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UGRO Capital Limited - "Buy", Upside: 21.60 % **August 14, 2023**

We had initiated coverage on "UGRO Capital Limited" on October 2021 at INR 131.30 with a target price of INR 175.5 which was achieved and later got revised from time to time based on the quarterly & yearly performance of the Company, the last was based on quarterly & yearly results for FY 23 with the price target of INR 289.00 per share which was achieved on 07.08.2023. We continue our coverage on the Company post its Q1FY24 result and revise our price target to INR 361.75 per share and hereby present the updated research report.

UGRO Capital

- **UGRO Capital Limited is a DataTech driven NBFC and has pioneered the "Lending as a Service" (LaaS) model in India (building India's largest Co-Lending platform)..**
- **UGRO Capital's mission is 'Solve the Unsolved' – Small Business Credit need with its omnichannel distribution model combining physical and digital journey of the customer. The Company envisions to spearhead India's transition of MSME lending market to the new age of on-tap financing..**
- **Company's prowess of Data Analytics and strong Technology architecture allows for customized sourcing platforms for each sourcing channel. GRO Plus module which has uberized intermediated sourcing, GRO Chain, a supply chain financing platform with automated end to end approval and flow of invoices, GRO Xstream platform for colending, an upstream and downstream integration with fintechs and liability providers and GRO X application to deliver embedded financing option to MSMEs..**
- **The credit scoring model GRO Score (3.0) a statistical framework using AI / ML driven statistical model to risk rank customers is revolutionizing the MSME credit by providing on-tap financing like consumer financing in India..**
- **The Company is backed by marquee Institutional investors (raised INR 900+ Cr of equity capital in 2018 and INR 340.5 Crore in 2023) ..**
- **The Company has efficiently leveraged the co-lending partnerships, with off-book AUM at 40% in FY23 and expect it ~50% in FY25**
- **The Company has 53,000+ active borrowers, 1,900+ Employees, 98 branches, partnerships with 62 lenders and 10 Co- lending partners..**
- **Assets under management (AUM) has grown to INR 6,777 Crore in Q1FY24 from INR 1,317 Crore in FY21 and expected AUM of ~INR 10,000 Crore for FY24 with RoA of ~4 % for FY25 and RoE of >~18% for FY25..**

Research Analyst - Akash Jain, MBA (Financial Markets), Vice – President Research

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Investment Rationale and recommendation

We recommend a "Buy" with a target price of INR 361.75 (P/BV multiple of 2.50 x at Q1FY24 Book Value of INR 144.7 (post QIP and Preferential issue). We believe the Company deserves a premium in valuation due to the following factors:

1) UGRO Capital is DataTech driven NBFC and pioneer of Lending as a service (L-a-a-S) which is a highly profitable model;
2) Emerged as one of the fastest-growing and one of the largest Lending-as-a-Service providers in the MSME co-lending space where its total off-book AUM proportion is 43% and on book AUM proportion is 57%.
3) Underwriting in MSME space is moving from collateral based to cashflow based in which UGRO specialises;
4) The Company has a sectoral based lending approach by short listing 8 core sectors of MSMEs and further added 'Micro Enterprises' as the 9th sector post careful filtration of 180+ sectors;
5) The Company has developed Data driven proprietary scoring model powered by AI/ML Models - superior underwriting framework - GRO 3.0 (combines credit bureau data, banking data and GST); Risk management through "Expert Scorecards" for all Sub-sectors;
6) Credit process enabled by Integrated technology and a paperless, seamless customer on boarding & underwriting process supplemented by physical underwriting;
7) The Company's distribution and liability strategies are both powered by proprietary technology modules; U GRO's distribution model is geared towards catering MSMEs across all geographies and ticket sizes with well diversified and granular portfolio;
8) The Company is backed by Marquee Institutions. Majority of the Company's shareholding is institutionally owned and its key shareholders include ADV Partners, New Quest (acquired by TPG), PAG, SAMENA Capital, SBI Life Insurance Company, Go Digit General Insurance, PNB Metlife India Insurance Company;
9) The Company's has raised equity capital of INR 340.5 Crore in April 2023 - Private Placement Offering of INR 240 Crore to IFU Investeringsfonden for Udviklingslande (IFU) - Danish Development Finance Institution (independent Denmark government - owned fund) and QIP of INR 100.5 Crore from marquee domestic investors like SBI Life Insurance Company, Go Digit General Insurance, SBI General Insurance and other marquee investors instills confidence on the Company;
10) Collection efficiency continues to remain robust and restructured loans too have decreased to 0.8% of Total AUM as on Q1FY24 from 1.1 % of Total AUM as on Q1FY23;
11) Company surpassing its guidance of AUM growth and is consistently meeting its targets on different parameters which instills confidence;
12) Good performance in Q1FY24 and FY23 result with strong outlook for the future (Management guidance: AUM target of INR 10,000 Crore for FY24, Loan growth of around 30 percent by FY25, Cost/Income ratio <~ 45% by FY25, with a targeted RoA of > ~4 percent and RoE of ~>18% by FY25).

CMP	**INR 297.50 (Face value: INR 10)**
Book value	**INR 144.7 per share as on Q1FY24**
Recommendation	**Buy**
Target price	**INR 361.75**
Upside	**21.60 %**
52 Week High/Low	INR 312 /INR 131.25
Market Cap	INR 2,751.68 Crore
NSE/BSE code	UGROCAP / 511742
Bloomberg code	UGRO:IN
Price performance	1 month: 31.62 %, 3 months: 39.38 %, YTD: 96.36 %, 1 Year: 65.03 %

Particulars (INR Crore)	FY21	FY22	FY23	Q1FY24
AUM	1,317	2,969	6,081	6,777
Gross Disbursements	1,147	3,138	7,200	2,036
Net Disbursements^	639^	2,251^	4,641^	1,284
Total Income	217.5	312.1	684	218.3
Net Total Income	173.0	174.9	390.5	125.6
PPOP	95.9	49.6	140.6	56.6
Cost/Income (%)	70.8	71.6	62.3	55.0
Profit after Tax (PAT)	92.9	14.6	39.8	25.2
PAT (Adjusted)	92.9	14.6	60.4#	25.2
CRAR (%)	68.6	34.4	20.2^^	26.6
GNPA (%)	2.3	1.9	1.7	1.8
NNPA (%)	1.6	1.4	0.9	1.0
Credit cost (% of Avg. total AUM)	1.8	1.5	1.3	1.3
Equity Share Capital	70.53	70.55	69.32	91.19
Networth	952	967	984	1,337
Book value per share(₹)	135	137	144.4@	144.7
RoA (%)	1.9	0.6	1.1	2.2^^
RoE (%)	3.1	1.5	4.1	8.7^^

Source: Company's Audited Financial results of respective years filed with the exchanges , # Adjusted PAT = PAT without considering impact of deferred tax reversal of INR 20.6 Crore in FY23; Adj. PAT FY23 is INR 60.4 Crore, ^Net Disbursement = Gross Disbursements – Repayment received in Supply Chain Financing during the period, @ post fresh capital raised ^^ denotes Q1FY24 annualised

Management guidance:

AUM target of INR 10,000 Crore for FY24, Off Book AUM of ~50% by FY25, targeted RoA of >~ 4 percent by FY25 and RoE of >~18 percent by FY25

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What makes UGRO Capital Unique?

DataTech Driven, High Growth, Improving Operating Profitability, good collection efficiency, robust underwriting capabilities & strong management team

- **AUM Crossed INR 6,750 Crore to touch 6,777 Crore within 4 years of Operations as on Q1FY24 - Delivered YoY AUM growth of 85 % and 11 % QoQ AUM Growth..**
- **Net Loans Originated increased to INR 1,284 for Q1FY24 registering 40% growth on YoY basis**

High Growth in AUM has largely been a factor of:

1) **Fund raise of INR 340 Crore will augur well for AUM growth:** UGRO had raised INR 340 Crore of equity was raised in Apr'23 through a mix of Preferential Issue (INR 240 Crore from Danish Government Backed DFI, IFU through its Danish Sustainable Development Goals Investment Fund K/S) and QIP (INR 100 Crore) raised from marquee Domestic Institutions including the likes of SBI Life, SBI General and Go Digit). The recent fund raise has helped to maintain AUM growth trajectory and will be sufficient to achieve AUM of INR 10,000 Cr by end of FY24.

2) **Formidable Distribution Strength:** The Company has heavily invested in creating four broad distribution channels over last 5 years (including 2 COVID -19 waves) namely (1) Prime Business (2) Micro Business (3) Ecosystem and (4) Partnerships & Alliances. Across these 4 channels the Company has built an infrastructure of 98 branches, 850+ GRO partners, 120+ Anchor / OEM partners and 910+ Sales employees. The Management indicated that current distribution channel has the capability to meet the AUM guidance provided by Management for FY24. The management will take decision to expand its Micro Branch Network post end of Q2FY24/ Q3FY24 for fostering further growth.

