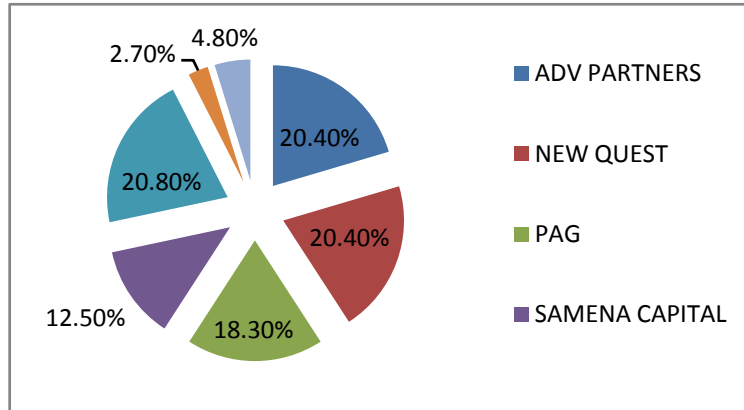




"Strongly positioned to take off in the MSME lending space"

**Shareholding pattern..**



Source: Company, BSE

**Did you know?**

- ❖ UGRO Capital is Tech focused Small Business Lending Platform..
- ❖ Specialised MSME Lenders like UGRO Capital are better positioned to bridge the MSME Credit Gap..
- ❖ Company has developed a superior underwriting framework GRO Score 2.0 (combines credit bureau and banking data into one model)
- ❖ The Company demonstrated growth on all fronts despite the disruption caused by 2nd wave of COVID-19..
- ❖ The Company has a strong aspiration and aggressive AUM target of Rs. 20,000 Crore with RoE of 18.8 percent and RoA of 4.2 percent by FY25..

**About the Company**

UGRO was originally incorporated as Chokhani Securities Limited in 1993. It is a systemically important non-deposit taking non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI). In 2018, pursuant to a change in control and management, the company was renamed as UGRO Capital Limited. UGRO's equity shares, commercial paper and non-convertible debentures are listed on the Bombay Stock Exchange (BSE).

**Investment recommendation and rationale**

At CMP of Rs. 131.30, the stock is valued at a P/BV of 0.97x (FY21 Book Value of Rs. 135). We recommend a "Buy" with a target price of Rs. 175.5 (1.30x at Book Value). We believe the Company deserves a premium in valuations due to the following factors: a) U GRO Capital is Tech focused Small Business Lending Platform; b) Company's business model is well suited to the new age, c) big opportunity presented to the Company in MSME lending, d) specialized lenders like U GRO Capital are better positioned to bridge the MSME Credit gap, e) the Company's distribution and liability strategies are both powered by proprietary

CMP	Rs. 131.30 per share (FV: Rs. 10)
Book value	Rs. 135 per share
Recommendation	Buy
Target price	Rs. 175.5
Upside	33.66%
52 Week High/Low	Rs. 166/Rs. 70
Beta	-0.31
Market Cap	Rs. 899.24 Crore
EPS (TTM)/P/E(x)	Rs. 3.79 /33.68 x
NSE   BSE code	UGROCAP   511742
Bloomberg code	UGRO:IN

Particulars (Rs. Crore)	Q1FY22	FY21	FY20	FY19
Interest income and income from investments	50.72	148.48	71.47	1.10
Other operating income/sale of services	0.56	4.87	33.67	40.71
Financing costs	22.37	44.56	13.67	0.01
Profit before tax	2.4	12.1	3.32	1.09
Profit after tax	1.7	28.72	19.51#	1.46
AUM	1,375	1,317	861	80
Disbursals	2,845	2,514	1,366	-
GNPA (%)	2.3	2.7	0.9	-
NNPA (%)	1.9	1.7	-	-
Equity sharecap.	70.53	70.53	70.53	-
Networth	955	952	851	638
Book value (Rs.)	135.40	135	121	90
P/BV (x)	0.95	0.95	1.06	1.43
RoNW (%)	-	3.06	2.14	2.4
CRAR (%)	-	65.60	88.25	213.55

Source: Company, #denotes that in FY20, the Company has recorded Deferred Tax of Rs. 13.91 Crore on the tax losses transferred from Asia Pragati Cap Fin Private Limited on account of acquisition based on the reasonable certainty of the future taxable profits

technology modules, f) U GRO's distribution model is geared towards catering MSMEs across all geographies and ticket sizes, g) Company backed by Marquee Institutions and lenders, h) the Company intends to create a specialized, scalable platform optimized for end-to-end lending, i) focus on 8-9 sectors after an extensive study of macro and micro economic parameters, j) the Company has a strong, experienced management team across all the functions, k) the Company has developed a superior underwriting framework GRO Score 2.0 (combines credit bureau and banking data into one model) which helps in effective decision making, l) Risk management through "Expert Scorecards" for all Sub-sectors, m) credit process enabled by Integrated technology, n) a paperless, and seamless customer onboarding & underwriting process supplemented by physical underwriting, o) the Company has demonstrated robust growth since its inception, p) decent performance in Q1FY22 amidst second wave of COVID-19 crisis, q) strong outlook for the future and good performance expected in coming quarters, r) strong disbursements in June 21, July 21, Aug 21. and Sep. 21 led by faster economic recovery, s) Company aspires to capture 1% of MSME space by FY25, s) strong cumulative disbursement target of Rs. 12,000 Crore with RoE of 18.8 percent and RoA of 4.2 percent by FY25.

