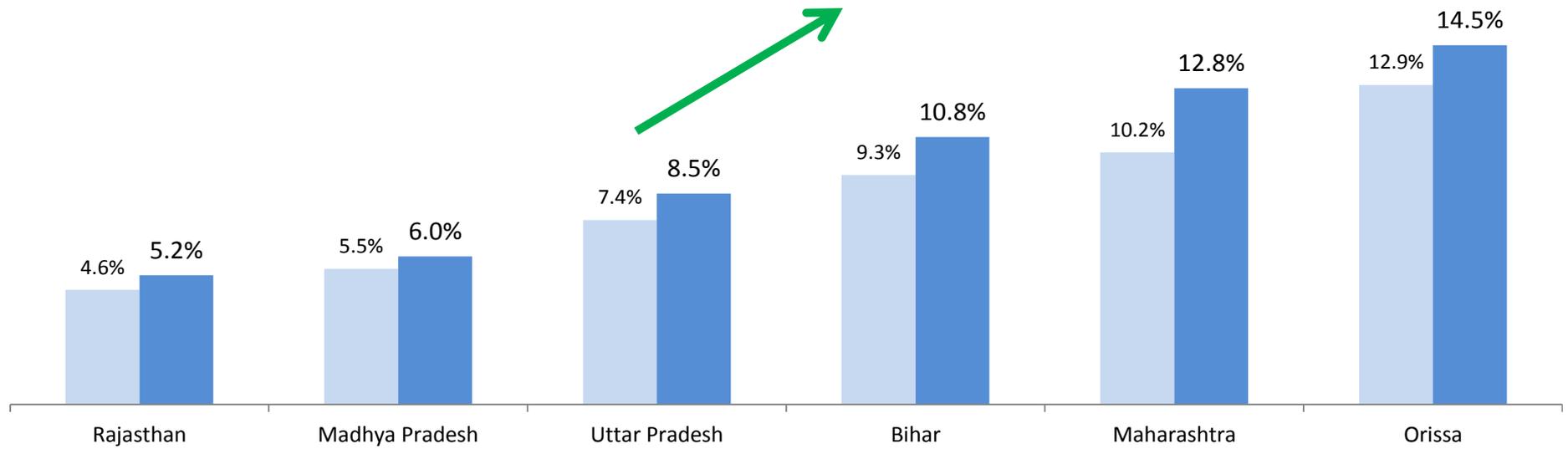
# CONSOLIDATED OPERATIONAL HIGHLIGHTS

Particulars	Mar-12	Mar-13	YoY%	Dec-12	QoQ%
Branches#	1,461	1,261	-14%	1,298	-3%
Centers (Sangam)	229,600	216,234	-6%	210,260	3%
- Centers in non-AP States (in '000)	159,008	145,655	-8%	139,681	4%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	16,194	10,809	-33%	11,195	-3%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	15,867	10,551	-34%	10,940	-4%
– Sangam Managers* (i)	10,354	6,746	-35%	7,085	-5%
– Sangam Managers Trainees(ii)	8	149	1763%	29	414%
– Branch Management Staff (iii)	3,234	2,259	-30%	2,358	-4%
– Area Managers (iv)	123	93	-24%	98	-5%
– Regional Office Staff (v)	2,148	1,304	-39%	1,370	-5%
• Head Office Staff (vi)	327	258	-21%	255	1%
Members (in '000)	5,351	5,021	-6%	4,844	4%
– Members in non-AP States (in '000)	3,431	3,101	-10%	2,924	6%
Active borrowers (in '000)	4,257	4,308	1%	4,092	5%
– Active borrowers in non-AP States (in '000)	2,536	2,596	2%	2,379	9%
No. of loans disbursed (in '000)	722	1,160	61%	745	56%
Disbursements (for the quarter) (INR Crs)	793	1,295	63%	784	65%
Off-take Avg (Disbursements / No of Loans disbursed )(INR)	10,987	11,159	2%	10,525	6%
Gross loan portfolio – Non-AP (INR Crs) (A+B)	1,320	2,016	53%	1,496	35%
• Loans outstanding (A)	503	1,233	145%	1,143	8%
• Assigned loans (B)	817	783	-4%	352	122%
<b>Operational Efficiency – Non-AP :</b>					
Gross loan portfolio/ No. of Sangam managers (Rs. '000)	1,623	3,445	112%	2,438	41%
Gross loan portfolio/ Active Borrowers (INR)	5,205	7,763	49%	6,288	23%
Members / No. of Branches	2,685	2,683	-0.1%	2,484	8%
Members / No. of Sangam managers	422	530	26%	477	11%

\*Sangam Managers are our loan officers, who manage our centers (also called as Sangams). #Includes 41 Gold Loan Branches.

