



SKS Microfinance Pvt. Ltd.

*empowering the poor to become
economically self-reliant*



Microfinance is Anchored on Credit for the Poor

**A "poor" client
without access
to capital**

gets

**a "small" loan
through a
group model**

**to use
for**

**an income-
generating
activity**

- The term "poor" can be based on national poverty level, asset wealth, or housing conditions
- A frequently-used definition is living on less than USD2 a day. ~3 billion people fit this definition according to the World Bank



- Loans from MFIs in the developing world can be as small as \$15
- Major organizations give loans of up to \$1,000
- Loans are given through a group in which everyone serves as a guarantor



- Typically a type of self-employment
- Loans often intended for cottage industries
 - Livestock-raising
 - Crafts
 - Small restaurants
- Many purchase materials for service provision:
 - Rickshaw
 - Shoe-shine equipment



SKS Empowers The Poor to Become Economically Self-Reliant

SKS Mission

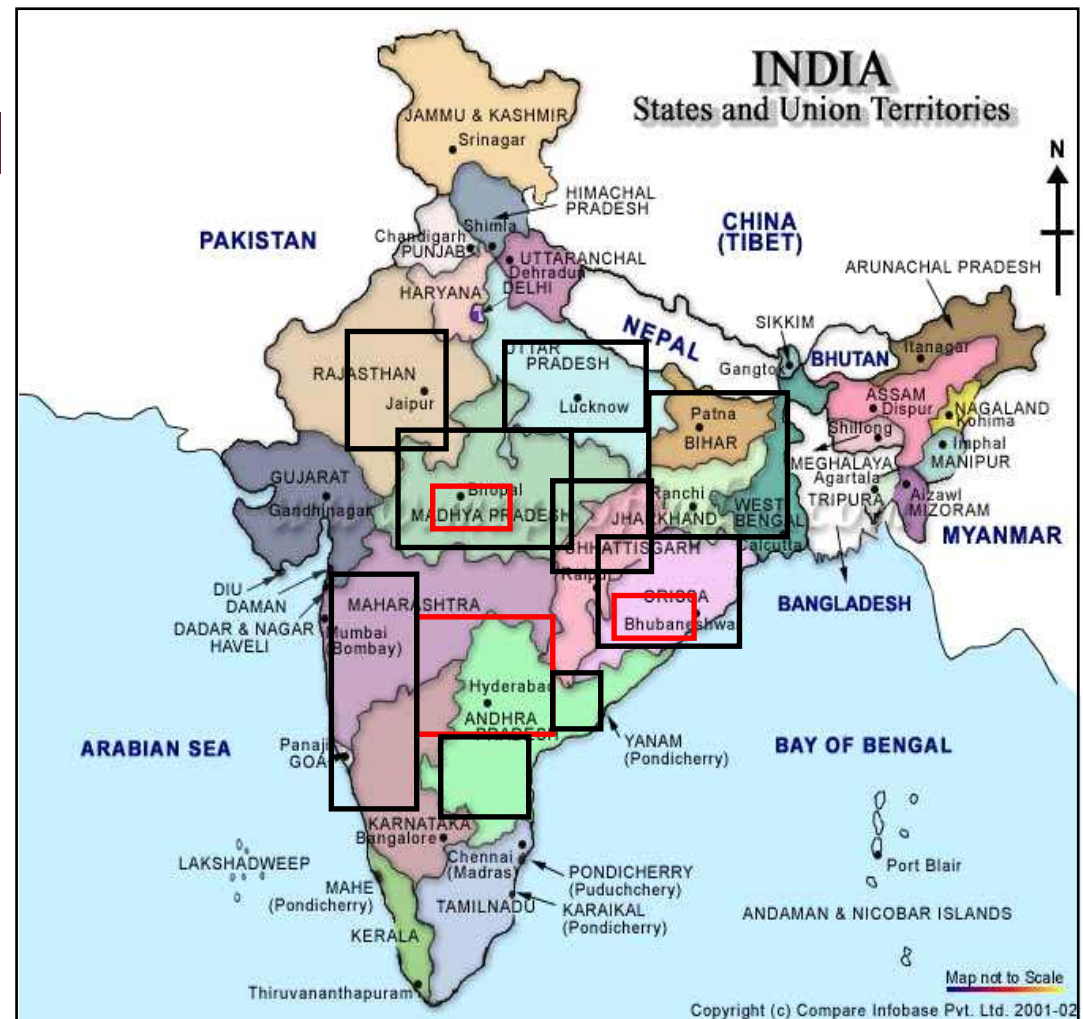
To provide financial services to the poor in a sustainable manner



