UGRO Capital Limited - Q2FY23 result update - "BUY", Target price: Rs. 276	November 18, 2022

CMP: Rs. 165.25|Target price: Rs. 276|Upside: 67%|FV:Rs. 10|H1FY23 Book value per share: 137.75 |Market Cap: 1,165.99 Crore|52 Week High/Low: Rs. 229.00/Rs. 130.90|NSE code: UGROCAP|BSE code: 511742|Bloomberg code: UGRO:IN

We had initiated coverage on "UGRO Capital Limited" on October 2021 at Rs. 131.30 with a target price of Rs. 175.5, later upgraded upgraded to Rs. 272 after its Q4FY22 result. We continue our coverage on the Company post its Q2FY23 results and revise our price target to Rs. 276 per share. We hereby present the updated research report as on Q2FY23.
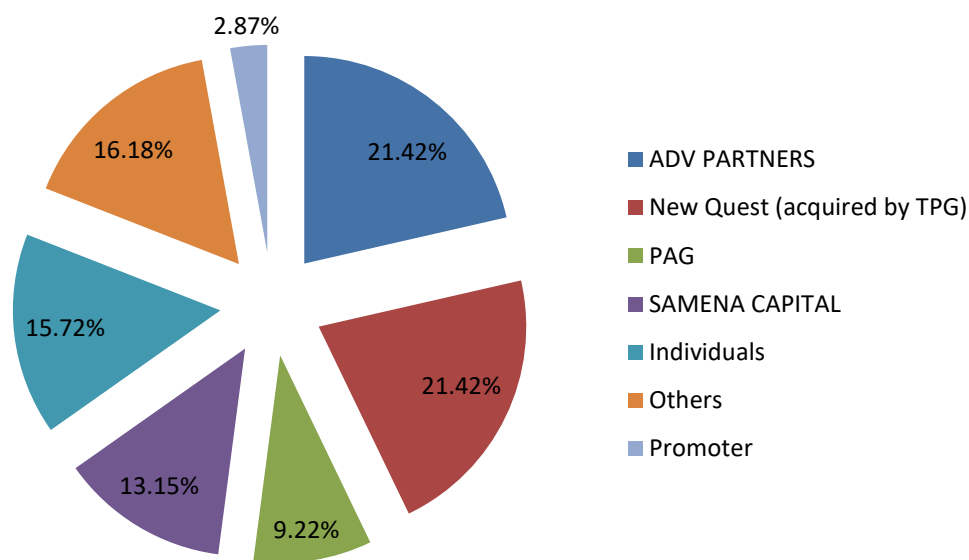
Did you know?

- ❖ UGRO Capital Limited is a Data Tech Lending platform, listed on NSE and BSE. Pursuing its mission of "Solving the Unsolved" for small business credit gap in India, on the back of its formidable distribution reach and its Data-tech approach
- ❖ 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 co-lending, an upstream and downstream integration with fintechs and liability providers and GRO Xapplication to deliver embedded financing option to MSMEs
- ❖ Company has developed a superior underwriting framework GRO Score 2.0 (combines credit bureau and banking data into one model)
- ❖ The Company has evolved to a Data Tech Company within 3 years of Inception
- ❖ The credit scoring model GRO Score (2.0) 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
- ❖ U GRO has pioneered the "Lending as a Service" (LaaS) model in India and has effectively operationalized Co-lending relationship with 10+ Large Public Sector Banks and large NBFCs and built a sizeable LaaS book of more than 20% of its AUM through the GRO Xstream platform.
- ❖ Assets under management (AUM) as of Q2FY23 stood at Rs.4,375 Crore
- ❖ The Cumulative Disbursement since inception stood at Rs. 8,500 Crore as on Q2FY23
- ❖ Company is backed by marquee Private Equity funds and family offices (raised INR 900+ Cr of equity capital in 2018) and aims to capture 1% market share and cross Rs. 20,000 Crore of AUM by FY25 with RoE (Avg.) of 18 percent by FY25..

Source: Company

Institutionally owned: Majority held by Institutional Investors

■ ADV PARTNERS	21.42%
■ New Quest (acquired by TPG)	21.42%
■ PAG	9.22%
■ SAMENA CAPITAL	13.15%
■ Individuals	15.72%
■ Others	16.18%
■ Promoter	2.87%

Source: Company

Q2FY23 result update - Quarterly Performance across different parameters

Particulars	Q2FY23	Q1FY23	Qoq (%)	Q2FY22	YoY(%)	H1FY23	H1FY22	YoY (%)	FY22
AUM	4,375	3,656	20%	1,933	126%	4,375	1,933	126%	2,969
Disbursements	1,653	1,359	22%	791	109%	3,011	2,016	50%	3,138
Total Income	157.4	123.8	27%	62.8	151%	281.2	114.1	146%	313.6
Interest expense	69.9	53.1	32%	26.9	160%	123.0	49.3	150%	137.4
Net Total Income	87.5	70.7	24%	35.9	144%	158.2	64.8	144%	176.2
Operating expenses	55.0	51.0	8%	25.3	117%	106.0	46.9	126%	126.4
PPOP	32.5	19.7	65%	10.6	207%	52.2	17.9	192%	49.8
Credit cost	14.9	9.4	59%	5.9	153%	24.3	10.8	125%	29.6
PBT	17.6	10.4	69%	4.7	274%	27.9	7.1	293%	20.2
Tax	5.1	3.1	65%	1.3	846%	8.1	2	305%	5.6
PAT - Adjusted#	12.5	7.3	71%	3.4	267%	19.8	5.1	288%	14.6
Deferred Tax write back	(7.2)*	-		-	-	(7.2)	-		-
PAT	5.3	7.3	-27%	3.4	56%	12.6	5.1		14.6
RoA (%)	0.6%	1.0%		0.8%		0.8%	0.5%		0.6%
Adj. RoA (%)	1.4%	1.0%		0.8%		1.2%	0.5%		0.6%

Source: Company, # During FY20, there was a demerger of Asia Pragati Capfin Private Limited (APCPL) into UGRO Capital Limited. By virtue of that, the Company inherited certain brought forward business losses. Out of the above, business losses to the tune of Rs. 24.69 Crore has crossed the statutory time limit of 8 years and hence the deferred tax asset amounting to Rs. 7.19 Crore on the same have been reversed in lieu of this, the total tax line item for the quarter and half year ended Sep. 30, 2022 is higher by Rs. 7.19 Crore.

Commenting on the results, **Mr. Shachindra Nath, Vice Chairman and Managing Director of UGRO Capital stated**, "U GRO Capital is revolutionizing MSME lending through its Data analytics prowess and robust technology architecture. We have been pioneers of Lending as a Service (LaaS) in India and have accelerated our expansion through co-lending and co-origination partnerships. Our increasing off book AUM of 29% demonstrates that our credit scoring model and underwriting framework are widely accepted across the banking industry. Our Q2 FY23 results with the highest ever disbursement demonstrate our unwavering commitment to growth. We continue to make progress towards the company's core profitability on QoQ basis. We achieved new milestones and scaled out our MSME Loans thanks to

our persistent focus on our business strengths and extensive integration of data analytics in the decision-making process. With the proof of concept for GRO Score 2.0 established, we will soon launch GRO Score 3.0."