# PORTFOLIO GROWTH APPROACH

Q1-FY13    Q4-FY13



Note: %s are based on Future receivables

## NON-AP COLLECTION EFFICIENCY FURTHER IMPROVES TO 99.9%

State	Q4FY13	Q3FY13	Q2FY13	Q1FY13
Karnataka	99.8%	99.8%	99.8%	99.8%
Orissa	99.9%	99.8%	99.7%	99.8%
Maharashtra	99.9%	99.9%	99.9%	99.8%
Bihar	99.8%	99.8%	99.7%	99.6%
West Bengal	99.8%	99.3%	95.9%	89.1%
Uttar Pradesh	99.8%	99.7%	99.7%	99.8%
Kerala	99.9%	99.9%	99.9%	99.8%
Madhya Pradesh	99.9%	99.8%	99.7%	99.2%
Rajasthan	99.9%	99.8%	99.8%	99.7%
Jharkhand	99.9%	99.8%	99.8%	99.8%
Punjab	99.8%	99.8%	99.8%	99.8%
Haryana	99.9%	99.8%	99.8%	99.7%
Uttaranchal	99.9%	99.9%	99.8%	99.6%
Chhattisgarh	99.9%	99.9%	99.9%	99.8%
<b>Total non-AP States</b>	<b>99.9%</b>	<b>99.8%</b>	<b>99.2%</b>	<b>97.6%</b>

# UPDATE ON GOLD LOANS - PILOT PROGRAMME

INR crs

Particulars	Mar-13
Total Gold Loan Portfolio Outstanding	56
Current Gold Holding Value *	80
Security Coverage (80/56 Crs)	143%
SKS Non-AP Gross Loan Portfolio	2,016
<b>Gold loans as % of SKS Non-AP Gross Loan Portfolio</b>	<b>2.8%</b>

## Notes:

\* Based on Current value Rs. 2,546/gm .- 7<sup>th</sup> May 2013 and applied on Net weight of Gold i.e. after deduction for stones and impurities on Gross Weight)

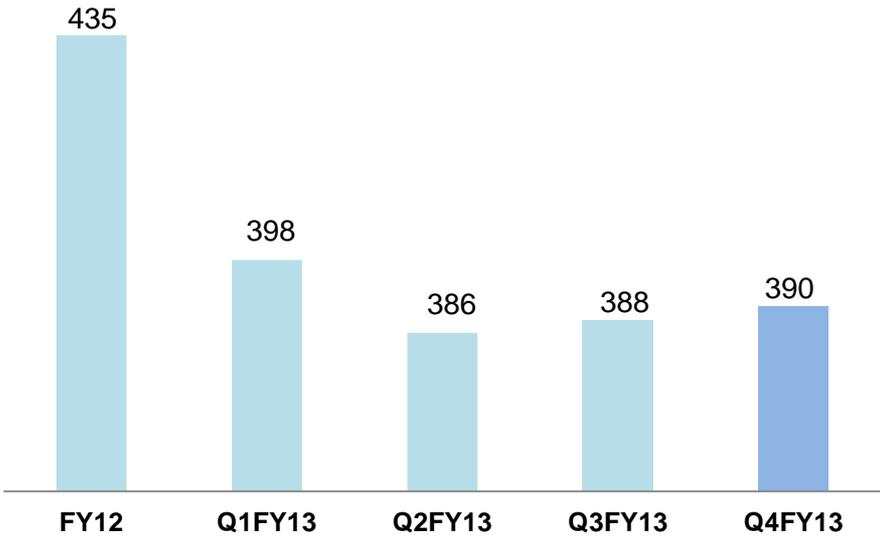
(Source: indiagoldrate.com – 22 carat spot rate in Mumbai )

