

MONTHLY NEWS LETTER

MICROFINANCE

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Finance website names USA's most evil banking acts of 2011

The banking industry's bad habit of illegally harassing widows for their deceased spouse's debt has won the top spot on the CreditCardAssist.com list of the Worst Things Banks Did to Consumers in 2011.

The popular personal finance site declared an incident this summer where a Florida woman was called by debt collectors constantly throughout her husband's wake to be the most despicable banking act of the year — but it was a close call. The article, which details the most reprehensible actions of the financial industry in 2011, is intended to serve as a warning to Americans planning on doing business with corporate banks in 2012.

- [Finance website names USA's most evil banking acts of 2011](#)
- [SKS Q3 Loss At Rs 428Cr, Norway's Sovereign Wealth Fund Buys 1% Stake](#)
- [Can India's MFI Industry be Saved?](#)

“Despite new regulations that might lead consumers to believe that big banks are safer than last year, the fact of the matter is that they’re more at risk than ever before,” says **CreditCardAssist.com founder Bill Hazelton**. “The actions of the banking industry last year were the worst that we’ve ever seen.”

One Wall Street bank had customers arrested for trying to protest unfair policies by closing out their accounts. Another caused a pregnant woman to miscarry by hounding her for weeks and destroying her credit rating — all over a check that the bank had already cashed.

Two major credit card issuers sued a small restaurant for \$1.3 million using data that they allegedly fabricated. In 2011, immorality became institutionalized in banks across the USA.

SKS Q3 Loss At Rs 428Cr, Norway’s Sovereign Wealth Fund Buys 1% Stake

SKS Microfinance appears to have a new investor joining the company’s list of backers. The Norwegian sovereign wealth fund – Government Pension Fund Global – figures among the list of prominent shareholders of the company. As per the latest disclosure, the sovereign wealth fund held 1.03 per cent in the microfinance firm as of December 31, 2011.

India’s largest microfinance firm SKS Microfinance Ltd slipped deeper into losses during the quarter ended December 31, 2011, with the net loss bulging to Rs 427.78 crore, 11 per cent more than what it clocked in Q2 FY12 and as compared to the net profit of Rs 34.16 crore in the same quarter last year.

Income from operations slumped to just Rs 81.78 crore, down 77.5 per cent over the quarter ended December 31, 2010, and down over 28 per cent compared to the previous quarter ended September 30, 2011. Other operating income also crumbled 90 per cent over Q3 FY11 and over three-fourth sequentially.

The biggest hit to the bottomline has come from higher provisions and write-offs, pegged at Rs 358.6 crore for the quarter. Although the firm managed to bring down its personnel cost during the quarter, other operating expenses besides provisions added to the bottomline pressure.

SKS shares last traded at Rs 93.55, up 0.7 per cent on Thursday on the BSE in a strong Mumbai market. The results were announced after trading stopped for the day. The company currently has a market cap of just Rs 676 crore, having lost more than 90 per cent of its value after hitting a peak soon after listing in late 2010.

Two months ago, founder Vikram Akula stepped down as executive chairman and CEO of SKS Microfinance and is now said to be involved in a new mobile banking venture.

Last month, the company said it had capped its return on assets (RoA) for the

microfinance business at 3 per cent and could be launching a wholly owned subsidiary for its non-microfinance business. Capping the RoA at 3 per cent would restrict the firm's ability to generate margin from the microfinance business. In the year before it got listed, the firm's RoA was estimated at around 5 per cent which shrank significantly last fiscal.

The company has recently forayed into some more profitable businesses, such as gold loans, as part of its non-MFI business. It is also looking to separate those segments from its core area of microfinance. Besides gold loans, these also include areas like lending to kirana store owners and providing loans for mobile handset purchase.

SKS is also in the process of raising up to Rs 900 crore in multiple tranches for funding growth plans outside the state of Andhra Pradesh, the country's largest microfinance market and a key region that sparked regulatory troubles for the company.

The company is hoping that its existing investors will back the fundraising plan as proposed, under an institutional placement of shares. Investors in SKS include Catamaran Management Services, Sandstone Investment Partners, Kismet Microfinance, SIDBI, George Soros, Tree Line Asia and veteran venture capitalist Vinod Khosla.

New Investor?

Meanwhile, SKS Microfinance appears to have a new investor joining the company's list of backers. The Norwegian sovereign wealth fund – Government Pension Fund Global – figures among the list of prominent shareholders of the company. As per the latest disclosure, the sovereign wealth fund held 1.03 per cent in the microfinance firm as of December 31, 2011.

Can India's MFI Industry be Saved?

The government and RBI must draw an MFI survival strategy before it's too late. We need them at least till such time the banks are ready to reach out to the masses.

Andhra Pradesh, India's fourth largest state by area and fifth largest by population, has set a world record. About 9.2 million borrowers in the southern state have defaulted in repaying money borrowed from microfinance institutions (MFIs)—the largest number of defaulters in any location in the world. As Andhra Pradesh has a population of 84.6 million (2011 census provisional figure), theoretically one in every 11 Andhraites is a defaulter. This, however, is not the actual case as most such borrowers have more than one account. By industry estimates, around four million people of the state—almost all women—have turned defaulters. As the female population in Andhra Pradesh is 42.1 million, one in every 10 women in this state has borrowed from MFIs but not repaid.

To put the Andhra phenomenon in perspective, in 2008, when the Indian

government announced a Rs60,000 crore debt-waiver scheme for farmers across the nation, some 40 million farmers didn't repay debt. Indeed, the money involved in Andhra Pradesh is minuscule compared with the national debt-waiver scheme, but the point to note is that in this case, the debt has not been waived even though a section of the local politicians has created that impression and encouraged borrowers not to pay back.

The MFI industry's total exposure to Andhra Pradesh was around Rs. 7,200 crore in 2010 and they have been able to collect from the borrowers only 10% of this money. They are carrying on their books Rs. 6,500 crore worth of bad assets, and when they write off this amount in March, at the end of the current fiscal, many of India's big MFIs' net worth will turn negative. Unless the Reserve Bank of India (RBI) relaxes the prudential norms that stipulate a 15% capital adequacy ratio (Rs. 15 capital for every Rs. 100 worth of loans) for this set of financial intermediaries, many will have to shut shops.

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