## History and key milestone

Dec'17	<ul style="list-style-type: none"> <li>• Birth of U GRO through acquisition of listed Company - Chokhani Securities</li> <li>• Onboarding of New Management Team</li> <li>• Demerger of the lending business of Asia Pragati approved - US\$ 25 mn</li> </ul>
Dec'17 - Aug'2018	<ul style="list-style-type: none"> <li>• Raised ~Rs. 920 Crore of Capital from multiple PE investors of global repute</li> </ul>
Jan 2019	<ul style="list-style-type: none"> <li>• The Company started disbursement in Jan 2019</li> </ul>
Dec 2019	<ul style="list-style-type: none"> <li>• Crossed Rs. 1,000 Crore in cumulative disbursement</li> </ul>
March 2021	<ul style="list-style-type: none"> <li>• Crossed Rs. 2,500 Crore in cumulative disbursement</li> </ul>

## Q1FY22 Financial Summary

Particulars	Q1FY22	Q4FY21	Q1FY21	FY21
<b>AUM</b>	1,375	1,317	847	1,317
<b>Networth</b>	955	952	926	952
<b>Interest Income</b>	49.8	43.8	30.6	147.4
<b>Interest Expense</b>	22.4	16.3	6.8	44.6
<b>Net Interest Income (NII)</b>	27.4	27.5	23.8	102.8
<b>Operating expense</b>	21.6	21.3	18.7	77.0
<b>PBT</b>	2.4	2.4	4.1	12.1
<b>Portfolio yield</b>	15.8	15.5	14.1	15.5
<b>Borrowing cost</b>	10.6	10.4	11.2	10.4
<b>Credit cost</b>	4.9	8.7	1.2	19.6

Source: Company

## What makes U GRO Capital Unique?

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

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

**Deep analysis of Macro and Micro Economic factors for 180 + sectors to narrow down to 20 sectors**

Micro Economic factors	Macro Economic factors
Demand supply gap and cyclical 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	

The Company has reached targeted 8 sectors + Micro enterprise after 18 month process involving extensive study of macro and micro economic parameters carried out in conjunction with market experts like CRISIL.

## Focus on Technology to build scale

U GRO 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 of the ecosystem the customer operates in. Technology underpins every aspect of U GRO'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

### 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

❖ Better Assessment

❖ Shorter TAT

❖ Personalized Customer Journeys

U GRO 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) U GRO has developed & continuously innovating a FinTech Platform “GRO XStream”, which is an industry-first marketplace for BFSI partners. This allows U GRO 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) U GRO’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 our focus sectors in 2021.

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

#### **GRO Score 2.0, a superior underwriting framework, launched 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

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

The company also unveiled its GRO-Score 2.0 analytical engine that 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. U GRO Capital ensures that all the traditional checks and balances are adhered to, ensuring a high-quality book for posterity.

##### **1) Decision making & adoption**

At U Gro 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 U Gro has an objective and measurable method to tune portfolio risk composition while staying competitive in the market in terms of approval rates. U Gro 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** – U Gro 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, U Gro 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 U Gro 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 U Gro capital score based decisioning has already been established as a way of doing business.

### MSME Lending presents a big opportunity

- 1) MSME sector is the backbone of Indian 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, U GRO 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.
- 3) As on Aug end, the Company reached an AUM of Rs. 1,729 Crore. The Company's aspiration is to reach an target AUM of 20,000 Crore in the next 5 years (we've not disclosed our 3-year target) capturing 1% of the MSME lending space. The Company has been ramping up its disbursement across all channels.
- 4) Under the branch led distribution channel, the Company currently has 9 prime branches and 25 micro branches as on Jun 2021-end. The Company will increase its Micro Branch footprint to 75 this year. Branch led channel which will be a key lever in realising its 5-year plans, will remain as the largest contributor in total disbursements and AUM in the coming years. The Company's FY25E target is to reach total branches to 270. The Company witnessed launch of its product lines which enables it to cater to the entire spectrum of the market. This includes the launch of its much-vaunted co-lending product, Pratham, with Bank of Baroda.
- 5) Under Eco-system channel, the Company continues to build the momentum in addition of new anchors in its supply chain channel. The Company has been able to scale its Machinery Loans Business and has over 160+ pre-approved anchors.
- 6) Under Partnership & Alliances channel, the Company has been growing via both the levers; addition on new partners/FinTechs and increase in disbursement throughput per partner. The Company has added several new partners.

## Lending focused on selected sectors



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

## According to the Management, the sub-sectors selected are on the basis of contribution to the overall sector credit demand and risk profiles

U GRO has 4 business verticals. Some of its products are sector focused, however, Micro Loans & Partnership & Alliances channel is sector agnostic.

- 1) Branch Led Channel
  - Prime Loan (sector focused)
  - Micro Loans (sector agnostic and clubbed as one sector)
- 2) Ecosystem Channel
  - Supply Chain Financing (sector focused)
  - Machinery Loans (sector focused)
- 3) Partnerships & Alliances (sector agnostic since lending through Fintech Partners)

The company has shortlisted 8 sectors after careful filtration of 180+ sectors in an 18-month process involving extensive study of macro and microeconomic parameters carried out alongside market experts like CRISIL. The Company's eight shortlisted sectors include Healthcare, Education, Chemicals, Food Processing/FMCG, Hospitality, Electrical Equipment and Components, Auto Components and Light Engineering. The company added a ninth sector – Micro Enterprises, to its list of sectors in FY2020-21.





The Company believes unlike the larger macro-economic outlook, Micro Enterprises are specifically driven by their location & pocket they're present in. Hence, it can be considered as a sector in itself. The company further narrowed down on selected subsectors based on contribution to overall sector credit demand and risk profiling. The selected sectors cumulatively account for 60% of the overall MSME market.

U GRO conducted a detailed study alongside Crisil in May'20 to understand the impact on our selected sectors and subsectors. We found education and Hospitality to be deeply impacted by COVID. Hence, we ensured that we cut down our exposure of those sectors and also increased our filters while underwriting.