3) **Robust Underwriting Model – Machine learning model:** The Company has developed robust IP backed by fundamental capabilities and infrastructure which helps to process data faster and reduce TAT for underwriting customer.

   a. Using a sectoral based approach, the Company has developed an AI / ML driven internal scoring model (GRO Score 3.0) which triangulates three data sources 1) Banking (last 24 months bank statement) 2) Bureau (data fetched from bureau statement) and 3) GST (Last 12 months GST data).

   b. All the data is pulled automatically by the system through API integration and it risk ranks the customers across 5 bands from A to E predicting the probability of default for next 12 months (A having the lowest probability of default and E having the highest probability of default).

   The company checks the efficacy of GRO Score on a quarterly basis. Below are the results of the default rates of Non-Disbursed loans vis a vis Disbursed loans across risk bands.

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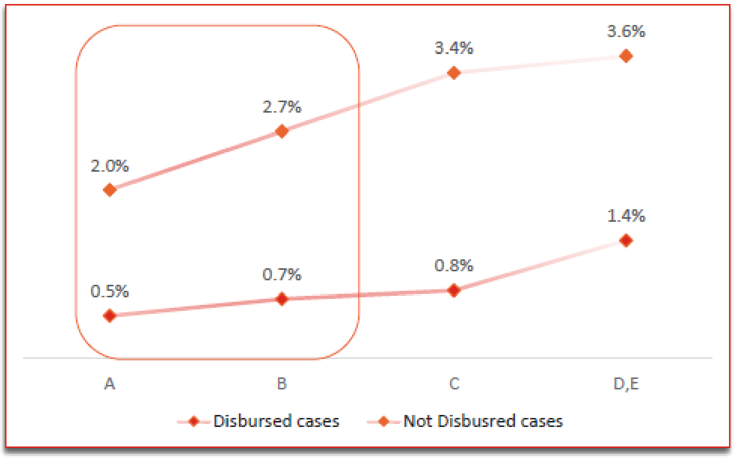
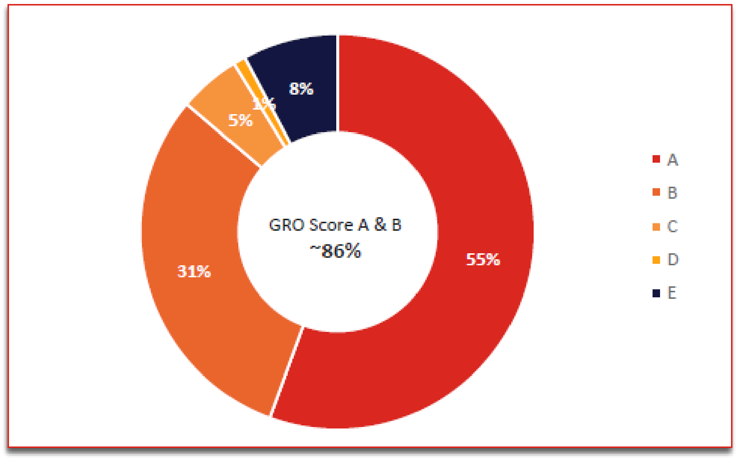
c. **GRO SCORE – Risk Bands stacking up on historical portfolio**

Default rates across score bands – All customers assessed Since Inception



Score Band wise break up of recent disbursals (Jul 22 – Dec 22)



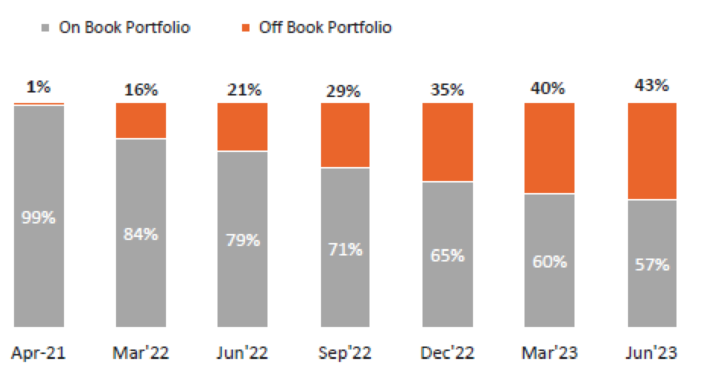
Segments A, B – contributing to majority share of disbursals and lever for calibrated increase of throughput

To that effect we have analysed both sets of data i.e. cases disbursed and rejected by UGRO. Performance across risk bands was observed to be stacking up for both sets of data

Explanation note : Scores are computed based on repayment track record of loan applicants and submitted bank statements. Default rate tracking is done based on quarter-end credit bureau data; "default" represents incidence of 90 dpd in any business purpose credit facility reported in bureau during a period of six months from the point of assessment at UGro Capital

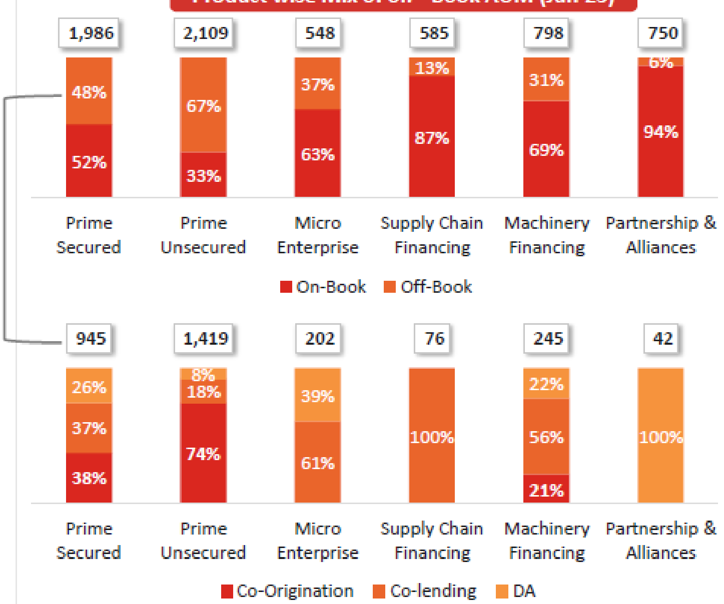
4) **Lending as a Service Business Model:**

Increasing Mix of off - Book AUM



	Apr'21	Mar'22	Jun'22	Sep'22	Dec'22	Mar'23	Jun'23
Off Book AUM	11	478	782	1,272	1,775	2,442	2,929
Co-Origination	-	144	304	619	915	1,181	1,457
Co-lending	-	101	215	332	505	773	943
DA	11	233	263	322	355	488	530

Product wise Mix of off - Book AUM (Jun'23)



Co-lending Partnership with 6 Banks and 6 NBFC's

Through the Co-lending model in addition to the on book leverage the Company is able to generate Off-Book AUM by partnering with Banks and NBFCs and this has helped the Company to grow its AUM at a faster pace by solving for the liability problem typically faced by younger NBFCs who are not backed by a large promoter group.

a. The Company has achieved an Off-Book AUM of 43% and intends to maintain 50% Off-Book AUM on a sustainable basis.

b. The Company's Off Book AUM witnessed a QoQ growth of 19.94 percent and YoY growth of 274.55 percent to INR 2,929 Crore in Q1FY24 (INR 782 Crore in Q1FY23) as against INR 2,442 Crore in Q4FY23. The Company's Net Worth improved to INR 1,337 Crore in Q1FY24 (post fresh capital raising) as against INR 984 Crore in Q4FY23. Debt-to-equity ratio of 3.2x as on FY23. A traditional NBFC with a similar amount of Capital base and leverage would have been able to generate a lower AUM.

c. **Co - Lending is a value accretive model**

Lending as a Service (L-a-a-S) platform

Benefits to UGRO Capital

d. Higher ROA & ROE on account of Better Leverage & Higher Spread (compared to on - balance sheet lending)
e. High growth with lower equity capital
f. Sizeable sanction and on tap availability of capital
g. Testimony of the credit scoring model
h. Paripassu risk sharing with the partner

Benefits to Partner Institution

i. Risk weight lower in case of Co-lending vis-a- vis lending directly to NBFCs
j. Cost of Capital advantage combined with no operating cost leading to higher returns on risk adjusted basis
k. Granular build-out of Portfolio
l. Build-out of PSL portfolio
m. End use visibility of funds disbursed

❖ Operating performance and profitability

The major factors contributing to the growth in the profitability are as below:

1) **Improving Net Total Income:** Net Total Income as a % of Avg. Gross on Book AUM increased to 12.5% for Q1FY24 as compared to 10.2% in Q1FY23 and decreased as compared to 13.7% in Q4FY23.