Q2FY23 result analysis

AUM, Disbursement, Operating performance

1) The Company's AUM witnessed a YoY growth of 126 percent and QoQ growth of 20 percent to touch Rs. 4,375 Crore in Q2FY23 as against Rs. 3,656 Crore.
2) Co-Lending book/Off. book AUM increased to Rs. 1,275 Crore in Q2FY23 (29% of Total AUM) as against Rs. 784 Crore in Q1FY23 (21% of Total AUM). The management in its Q2FY23 analyst concall siad that the off balance sheet AUM in the next two years will be 50 percent of the overall book.
3) Gross Disbursements for H1FY23 stood at Rs. 3,011 Crore, a 168% YoY Growth compared to Rs. 2,016 Crore in H1FY22. This is because all distribution channels following an aggressive strategy.
4) Total Income stood at RS 158 Crore for Q2FY23 (up 151% YoY and 27% QoQ) and Rs. 281.2 Crore for H1FY23 (up 146% compared to H1FY22).
5) Net Total Income grew by 23.8 percent on QoQ basis and by 144 percent on YoY basis to Rs.. 87.5 Crore in Q2'FY23. In H1FY23 it stood at Rs. 158.2 Crore for H1FY23 (up 144% compared H1FY22).
6) The portfolio yield has improved by 60 bps on QoQ basis to 17.3% in Q2FY23
7) The Cost/Income ratio improved to 62.9 percent in Q2FY23 as against 72.1 percent in Q1FY23.
8) PBT increased by 69 percent on QoQ basis and by 274 percent on YoY basis to Rs. 17.6 Crore in Q2FY23. In H1FY23 it stood at Rs.27.9 Crore in H1FY23 (up 293% compared to H1FY22)
9) The Company's Networth as on H1FY23 stood at Rs. 955 Crore
10) Portfolio GNPA and NNPA stood at 1.7% and 1.2% (as a % of Total AUM) respectively as of Sep.30, 2022.
11) Collection efficiency improved to 93.4 percent in Q2FY23 as against 92.8 percent in Q1FY23.
12) It has over 32,000 borrowers as on September 30, 2022
13) UGRO Capital has 98 branches (as on Sep'22) with over 1,435 employees

Product mix

Source: Company

Product Mix

Product category	AUM (Rs. in Crore)	ROI (%)	Ticket size (Lakh)
Prime - Secured Loans	1,293	13.6%	81
Prime - Unsecured Loans	1,261	19.2%	17
Micro Enterprise Loan	240	22.2%	6
Supply Chain Financing	397	16.2%	66
Machinery Loan	465	13.3%	38
Partnerships & Alliances	718	22.4%	7
Total	**4,375**	**17.3%**	**19**

Source: Company

Portfolio concentration in key geographical areas

State	Micro	Prime	Total
Tamil Nadu	19	1	20
Rajasthan	15	2	17
Gujarat	15	1	16
Karnataka	15	1	16
Telangana	10	1	11
Maharashtra	-	6	6
West Bengal	-	4	4
Andhra Pradesh	-	2	2
Other States	1	5	6
Total	**75**	**23**	**98**

Source: Company

Loan origination/Disbursement Trend (Segment - wise M-o-M) (Rs. in Crore)
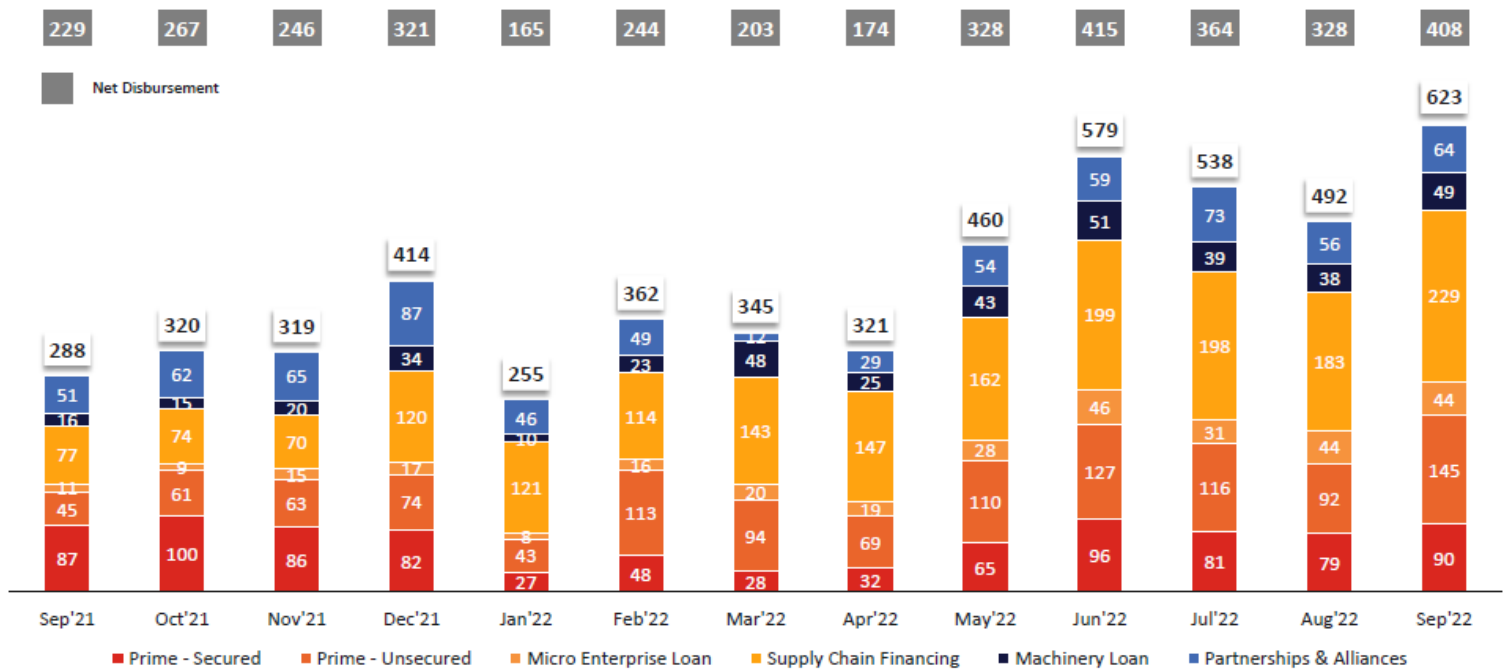
Source: Company

AUM Trend (Segment - wise M-o-M) (Rs. In Crore)

126% → 20% → 4,375

Month	Prime - Secured	Prime - Unsecured	Micro Enterprise Loan	Supply Chain Financing	Machinery Loan	Partnerships & Alliances	Total
Sep'21	768	419	215	37	120	375	1,933
Oct'21	852	461	235	44	132	416	2,140
Nov'21	925	515	233	58	150	454	2,335
Dec'21	976	574	259	73	183	523	2,589
Jan'22	987	601	291	79	189	548	2,696
Feb'22	1,009	695	286	92	209	543	2,834
Mar'22	1,022	766	287	106	253	535	2,969
Apr'22	1,023	818	289	120	272	538	3,061
May'22	1,073	898	322	141	315	585	3,335
Jun'22	1,150	1,000	356	170	361	620	3,656
Jul'22	1,200	1,081	363	187	391	663	3,885
Aug'22	1,246	1,145	382	214	422	690	4,099
Sep'22	1,294	1,261	397	240	465	718	4,375