Current Outreach

505,000 members
580 crores disbursed
215 crores portfolio outstanding

SKS Vision

700,000 poor families by March 2007



-  Launched prior to 2006-07
-  Launched in 2006-07

SKS Overcomes the Barriers of Risk through Group-Lending



SURVEY THE VILLAGE



RECRUIT MEMBERS



PROVIDE TRAINING



DELIVER SERVICES AT DOORSTEP

SKS Overcomes Barriers of Costs by Streamlining and Automating

- Standardized, scalable business processes



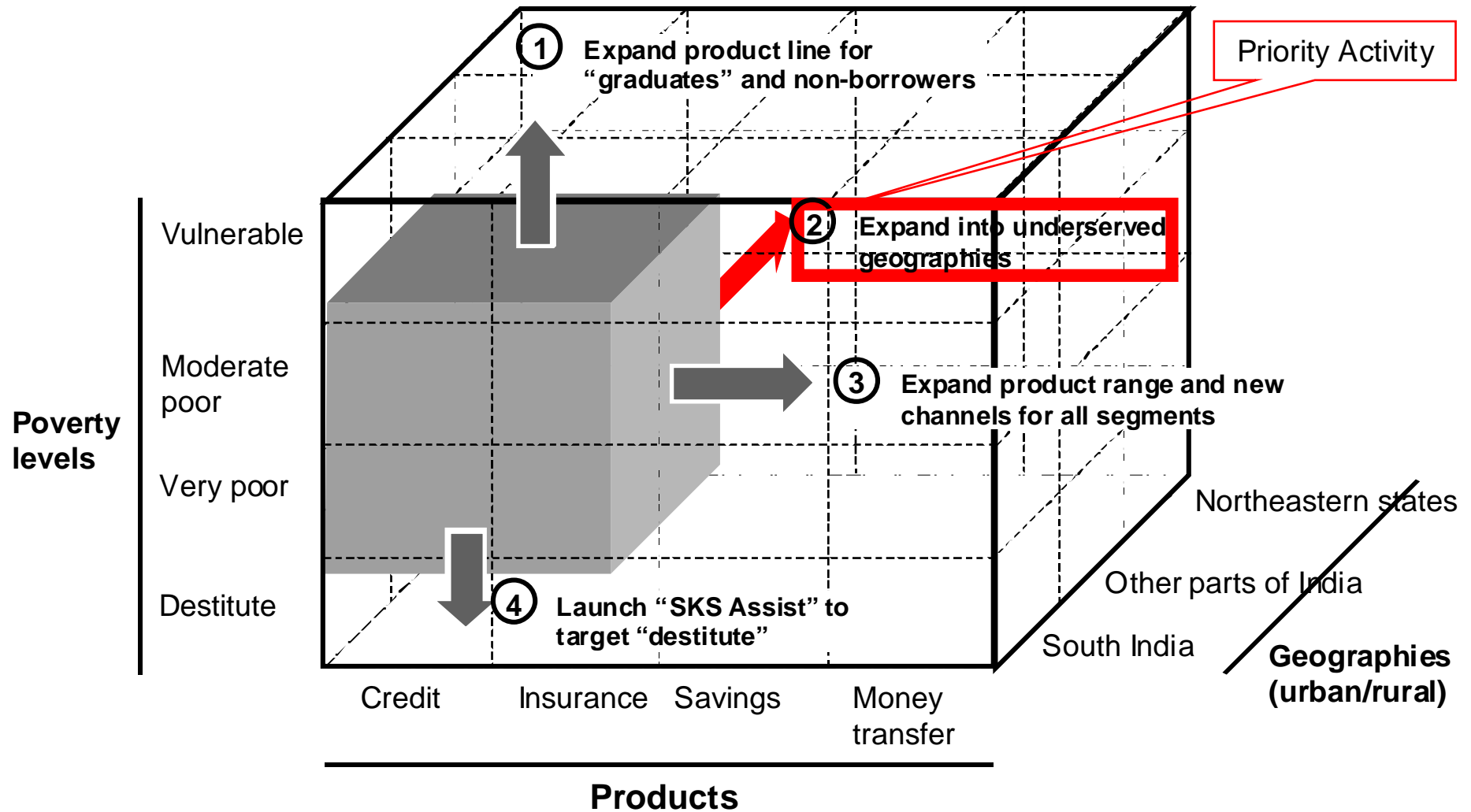
- Automation through deploying technology



SKS Offers Working Capital and Consumption Products

	<u>Purpose</u>	<u>Terms</u>	<u>Interest Rate (Effective)</u>
Working Capital Loans			
Income Generating Loans (IGL)	Small enterprise	1 st Year Maximum Rs. 10,000 50 weekly repayments	25 - 30%
Mid-Term Loans (MTL)	Small enterprise	1 st Year Maximum Rs. 10,000 50 weekly repayments	25 - 30%
Individual Loans (ILP)	Small enterprise	Starting at Rs 20,000 12-24 monthly repayment	23%
Emergency Loans	Emergencies	20 weeks Bullet repayment	0%
Insurance	Loan Cover Insurance for member and husband	1% of loan amount	N/A

Our Business Plan for 06-07 Focuses on Horizontal Growth



Swayam Shakti – Health Insurance for SKS members

Objective:-

To ensure *access to cost-effective* and *quality* health care

To mitigate the impact of financial burden due to health related costs

Coverage:-

>24 hour hospitalization cover + Day care procedures

Coverage for medicines, diagnostics, etc

Maternity Benefit – max Rs. 2500 – Institutional delivery

Personal Accident and permanent disability cover

Pre-existing is covered

Pilot:-

In Karnataka – Gulbarga and Bidar Districts

10,000 SKS members

Cashless facility– 13 network hospitals

Reimbursement in any other hospital – government/private

Pilot launched in Feb, 2007



Pilot – Approach

Enrollment

Cover started 15th Feb

Insured 117 members – 4 centers

Insured Lives - 457

Installment payment - weekly

Demand for family cover

Features

Family Cover – from 1 to 4 members
+new born is automatically covered

No cooling period – cover starts with first
installment – 1 week from enrollment

No cooling period for maternity

Cash at the time of discharge if treatment
in non-network hospital– through
Coordinators