# REVIEW OF FINANCIALS

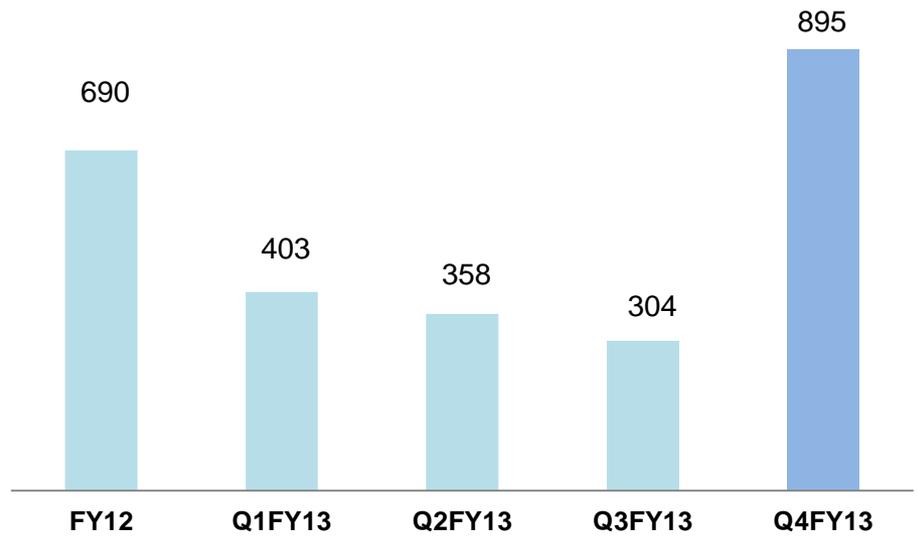
# FINANCIAL LEVERAGING BEGINS

*INR Crs*

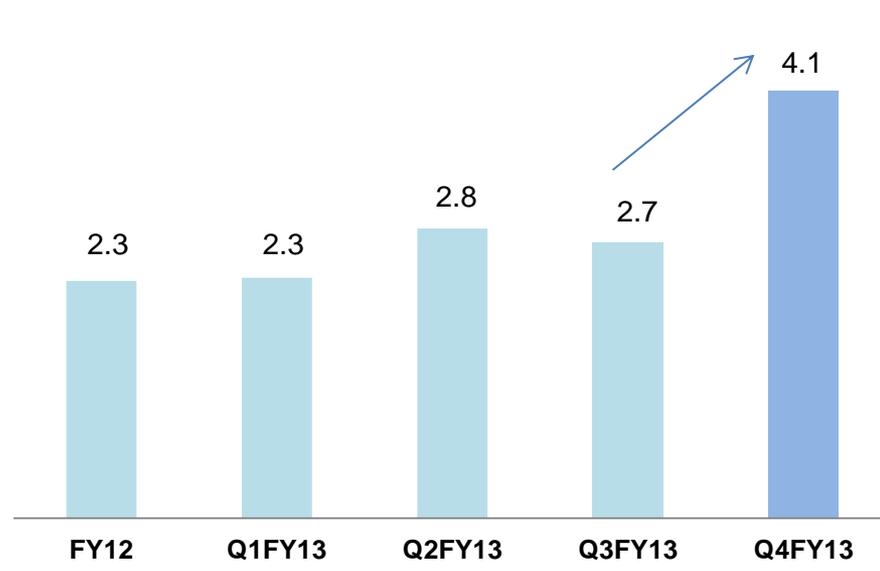
## Networth



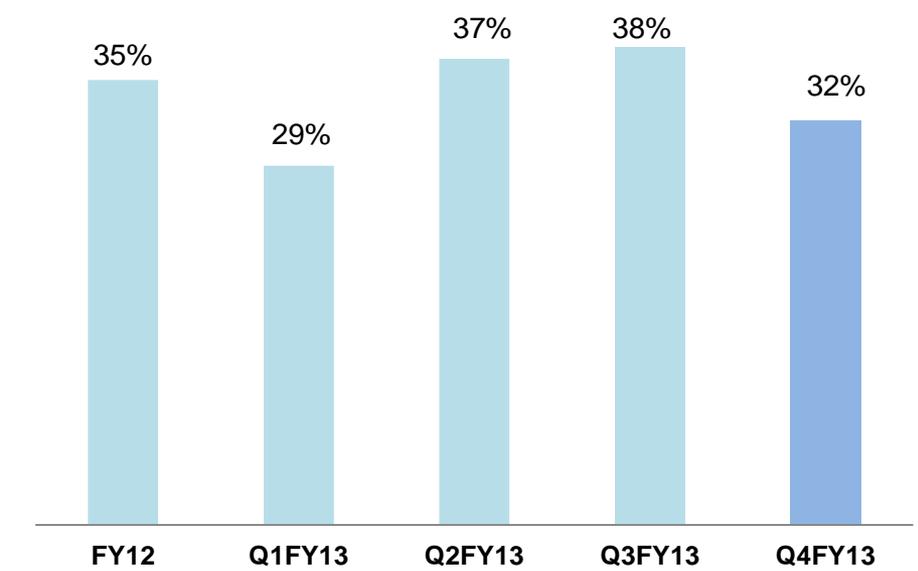
## Cash and Bank



## Debt/Equity



## Capital Adequacy



Note: Q4FY13 – Capital adequacy without RBI dispensation on AP provisioning is 19.5%

# ROBUST ASSET GROWTH IMPROVES PROFITABILITY

INR Crs

Particulars	Q4 FY12	Q4 FY13	YoY%	Q4 FY13 As % of Total Revenue	Q3 FY13	QoQ%
<b><u>Income from Operations</u></b>						
Interest income on Portfolio loans	*42	*65	54%	64%	*60	9%
Income from Assigned loans	11	18	70%	18%	13	38%
Loan processing fees	4	7	81%	7%	6	22%
<b><u>Other Income</u></b>						
Insurance commission	-	-	-	-	-	-
Group Insurance admin. charges	-	-	-	-	-	-
Income on Investments	7	4	-44%	4%	4	8%
Recovery against loans written off	7	2	-77%	2%	4	-59%
Other Miscellaneous Income	1	6	707%	6%	4	58%
<b>Total Revenue</b>	<b>72</b>	<b>102</b>	<b>42%</b>	<b>100%</b>	<b>90</b>	<b>13%</b>
<b>Financial expenses</b>	<b>42</b>	<b>40</b>	<b>-6%</b>	<b>39%</b>	<b>35</b>	<b>13%</b>
Personnel expenses	56	40	-29%	39%	37	6%
Operating and other expenses	23	17	-24%	17%	15	18%
Depreciation and amortization	2	1	-45%	1%	1	-8%
<b>Total Operating Cost</b>	<b>81</b>	<b>58</b>	<b>-28%</b>	<b>57%</b>	<b>54</b>	<b>9%</b>
<b>Provision &amp; Write-offs</b>	<b>278</b>	<b>1</b>	<b>-</b>	<b>1%</b>	<b>0.3</b>	<b>241%</b>
<b>Total Expenditure</b>	<b>401</b>	<b>99</b>	<b>-75%</b>	<b>97%</b>	<b>89</b>	<b>11%</b>
<b>Profit before Tax</b>	<b>(330)</b>	<b>2.7</b>	<b>-</b>	<b>3%</b>	<b>1.2</b>	<b>125%</b>
Tax expense	-	-	-	-	-	-
<b>Profit after Tax</b>	<b>(330)</b>	<b>2.7</b>	<b>-</b>	<b>3%</b>	<b>1.2</b>	<b>125%</b>