Source: Company

AUM & Loan origination trend (QoQ)

AUM – INR Cr (Q-o-Q)

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Total	1,933	2,589	2,969	3,656	4,375
Partnerships & Alliances	19%	20%	18%	17%	16%
Machinery Loans	6%	10%	9%	10%	11%
Supply Chain Financing	2%	7%	10%	10%	9%
Micro Enterprises Loan	11%	3%	4%	5%	5%
Prime - Unsecured Loans	22%	22%	26%	27%	29%
Prime - Secured Loans	40%	38%	34%	31%	30%

Gross Loans Originated / Disbursed – INR Cr (Q-o-Q)

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Total	789	1,053	962	1,359	1,653
Partnerships & Alliances	25%	19%	11%	11%	12%
Machinery Loans	5%	7%	8%	9%	8%
Supply Chain Financing	23%	27%	39%	37%	37%
Micro Enterprises Loan	3%	4%	5%	7%	7%
Prime - Unsecured Loans	14%	19%	26%	22%	21%
Prime - Secured Loans	30%	25%	11%	14%	15%

Source: Company

Liability and liquidity position
1) As on Sep. 2022, total lender count stood at 67.
2) The Company's total Debt stood at Rs. 2,725 Crore as on Q2FY23. In Q2FY23, the Company's cost of borrowing stood at 10.5%.
14) Overall Debt to Equity Ratio stood at 2.85x. The management in its Q2FY23 analyst concall said that it will cap its Debt to Equity ratio at 4x.
3) The Company has efficiently implemented and executed the Co-lending Model partnering with large Public Sector Banks. The Company is transitioning towards "Lending as a service" business model and, as a result of the same, its Off Book AUM has
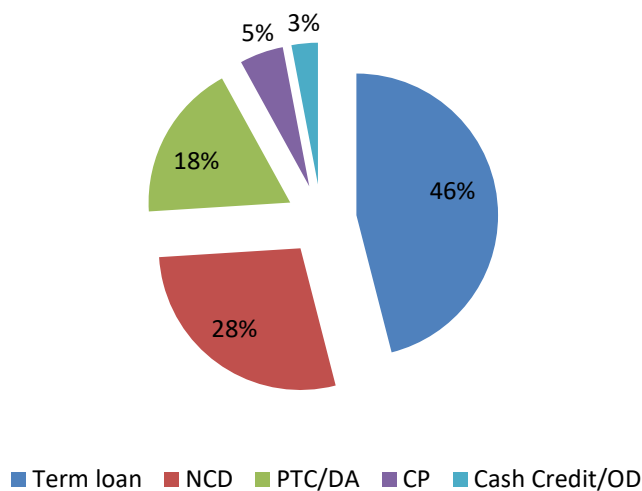
increased to 29 % as on Q2FY23. It may be noted that during FY22, the company raised liabilities through innovative debt instruments which were earlier unheard of in the lending market.
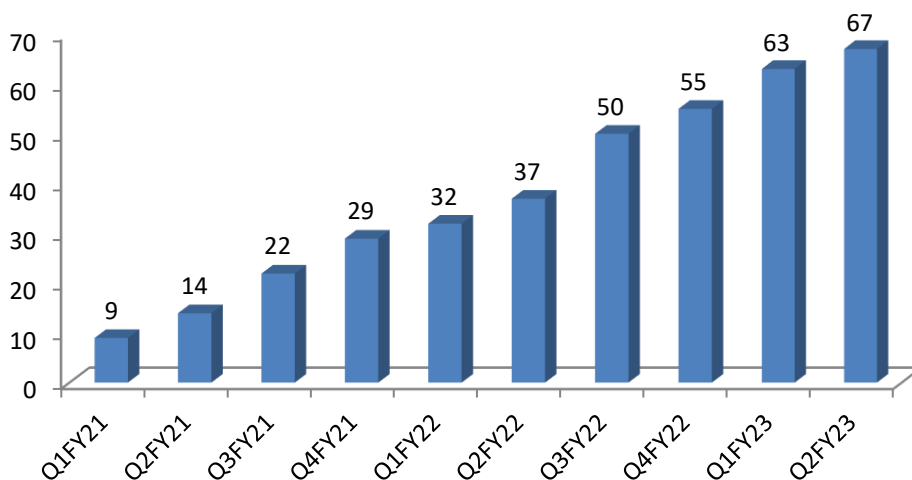
4) Healthy capital position with CRAR of 24.7% as on Sep. 2022

Liability Mix as on Q2FY23

Source: Company

No. of lenders

Source: Company

Collection efficiency and ECL data (Rs. in Crore)

Dec 2021	Collection efficiency	Particulars	Loan exposure	Loan exposure (%)
Sep. 2022	93.4%	Stage I	4,216	96.4%
Aug. 2022	92.8%	Stage 2	86	2.0%
July 2022	93.4%	Stage 3	73	1.7%
June 2022	93.3%	Total	4,375	100%

Source: Company

1) Total Provisions as of September 2022 stood at Rs. 59.1 Crore (1.4 percent of AUM)

2) GNPA stood at 1.7 percent and NNPA stood at 1.2 percent as of September 2022.
3) Majority of the restructuring was done in the Branch Led Portfolio within the Education and Hospitality Sector
4) Unsecured restructured book as a % of Total AUM was ~0.8%

Sectoral breakup of Restructured AUM as on Q2FY23

Pie chart legend:
- Education
- Light Engineering
- Hospitality
- Electrical equipments
- Food processing
- Others

Pie chart values: 46%, 19%, 14%, 6%, 5%, 10%
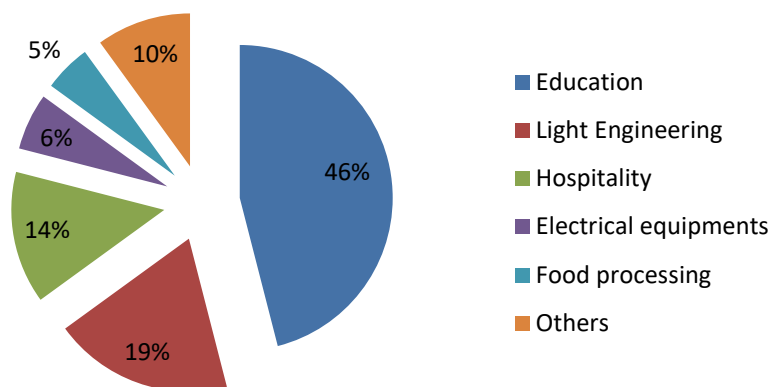
Source: Company

Restructured book is ~2.6% of AUM

What makes UGRO Capital Unique?