4 helpline numbers

Challenges and Constraints

**Awareness /
Education**

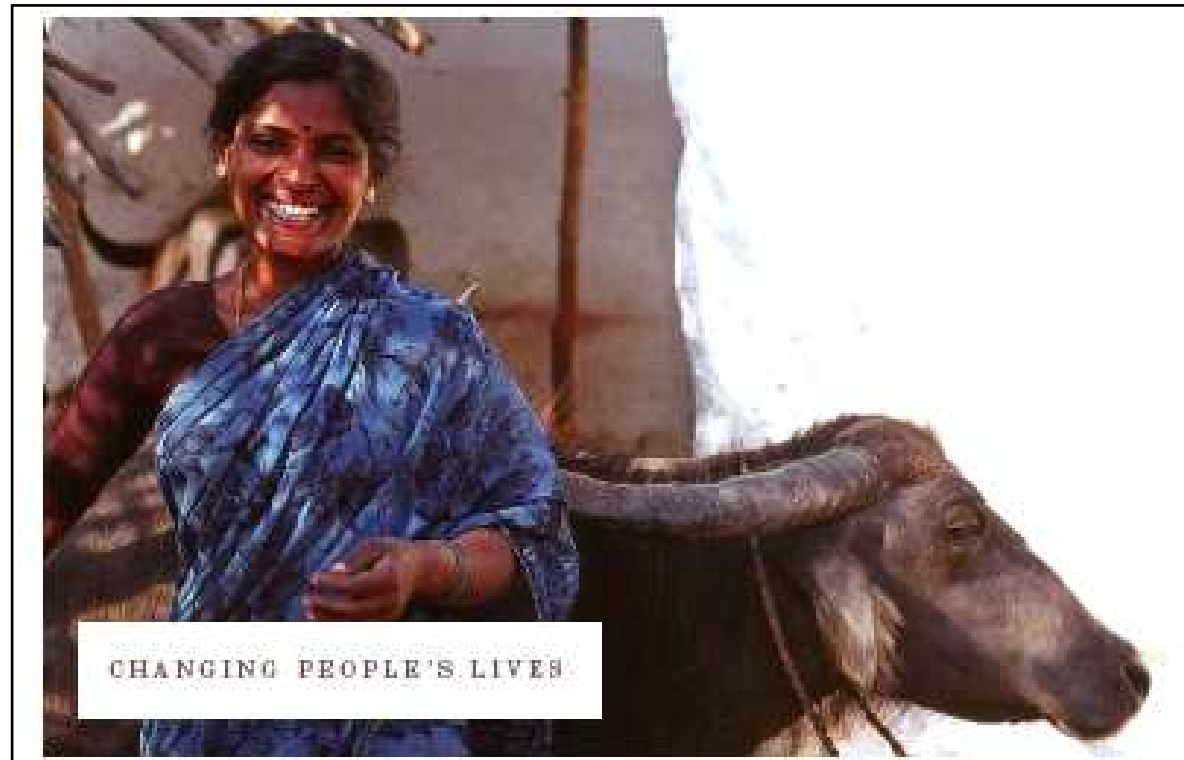
**One time payment
by Members**

Video for member and husbands –
Insurance, life and general insurance
and FAQs

Installment payment (weekly)