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

# QUALITY OF EARNINGS - A COMPARATIVE ANALYSIS BETWEEN Q3 & Q4

INR Crs

	Q4 FY13	Q3 FY13
<b><u>Non-recurring items:</u></b>		
Reversal of Employee Benefits	(2.5)	(4.5)
Reversal of Employee Payables	(0.8)	(3.0)
IRDA penalty	0.5	-
Realisation of retail insurance surrender value including interest	-	(5.7)
<b>Total Non-recurring</b>	<b>(2.8)</b>	<b>(13.3)</b>
<b>Cash Profit</b>	<b>7.8</b>	<b>(0.3)</b>

## DEFERRED REVENUE ITEMS TO LEND STABILITY TO FUTURE EARNINGS

Policy	Q4- FY13 PBT Deferred
Income on assignment transactions deferred	3
Unammortised Loan processing Fees	15
<b>Total Deferred Revenue</b>	<b>18</b>

# DETAILS OF CREDIT COSTS

Particulars	AP	Non-AP	Total
Q3FY11	67	34	101
Q4FY11	57	50	106
Q1FY12	126	57	184
Q2FY12	303	51	353
Q3FY12	333	26	359
Q4FY12	246	32	278
Q1FY13	0.1	10	10
Q2FY13	233	0.3	233
Q3FY13	-0.7	1.0	0.3
Q4FY13	-0.6	1.6	1.0

# PROFIT AND LOSS STATEMENT FOR FINANCIAL YEAR ENDED

INR Crs.

Particulars	FY12	FY13	YoY%	FY13 As % of Total Revenue
<b><u>Income from Operations</u></b>				
Interest income on Portfolio loans	359	220	-39%	62%
Income from Assigned loans	35	58	68%	17%
Loan processing fees	9	23	156%	7%
<b><u>Other Income</u></b>				
Insurance commission	2	-	-100%	-
Group Insurance admin. charges	17	-	-100%	-
Income on Investments	22	24	13%	7%
Recovery against loans written off	22	16	-28%	5%
Other Miscellaneous Income	6	11	69%	3%
<b>Total Revenue</b>	<b>472</b>	<b>353</b>	<b>-25%</b>	<b>100%</b>
<b>Financial expenses</b>	<b>200</b>	<b>143</b>	<b>-29%</b>	<b>40%</b>
Personnel expenses	261	173	-34%	49%
Operating and other expenses	151	83	-45%	24%
Depreciation and amortization	10	6	-36%	2%
<b>Total Operating Cost</b>	<b>422</b>	<b>263</b>	<b>-38%</b>	<b>74%</b>
<b>Provision &amp; Write-offs</b>	<b>1,173</b>	<b>244</b>	<b>-79%</b>	<b>69%</b>
<b>Total Expenditure</b>	<b>1,796</b>	<b>650</b>	<b>-64%</b>	<b>184%</b>
<b>Profit before Tax</b>	<b>(1,324)</b>	<b>(297)</b>	<b>-78%</b>	<b>-84%</b>
Tax expense	37	-	-	-
<b>Profit after Tax</b>	<b>(1,361)</b>	<b>(297)</b>	<b>-78%</b>	<b>-84%</b>

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

# PRODUCTIVITY GAINS & COST EFFICEINCY IN Q4FY13 COMPARED TO BEST BEFORE AND WORST DURING THE AP MFI CRISIS

	Best before AP MFI crisis	Worst during AP MFI crisis	Q3FY13	Q4FY13	FY13
<b><u>Productivity – Non-AP:</u></b>					
Borrowers/SM	489*	287	388	444	444
Gross Loan Portfolio /SM('000)	3,640*	1,320	2,438	3,445	3,445
Offtake Avg.	10,299*	9,237	10,525	11,159	11,081
<b><u>Cost Efficiency:</u></b>					
Cost of borrowings %	10.3%	16.0%	13.2%	12.0%	12.5%
Opex / Gross Loan Portfolio %	10.4%	21.7%	12.1%	11.1%	14.3%
Cost to Income Ratio	52.4%	275%	97.4%	94.1%	125.1%
<b><u>Credit Quality - Non-AP:</u></b>					
Gross NPA%	0.20%*	5.5%	0.7%	0.5%	0.5%
Net NPA%	0.16%*	2.9%	0.7%	0.4%	0.4%
Collection Efficiency%	99.8%*	94.9%	99.8%	99.9%	99.1%
<b><u>Leverage:</u></b>					
Debt: Equity	2.8	1.1	2.7	4.1	4.1
Debt (including off b/s) :Equity	4.3	1.2	3.5	6.3	6.3
<b><u>Profitability:</u></b>					
ROA%	4.9%	-70.4%	0.2%	0.5%	-15.8%
ROA (including Managed portfolio) %	3.7%	-54.8%	0.2%	0.4%	-11.7%
ROE%	22%	-220%	1.2%	2.8%	-74.4%

\* Enterprise figures - includes figures from AP state

# FY14 OUTLOOK

INR Crs.