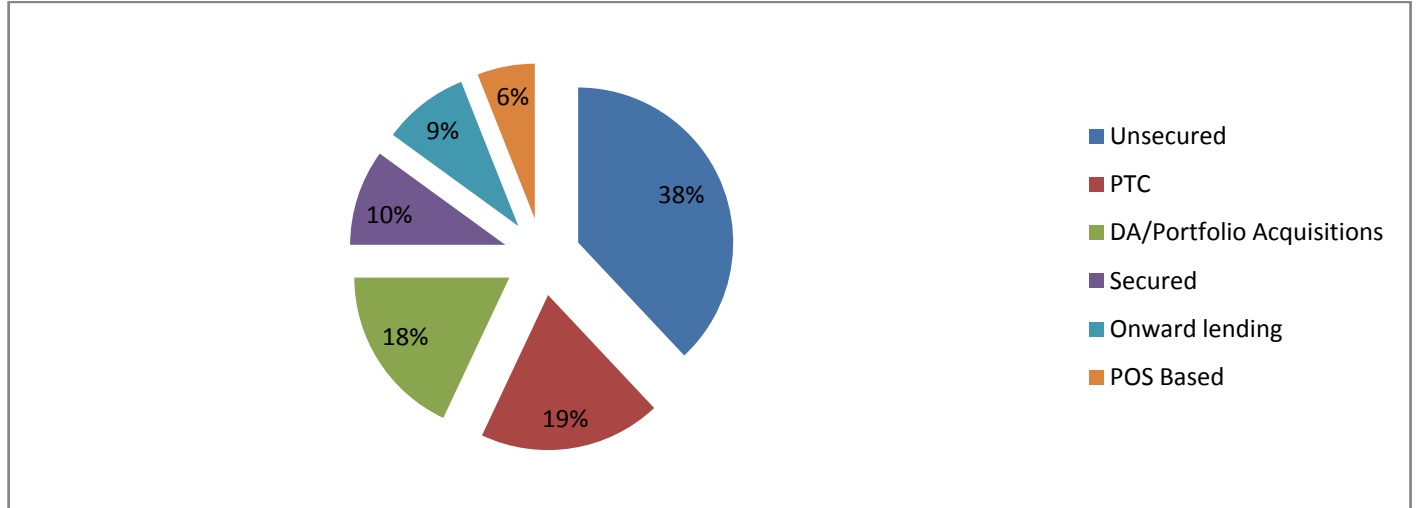
In COVID 1.0 and 2.0, the Company has tightened its credit underwriting for some sub-sectors (like Apparels, Banquet Halls etc.). At present, the Company is treading slow on education and hospitality & loaning only to fundamentally sound customers and focus on the remaining seven sectors that it has outlined. The Company is currently at a disbursement run rate of Rs. 250 Cr per month and plan to scale this up.

On the back of its robust portfolio quality, the Company was able to securitize portfolio of Rs. 68 Crore during Q2FY22 which acted as a liquidity booster to fuel disbursement growth for the Company. Robust portfolio quality helped it to securitize loans worth Rs. 68 Crore during Q2FY22 which further improved its liquidity position.

Overall AUM reached Rs. 1,932 Crore as on Oct.12, 2021 based on Monthly update filing made in exchanges on Oct. 12, 2021 indicating a growth of 97 percent in last 12 months and a growth of 47% since Mar-21

## AUM and Portfolio mix

AUM mix as on Q1FY22

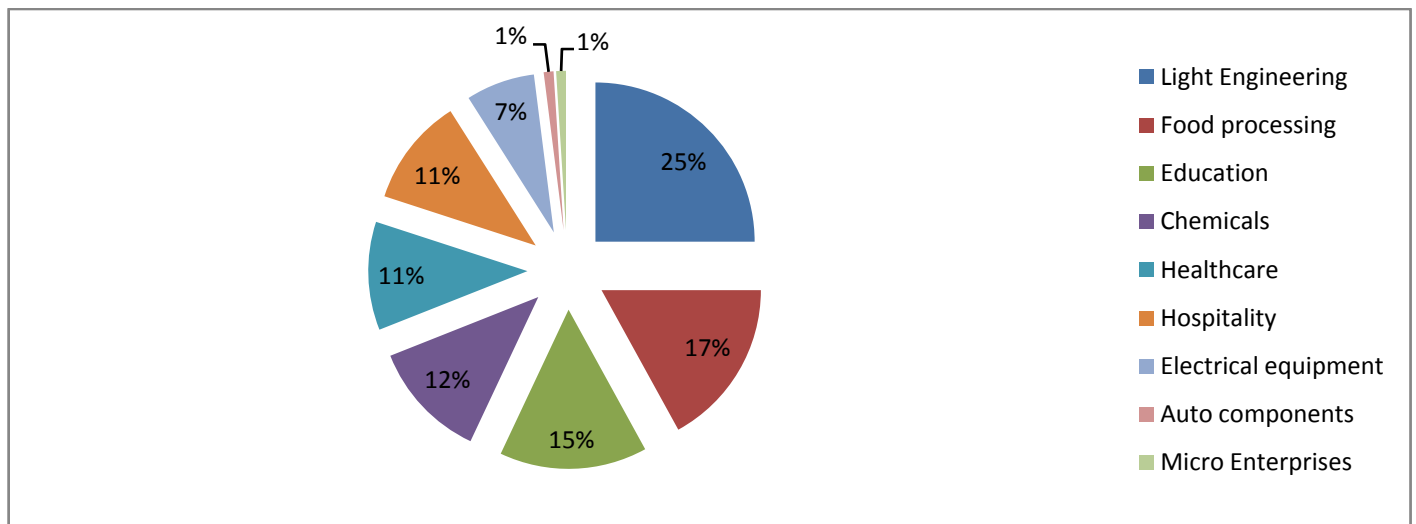


Source: Company

Portfolio mix as on Q1FY22

The Company's portfolio was well diversified across geography and sectors with no exposure to no single sector exceeding 25 percent