For the whole year, Net Total Income as a % of Avg. Gross on Book AUM increased to 12.2% for FY23 as compared to 9.2% in FY22. The Company has improved its top line through a dual strategy of (1) Improving product mix of high yield products and penetrating into higher yield segments within the existing products and (2) Spread Income on Off Book Portfolio.

Portfolio yield stood at 17.3% - it has slightly increased over the last few quarters and it is consistently increasing because of the Company's focus on high yielding products as well as increasing some amount of yield on the existing products. At a product mix level, the combined share of high yield Prime Unsecured and Micro loans (19%+average yield products) has increased from 32% as on Q1FY23 to 39% as on Q1FY24 thereby improving the overall Company yields.

2) Management discussions also indicated that within the Supply Chain Financing product they have increased focus on Dealer / Distributor Financing which is a higher yield segment and within the Prime Secured Product they have increased focus on higher yielding customer segments, this strategy has further augmented to increase in overall yields.

3) Off Book volumes has decreased in Q1FY24 leading to a fall in income from Co-lending/DA by 30% on QoQ basis. The decrease in volumes is function of cyclicality in lending business. The Management had earlier indicated that the spread income on Off Book portion is marginally higher than the On-Book spreads which further augments top line growth of the Company.

4) The borrowing cost has increased marginally by 8 bps which is function of macroeconomic factors. The primary source of On Book liabilities continue to be Term loans (72%) from Banks and Financial institutions however the Company has also developed other sources such as NCDs, CPs and DFIs.

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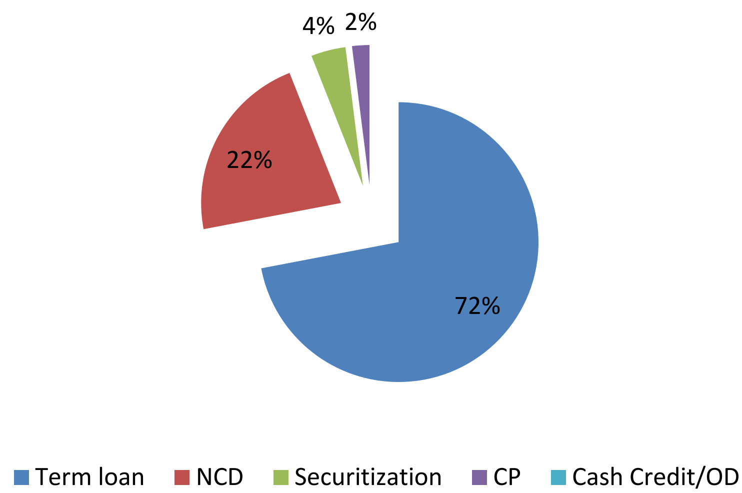
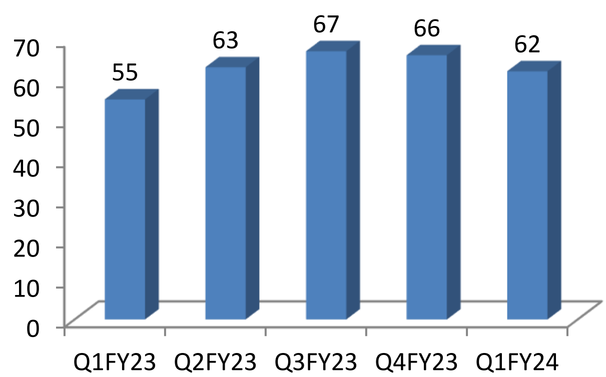
Liability Mix as on Q1FY24



Source: Company's Q1FY24 Investor Presentation

No. of lenders



Source: Company's Q1FY24 Investor Presentation

The Company has increased its lender count from 55 as on Q1FY23 to 62 as on Q1FY24. New lender addition has remained flat since Q3FY23, Company has indicated that they have been able to penetrate a large lender base and would now move into consolidation phase.

Total debt and cost of borrowing

Particulars	Total Debt (INR in Crore)	Cost of borrowing
Q1FY23	2,208	10.47%
Q2FY23	2,725	10.48%
Q3FY23	2,885	10.53%
Q4FY23	3,149	10.58%
Q1FY24	3,342	10.66%

5) **Improving Profitability led by operating Leverage**:

The Company's cost to net total income ratio has significantly improved to ~ 55% in Q1FY24 from ~ 72% in Q1FY23. Being incorporated as an organization to support large scale of business the Company is benefiting from high growth in its AUM as operating leverage starts playing out. As a strategy the Company has started to sweat out its existing infrastructure to achieve its growth targets.

Majority of the operating cost was upfronted in the initial phase and the Company's current infrastructure is expected to support its growth target with minimum cost increments. The company has indicated it intends to maintain cost at current levels with increase only on account of inflationary pressures.

The Company's PPOP witnessed a jump of 11 percent on QoQ basis and grew by 187 percent on YoY basis to INR 56.6 Crore in Q1FY24. PBT for Q1FY24 grew by 6 percent on QoQ basis and registered a YoY growth of 243 percent to touch INR 35.6 Crore in Q1FY24. Pre-Tax ROTA for Q1FY24 stood at 3.1%

PAT registered a QoQ growth of 80 percent and witnessed a whopping growth of 244 percent on YoY basis to touch INR 25 Crore in Q1FY24. ROTA for Q1FY23 stood at ~ 2.2% and ROE for Q1FY24 stood at 8.7%.

The Company has demonstrated its ability to deliver high growth and has set sail on improving its profitability while maintaining high portfolio quality while its ability to scale business profitably shall be put to test in coming quarters and the credit behaviour of the portfolio shall become clearer with increasing vintage.

What can drive improvement in Operating Profit in the future?

a) **Likely improvement in Yields**: Product mix of high yield Micro loans is expected to increase given that all the 75 branches are steadily scaling up and management wants to consciously improve mix of Micro loans.

b) **Stabilizing Borrowing Costs:** With increasing vintage and improving credit performance and the company's ability to raise equity as demonstrated through the recent fund raise round, borrowing costs are expected to stabilize at current level in near future and are expected to decrease in the long term.

c) **Improving Cost/Income ratio:** The Company's Cost/Income ratio has improved from 72.1 percent in Q1FY23 to 55.0 percent in Q1FY24. The Cost/Income ratio is expected to improve further. The Management has given guidance of Cost/Income ratio <~ 45% by FY25.

❖ Asset Quality

Gross NPA as a % of Total AUM has slightly increased from 1.6% in FY23 to 1.8% in Q1FY24. On the other hand, Net NPA as a % of Total AUM has increased from 0.9% in Q4FY23 to 1.0% in Q1FY24.

1) **Marginal increase in Gross NPA ratio (%):** Stage 3 Assets has increased marginally from 1.6% in Q4FY23 to 1.8% in Q1FY24 due to increase in >12 MOB portfolio contribution to overall portfolio. Management estimated Gross NPA ratio to be around 1.9% in steady state by end of FY24. The NNPA as a % of Net worth is around 5% as on Jun-23. In the past discussion, according to the Management, once the account becomes NPA, approximately 1%-2% of NPA roll backs per month in unsecured loans. In secured loans, the Company has been able to roll back almost 100% within 12-18 months. According to the Management estimates, unsecured loans would carry a lifetime GNPA of ~ 3% - 3.5% whereas for collateral backed secured loans the same would be in the range of ~ 0.5% - 0.75%. As per management discussion in Q4Y23, PCR for unsecured loans is ~ 65%-70% whereas PCR for secured loans is between 20%-30%.

Product wise GNPA

Product category	AUM (INR in Crore)	GNPA (%)
Prime – Secured	1,986	1.2%
Prime - Unsecured	2,109	3.0%
Micro Enterprise	548	1.1%
Supply Chain	585	2.6%

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Financing		
Machinery Loan	798	0.6%
Partnerships & Alliances	750	-
Total	**6,777**	**1.8%**

2) **Range bound Collection Efficiency and Stage 1 assets:** Over past one year Company's collection efficiency has been in the range of 96% - 98% whereas Stage 1 assets have been ~ 95%. For collection, the company has built out large litigation team and early warning system developed by data analytics team which gives warning signals to in house call centres. Early warning signal for the stressed customer is not the bureau, not the banking but the GST. Bureau typically takes 4-5 months lag before stress is reported. Banking early warning is a little better but still, one doesn't know till the cheque bounces. In GST, the moment the sale starts going down, that is the first and your primary early warning signal. This is the Company's hypothesis and with this, it built and included that as a major parameter in GRO Score.