APPENDIX

Empowering the Poor to Become Economically Self-Reliant

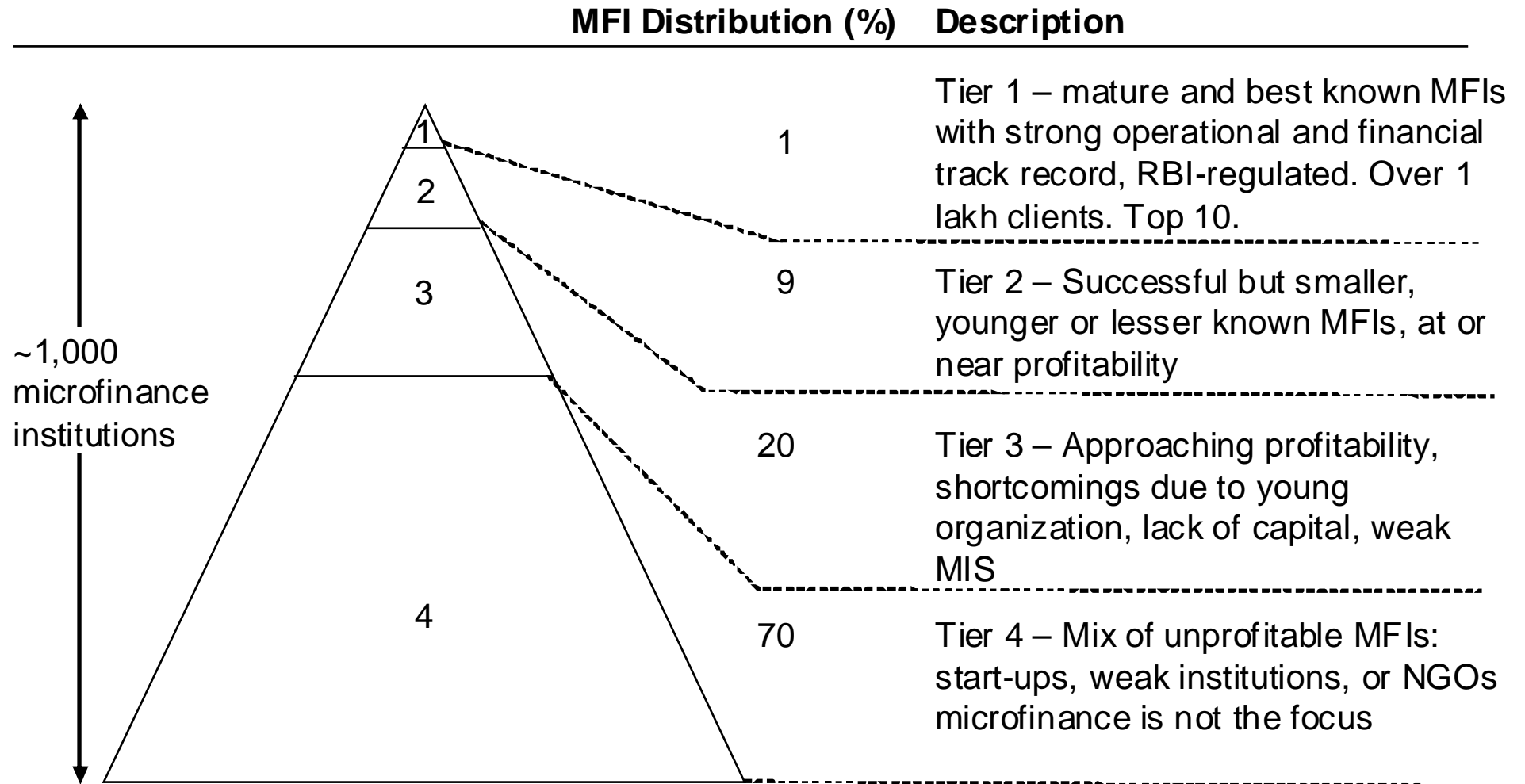


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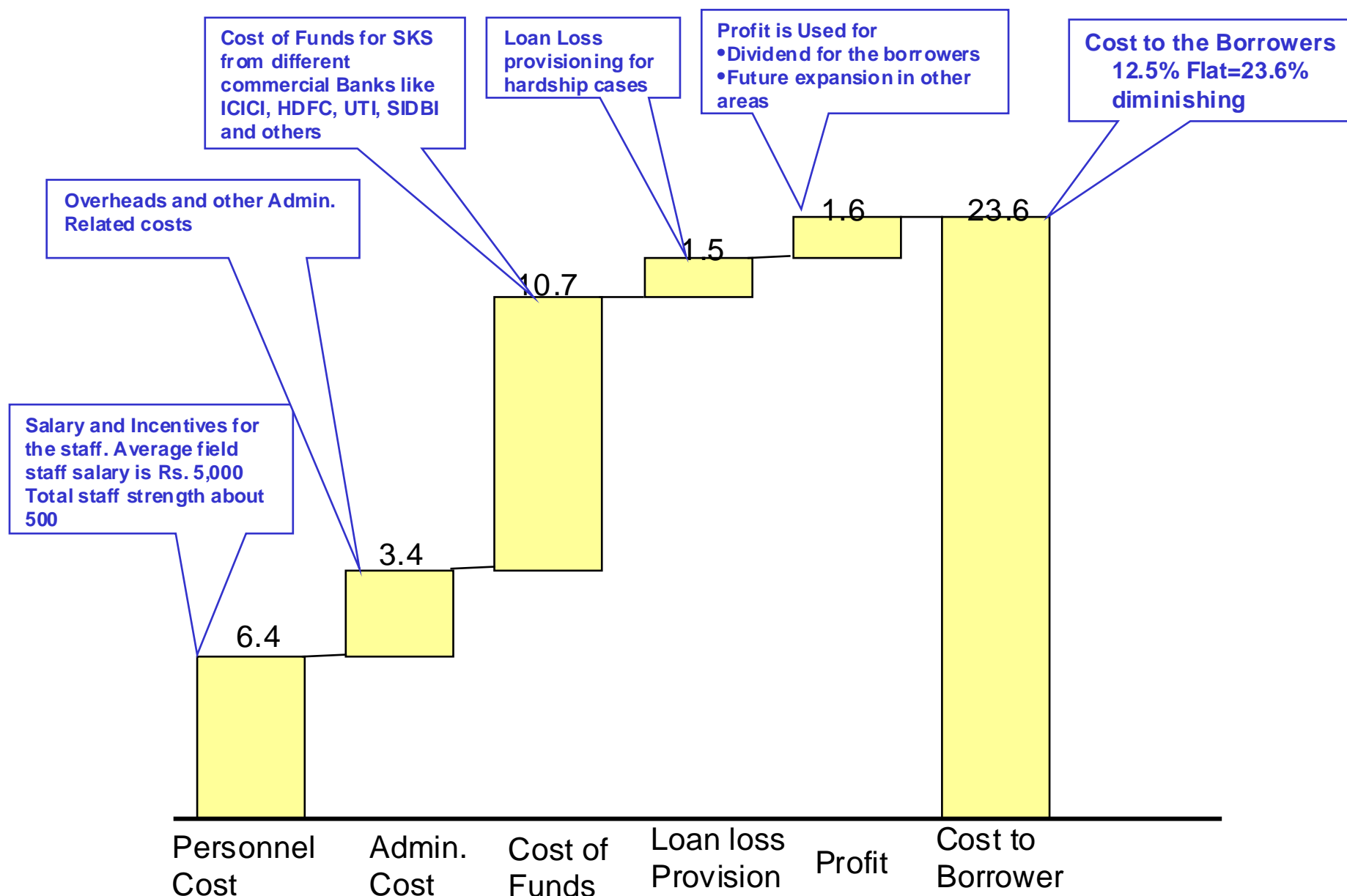
Board of Directors