Branch led sectoral mix - AUM: Rs. 893 Crore

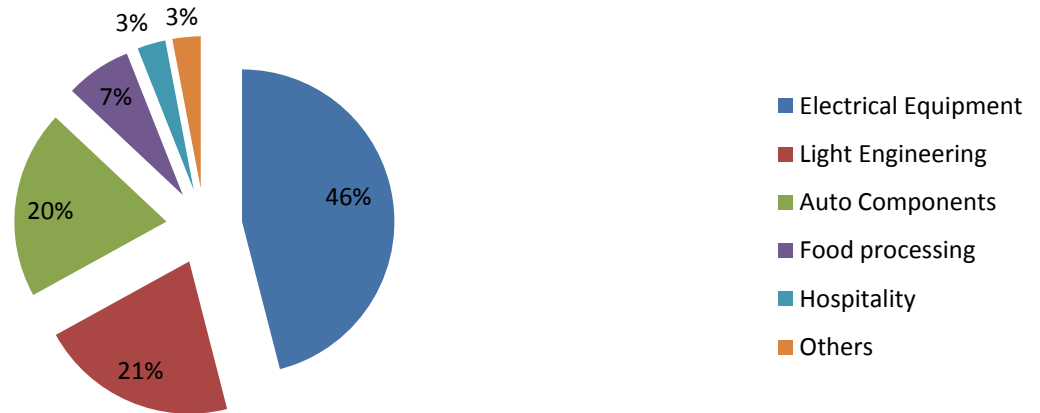


Source: Company



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**Supply Chain Finance Sectoral Mix - AUM: Rs. 181 Crore**



Source: Company

**Machinery Finance Sectoral Mix - AUM: Rs. 83 Crore**



Source: Company

**Partnerships and Alliances (Micro Enterprises) sectoral mix - AUM: Rs. 219 Crore**



Source: Company

**Business Model built on focused approach and technology led**

**Distribution network - Multi pronged approach led by Offline presence and Tech capabilities**

### 1) Branch led channel | GRO - Plus

- a) Tier 1-2 Branches - 9 Branches with loans largely sourced by DSAs
- b) Tier 3-6 Branches - Launched 25 new branches across 5 states. Loans to be directly sourced by FOS.

### 2) Ecosystem Channel | GRO - Chain

- a) Supply Chain Financing - Supply financing across the ecosystem value chain of the Anchor i.e right from supplier of raw materials to the retailer
- b) The Company has a diverse pool of Anchors & Fintech Partners



**--- and many more**

Source: Company

- c) Machinery Finance - Secured Loans to machine buyers with a charge on machines. The Company has a holistic approach to Machinery Finance to tap all aspects of the Machinery Finance value chain. The Company finances the approved list of machinery like Plastic/injection moulding, Light Engineering, Pharma, Medical equipment, Allied sector - Printing, Packaging & Gensets, Stabilizer, Scissors and compressors.

Loan ticket size: 10 lacs to Rs. 300 lacs, Product yield band: 12%-14%, Loan to value ratio: 70-80% depending on customer and asset categorisation, Tenor: 12-60 months

Source: Company

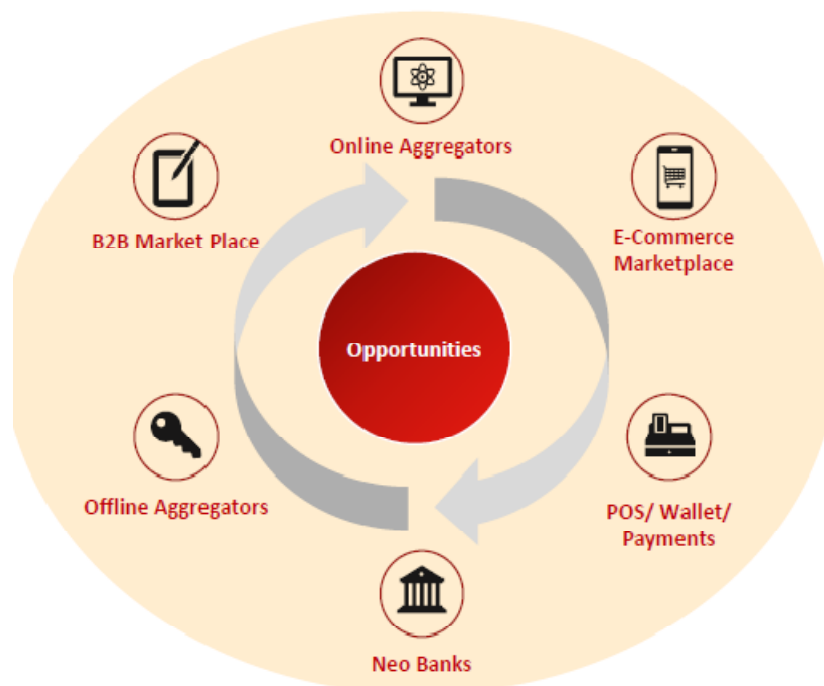
### 3) Partnerships & Alliances | GRO - Xstream

- a) Partnerships with FinTechs and NBFCs for a range of secured and unsecured loans



Source: Company

The Company is actively looking for partners to build its AUM



The Company continues to forge partnerships with different Fintech's and NBFCs



Source: Company

#### 4) Direct Digital Channel | GRO - Direct

- a) Proprietary digital lending platform supplemented by pre-qualified leads

#### Liability sources

##### 1) Traditional Balance Sheet

- a) Lending using funds from Banks; PSL nature of books to aid in obtaining bank financing

##### 2) Co-origination

- a) Co-originate loans with larger banks to maintain a strong liquidity position and generate fee income

##### 3) Specialized Programs with DFIs

- a) Impact led financing in partnerships with DFIs in sectors like healthcare, education, clean energy

##### 4) Assignment

- a) Securitization of portions of the loan portfolio so it can be purchased by MFs/Insurance Firms/Banks

#### Liability strategy

The Company follows a tri - pronged approach

##### 1) U Gro 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) Early conversations with banks to secure debt and co-lending partnerships
- 3) Partnerships already signed with SBI, ICICI Bank and Bank of Baroda

##### 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



## Sanctioned liability

Particulars	No. of Lenders	Sanctioned Liability
Q4FY20	7	257
Q1FY21	9	387
Q2FY21	14	397
Q3FY21	22	562
Q4FY21	29	782
Q1FY22	32	816

Source: Company

## Co - lending arrangement

U GRO has already operationalised its co-lending program with Bank of Baroda. The Company is in talks with 3 other institutions for its co-lending program. The main reason for the delay was the new co-lending guidelines released by RBI. The Company had signed agreements with SBI and ICICI under the erst-while regulations. However, given new set of guidelines, the pointers are being re-evaluated and the Company is in discussions with multiple banks.