	<b>FY13</b>	<b>FY14(E)*</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	Q4 FY12	Q4 FY13	YoY%	Q3 FY13	QoQ%
Equity share capital	72	108	50%	108	0%
Stock options outstanding	19	21	12%	21	0%
Reserves and surplus	344	261	-24%	259	1%
<b>Capital &amp; Reserves</b>	<b>435</b>	<b>390</b>	<b>-10%</b>	<b>388</b>	<b>1%</b>
Loan funds	1,021	1,618	58%	1,039	56%
Payable towards assignment/Securitisation	87	141	61%	71	98%
Expenses & other payables	27	13	-53%	17	-28%
Provision for Taxation	12	20	61%	19	4%
Unammortised loan processing fees	10	15	56%	11	36%
Employee benefits payable	21	5	-79%	8	-43%
Interest accrued but not due on borrowings	4	9	108%	6	66%
Interest accrued and due on borrowings	1	-	-100%	-	
Provision for leave benefits & gratuity	8	8	1%	7	15%
Statutory dues payable	3	2	-7%	1	64%
Unrealised gain on securitisation transactions	41	27	-35%	8	233%
Provision for standard and NPA - Non-AP	26	6	-79%	4	23%
Provision for standard and NPA - AP	26	258	902%	258	0%
<b>Liabilities</b>	<b>1,287</b>	<b>2,121</b>	<b>65%</b>	<b>1,450</b>	<b>46%</b>
<b>Total Liabilities</b>	<b>1,722</b>	<b>2,511</b>	<b>46%</b>	<b>1,838</b>	<b>37%</b>
Fixed assets	16	8	-48%	10	-13%
Intangible assets	4	3	-36%	3	-6%
Investment	0	0	0%	0	0%
Cash and bank balances	690	895	30%	304	195%
Sundry debtors	0	0	-25%	0	-64%
Interest accrued and due on loans	1	0	-69%	1	-48%
Interest accrued but not due on loans	10	6	-39%	9	-32%
Interest accrued but not due on deposits with banks	7	6	-8%	5	26%
Interest strip on securitisation transactions	41	27	-35%	8	233%
Portfolio loans - Non-AP	503	1,233	145%	1,143	8%
Portfolio loans - AP (Fully Provided)	262	258	-2%	259	0%
Loans placed as collateral	137	40	-71%	67	-40%
Security Deposits for Rent and other utilities	6	4	-34%	4	-3%
Advances for Loan cover Insurance	1	1	-28%	1	-21%
Surrender amount receivable from Insurance co.	26	4	-86%	6	-40%
Loans to SKS employee benefit trust	5	5	0%	5	0%
Advance Income Tax	4	9	127%	6	48%
Prepaid Insurance	4	3	-34%	4	-26%
Other advances	3	9	156%	2	281%
<b>Total Assets</b>	<b>1,722</b>	<b>2,511</b>	<b>46%</b>	<b>1,838</b>	<b>37%</b>
Note:1 Assigned Portfolio (Incl. Loans placed as collateral)	904	869	-4%	438	98%
2. Gross loan Portfolio	1,669	2,359	41%	1,840	28%

# IMPROVED COST TO INCOME AND NEGLIGIBLE CREDIT COSTS

Particulars		Q4 FY12	Q3 FY13	Q4 FY13
<b>Spread Analysis ( as % of Avg. Gross Loan Portfolio)</b>				
Gross Yield	(I)	16.5%	20.3%	19.4%
Portfolio Yield		12.1%	16.3%	15.8%
Financial Cost	(a)	9.8%	7.9%	7.6%
Operating Cost	(b)	18.6%	12.1%	11.1%
Provision and Write-offs	(c)	63.9%	0.1%	0.2%
Taxes	(d)	0.0%	0.0%	0.0%
Total Expense	II = (a+b+c+d)	92.3%	20.0%	18.9%
Return on Avg. Gross Loan Portfolio	(I) - (II)	-75.8%	0.3%	0.5%
<b>Efficiency:</b>				
Cost to Income		277.1%	97.4%	94.1%
<b>Asset Quality – Non-AP :</b>				
Gross NPA		5.5%	0.7%	0.5%
Net NPA		2.9%	0.7%	0.4%
Gross NPA (INR crs)		27.8	8.4	5.6
Net NPA (INR crs)		14.2	7.4	5.0
<b>Leverage:</b>				
Debt : Equity (on Balance Sheet)		2.3	2.7	4.1
<b>Capital Adequacy:</b>				
		35.4%	38.5%	32.2%
<b>Profitability:</b>				
Return on Avg. Assets		-70.4%	0.2%	0.5%
Return on Avg. Assets (incl. assigned loans)		-54.8%	0.2%	0.4%
ROE		-220.3%	1.2%	2.8%
EPS - Diluted (INR) (Not Annualised)		(45.54)	0.11	0.25
Book Value (INR)		60.08	35.83	36.08

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

^ Capital adequacy without RBI dispensation on AP provisioning is 19.5% for Q4FY13