Name	Nominated By
1. Gurchuran Das <i>Former CEO of Proctor& Gamble India, author</i>	Vinod Khosla
2. Ravi Kumar (Proposed) <i>Managing Director & CEO of National Commodities & Derivatives Exchange Ltd. (NCDEX)</i>	Independent Director
3. Shekhar Iyer <i>Chief Operating Officer, Vistaar Technologies</i>	Reddy/Tungare
4. Geoff Woolley <i>Founding Partner, Dominion Ventures; Chairman, European Venture Partners</i>	Unitus
5. R.M. Nair <i>GM SIDBI</i>	Lenders Consortium/SIDBI
6. Sitaram Rao <i>Development Consultant, Chartered Accountant, and Cost Accountant</i>	SKS Mutual Benefit Trusts
7. Vikram Akula <i>Founder and CEO, SKS Microfinance</i>	SKS Mutual Benefit Trusts

In India, there are ~ 1,000 MFIs Reaching 10 Million Poor

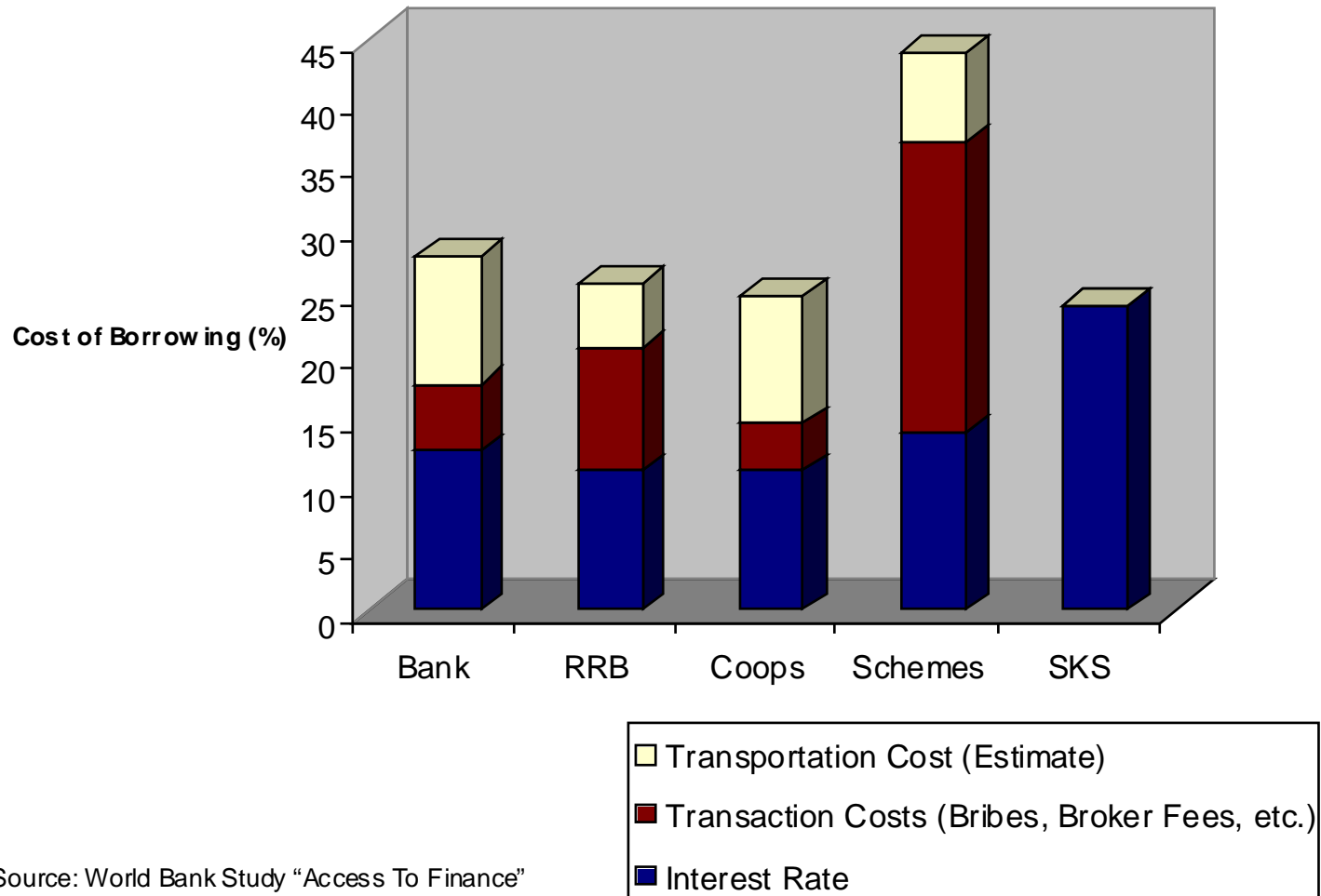


SKS Charges Interest Sufficient to Cover Costs



Source: SKS MPL Financial Statements

SKS is the Lowest Cost to the Borrower

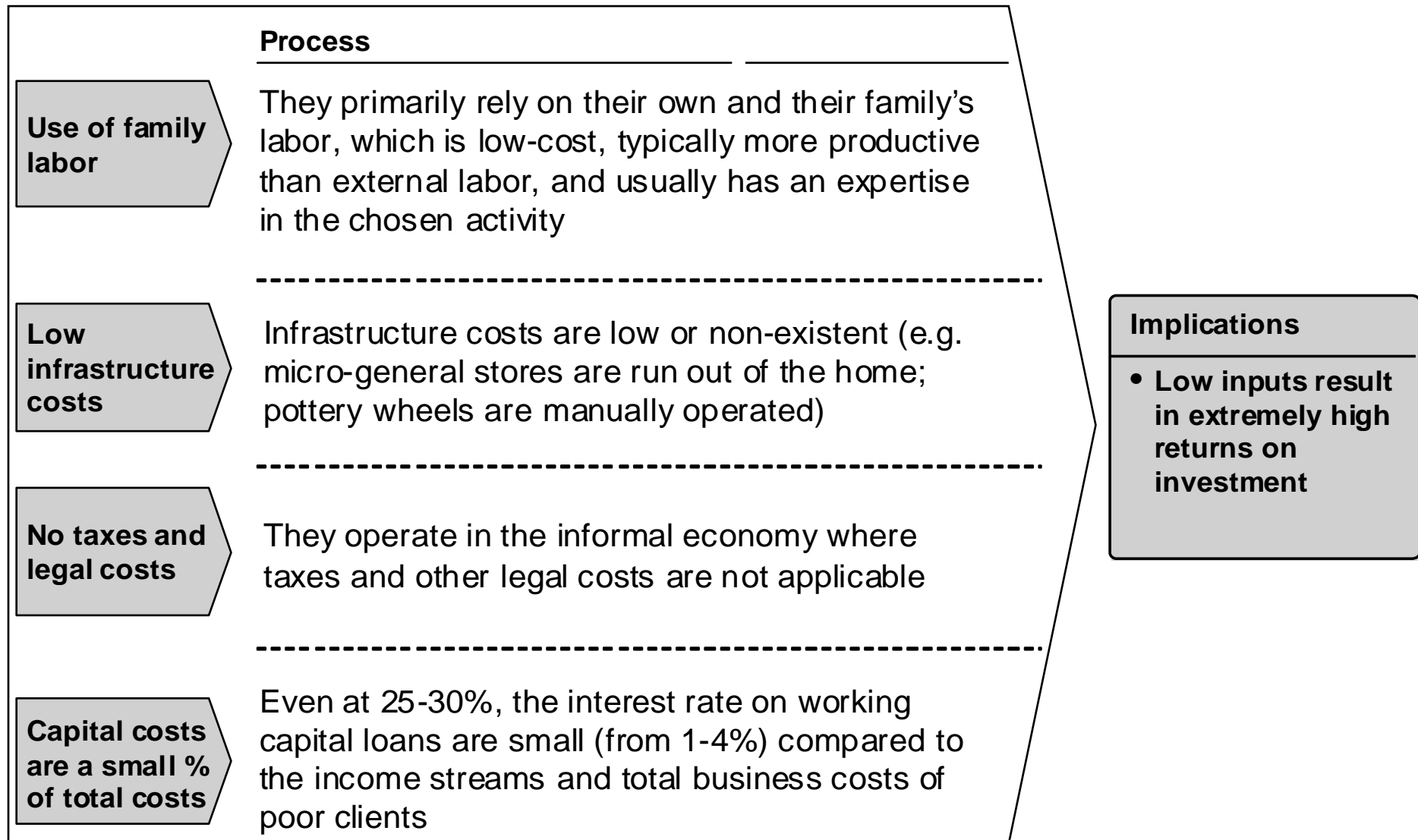


THE POOR IN THE DEVELOPING WORLD CAN EARN RETURNS FROM 29% TO 236% FROM THEIR MICRO-ENTERPRISES




	Activity	Internal Rate of Return (%)	Return on Invested Capital (%)	Net Annual Income (\$)
Trade	Vegetable Vending	50	57	143
	General Store	14	29	144
	Sweet Making Shop	145	147	1,010
	Ice Cream Making	13	29	305
Agriculture	Leasing mango trees	184	185	511
	Leasing irrigated farm land	160	161	667
Services	Operating a Flour Mill	52	59	409
	Tailoring	121	123	307
	Roadside Micro-diner	245	246	1,528