### Recently, UGRO Capital has signed Co-Lending Agreement with IDBI Bank

The co-lending arrangement will work towards providing formal credit to underserved MSMEs, at affordable rates. For the same, it will leverage UGRO Capital's digital technology platform driven by a Data Tripod, which comprises of GST, Banking & Bureau, in addition to the company's deep sectoral understanding, and multi-channel distribution reach.

### Speaking on the development of this partnership, Shri Suresh Khatanhar, Deputy Managing Director, IDBI Bank, jointly with Shri Rajeev Kumar, Executive Director Agriculture, MSME & Retail Banking, IDBI Bank, stated:

"Co-lending as a concept would change the lending landscape of credit dissemination for MSMEs in India, U GRO's platform has the capability of not only originating loans through its own distribution engine but also give access to multiple other FinTechs and NBFCs who through this integration can get access to capital. IDBI Bank is committed to accelerate the credit to MSMEs in India and contribute towards the mission of Atmanirbhar Bharat by making credit available to MSMEs at an affordable cost."

### Speaking on this alliance, Mr. Shachindra Nath, Executive Chairman and Managing Director, UGRO Capital said:

"We are delighted to sign the MoU for a co-lending arrangement with IDBI Bank. We are witnessing an inflection point in MSME lending with the enhanced utility of the Data Tripod – i.e. GST, Banking and Bureau. Collaborations as this, will further catalyse the financial inclusion efforts for Indian MSMEs. This arrangement is a reaffirmation of the belief that the bank bestows in our vision of solving the unsolved credit needs of the MSMEs, using sectoral expertise and technology. This partnership would not only benefit U GRO but eventually benefit all the other FinTechs and NBFCs which are integrated with our GRO – Xstream platform. We look forward to nurturing this relationship towards supporting more MSMEs to enable their revival and growth."

## Lessons learnt from IL&FS Fiasco

- 1) U GRO has grown from a base of 7 lenders in FY20 to a base of 38 lenders as of Sep. 2021. The Company added 6 new lenders during Q2'FY22 thereby further diversifying its liability base to a total of 38 lenders
- 2) It has seen significant traction in the liability market and has cumulatively raised over 1900+ Crore of debt till date.
- 3) The Company today boasts of having 38 lenders on its book which is by far one of the best in the industry. With a huge capital and networth of Rs. 955 Crore and a leverage of just 0.84, it has been facing no difficulty in raising liability at competitive prices. Given its vintage, U GRO has one of the lowest cost of funds compared to its peers of similar vintage.
- 4) It also has a good mix of liability which includes term loans, cash credit, DA/PTC, NCD, Commercial Paper etc. We are also doing public issue of the NCD soon and are in the process of raising debt from several Development Finance Institutions.
- 5) The Company continues to maintain healthy liquidity position, and it raised Rs. 388 Crore of debt during Q2'FY22 as a result of which the total liabilities stood at approx. Rs. 1,096 Crore as on September 2021

## Impact of COVID-19, challenges in building its AUM and way forward

- 1) The Company faced COVID-19 crisis after around 1.5 years of operations. The Management believes that the crisis proved to be a blessing in disguise as it helped the Company to extensively focus and upgrade its technology, systems and processes. The Company also upgraded its GRO Score underwriting framework and unveiled a GRO Score 2.0 which has been its moat in being able to write good quality files. The Company also improved its operational efficiencies and plugged the gaps in the system. The COVID-19 crisis has positioned the Company to capture the growth opportunities that emerged after the unlock announced in various states.
- 2) The Management believes that Company is in better place than most peers & there aren't any company specific hurdles that can impede its growth.
- 3) On the people front, U GRO has made several strides and is now a home to 500+ employees. The Company's brand is becoming more recognised with each passing day, and it has been able to attract good talent from across the financial services space. It has become an aspiring brand for many.
- 4) U GRO has been at the forefront of setting up all the processes right and set-up processes with end-to-end digital journey for the customers. We have an inhouse tech team and operations team that work in close co-ordination to digitalise and reduce manual intervention at all levels. U GRO has drafted, documented and implement all the processes in line the best practices in the industry.
- 5) In terms of technology, U GRO has upfronted majority of its technology related expenditure and houses a large technology team with people capable of running all the tech processes. We also conduct a benchmarking with all the peer firms and also keep a close watch on the new trends panning out in the space and upgrade our underwriting and systems in accordance with that.
- 6) Under the 1st moratorium guidelines released by RBI, we announced an opt out scheme from the moratorium. As per the scheme, all the accounts were standard as on 1st March 2020. Roughly about 80% had opted for the moratorium in scheme 1
- 7) Under the 2nd moratorium guideline, we introduced an opt-in scheme, wherein only if a business decides to opt in for moratorium is it given the relief. Under the 2nd guideline, ~60% of the customers opted for moratorium and their performance was again standard. As expected, we saw higher restructuring requests from the sectors that we thought were impacted severely i.e. few sub-sectors within Hospitality and Education sector.