# FY13 RATIOS – IMPACTED BY AP WRITE-OFFS

Particulars		FY12	FY13
<b>Spread Analysis ( as % of Avg. Gross Loan Portfolio)</b>			
Gross Yield	(I)	17.3%	19.2%
Portfolio Yield		14.4%	15.2%
Financial Cost	(a)	7.3%	7.8%
Operating Cost	(b)	15.4%	14.3%
Provision and Write-offs	(c)	42.9%	13.3%
Taxes	(d)	1.3%	0.0%
Total Expense	II = (a+b+c+d)	67.0%	35.5%
<b>Return on Avg. Gross Loan Portfolio</b>	(I) - (II)	-49.8%	-16.2%
<b>Efficiency:</b>			
Cost to Income		155.3%	125.1%
<b>Leverage:</b>			
Debt : Equity (on Balance Sheet)		2.3	4.1
<b>Capital Adequacy:</b>		<b>35.4%</b>	<b>32.2%</b>
<b>Profitability:</b>			
Return on Avg. Assets		-46.7%	-15.8%
Return on Avg. Assets (incl. assigned loans)		-40.3%	-11.7%
ROE		-118.9%	-74.4%
EPS - Diluted (INR)		(188.06)	(30.55)
Book Value (INR)		60.07	36.08

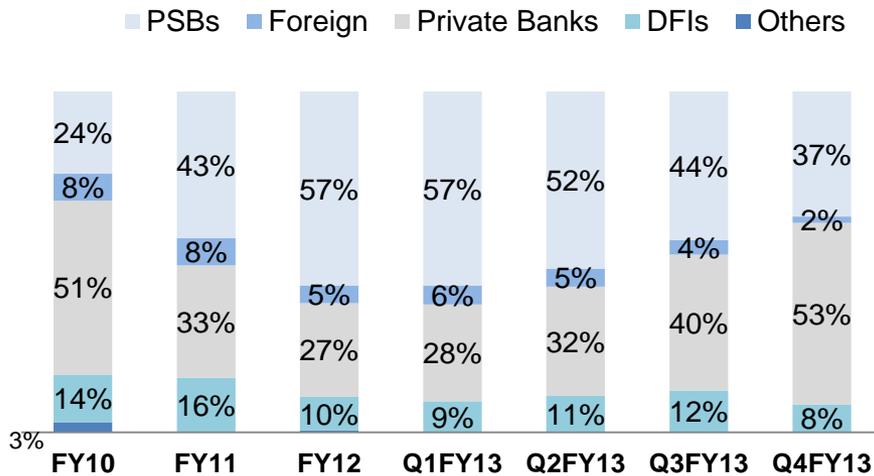
\* Income on AP portfolio recognised not on accrual basis, but on cash basis

^ Capital adequacy without RBI dispensation on AP provisioning is 19.5% for Q4FY13