ECL data

Particulars	Loan exposure (INR in Crore)	Loan exposure (%)
Stage 1	6,431	95%
Stage 2	224	3%
Stage 3	121	2%
	6,777	100%

3) **Run Down of Restructured Book:** Restructured book has seen a good decline over a period of time. Restructured loans have decreased from INR 96.4 Crore (2.7% of Total AUM) as on Q1FY23 to INR 52.9 Crore (0.8% of Total AUM) as on Q1FY24.

4) **The various Factors Contributing to healthy portfolio quality:**

Robust Underwriting Framework: Over a period of time the Company's underwriting framework has evolved with incremental data since GRO score is a self-balancing scoring model which incorporates incremental data and improves its parameters basis the same. On top of the GRO score the Company has a layer of Credit underwriters who thoroughly evaluate the GRO Score approved cases.

The Company has a hybrid model where its GRO Score does the first level of assessment, then it has credit officers who do the PD and do the physical check on the customers, including the fraud control unit, which is resulting into a robust portfolio.

GRO Score gives a probability of default - A, B, C, D, E. each against each there is a probability of default which is getting estimated depending on what kind of product the Company is doing. The Company has internally made a cut off of what should be a straight reject. Typically, a GRO Score of D and E under most circumstances would be a straight reject. Unless, the Company finds that there has been an error in reporting in Bureau.

Tight Credit Underwriting Framework: Origination to disbursement rates have been ~ 30% historically. Out of the 100 cases entered into the system ~ 50% cases are rejected by GRO Score and out of the balance ~ 40% cases are rejected by the Credit underwriters and as a result only 30 out of the original 100 pass through the credit system.

Strong Credit Infrastructure: The Company has a dedicated fraud control team which goes through all the cases, and it has enhanced its collection strength to 180+ employees.

Partial De Risking of AUM through Co-lending: Off Book Co-lending book does not carry any credit risk whereas Off Book Co-origination book carries risk to the extent of FLDG.

Increase in Provision Coverage Ratio (PCR): PCR has improved from 28% as on Q1FY23 to 48% as on Q1FY24. The Management has indicated that this was largely done to align with the broad market standards, and they have now matched the same.

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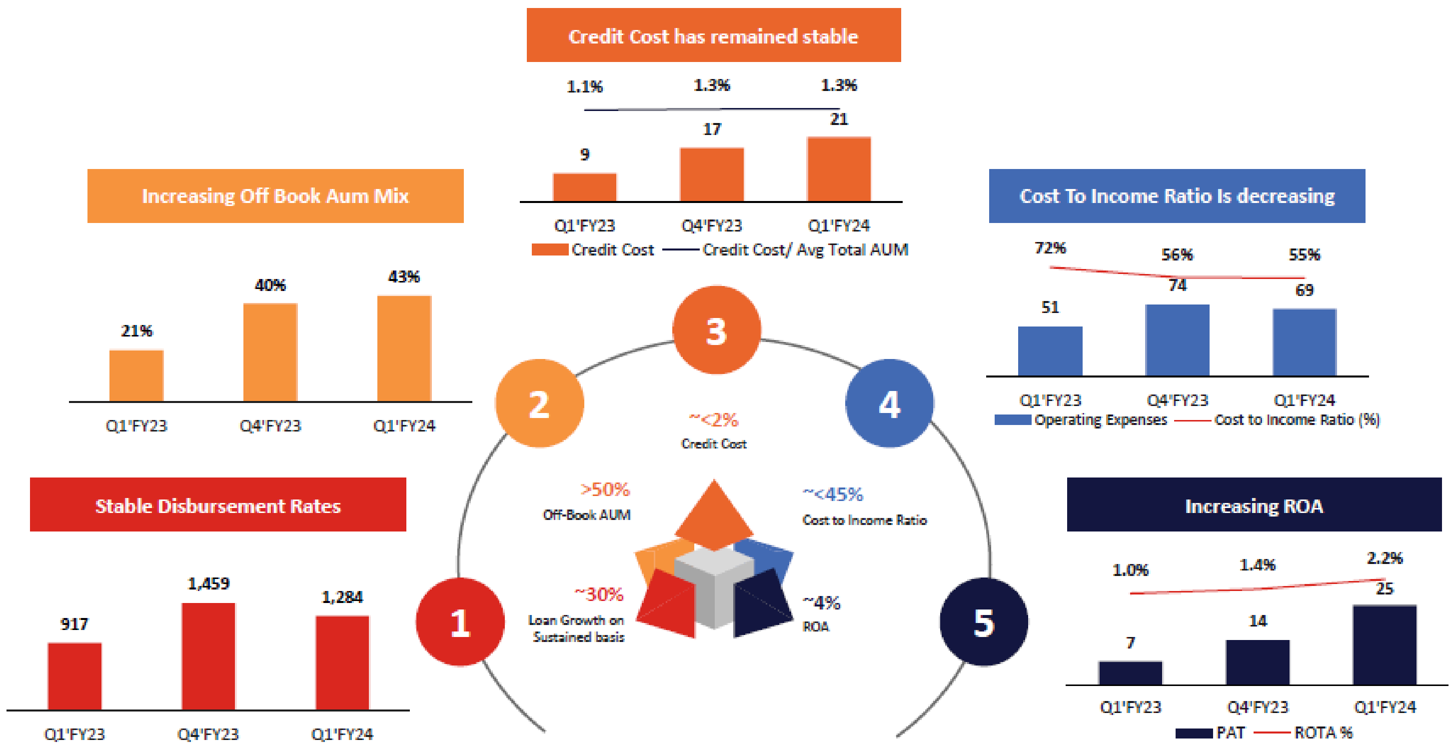
The big picture- Business metrics in line with long term goal..



Source: Company's Q1FY24 Investor Presentation

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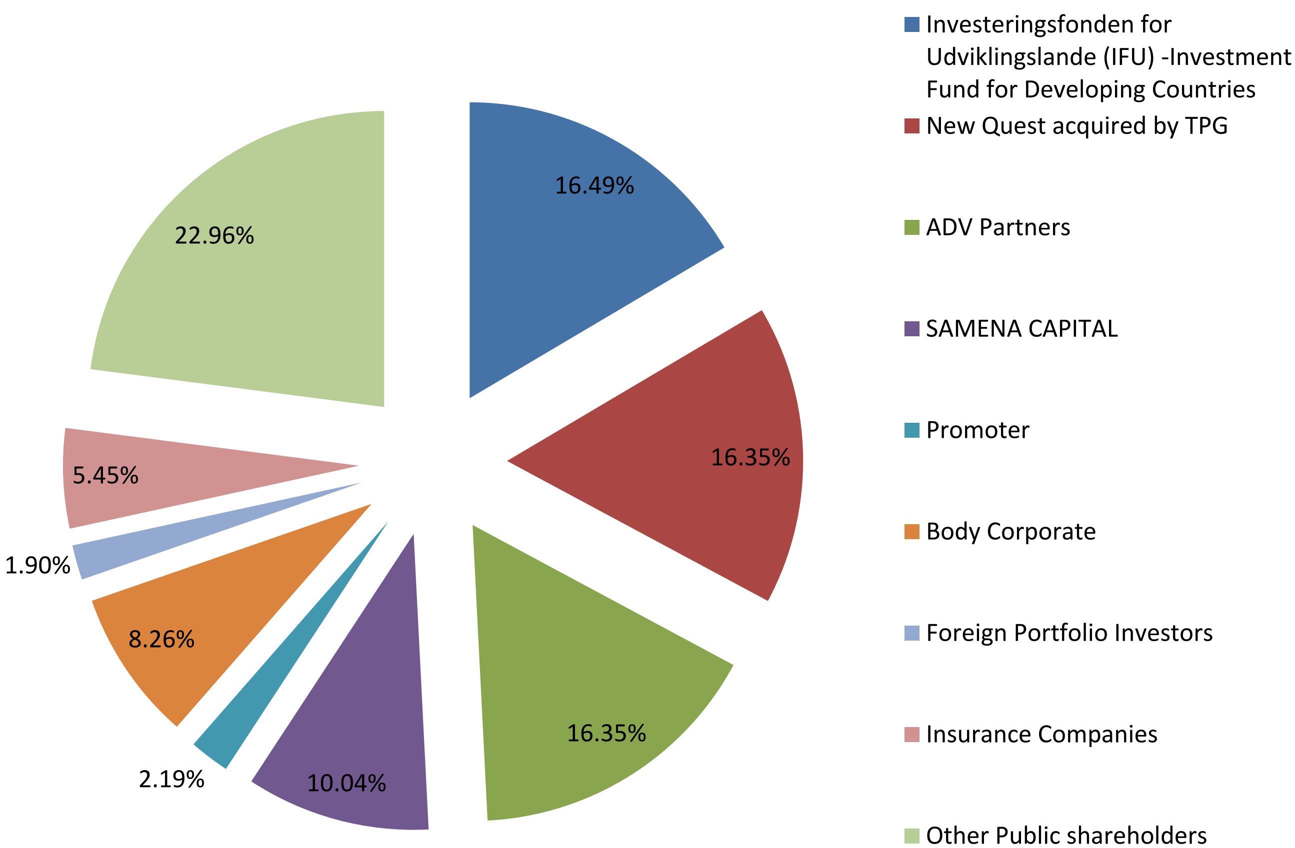
Shareholding pattern as on as on June 30, 2023