MSME Lending presents a big opportunity

1) MSME sector is the backbone ofIndian Economy as it contributes to 30 percent of the country's GDP. It is also a major employer for the masses.

2) The overall opportunity in MSME market is approximately US$600 Bn+. Of this huge market opportunity, only US$250 Bn is currently served by the formal lending institutions. That is, almost 60 percent of the MSME lending opportunity, is currently served by informal sources which charge exorbitant rates of interest. On a closer look, the Company found that of this 60 percent, majority of the MSMEs belong to the Micro Enterprise category. These micro enterprises lack proper documentation & record keeping which makes it difficult for the traditional lenders to evaluate their credit worthiness. The Company's founding belief was to design its platform on tenets that brings these MSMEs into the fold of formal lending. With a view to achieve financial inclusion, the Company has set out a target to capture 1 percent of the MSME lending market in next five years. This would translate to an AUM of roughly Rs. 20,000 Cr. To achieve this AUM, UGRO has set-up a four-pronged asset engine. These are Branch-led channel (Prime & Micro Branches), Eco-system Channel (Supply Chain & Machinery Loan Financing), Partnership & Alliances channel (NBFC / FinTech companies) & Direct Digital Channel.

Specialised MSME Lenders are better positioned to bridge the MSME Credit Gap

Particulars	Specialized MSME Lenders	Traditional NBFCs	Banks
Product	Customised products based on the nature of business, non-financial parameters, end use, payment capacity/frequency of underlying customer	Loans against property, supply chain financing, unsecured loans	Loans against property, supply chain financing

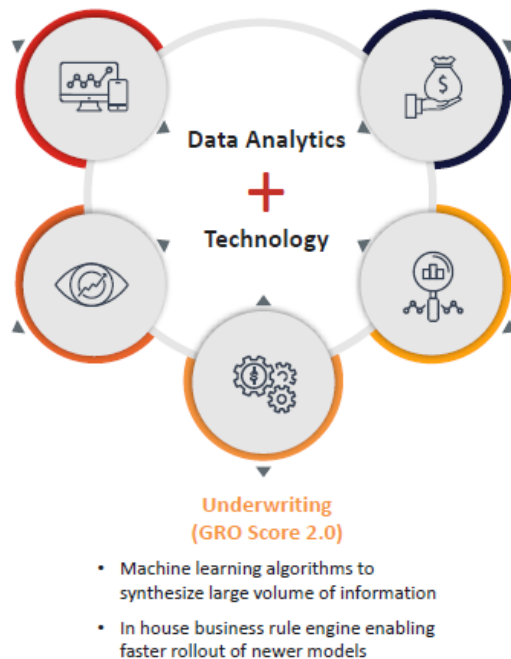| Distribution	Omnichannel, Ecosystem based lending	Branch/DSA led	Branch/DSA led
Credit Appraisal	Sector specific approach, Cash Flow based, Automated Review	One size fits all Collateral/Bureau score	One size fits all Collateral/Bureau score
Turnaround time	4-5 days	15-20 days	30-45 days
	Combining traditional and non- traditional sources. Use of information available in public and private domains. Digital document submission		

Source: Company

Evolved to a Data Tech Company within 3 years of Inception

Source: Company

Revolutionizing credit to MSMEs through data driven underwriting

33,000+
Applications processed since July 21

1,00,000+
Bureau records

58,000+
Bank statements

23,000+
GST records

Dec 2022
Gro Score 3.0
- Gro Score 3.0
- One score combining Bureau, Banking & GST data

Mar 2022
Proof of Concept
- 76% of prime branch book on boarded through Gro Score
- Analysis of accepts & rejects show striking outperformance of segments A, B v/s rest

July 2021
Gro Score 2.0
- Model on own data using Bureau & Banking
- 1000+ bureau and 25,000+ banking attributes evaluated to shortlist ~40 attributes for Gro Score 2.0
- System implemented and made part of credit policy
- 100% branch sourced term loan business evaluated since July 2021

Jan 2019
Gro Score 1.0
- No own data
- Look-alike models based on bureau data

Source: Company

Focus on Technology to build scale

UGRO Capital integrates business intelligence with technology to create granular and insightful loan products for each subsector. Statistical predictive modelling is used to prognosticate the customer's credit behaviour; derived from various financial and non-financial sources to fully quantify the parameters ofthe ecosystem the customer operates in. Technology underpins every aspect of UGRO's lending process,from API integrations, sectoral statistical scorecards, sub-sectoral expert scorecards, state-of-the-art bank bureau and GST statement analysers, automated policy approvals, and machine learning OCR technology.

The Company believes technology is essential to achieve a specialized model at a scale.

Distribution
1) Quick and easy integration with distribution partners
2) Paperless login enabled by API integrations and OCR
3) Lower turn-around time
4) Faster product launches and process iterations
5) Direct to customer interface and pre-approved programs

Credit underwriting
1) Access and process the large trove of private and public data
2) Centralize underwriting knowledge
3) Customized scorecards
4) Automate processes to reduce errors and increase throughput
5) Access and analyze surrogate data

❖ **Better Assessment**

❖ **Shorter TAT**

❖ **Personalized Customer Journeys**

Operations
1) Comprehensive notification/trigger mechanism for best-in-class client servicing
2) Banking integration for automated disbursement, deductions
3) Digital self service and support
4) Digital process enablers such as eSign, eKYC, eStamping,

5) Processing at a scale

Collections
1) Automated, analytics led early warning systems
2) Cash less EMI collections
3) Geo-tagging of customers

UGRO is a fully fledged FinTech Company. It's a deeply integrated, Tech enabled, MSME lending platform. The Company has a proprietary platform for each of the channel.

a) GRO Plus Designed for branch-led disbursement which has fully integrated every element of underwriting digitally (using all conventional parameters). The platform allows for GRO Partners (DSA network) to obtain in-principle approval within 60 minutes.

b) GRO Chain is an end-to-end platform for supply chain financing that caters to ecosystem anchors, vendor borrowers and dealer/distributor borrowers. The system was fully operationalised in FY2020-21.

c) UGRO has developed & continuously innovating a FinTech Platform "GRO XStream", which is an industry-first marketplace for BFSI partners. This allows UGRO to achieve seamless API integrations with the systems of each of the partners & hence allowing us to achieve record TATs. It is designed to facilitate a wide range of transaction types between onboarded BFSIs, including co-lending, onward lending, direct assignments, portfolio buyout and securitization.

d) UGRO's Direct Digital channel, a platform built to allow non-intermediated loan applications from eligible SMEs. Launched in December 2019 across two subsectors, the reach of GRO Direct will be greatly expanded across its focus sectors .

The Company has already implemented each of these proprietary platforms for each of its channel and shall continue to use technology effectively to scale and operationalise new initiatives and innovations that happen in the FinTech domain.