### Collection Efficiency and Bounce rates

June 21 Figures	Collection efficiency	Bounce rate
Branch led channel	91.0%	24.3%
Eco-System (Machinery Only)	95.0%	11.3%
Partnerships & Alliances	92.0%	19.0%

Source: Company

### ECL data (Rs. in Crore)

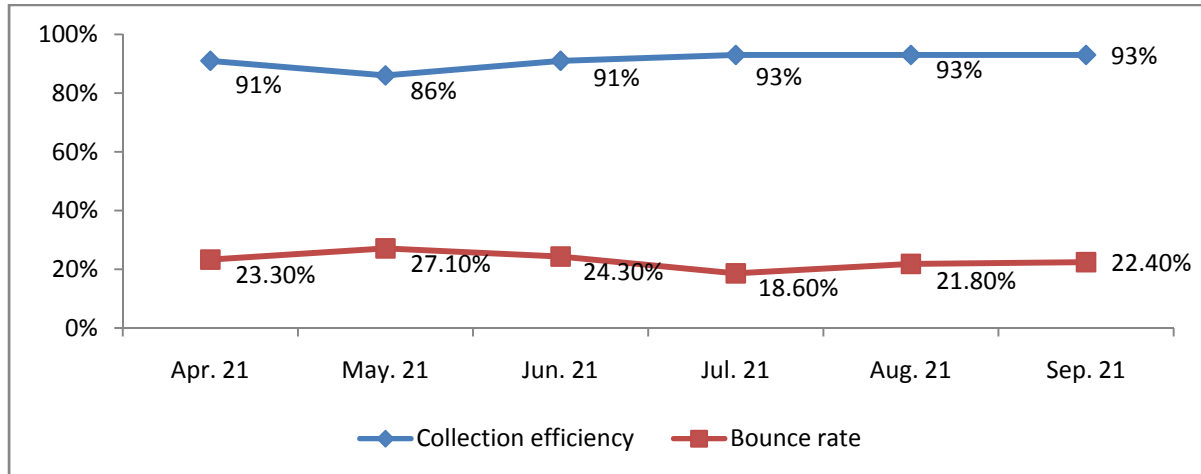
Particulars	Loan exposure	Loan exposure (%)
Stage 1	1,274	92.6%
Stage 2	75	5.4%
Stage 3	27	1.9%
<b>Total</b>	<b>1,375</b>	<b>100.0%</b>

Source: Company

Monthly trend - Collection Efficiency and bounce rate

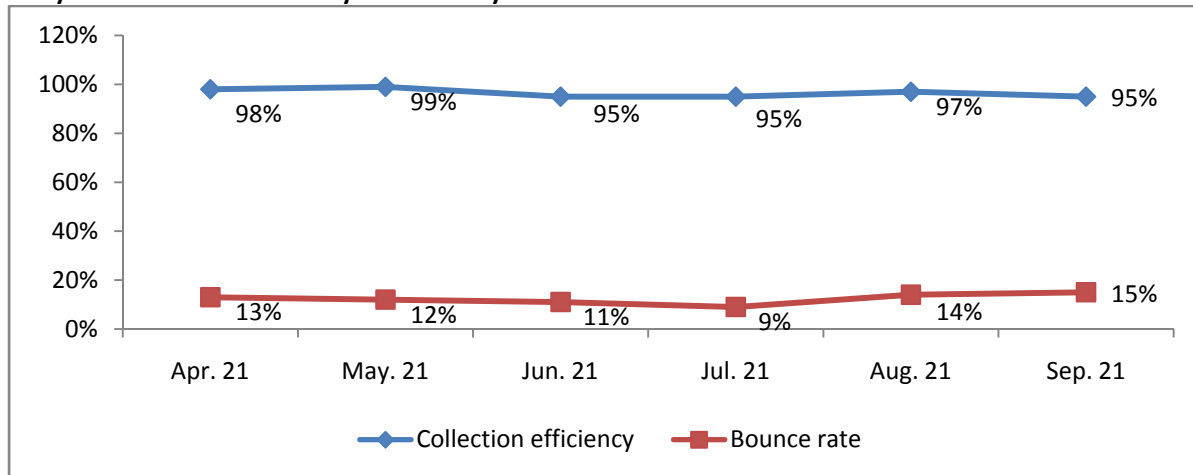
Collection Efficiency & Bounce rate Trend (till Sep-21)