Source: Company's Q1FY24 Investor Presentation

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Strong Management Team, Professionally managed: 190+ years of cumulative experience

Shachindra Nath -
Vice Chairman &
Managing Director
25+ Years of Experience

Amit Mande -
Chief Revenue Officer
20+ Years of Experience

Anuj Pandey -
Chief Risk Officer
20+ Years of Experience

Kishore Lodha -
Chief Financial Officer
20+ Years of Experience

Sunil Lotke –
Chief Legal & Compliance
Officer
19+ Years of Experience

J Sathiayan -
Chief Business Officer
25+ Years of Experience

Pia Shome -
Chief People Officer
15+ Years of Experience

Rishabh Garg -
Chief Technology Officer
17+ Years of Experience

Subrata Das -
Chief Innovation Officer
17+ Years of Experience

Independently Supervised Eminent Board of Directors, which includes Ex- Bankers, Regulators & Professionals.

Satyananda Mishra –
Non-Executive Chairman
Ex-Chairman, MCX, Ex-CIC, GOI,
Ex-Director - SIDBI

S. Karuppasamy -
Independent Director
Ex-Executive Director, RBI

Karnam Sekar –
Independent Director
Ex - MD & CEO of Indian
Overseas Bank

Hemant Bhargava –
Independent Director
Ex-Chairman in charge and MD
of LIC

Rajeev K. Agarwal -
Independent Director
Ex-Whole Time Member, SEBI

Tabassum Inamdar
Independent Director
Ex Goldman Sachs, UBS
Securities, Kotak Securities

Amit Gupta
(New Quest Nominee)
Founding Partner of New Quest

Chetan Gupta
(Samena Nominee)
Managing Director at Samena
Capital

Manoj Sehrawat
(ADV Nominee)
Partner at ADV

Deepa Hingorani
(IFU Nominee)
Senior VP at IFU

Legend: Independent Directors, Non-executive Directors

Source: Company's Q1FY24 Investor Presentation

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Quarterly result update

Quarterly Income statement

Particulars	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Interest Income	93.1	115.7	133.1	141.1	161.5
Income on Co-Lending / Direct Assignment	22.6	28.4	42.9	62.4	43.8
Other Income	8.1	11.2	13.6	13.7	13.0
Total Income	**123.8**	**155.3**	**189.6**	**217.2**	**218.3**
Interest expense	53.1	68.5	81.6	90.4	92.7
Net Total Income	**70.7**	**86.8**	**108.0**	**126.8**	**125.7**
Employee cost	21.8	30.9	40.5	40.1	36.9
Other expenses	29.2	23.5	28.6	35.5	32.2
PPOP	**19.7**	**32.4**	**38.9**	**51.1**	**56.6**
Credit cost	9.4	14.9	16.7	17.5	20.9
PBT	**10.4**	**17.6**	**22.2**	**33.7**	**35.6**
Tax	3.0	5.1	4.9	10.4	10.4
PAT (Adjusted)*	**7.3**	**12.5**	**17.3**	**23.2**	**25.2**
Deferred Tax write-off	-	7.2	4.2	9.2	-
PAT	**7.3**	**5.3**	**13.1**	**14.0**	**25.2**

Source: Company's Investor presentation for respective quarters

Note:*Adjusted PAT = PAT without considering impact of deferred tax reversal of INR 4.2 Crore in Q3FY23 and INR 9.2 Crore in Q4FY23; Adj. PAT for Q3FY23 is INR ~17.3 Crore, Adj. PAT for Q4FY23 is INR 23.2 Crore

Adj. Return on Avg. Total Assets % = Return on Avg. Total Assets calculated on Adj. PAT.

Key Parameters

Particulars	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Balance sheet Parameters					
AUM	3,656	4,375	5,095	6,081	6,777
Growth %	23%	20%	16%	19%	11%
Gross loans originated	1,359	1,653	1,874	2,314	2,036
Growth %	41%	22%	13%	23%	(12%)
Net loans originated	917	1,100	1,166	1,459	1,284
Growth %	50%	20%	6%	25%	(12%)
Off Book AUM	782	1,272	1,775	2442	2,929
Off Book AUM (% of Total AUM)	21%	29%	35%	40%	43%
CRAR	28.2%	24.7%	21.5%	20.2%	26.6%
Leverage	2.26x	2.9x	3.0x	3.2x	2.5x
Profit & Loss Parameters					
Portfolio Yield	16.7%	17.3%	17.4%	17.3%	17.3%
Cost of Borrowings	10.5%	10.5%	10.5%	10.6%	10.7%
Net Total Income (% of Gross On-Book AUM)	10.5%	11.3%	12.9%	13.7%	12.5%
Cost to Income Ratio	72.1%	62.7%	63.9%	55.9%	55.0%
Credit cost (% of Avg Total AUM)	1.4%	1.5%	1.3%	1.4%	1.3%
ROA	1.0%	0.6%	1.4%	1.4%	2.2%
ROE	3.0%	2.2%	5.5%	5.8%	8.7%
Adjusted ROA	1.0%	1.4%	1.8%	2.2%	2.2%
Adjusted ROE	3.0%	5.2%	7.2%	9.5%	8.7%
Asset Quality Parameters					
GNPA	1.7%	1.7%	1.7%	1.6%	1.8%
NNPA	1.3%	1.2%	1.1%	0.9%	1.0%
Collection Efficiency	96.9%	97.4%	97.3%	97.6%	96.8%
Restructured Book	2.7%	1.9%	1.5%	1.1%	0.8%

Source: Company's Investor presentation for respective quarters

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Key Takeaways from Q1FY24 Earnings conference call

AUM

1) Continued with Growth momentum and achieved an AUM of 6,750+ Crore registering 85% growth on YoY basis
2) One of largest Lending as a service provider in the MSME Co-lending space with total off book AUM of 43%
3) Achieve an off-book AUM of 50% by 2025

Operating expenses

4) Cost to Income ratio has further reduced to 55% in Q1FY24 against 72.1% in Q1FY23 and management has guided to reduce it further to ~47% in FY24.
5) Cost will go up slightly because of inflationary pressures

Borrowing cost

1) During the quarter, the borrowing cost has increased by ~8 bps from 10.58% to 10.66%.

Branches

1) Most of the micro branches have reached the breakeven point.
2) Management is now confident to scale up number of micro branches.

Target Segment

1) More than 80% of customers are Micro and Small enterprises with turnover between INR 50 Lakhs and INR 10 Crores

Asset Quality

1) One of the First NBFC to implement ICAP guidelines
2) Rise in GNPA/ NNPA is on account of seasoning of book
3) Of 100 applications received, loan is given to only 30 cases
4) A&B category customers (as per GRO score)constitutes 86% of the portfolio