Livestock	Goat rearing (1 goat)	58	65	40
	Buffalo rearing	69	74	246
Production	Pottery	235	236	520

Source: Examples from SKS Microfinance in India




FOUR MAIN FACTORS LIE BEHIND HIGH RETURNS FROM MICRO-ENTERPRISES






THE ROI ON TRADE ACTIVITIES ARE AS HIGH AS 52%

Occupation	Description	Annual Financials, IRR, ROI
Trade		
Small General Store 	<ul style="list-style-type: none"> • Home-front stores that sell household items, from batteries and matchboxes to candles and candy • Units of sale are small, with high margins • Up-front investment of Rs. 20,000 (\$445) is used to buy stock from wholesalers in towns 	Rev. +Rs.148,500 (\$3,300) Exp. -Rs.142,000 (\$3,160) Income Rs. 6,050 (\$ 135) IRR = 10% Avg. ROI = 26%
Vegetable Vending 	<ul style="list-style-type: none"> • Women buy seasonal vegetables from local farmers to sell in nearby towns • Unit of sales are small, margins are high • Investment of Rs.10,000 (\$225) is used to buy weighing scale, baskets and wooden displays 	Rev. +Rs. 49,500 (\$1,100) Exp. -Rs. 43,075 (\$ 960) Income Rs. 6,425 (\$ 143) IRR = 43% Avg. ROI = 52%
Livestock		
Buffalo Rearing 	<ul style="list-style-type: none"> • Invest in buffalos for income from milk production • Each buffalo yields 6 litres of milk a day which is sold at Rs. 8/litre • Up-front investment is used to buy a single buffalo costing between Rs. 10,000 - 15,000 	Rev. +Rs. 22,600 (\$502) Exp. -Rs. 11,550 (\$257) Income Rs. 11,050 (\$245) IRR = 69% Avg. ROI = 74%