Data driven proprietary scoring model powered by AI/ML Models

Source: Company
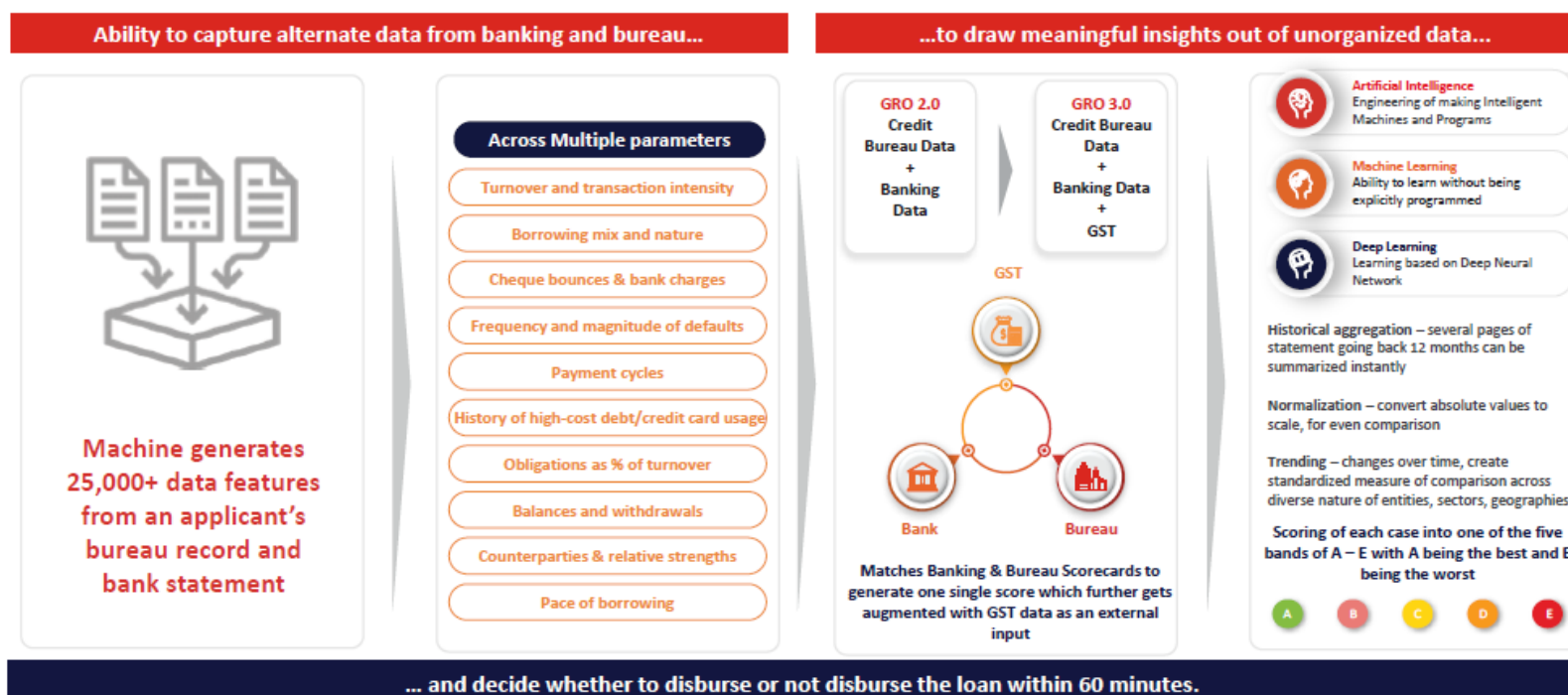
GRO Score 2.0, a superior underwriting framework - to make the selection sharper

Gro Score 2.0 - first credit score combining commercial and consumer bureau with bank statement now in place

GRO 2.0 combines credit bureau and banking data into one model

Credit bureau	Banking
Pace of borrowing	Transaction intensity
Product mix	Turnover
Overdues	Purchases
Frequency of default	Counterparties & relative strengths
Nature of past borrowers	Payment cycles
History of raising costly debt	Balances and utilisation
Default with prime lenders	Cash withdrawals and deposits
Business activity under individual	Cheque bounces and bank charges
Credit card usage	Ecommerce
NBFC/PSU relative contribution	Utility payments

Source: Company

GRO Score 2.0: - Role in effective decision making, results achieved out of it and differentiation with other players

The company with its GRO-Score 2.0 analytical engine triangulates data from GST, Banking &Bureau to come up with a superior underwriting results. All of this culminates in the delivery of an industryfirst60 minute in-principle decisioning process to the customer based on complex cash flow modelling. However, the technology backed lending process does not disregard traditional methods that have been historically successful in this space. UGRO Capital ensures that all the traditional checks and balances are adhered to, ensuring a high-quality book for posterity.

1) **Decision making & adoption**
At UGRO Capital – the use of credit scoring is a part of approved credit policy since inception. Scores are encoded on system & defined rules are hardcoded on system – the respective thresholds are applicable at program level as per the policy. This is reinforced through internal communication as well as approval matrix – wherein score related deviations are strongly discouraged; or allowed only in special cases with approval from CCO or CRO level. This optimizes the lead to disbursal funnel by ensuring (1) quality of sourcing by frontline teams is aligned towards favourable score ranges and (2) underwriting is tuned for higher throughput at higher score ranges.

2) **Results**
This decision + governance framework ensures that UGRO has an objective and measurable method to tune portfolio risk composition while staying competitive in the market in terms of approval rates. UGRO has adhered to the framework since inception while achieving steady disbursal growth. This also means that an increasingly larger people organisation is becoming culturally oriented towards data driven decisioning.

3) **Differentiation with other players**

a) **Capability development** – UGRO has recognised the potential for data-driven decisioning in SME lending and has invested in converting deep sector-level wisdom into a scalable decision system through use of advanced data science. The Company's deep focus on analytics driven underwriting keeps it few learning cycles ahead of other players who may be still be applying generic analytical models to a highly heterogeneous target segment.