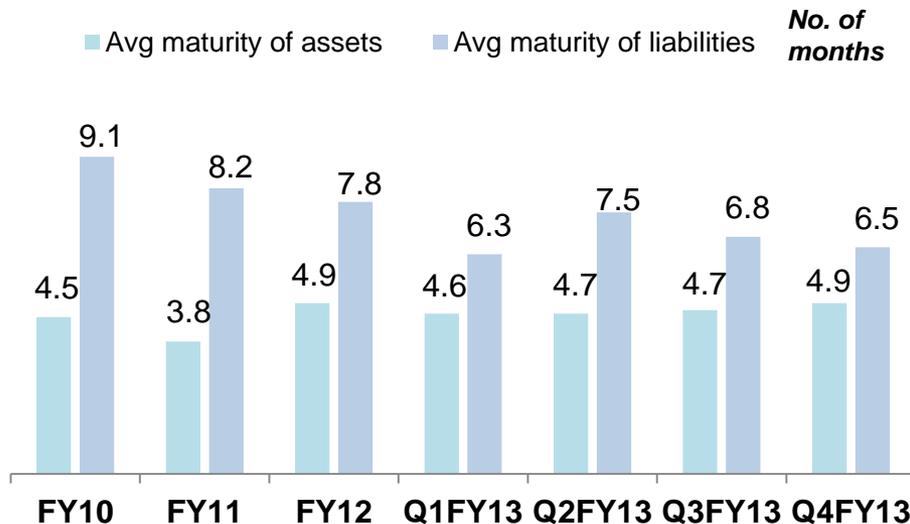
# FINANCIAL ARCHITECTURE

# FINANCIAL ARCHITECTURE (1/2)

## Stable Funding Partners



## Positive ALM Mismatch



## Funding Mix

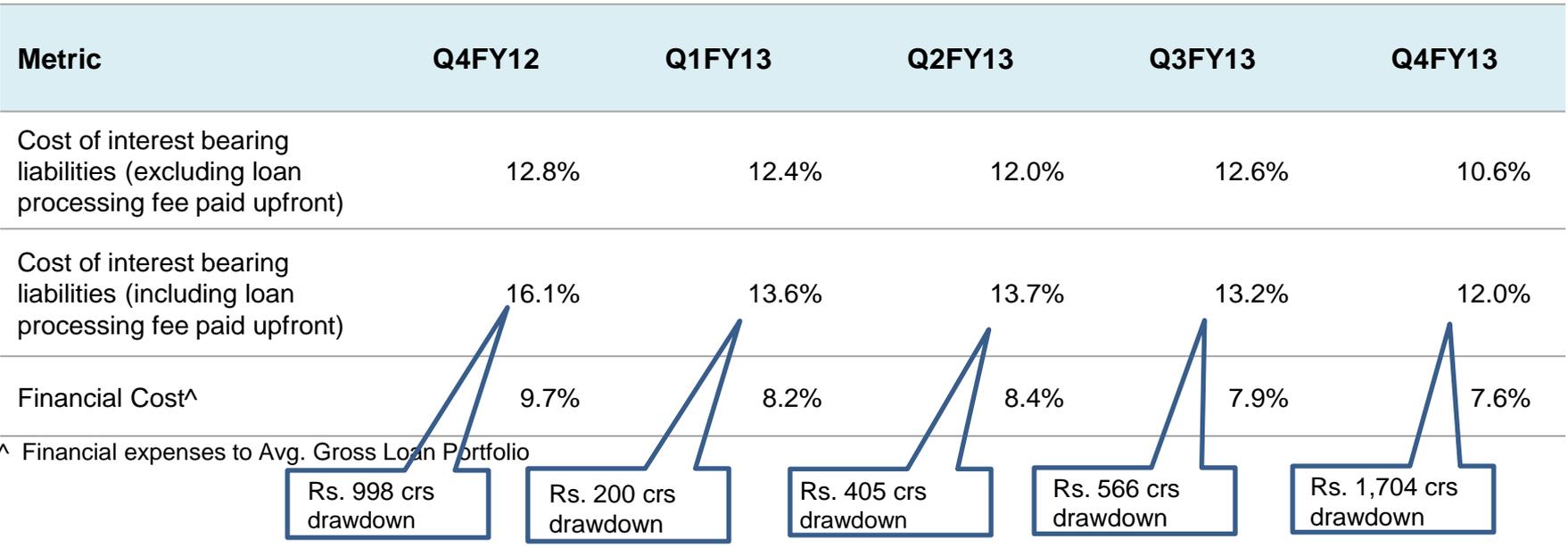
Bank/FI	On B/S
Yes Bank	27%
IDBI Bank	21%
SIDBI	11%
ICICI Bank	7%
State Bank Group	6%
Andhra Bank	5%
Dena Bank	4%
Axis Bank	3%
HDFC Bank	3%
Citi Bank	3%
IndusInd Bank	3%
Corporation Bank	2%
DCB Bank	1%

Bank/FI	OFF B/S
IDBI Bank	33%
IndusInd Bank	23%
Yes Bank	19%
DCB Bank	8%
ICICI Bank	7%
Axis Bank	7%
Reliance Capital	3%
Dena Bank	1%

\*Concentration risk on rest of the 6 banks is below 1%.

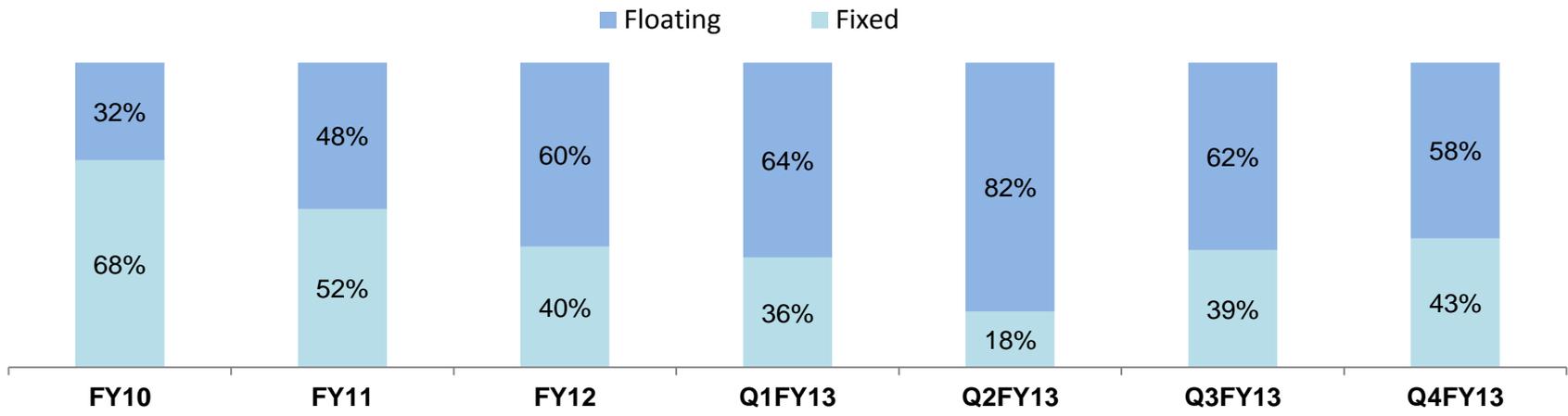
# FINANCIAL ARCHITECTURE (2/2)