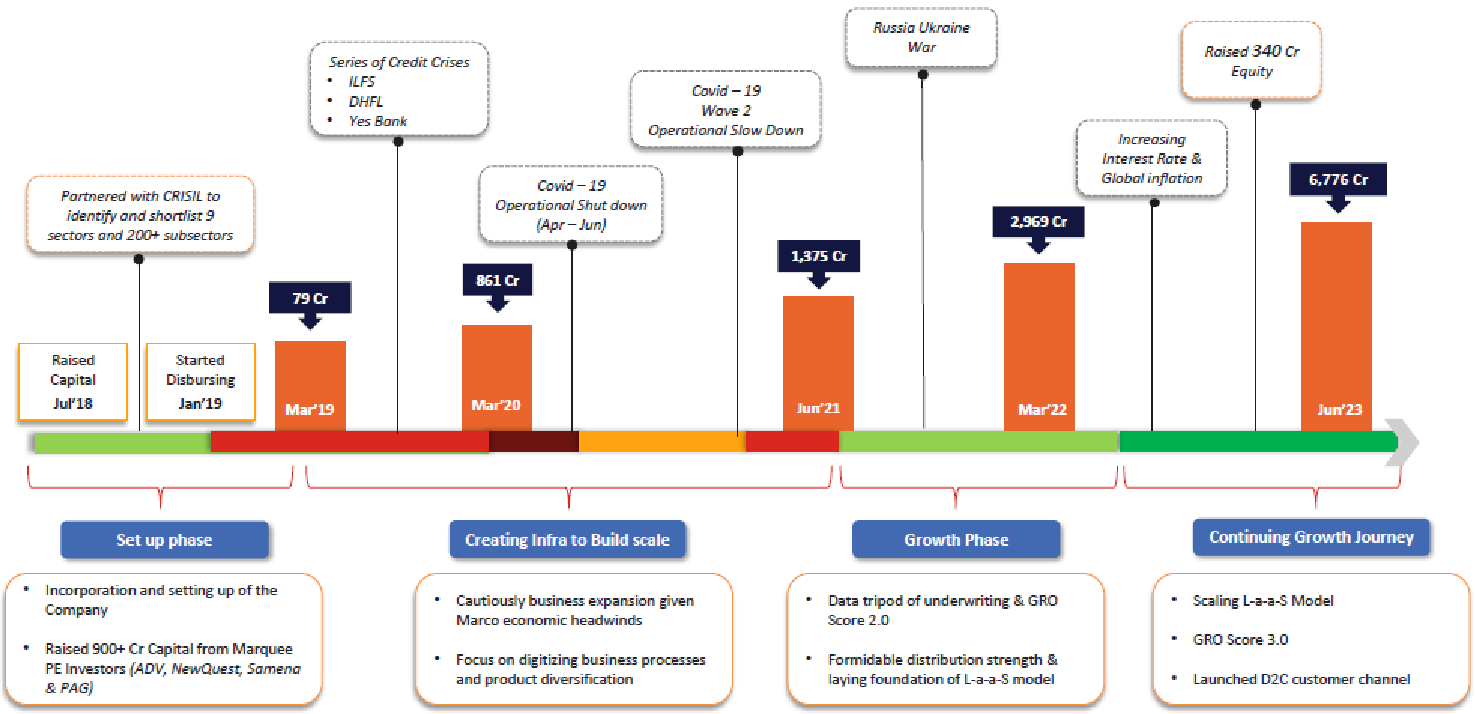
FY25 Guidance

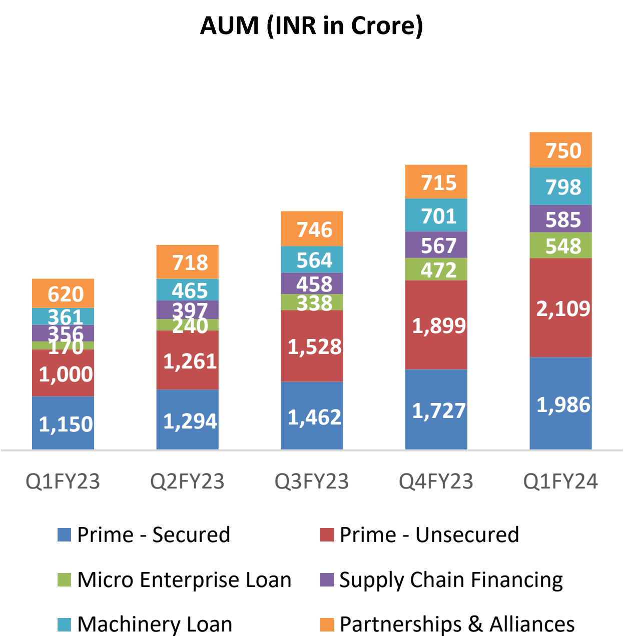
1) Loan Growth of ~30%
2) Achieve off Book AUM of 50%
3) Credit cost of <2% of Average Total AUM
4) Cost to income ratio of <45%
5) ROA of ~4% for FY25 (ROA guidance of ~3.1% for FY24 in Q4FY23 concall)
6) ROE guidance of ~18 % for FY25

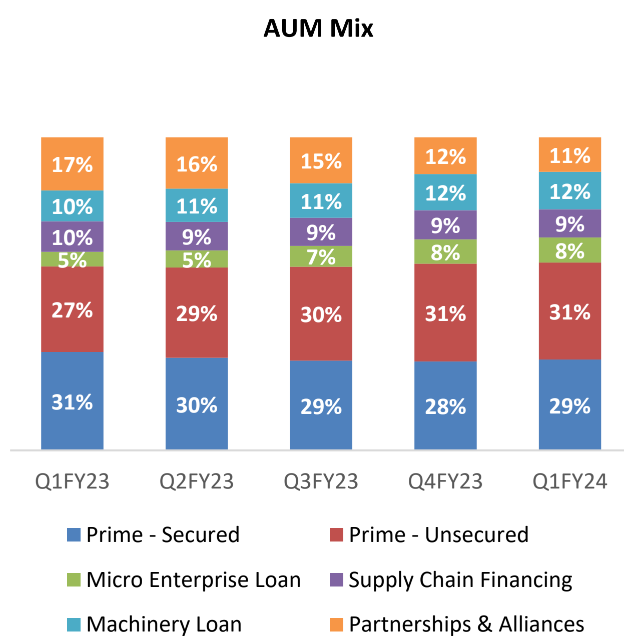
Business Updates

1) Definition of Prime (Unsecured): UGRO Capital defines prime customers is through three parameters. One is the quality of cash flow, second is the quality of repayment behaviour and third is quality of product. By quality of cash flow in MSME terms basically means whether all the cash flow can be evidenced in the reports, which customer files. For example, in GST or in banking etc. If there are some cash businesses, which are not in GST or banking, then the quality of cash flow is not prime as per its definition. Quality of repayment behaviour is defined by its proprietary GRO Score. So if the customer is the top two quartile of repayment behaviour, the Company considerd him prime otherwise not. And for secured loans, if the quality of collateral is a prime property with a very clear and marketable title, then it is a prime property.
2) DA and Co-lending volumes were lower in Q1FY24 due to cyclicality of business
3) Majority of long tenured products are sold down through Co-lending/ DA
4) MSME credit has increased by 7.2% however credit gap has also increased by 8% from FY17 to FY22
5) Tabassum Inamdar – (Ex Head of Financial Services and BFSI research for Asia Pacific of Goldman Sachs) has joined the board as Additional (Independent) Director of the Company. Smita Aggarwal has been appointed as Director United Nations for global financial inclusion and that's why she has resigned from the board.

UGRO Capital story in charts..