b) **Data strategy** – in post pandemic era, UGRO has pivoted to cashflow based underwriting which implies banking and gst transaction reports are obtained through APIs and stored for future learning. This rich database will enable models to come up the maturity curve very fast and translate the tripod of bureau + banking + GST into scoring models. Players who are using banking & GST data selectively and not efficiently managing the storage system will find themselves slowed down in their analytics journey. For UGRO data collection and assimilation happens as a process.
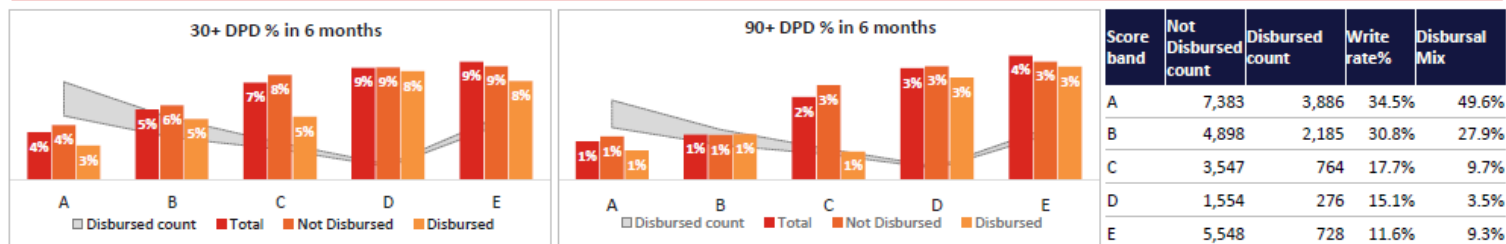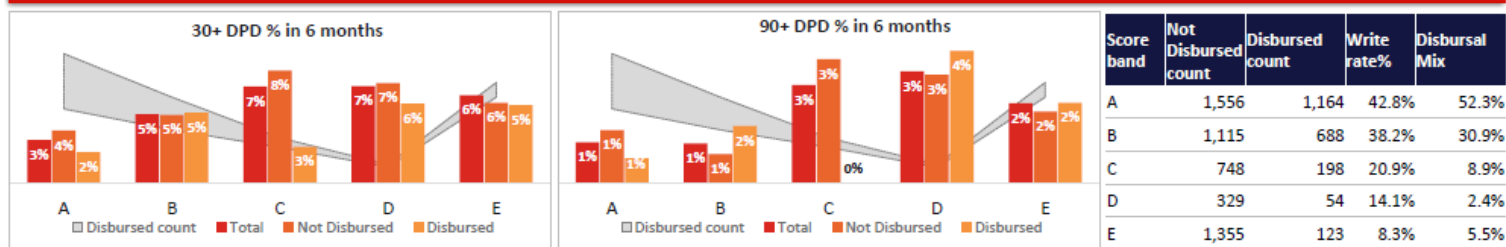
c) **Adoption/ cultural orientation** – an area of particular challenge is giving empowerment to machine led decision making in a field which has traditionally been driven by human experience to a very large extent. This would be particularly true for larger organisations with complex structures, where even today the score is considered as one of the inputs and final decision rests with an experienced credit manager. At UGRO capital score based decisioning has already been established as a way of doing business.

GRO Score 2.0 - Analysis of accepts and rejects

Portfolio Performance across time horizon

30+ DPD % in 6 months

90+ DPD % in 6 months

Score band	Not Disbursed count	Disbursed count	Write rate%	Disbursal Mix
A	7,383	3,886	34.5%	49.6%
B	4,898	2,185	30.8%	27.9%
C	3,547	764	17.7%	9.7%
D	1,554	276	15.1%	3.5%
E	5,548	728	11.6%	9.3%

Portfolio Performance of Recent Logins (Jul-21 to Dec-21)

30+ DPD % in 6 months

90+ DPD % in 6 months

Score band	Not Disbursed count	Disbursed count	Write rate%	Disbursal Mix
A	1,556	1,164	42.8%	52.3%
B	1,115	688	38.2%	30.9%
C	748	198	20.9%	8.9%
D	329	54	14.1%	2.4%
E	1,355	123	8.3%	5.5%

Market performance of cases withing 6 months of Disbursements – A to C scored cases show striking outperformance

Source: Company

Deep analysis of Macro and Micro Economic factors to develop sector focus

Micro Economic factors	Macro Economicfactors
Demand supply gap and cyclicality in demand	Input risk
Working capital cycle	Sector specific government policy
Impact of change in technology	Environmental issues
Asset Turnover ratio	Median rating
Revenue Growth	Interest coverage
EBITDA margins	Gearing
Upgrade and downgrade ratio	Relative competition lending
Future business prospects	Impact of regulatory developments
Size of lending opportunity	

Source: Company

A continuing process involving extensive study of macro and micro economic parameters carried out in conjunction with market experts like CRISIL

Source: Company

Lending to focused sectors..

Heathcare	
Key sub sectors	General nursing homes, eye clinics, dental clinics, diagnostic labs, radiology/pathology labs, pharma retailers
Key clusters	NCR, Mumbai, Bengaluru, Hyderabad and Chennai
Education	
Key sub sectors	K-12 schools, play schools
Key clusters	NCR, Mumbai, Coimbatore, Chennai, Hyderabad and Pune
Chemicals	
Key sub sectors	Dyes and pigments, bulk and polymers, agrochemicals
Key clusters	Mumbai, NCR, Ahmedabad, Vadodara and Surat
Hospitality	
Key sub sectors	Fine dining (standalone), QSRs, fine dining chains, manpower agencies, boutique hotels, guest houses
Key clusters	NA
Electrical Equipment and Components	
Key sub sectors	B2B, B2C
Key clusters	NCR, Pune, Bengaluru, Chennai, Aurangabad and Rajkot
Microenterprises	
Key sub sectors	Kirana stores, family run businesses, first generation entrepreneurs
Key clusters	Mumbai, Kolkata, NCR, Hyderabad, Bengaluru and numerous Tier II and Tier III locations
Food processing/FMCG	
Key sub sectors	Dairy and dairy products, non-alcoholic beverages, consumer foods, poultry, sea food, food and beverage traders

Key clusters	NCR, Mumbai, Chennai, Hyderabad and Pune
Auto & Light Engineering	
Key sub sectors	Casting and forging, medical equipment and devices, engine parts, drive transmission etc.
Key clusters	NCR, Chennai, Pune, Kolkata, Ludhiana, Bengaluru, Ahmedabad, Rajkot

Source: Company

System Architecture for full - suite SME Lending
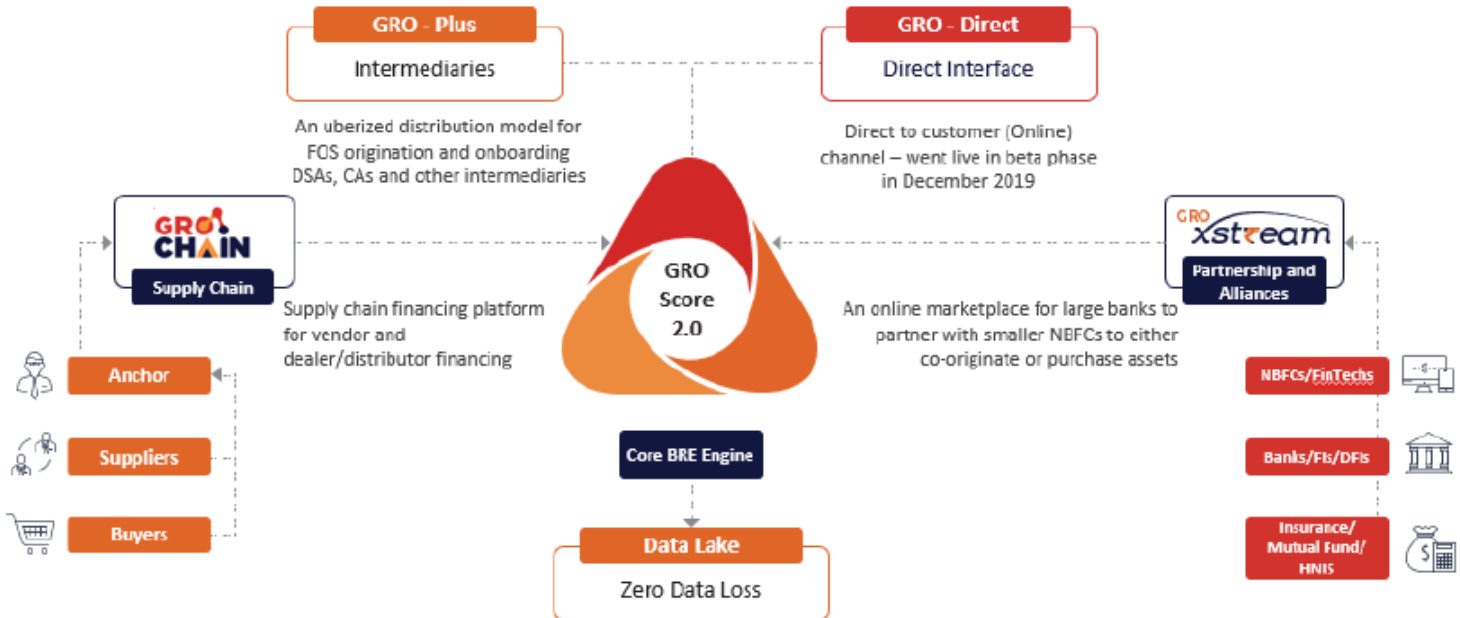
A comprehensive set of modules that will allow for maximal lending outreach within our mandate

