

**FOR IMMEDIATE RELEASE**

March 12, 2010

ICRA assigns conditional A1+(SO) rating to payouts backed by a micro-finance loan pool originated by SKS Microfinance Limited**SKS Microfinance Loan Pool Direct Assignment – February 2010**

ICRA has assigned a conditional A1+(SO) rating to the assignee payouts backed by micro-finance loan receivables originated by SKS Microfinance Limited (SKS).

Description	Principal (Rs. Million)	Payout Maturity	Rating
Assignee Payouts	851.45	Dec 2010	A1+(SO)
Originator's Residual Share	176.87		Unrated
Total	1,028.33		

Rating Definitions (for complete rating scale and definitions refer ICRA's website www.icra.in or other ICRA Rating Publications)

The conditional rating is subject to the fulfillment of all conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction and SKS furnishing to ICRA an independent legal opinion on the transaction from the transaction legal counsel. The conditional rating is based on the strength of cash flows from the selected pools of contracts; the credit enhancement available in the form of cash collateral of 8.75% of the pool principal, principal subordination of 17.20%, subordination of the Excess Interest Spread (EIS) in the structure, and the integrity of the legal structure.

The selected pool of micro-finance loan receivables is characterized by small ticket size (average of less than Rs. 32,000), low initial tenure of contracts (50 weeks), good past track record of borrowers, good geographical diversity, and no overdues on the selected loans till date. According to the transaction structure, the entire pool of selected contracts will be directly assigned to a single assignee at its par value. The Assignee will have a senior right to the extent of 82.80% of the pool value while the Originator will have a subordinated residual share of 17.20%, which the Assignee will hold for the benefit of the Originator. The yield to the assignee is fixed at a rate less than the pool yield. Though the pool would be receiving the cashflows on a weekly basis, the payout to the assignee would be made on a monthly basis.

The balance monthly excess cashflow—on account of the spread differential between the pool yield and the assignee's yield—is available as credit enhancement, in the form of EIS. The EIS and principal subordination will be used to accelerate the principal amortisation of the Assignee. Additional support for meeting the assignee payouts is envisaged through the availability of cash collateral to the extent of 8.75% of total principal, which will be used to meet any shortfall in the pool.

SKS, a non-deposit taking NBFC is the largest micro-finance institution in India. Established in 1998, the company provides credit to economically backward women mainly in rural, urban and semi-urban areas through a joint liability (or group lending) mechanism for building productive assets. It currently serves 4.71 million members across 19 Indian States and as on September 30, 2009, it had a portfolio size of 31.62 billion for the group loan product, which is 98.6% of its total loan portfolio. The delinquency level for the group loan portfolio was less than 0.45% as on September 30, 2009. While the credit quality has been good in the past, the borrower segment being people from below poverty line, without adequate credit history or collateral does pose a high potential credit risk in the structure. Further, the operations-intensive nature of the business makes the servicing role very critical.

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I C R A Limited

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Based on the above factors as well as the analysis of the past performance of SKS's micro-finance loan portfolio and its expected future performance, ICRA believes that the credit support provided has been adequately sized to cover the credit / liquidity risk in the transaction.

For further details please contact:

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*ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex".
The classification of instruments according to their complexity levels is available on the website www.icra.in*

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