Branch led channel



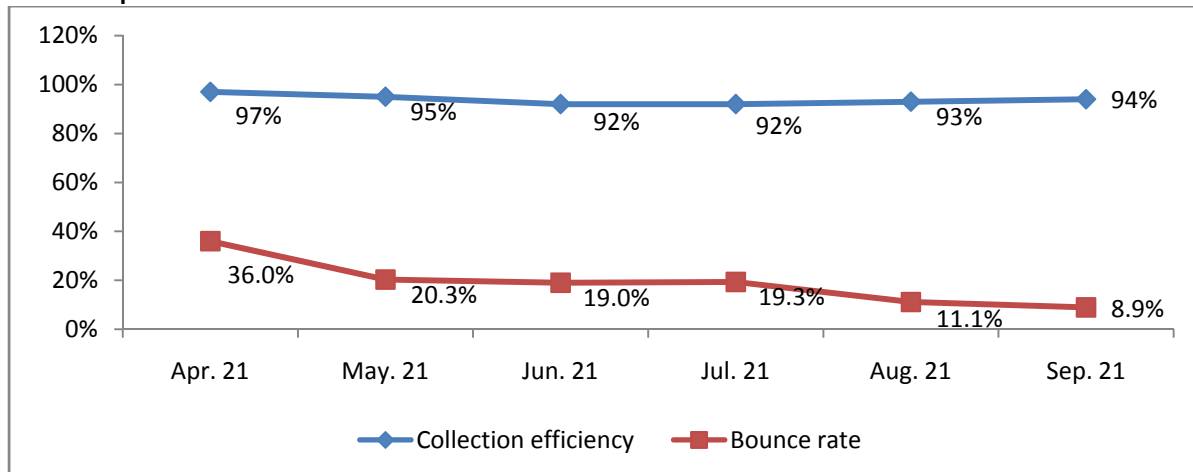
Source: Company

Ecosystem channel - Machinery Finance Only



Source: Company

Partnership and Alliances Channel



Source: Company

## Restructuring in COVID-19 era

- 1) The Company follows a sector focussed approach towards lending enabling it to estimate stress in the sector well in advance. During COVID 1.0, the Company conducted a comprehensive estimation of the stress by reaching out to all customers individually to estimate the stress. The Company was able to accurately measure the stress during the exercise. In COVID 2.0, the Company followed slightly different analytical approach by doing a stratified sampling of its customers to estimate the stress by looking at bounce rates etc.. The Company is again able to accurately assess the impact of 2nd wave.
- 2) During 1.0 and 2.0, service-oriented sectors have seen a significant impact due to COVID. In the first wave, education and hospitality were the worst affected sectors in the sectors that it operates in. However, in the second wave, due to lack of medical oxygen and subsequent diversion of industrial oxygen towards medical use, the Company also witnessed an impact on the Light Engineering sector in addition to education and hospitality.
- 3) However, the Company has seen that businesses that were able to move their operations online were able to better cope with the impact of the 2nd wave and semi urban areas particularly got impact more than others. However, the Company is now seeing things coming back to normal.
- 4) U GRO has selectively restructured the stressed accounts where there was a short-term cash flow issue. 100% of its restructuring is towards easing the short-term cash flow pressures on the account. As of Jun'21 end, the Company restructured worth Rs. 103.2 Crore worth which accounted 7.5% of its portfolio.
- 5) Of the restructured amount 67.1% was standard accounts, 28.5% is 30+ and 20.6% is 60+. None of the restructured accounts had turned NPA as of Jun-21 end. As none of the accounts had turned NPA, all accounts have made EMI payment in some form after restructuring.

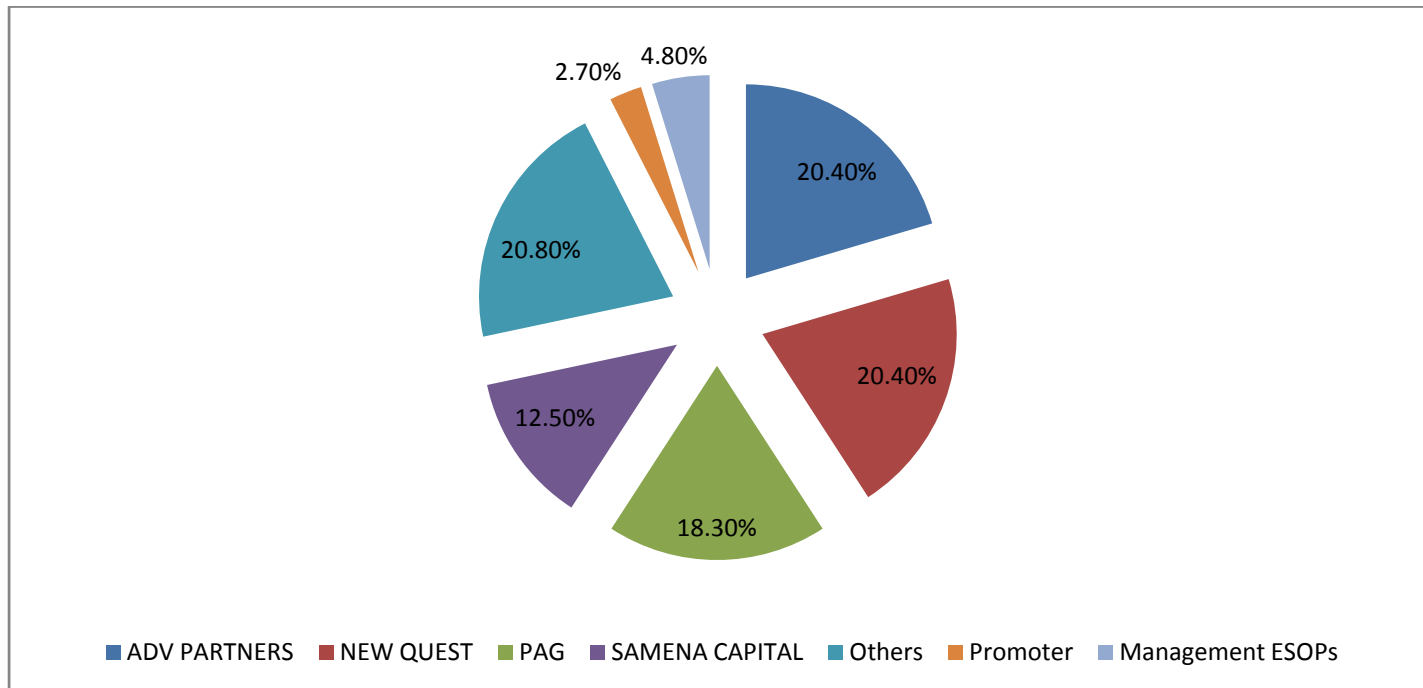
Channel	Sector	Restructured	% of Total Restructured	% of AUM restructured
<b>Branch-Led</b>	Auto Components	0.5	0.5%	3.9%
	Chemicals	5.4	5.2%	5.2%
	Education	16.1	15.7%	11.9%
	Electrical Equipment	2.5	2.4%	3.9%
	Food Processing	6.8	6.6%	4.6%
	Healthcare	2.5	2.4%	2.6%
	Hospitality	20.3	19.7%	22.1%
	Light Engineering	24.1	23.3%	11.1%
	MSME	0.1	0.0%	0.2%
<b>Eco-system Channel</b>	Supply Chain Finance – Auto Components**	13.0	12.6%	35.7%
	Supply Chain Finance – Electrical Equipment	3.6	3.4%	4.3%
	Machinery – Light Engineering	0.5	0.5%	0.7%
<b>Partnerships &amp; Alliances</b>	Onward Lending	5.0	4.8%	24.8%
	DA & Portfolio Acquisition*	2.9	2.8%	3.5%
<b>Total</b>		<b>103.2</b>	<b>100.0%</b>	<b>7.5%</b>

Source: Company

- 6) The Company's collection efficiency was around 93% in the branch led channel, 95-97% in the eco-system channel and 93% in the partnerships & alliances channel.