Source: Company's Q1FY24 Investor Presentation

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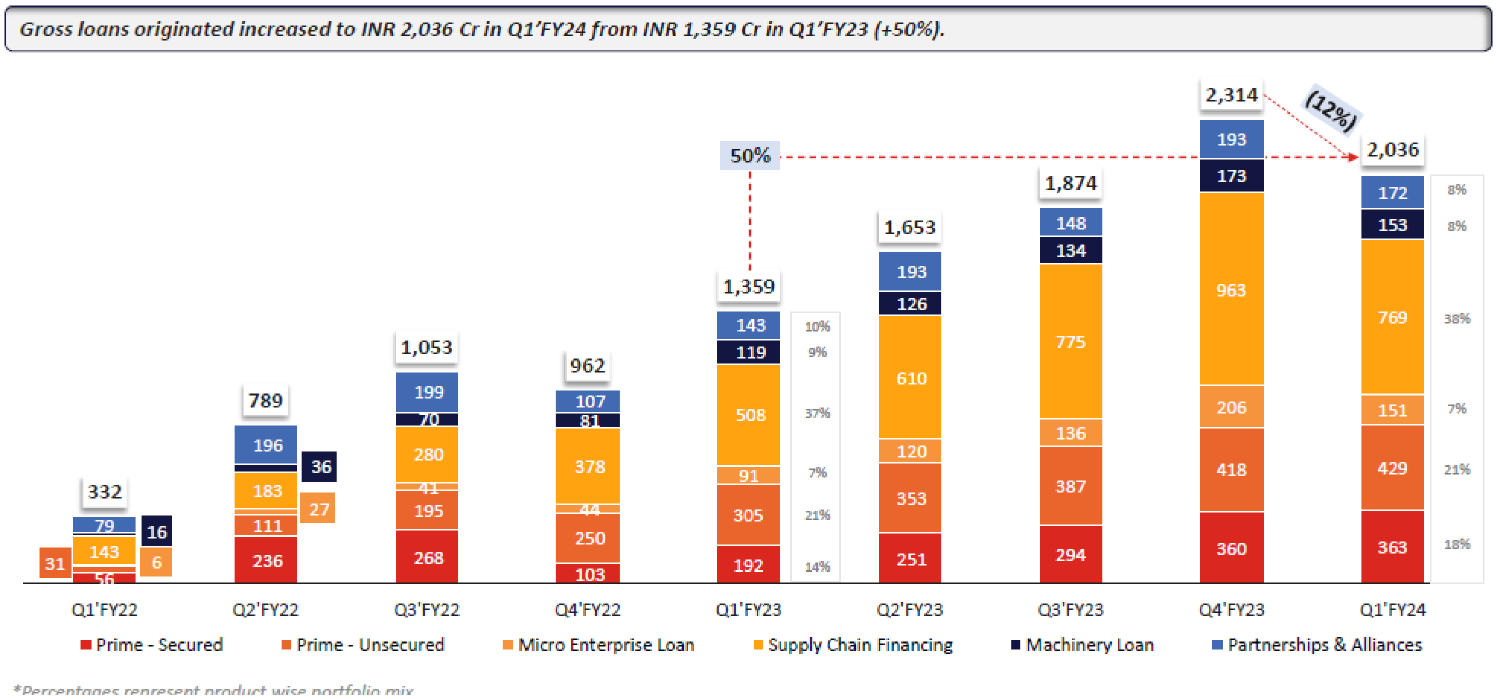
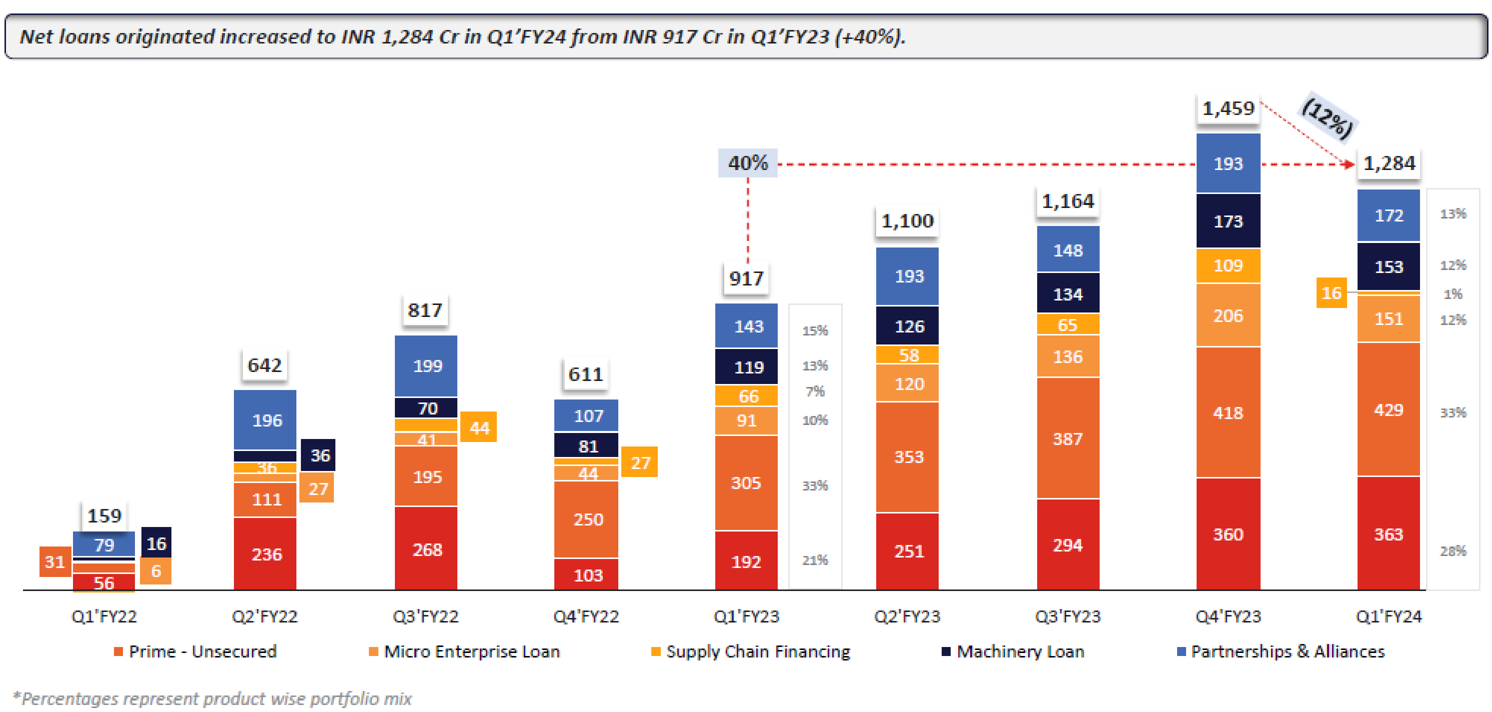
Gross Disbursement (INR in Crore)



Net Disbursement (INR in Crore)



Source: Company's Q1FY24 Investor Presentation

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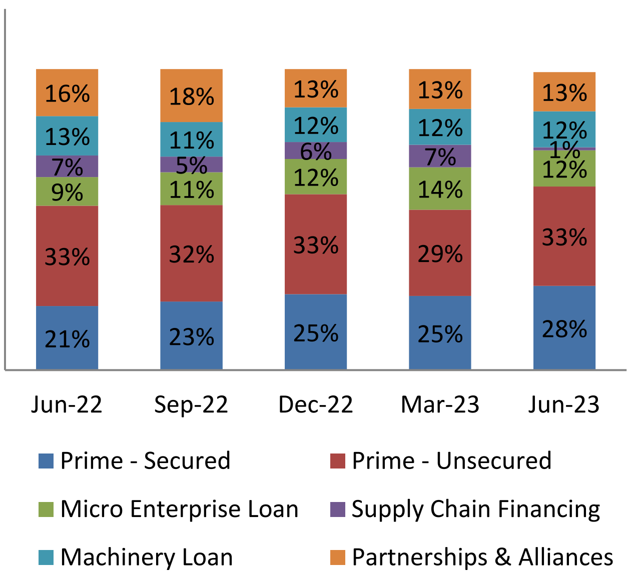
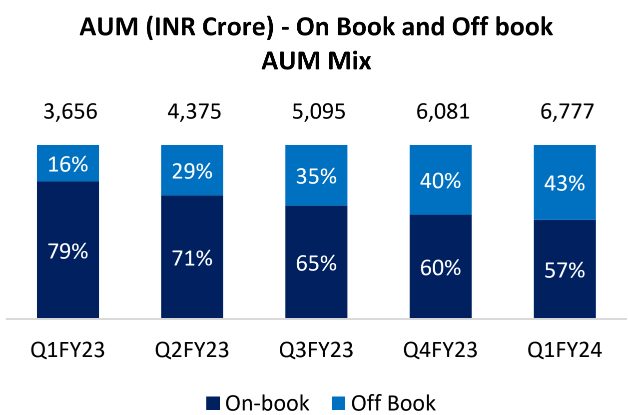
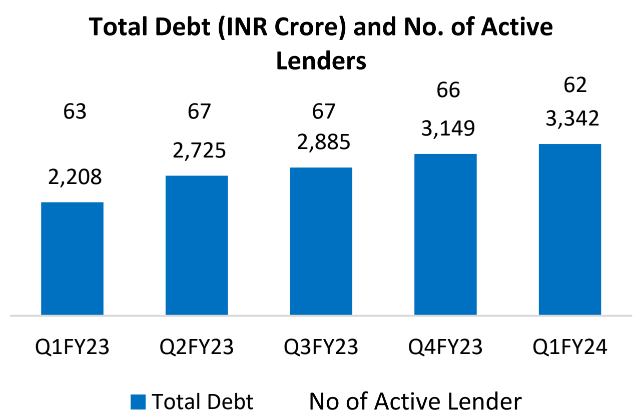
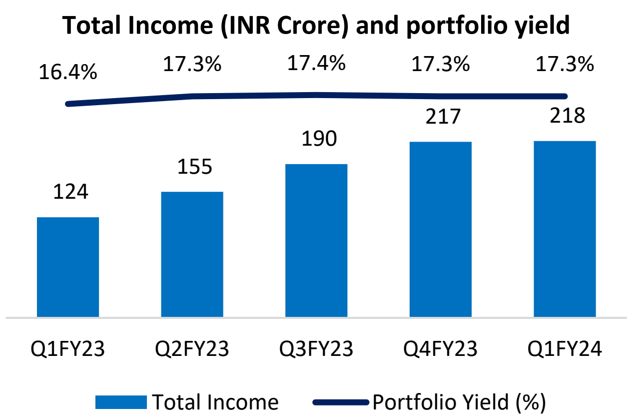
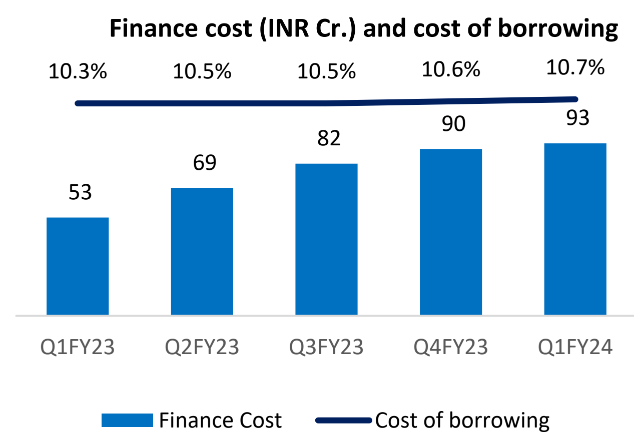
Net Disbursement mix