Source: Company

Multipronged approach led by offline presence and tech capabilities

Branch Led Channel	Ecosystem Channel	Partnerships & Alliances| GRO - Xtstream	Direct Digital Channel |GRO - Direct
Catering to MSMEs through 95+branches	**Catering through MSMEs through Anchor and OEM partners**	**Catering to Micro and Small enterprises through Fintech Partners**	**100% Digital sourcing of MSME loans**
Prime Loan Branches - 23 Branches with loans largely sourced through intermediate channel	**Supply Chain Financing** - Anchor and its ecosystem financing of Supply Chain	**Co-Lending** - Joint lending partnerships with NBFCs on the downstream	Allows MSMEs to directly apply for credit and further reducing TATs
Micro Loan Branches - 75+ branches across 5 states. Loans to be directly sourced by FOS	**Machinery Finance** - Secured Loans to machine buyers with a charge on machines	**Fintech Partnerships -** to originate loans and provide 5%-15% FLDG cover	

Source: Company

U GRO's distribution model is geared towards catering MSMEs across all geographies and ticket sizes. Tailored products allow for highly structured deployment of capital - optimized for both the distribution channel and customer

Prime Loan Branches			Micro Loan Branches		
	Ticket size	ROI		Ticket size	ROI

LAP	50L-500L	12%-12.5%	LAP	2L-25L	18%-23%
Affordable LAP	10L-15L	13%-16%	Unsecured	0.5L-5L	23%-28%
Unsecured	1L-25L	14%-26%			

Source: Company

Ecosystem			Partnerships & Alliances		
	Ticket size	ROI		Ticket size	ROI
Machinery Finance	10L-300L	13%-15%	Partnerships & Alliances	0.5L-25L	18%-28%
Supply Chain Finance	10L-300L	13%-14%			

Source: Company

Direct Digital Channel	GRO -Direct	
	Ticket size	Rs. 1 - 15 Lakhs

Source: Company

Liability strategy

The Company follows a tri - pronged approach
\
1) UGRO Balance Sheet
1) Diverse liability mix to include - all major banks, debentures, capital market and insurance companies.
2) Access funding from new sources of funding such as multilateral agencies, DFIs, impact funds, development bank etc.

2) Co-origination with Larger Banks/NBFCs
1) Co-origination with larger banks to originate higher ticket loans
2) Co- origination partnership with larger banks
   a) Bank of Baroda
   b) State Bank of India
   c) IDBI Bank
   d) Central Bank of India
   e) Indian Overseas Bank
   f) Punjab & Sind Bank

3) Assignment to Financial Institutions
1) Policy of actively securitizing the loan book to ensure that the mismatch in the greater than 5 year bucket is funded by equity
2) Minimize asset liability mismatch

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

Co - Lending is a value acrretive model

Example of 80:20 Co-Lending Partnership Model

Customer ROI of 14.5% (assumption) on INR 1 Lakh Loan

UGRO Earns
- On Book (20% of the loan – INR 20 K) : ROI of 14.5%
- Off Book (80% of the loan – INR 80 K) : 5.5% Spread (14.5% ROI minus 9.0% Co-lending rate)

Co-lending bank Earns
- ROI of 9.0% on INR 80 K

Note : Numbers are provided only for illustrative purpose
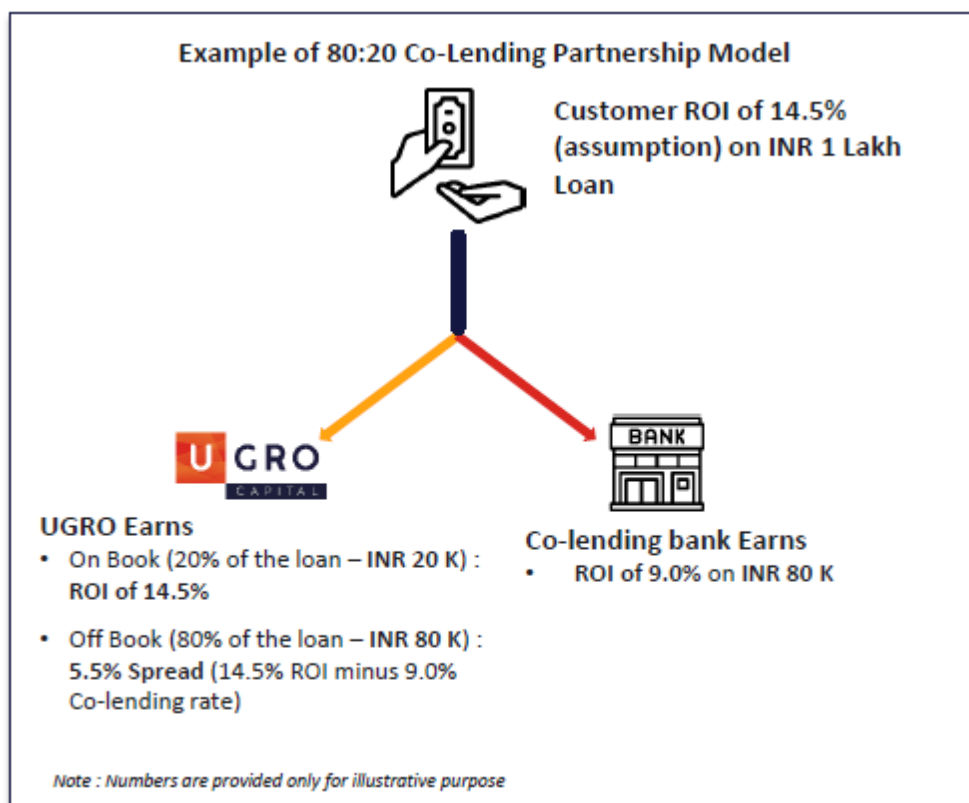
Source: Company

The Management believes, that in eventuality of successfully operations of some of the co-lending partnerships that are in pipeline, the 5-year targets will be achieved much sooner than the expected date. UGRO has partnerships for its co-lending program with Bank of Baroda, State Bank of India, IDBI Bank, Central Bank of India, Indian Overseas Bank, Punjab & Sind Bank . According to the Management, the Company has 7 more such partnerships in pipeline. At present, Co - Lending portfolio contributes 29 percent of its total AUM.