THE ROI ON AGRICULTURE INVESTMENTS ARE AS HIGH AS 185%

Occupation	Description	Annual Financials, IRR, ROI												
Livestock														
Goat Rearing														
	<ul style="list-style-type: none">Invest in goats for income from offspringAverage of 3-4 offspring per year with a sale price of Rs. 500 - Rs.700Investment of Rs. 2,250 is required per goat	<table><tr><td>Rev.</td><td>+Rs.1,800</td><td>(\$ 40)</td></tr><tr><td>Exp.</td><td>-Rs. 50</td><td>(\$ 1)</td></tr><tr><td colspan="3"><hr/></td></tr><tr><td>Income</td><td>Rs.1,750</td><td>(\$ 39)</td></tr></table> <div>IRR = 56% Avg. ROI = 63%</div>	Rev.	+Rs.1,800	(\$ 40)	Exp.	-Rs. 50	(\$ 1)	<hr/>			Income	Rs.1,750	(\$ 39)
Rev.	+Rs.1,800	(\$ 40)												
Exp.	-Rs. 50	(\$ 1)												
<hr/>														
Income	Rs.1,750	(\$ 39)												
Agriculture														
Lease of Farm Land														
	<ul style="list-style-type: none">Land is leased on a yearly basis for agricultural purposesThe up-front investment varies from Rs. 12,000 - 15,000 (\$267 - \$334) per acreGeographic and soil factors determine crop selection and profitability	<table><tr><td>Rev.</td><td>+Rs.48,000</td><td>(\$1,067)</td></tr><tr><td>Exp.</td><td>-Rs.18,000</td><td>(\$ 400)</td></tr><tr><td colspan="3"><hr/></td></tr><tr><td>Income</td><td>Rs.30,000</td><td>(\$ 667)</td></tr></table> <div>IRR = 160% Avg. ROI = 161%</div>	Rev.	+Rs.48,000	(\$1,067)	Exp.	-Rs.18,000	(\$ 400)	<hr/>			Income	Rs.30,000	(\$ 667)
Rev.	+Rs.48,000	(\$1,067)												
Exp.	-Rs.18,000	(\$ 400)												
<hr/>														
Income	Rs.30,000	(\$ 667)												
Tree Lease														
	<ul style="list-style-type: none">Generally 4-5 mango trees are leased to individualsSeasonal business in the summer onlyEach tree yields ~1,000 mangoes in a good seasonYearly investment (leasing of mango trees) is ~Rs. 10,000/year	<table><tr><td>Rev.</td><td>+Rs. 25,000</td><td>(\$ 555)</td></tr><tr><td>Exp.</td><td>-Rs. 2,000</td><td>(\$ 45)</td></tr><tr><td colspan="3"><hr/></td></tr><tr><td>Income</td><td>Rs.23,000</td><td>(\$ 510)</td></tr></table> <div>IRR = 184% Avg. ROI = 185%</div>	Rev.	+Rs. 25,000	(\$ 555)	Exp.	-Rs. 2,000	(\$ 45)	<hr/>			Income	Rs.23,000	(\$ 510)
Rev.	+Rs. 25,000	(\$ 555)												
Exp.	-Rs. 2,000	(\$ 45)												
<hr/>														
Income	Rs.23,000	(\$ 510)												

THE ROI ON PRODUCTION ACTIVITIES ARE AS HIGH AS 236%

Occupation	Description	Annual Financials, IRR, ROI
Production		
Sweet Making Shop		
	<ul style="list-style-type: none"> Sweets are generally made and sold daily Sales go up to 15 kg/day in peak festivals and marriage seasons with a sale price of Rs. 80/kg Up-front investment of Rs. 25,000 (\$555) is used for renting shop space and raw materials 	Rev. +Rs. 182,400 (\$4,050) Exp. -Rs. 136,800 (\$3,040) Income Rs. 45,600 (\$1,010) IRR = 145% Avg. ROI = 147%
Ice-cream enterprise		
	<ul style="list-style-type: none"> Home-made ice cream is sold door-to-door by hired salespeople On average 600 ice-cream sticks are sold per day during the summer months Up-front investment of Rs.30,000 (\$670) is used to buy an ice-cream making machine 	Rev. +Rs. 43,200 (\$ 960) Exp. -Rs. 33,600 (\$ 745) Income Rs. 9,600 (\$ 305) IRR = 9% Avg. ROI = 26%
Pottery		
	<ul style="list-style-type: none"> Produce clay pots for local customers Margins are up to 90% per pot with a 6 month peak season Investment of Rs.10,000/year is used to buy clay, dust, and the pottery wheel 	Rev. +Rs. 70,000 (\$1,556) Exp. -Rs. 46,600 (\$1,036) Income Rs. 23,400 (\$ 520) IRR = 235% Avg. ROI = 236%