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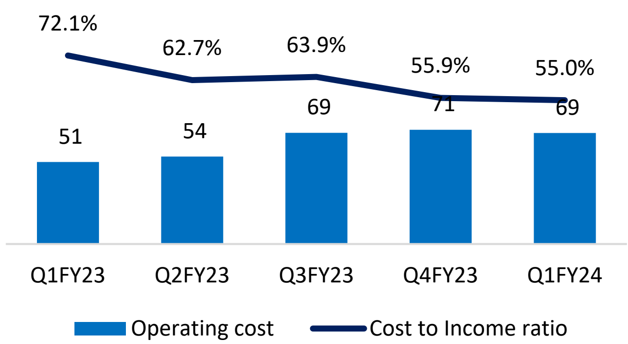
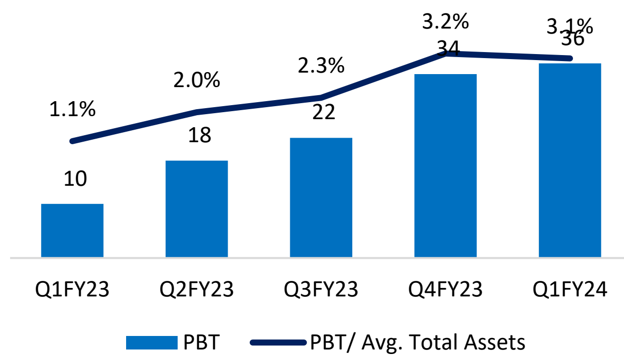
Operating expenses (INR Crore) and Cost to Income ratio (%)

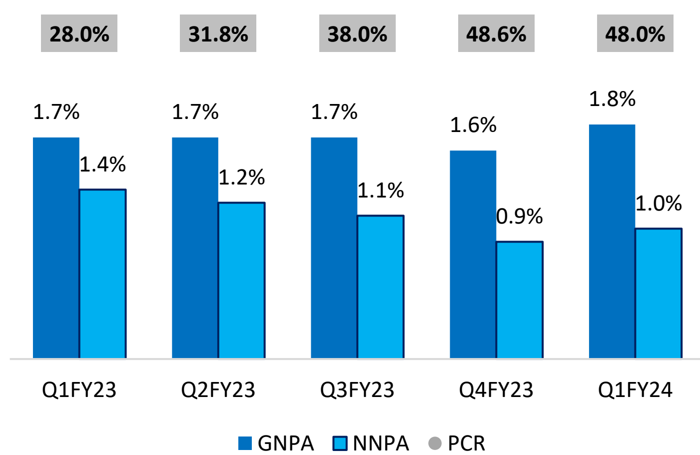


PBT (INR Crore) and PBT/Avg.Total Assets

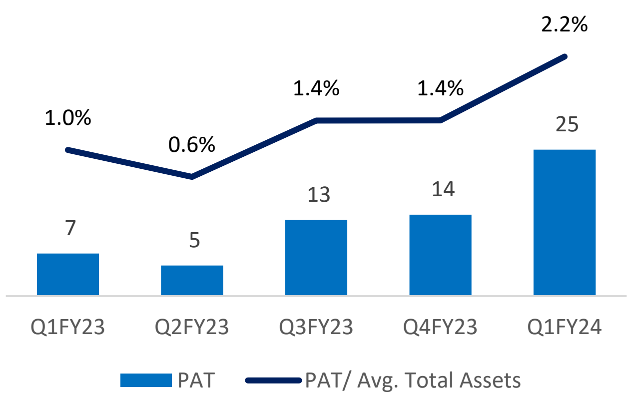


Source: Company's Q1FY24 Investor Presentation

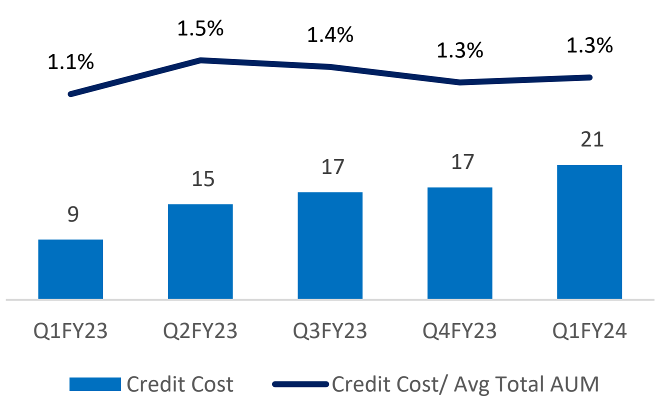
Asset Quality and Provision Coverage Ratio



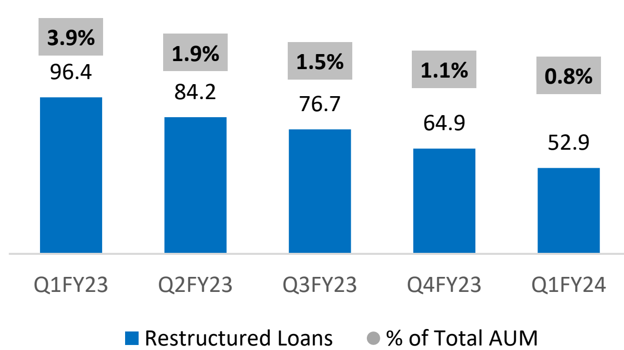
PAT (INR Crore) and PAT/Avg.Total Assets



Credit Cost (INR Crore) and Credit Cost /Avg.Total AUM



Restructured Loans (INR in Crore)



Source: Company's Q1FY24 Investor Presentation

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Financial Summary

Particulars	FY21	FY22	FY23
Interest Income	153.3	272.1	482.9
Income on Co-Lending / Direct Assignment	44.6	26.9	154.1
Other Income (Operating + Non Operating)	19.6	13.1	46.8
Total Income	**217.5**	**312.1**	**683.8**
Finance cost	44.6	137.3	293.3
Net Total Income	**173.0**	**174.9**	**390.5**
Employee cost	31.7	72.9	140.7
Operating expense	45.3	52.4	109.1
PPOP	**95.9**	**49.6**	**140.6**
Credit cost	19.6	29.4	56.8
PBT	**76.3**	**20.2**	**83.8**
Tax expense	-16.6	5.6	44.1
PAT	**92.9**	**14.6**	**39.8**
DTA adjustment		-	20.6
Adj. PAT	**92.9**	**14.6**	**60.4**

Note:*Adjusted PAT = PAT without considering impact of deferred tax reversal of INR 20.6 Crore in FY23; Adj. PAT FY23 is INR 60.4 Crore

Balance Sheet summary of last three years (INR in Crore)

Particulars	FY21	FY22	FY23
Assets			
Loans	1,283	2,451	3,806
PPE, Intangible assets, ROU etc	40	62	66
Cash and Bank Balance	316	188	212
Investments	55	69	60
Current and Deferred Tax Assets (Net)	43	45	28
Others	18	39	134
Total	**1,755**	**2,855**	**4,306**
Liabilities			
Equity Share Capital	71	71	69
Reserves and Surplus	882	896	915
Incremental Equity	-	-	-
Net Worth	**952**	**967**	**984**
Borrowings	766	1,802	3,149
Other Financial Liabilities	37	86	173
Total	**1,755**	**2,855**	**4,306**

Source: Company's Audited Financial Statement for the respective years filed with the exchanges

Key Parameters

Particulars	FY21	FY22	FY23
Balance sheet Parameters			
AUM	1,317	2,969	6,081
Growth (%)		*125%*	*105%*
Net loans originated	639	2,251	4,641
Growth (%)		*252%*	*106%*
Off Book AUM	-	478	1,272
Off Book AUM %	-	16%	40%
CRAR	68.6%	34.4%	20.2%#
Leverage	0.8	1.9	3.2
Profit & Loss Parameters			
Net Total Income %	10.8%	9.2%	12.2%
Cost to Income Ratio	70.8%	71.6%	62.3%
Credit cost (% of Avg Total AUM)	1.8%	1.5%	1.3%
ROA	1.9%	0.6%	1.1%
ROE	3.1%	1.5%	4.1%
Asset Quality Parameters			

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GNPA	2.3%	1.9%	1.7%
NNPA	1.6%	1.4%	0.9%
Valuation			
Book value per share	135	137	144.4*
P/B	2.14	2.11	2.02

**Note: Book value per share for FY23 is adjusted for equity infusion of INR 340.5 Crore*

Source: Company's Investor presentations for respective period

One year price movement chart

Source: Moneycontrol

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