Benefits to UGRO Capital

1) Higher ROA & ROE on account of Better Leverage & Higher Spread (compared to on - balance sheet lending)
2) High growth with lower equity capital
3) Sizeable sanction and on tap availability of capital
4) Testimony of the credit scoring model
5) Pari passu risk sharing with the partner

Benefits to Partner Institution

1) Risk weight lower in case of Co-lending vis-a- vis lending directly to NBFCs
2) Cost of Capital advantage combined with no operating cost leading to higher returns on risk adjusted basis
3) Granular build-out of Portfolio
4) Build-out of PSL portfolio
5) End use visibility of funds disbursed

UGRO Capital has co - lending partnerships with the following Banks:

Bank of Baroda	State Bank of India	IDBI Bank	Central Bank of India	Indian Overseas Bank	Punjab & Sind Bank
Secured Business Loans	Small Ticket Secured and Unsecured Business Loans	Secured Business Loans	Secured, Unsecured Business Loans and Machinery Loans	Secured Business Loans	Secured Business Loans (affordable LAP)
Agreement under new co-lending regulation - June 2021	Agreement under new co-lending regulation - Nov 2021	Agreement signed in Oct.2021	Agreement signed In Dec. 2021	Agreement signed in Feb. 22	Agreement signed in July 2022

Source: Company

UGRO Capital also has co - lending partnerships with 6 NBFCs.

Increasing mix of Off Book AUM

Particulars	On Book Portfolio	Off Book Portfolio
April 2021	99%	1%
June 2021	98%	2%
September 2021	96%	4%
December 2021	93%	7%
March 2022	84%	16%
June 2022	79%	21%
September 2022	**71%**	**29%**

Source: Company

Experienced Professionally Managed Team

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

Nirav Shah -
Chief Strategy Officer & Head of IR
17+ Years of Experience

Subrata Das -
Chief Innovation Officer
17+ Years of Experience

Source: Company

Strong outlook for the future - Big targets for AUM and RoE..

Business model evolving to generate significant cashflows

1) The Company aspires to capture 1 percent market share of the total MSME lending market by 2025..

2) The Company aims to achieve an AUM of Rs. 7,000 Crore+ by FY23 and Rs. 20,000 Crore+ by FY25. To achieve this AUM, the Company has been taking a lot of initiatives in both assets and liabilities side. The Company has given a guidance for RoE (Avg.) of 18 percent by FY25..

Particulars	Q2FY23*	Q1FY23*	FY23P	FY25P
AUM (Rs. in Crore)	4,375	3,656	7,000+	20,000+
Off Book AUM	29%	21%	35%+	~50%
Net Total Income	11.4%	10.5%	13.0%	15.0%
Cost/Income Ratio	62.9%	72.1%	60.0%	45.0%
Credit cost	1.7%	1.1%	1.5%	1.5%
PBT/Avg. TA	2.0%	1.5%	2.5%	5.5%
Adj. PAT/Avg. TA	1.4%#	1.0%	2.0%	4.5%
PAT/Avg. TA	0.6%#	1.0%	2.0%	4.5%
Adj. ROE % (Avg.)	5.2%	3.0%	6.0%-8.0%	18.0%
ROE % (Avg.)	2.2%	3.0%	6.0%-8.0%	18.0%
Leverage	2.85x	2.26x	2.4x^	3.8x^

Source: Company, * Annualized ratios, ^ Presumed infusion of equity capital, #post factoring impact of deferred tax reversal (~Rs. 7.2 Crore) adjusted PAT of ~12.5 Crore for Q2FY23: adjusted ROE of ~5.2%

Investment recommendation and rationale

At CMP of Rs. 165.25, the stock is valued at a P/BV of 1.20x (Book Value per share as on H1FY23 - Rs. 137.75). We recommend a "Buy" with a target price of Rs. 276 (P/BV multiple of 2x at H1FY23 Book Value). We believe the Company deserves a premium in valuation due to the following factors:

1) U GRO Capital is Tech focused Small Business Lending Platform;

2) Company's business model is well suited to the new age;

3) Specialized lenders like U GRO Capital are better positioned to bridge the MSME Credit gap;

4) Underwriting in MSME space is moving from collateral based to cashflow based in which UGRO specialises;

5) 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;

6) Evolved to a Data tech Company within 3 years of inception - Leading NBFC transition to "Lending as a service" (L-a-a-S) and Faster customer TAT and credit decisioning;

7) Lending as a service (L-a-a-S) is a highly profitable model;

8) The Company's distribution and liability strategies are both powered by proprietary technology modules;

9) U GRO's distribution model is geared towards catering MSMEs across all geographies and ticket sizes;

10) Well diversified and granular portfolio;

11) **Company is backed by Marquee Institutions and lenders. Majority of the Company's shareholding is institutionally owned which instills confidence. The Company's key shareholders include ADV Partners, New Quest (acquired by TPG), PAG, SAMENA Capital;**

12) **Active lenders: 67 as on 30th September, 2022 (added 6 new lenders during Q2FY23);**

13) **The Company has developed Data driven proprietary scoring model powered by AI/ML Models - superior underwriting framework - GRO 2.0 (combines credit bureau and banking data into one model) and GRO 3.0 (combines credit bureau data, banking data and GST - to be launched soon);**

14) **Risk management through "Expert Scorecards" for all Sub-sectors;**

15) **Over period of last five to six quarters, U GRO Capital has become a company which services the need of an SME or MSME customer right from a small Rs. 1-lakh loan to Rs. 5-crores of credit in different format;**

16) **Credit process enabled by Integrated technology and a paperless, seamless customer onboarding & underwriting process supplemented by physical underwriting;**

17) **Collection efficiency continues to remain robust at 93.2 percent in September 2022;**

18) **Good performance in H1FY23 result with strong outlook for the future and good performance expected in the coming quarters.**

Balance Sheet

Balance sheet(Rs. in Crore)	H1FY23	FY22
Financial Assets		
Cash & Bank Balance	361	188
Loans	3,168	2,451
Investments	66	69
Other financial assets	17	**8**
Total Financial Assets (A)	**3,612**	**2,716**
Non Financial Assets		
Property, plant and equipment	79	61
Deferred tax assets and Current tax assets (net)	41	46
Other Non Financial Assets	44	31
Total Non Financial Assets (B)	**164**	**138**
Total Assets (A + B)	**3,777**	**2,854**
Financial Liabilities		
Trade payables	7	7
Borrowings		
- Debt securities	1,225	703
- Borrowings (other than debt securities)	1,500	1,098
Other financial liabilities	49	47
Total Financial Liabilities (A)	**2,781**	**1,855**
Total Non - Financial Liabilities (B)	**41**	**32**
Total Equity		
Equity Share Capital	69	71
Other Equity	886	896
Equity (C)	**955#**	**967**
Total Liabilities + Equity (A)+(B)+(C)	**3,777**	**2,854**

Source: Company, #reduction in Net worth on account of accounting adjustment for implementing ESOP scheme through trust route

One year price movement chart

Source: Moneycontrol

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Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above
Accumulate – Absolute return between 15% and above
Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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