## Funding Cost Analysis

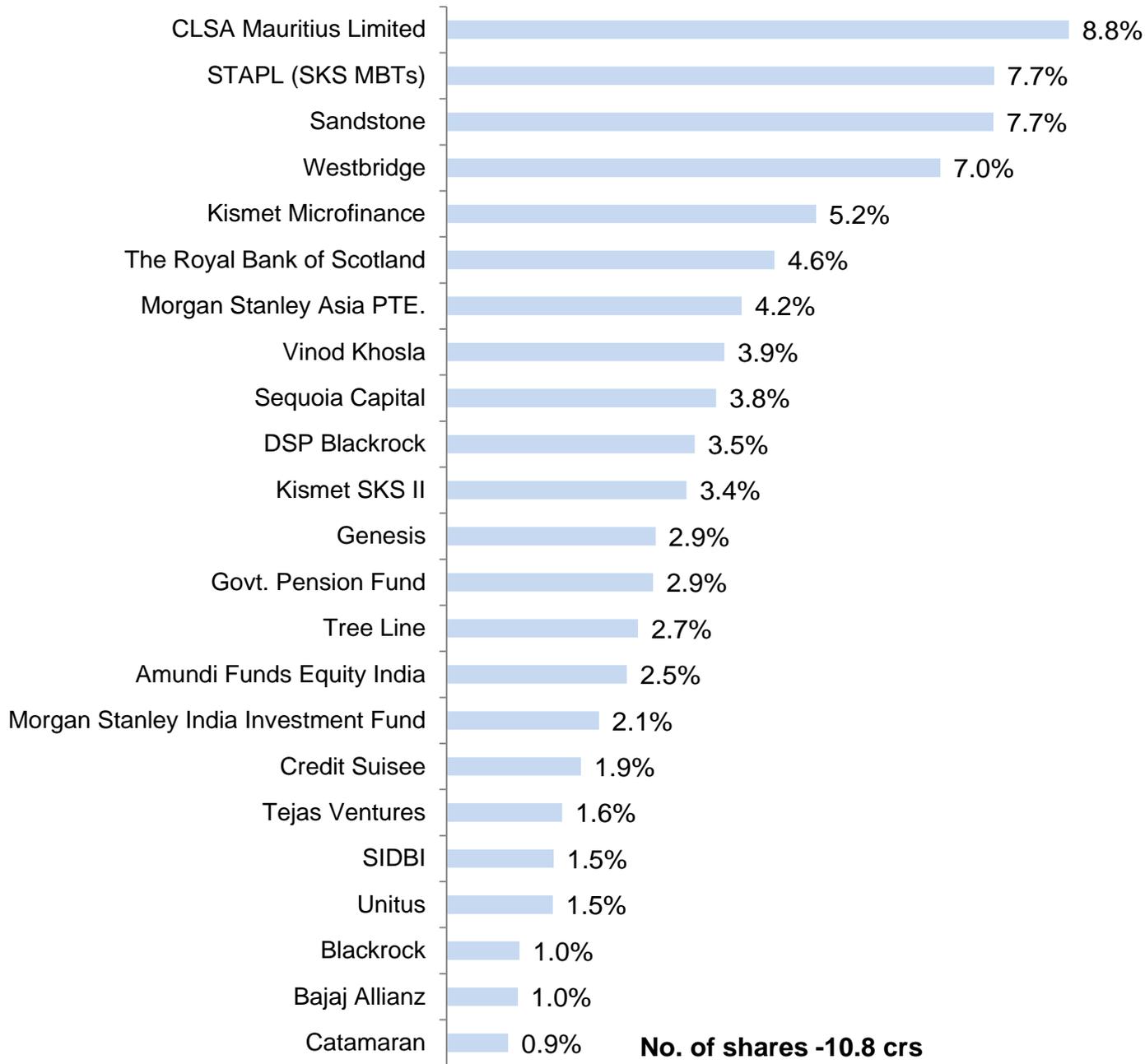


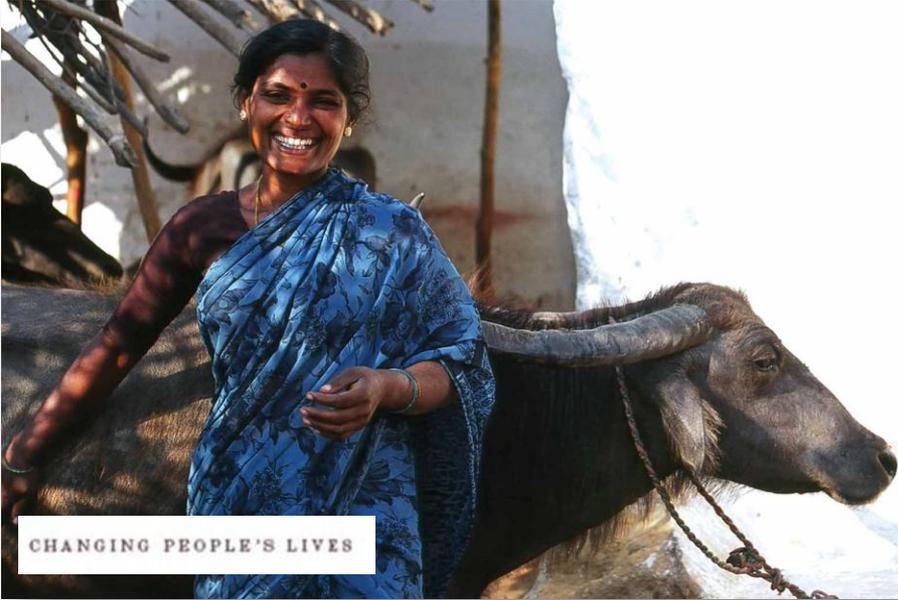
Note: SKS expenses loan processing fees paid upfront . Whereas loan processing fees received from borrowers are amortized over the period of contract.

## Mitigation of Interest Rate Risk



# CAPITAL STRUCTURE AS ON 31<sup>ST</sup> MAR 2013





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