THE HIGHEST RETURNS ARE ON SERVICE ACTIVITIES, UP TO 222%

Occupation	Description	Annual Financials, IRR, ROI									
Services											
Tailoring											
	<ul style="list-style-type: none">• Provide custom tailoring service for local customers• Generate ~Rs. 450/day during peak seasons• Up-front investment of Rs.10,000 (\$225) is primarily used to buy a sewing machine and other production material	<table><tr><td>Rev.</td><td>+Rs. 82,200</td><td>(\$1,830)</td></tr><tr><td>Exp.</td><td>-Rs. 68,400</td><td>(\$1,520)</td></tr><tr><td>Income</td><td>Rs. 13,800</td><td>(\$ 305)</td></tr></table> <p>IRR = 108% Avg. ROI = 111%</p>	Rev.	+Rs. 82,200	(\$1,830)	Exp.	-Rs. 68,400	(\$1,520)	Income	Rs. 13,800	(\$ 305)
Rev.	+Rs. 82,200	(\$1,830)									
Exp.	-Rs. 68,400	(\$1,520)									
Income	Rs. 13,800	(\$ 305)									
Flour Grinding Services											
	<ul style="list-style-type: none">• Grind wheat, corn and other grains for local customers• Daily throughput of 125kg of grain at the rate of ~Rs 2/kg• Up-front investment of Rs. 25,000 (\$555) is used to buy grinding machine	<table><tr><td>Rev.</td><td>+Rs. 45,600</td><td>(\$1,013)</td></tr><tr><td>Exp.</td><td>-Rs. 27,200</td><td>(\$ 605)</td></tr><tr><td>Income</td><td>Rs. 18,400</td><td>(\$ 408)</td></tr></table> <p>IRR = 52% Avg. ROI = 59%</p>	Rev.	+Rs. 45,600	(\$1,013)	Exp.	-Rs. 27,200	(\$ 605)	Income	Rs. 18,400	(\$ 408)
Rev.	+Rs. 45,600	(\$1,013)									
Exp.	-Rs. 27,200	(\$ 605)									
Income	Rs. 18,400	(\$ 408)									
Roadside Restaurant											
	<ul style="list-style-type: none">• Sell snack items and tea to local customers• Sell an average of 300 cups of tea at 100% margin• Up-front investment of Rs.25,000 (\$555) is primarily used to lease space and buy utensils, cooking supplies, and furniture	<table><tr><td>Rev.</td><td>+Rs.148,500</td><td>(\$3,300)</td></tr><tr><td>Exp.</td><td>-Rs. 79,750</td><td>(\$1,775)</td></tr><tr><td>Income</td><td>Rs. 68,750</td><td>(\$1,530)</td></tr></table> <p>IRR = 221% Avg. ROI = 222%</p>	Rev.	+Rs.148,500	(\$3,300)	Exp.	-Rs. 79,750	(\$1,775)	Income	Rs. 68,750	(\$1,530)
Rev.	+Rs.148,500	(\$3,300)									
Exp.	-Rs. 79,750	(\$1,775)									
Income	Rs. 68,750	(\$1,530)									

SOME FREQUENTLY ASKED QUESTIONS

Questions

Answers

Can the local economy support an infusion of more enterprises? (eg. how many general stores can a village economy support?)

- Truly speaking new ventures are few as borrowers are often refinancing existing activities (replacing high cost working capital with low cost microfinance) as opposed to financing new ventures.
- The burgeoning Indian economy can support more enterprises (eg. urban middle class demand for milk and milk products allows significant scope for increased milk supply)

Can the natural resource base support an infusion of more enterprises? (eg. how many more goats can you put in a village?)

- With many enterprises, there is scope for increase without depleting natural resources (eg. goats eat virtually anything and therefore do not significantly deplete environmental resources)
- But in some cases (such as irrigation water required for water-intensive crops), there are environmental constraints and these are best addressed by state-led natural resource management

Do the poor have the knowledge to take up new enterprises?

- Borrowers often engage in refinancing existing activities in which they already have a core competence
- Where borrowers take up new activities, they do so after seeing it successfully undertaken and learning from other borrowers
- At the level of micro-enterprise – below Rs. 50,000 - significant knowledge is not required—though movement into small and medium enterprises may require training and other inputs

SKS BORROWERS ARE ENGAGED IN OVER 160 DIFFERENT ACTIVITIES, SOME OF WHICH ARE LISTED BELOW

Agriculture (6%)	Production (7%)		Services (27%)
<ul style="list-style-type: none"> • Land Investment • Nursery • Tree leasing • Land purchase • Land leasing • Irrigation • Agri- machinery • Fertilizer 	<ul style="list-style-type: none"> • Almariah manufacture • Blanket weaving • Brick making • Cloth weaving • Mat weaving • Mattress making • Bed/Cot making • Rexine work • Beedi making • Herbal product making • Statue making • Agarbati making • Candle making • Thread making • Sweet making • Spices (masala) • Photo frame • Pottery/ Burner (chullah) 	<ul style="list-style-type: none"> • Food products • Stone cutting • Jaggery • Fishing nets • Power loom (purchase) • Charakha (purchase) • Bouquet making • Pop com machine • Leaf plate making • Printing press 	<ul style="list-style-type: none"> • Tailoring • Road side Micro Dinner • Small Flour Grinder • Laundry • Carpentry • Auto-Rickshaw • Electrician • Tent- House • Centering • Steel Smelting Shop • Weaving services • Watch Repairing • Photo Copy Shop • STD Booth • Oil extracting unit • Juice shop • Book binding • Welding Shop
Livestock (27%)		Trade (32%)	
<ul style="list-style-type: none"> • Poultry • Buffaloes • Cows • Goats • Sheeps • Fishery • Ox/ Plough bullocks • Donkeys • Animal feed (Tavudu) 		<ul style="list-style-type: none"> • General Stores • Ice Cream Making • Vegetable Trading • Utensils / Cutlery • Fruit selling 	