### Company backed by Marquee investors

The Company is backed by Marquee Private Equity Funds. Majority of the Company's shareholding is institutionally owned which instills confidence



Source: Company, BSE

### Other key investors include

- 1) PNB Metlife
- 2) INDGROWTH Capital
- 3) SAR Chhattisgarh Investments (Family Office)
- 4) Himatsingka (Family Office)
- 5) Famy Care Limited (Family Office)
- 6) Jaspal Bindra (Family Office)

## Experienced Promoters and Management team

### Board of Directors

#### 1) Shachindra Nath - Executive Chairman & Managing Director

Mr. Shachindra Nath has over two decades of experience building and scaling large financial institutions. He was formerly the Group Chief Executive Officer of Religare, where he successfully led the IPO process and established multiple successful business lines. U GRO Capital marks the start of his entrepreneurial journey, and he aspires to build an institution that will provide long-term value to society. He is a qualified lawyer from Banaras Hindu University.

#### 2) Amit Gupta - Non-Executive Director

Mr. Amit Gupta is the founding Partner of NewQuest Capital Partners and oversees the firm's India and Southeast Asia business as well as investments in the financial services and power sectors across the region. He has an PGDM from the Indian Institute of Management (IIM), Bengaluru, and an undergraduate degree in electrical engineering from REC Kurukshetra.

#### 3) Chetan Gupta - Non- Executive Director

Mr. Chetan Gupta is a Managing Director at Samena Capital Investments Limited in Dubai, focusing on investments within the Special Situations Funds. He holds a Chartered Financial Analyst (AIMR), Chartered Alternative Investment Analyst and Masters in Management (Masters) from University of Mumbai.

#### 4) Kanak Kapur - Non - Executive Director

Mr. Kanak Kapur is a Partner, Managing Director and Portfolio Manager and Portfolio Manager at PAG in the Absolute Returns Group. He started his career in finance at JP Morgan Chase in New York after completing his MBA from NYU Stern School of Business.

#### 5) Manoj Kumar Sehrawat - Non-Executive Director

Mr. Manoj Sehrawat currently serves as a Partner at ADV Partners. Manoj is a Chartered Accountant from Institute of Chartered Accountants of India and has a Bachelor's Degree in Commerce from Delhi University.

#### 6) Navin Kumar Mani - Independent Director

Mr. Navin Kumar Maini is an expert in Development Banking, MSME lending, and General Management and has more than 38 years of work experience across prestigious dispersed organizations including, SIDBI, UCO Bank and IDBI Bank. He is an alumnus of St. Stephens College, Delhi and holds a Degree in Law from Delhi University. He is also a Postgraduate in Management from MDI and IIFT, besides being a Certified Associate of Indian Institute of Banking & Finance.

#### 7) Navin Puri - Independent Director

Mr. Navin Puri brings with him over three decades of expertise in the Banking and Financial services spanning HDFC Bank and ANZ Grindlays Bank, culminating in a role as HDFC Bank's Country Head of Branch Banking. He has a Master of Business Administrations (TCU), Chartered Accountant (ICAI), Bachelor of Commerce, (St. Xavier's College, Calcutta) and ISC from Mayo College Ajmer.

#### 8) Rajeev Kumar Agarwal - Independent Director

Mr. Rajeev Agarwal has nearly three decades of experience in the Indian financial services sector and has worked with some highly reputed organizations such as the Securities and Exchange Board of India, Forward Markets Commission, and Indian Revenue Service. He is an alumnus of The Indian Revenue Service (Batch of 1983) and the Indian Institute of Technology, Roorkee with a Bachelors in Technology.

#### 9) Ranjana Agarwal - Independent Director





Ms. Ranjana Agarwal is serving as an Independent Director at RBL Bank and KDDL Limited and continues to be an Independent Director of ICRA Limited. Ranjana is a Fellow Member of the Institute of Chartered Accountants of India and holds a Bachelor of Economics (Hons.) degree.

#### **10) S Karuppasamy - Independent Director**

Mr. S Karuppasamy has served as the Executive Director of Reserve Bank of India and as the RBI Nominee Director at Indian Bank. He is a graduate in Economics, a Certified Associate of Indian Institute of Bankers, with a Post Graduate Diploma in Bank Management (NIBM).

#### **11) Satyananda Mishra - Independent Director**

Mr. Satyananda Mishra is the former Chief Information Commissioner of India and has a diverse and exemplary career of more than 40 Years in the Indian Administrative Services. He served as the Director of Small Industries Development Bank of India until 2018 and was the Chairman and Non-Executive Independent Director of the Multi Commodity Exchange of India Limited.

#### **Key Management Team**

##### **1) Amit Gupta - Chief Financial Officer**

Mr. Amit is a seasoned Finance professional and brings with him over 18 years of experience across financial services firms such as Shapoorji Pallonji Investments, Axis Bank, BNP Paribas, SCB, HSBC and JLL India. At U GRO Capital, he is responsible to build long term partnerships with Public and Private Sector Banks for co-lending, Capital Market linked borrowings and partnerships with Development Financial Institutions. He holds a B TECH in Computer Science from HBTI, Kanpur and PGDM from IIM Lucknow.

##### **2) Anuj Pandey - Chief Risk Officer**

Mr. Anuj is a founding team member who leads the Risk, Product & Analytics functions at U GRO. Anuj brings 22 years of experience across firms such as Barclays Bank, ABN AMRO Bank, GSK Consumer & Religare Finvest. Anuj holds a Bachelor's degree in Engineering (Mechanical) from Thapar University & PGDM from IIM Lucknow.

##### **3) Amit Mande - Chief Revenue Officer**

Amit will handle the asset side of UGRO Capital and primarily focus on deepening the existing distribution channels, creating newer partnership and continue to scale UGRO's business to achieve its mission of serving 1 Million MSME customers and take 1% market share of outstanding credit to MSMEs in India by 2025. Mr. Amit Mande brings 20 plus years of cross-functional banking experience with significant expertise in secured as well as unsecured retail assets. Prior to joining UGRO, he was CEO of M Capital, which is the lending arm of Mswipe where he launched the lending business which has been operational since January 2021. Previously, he has managed a variety of retail asset products throughout his career – ranging from Personal Loans, Business Loans, LAP, Mortgages, Consumer Durables, CV/CE Finance and Two-Wheeler Finance, Auto and MSME. He has been instrumental in setting up the SME lending business of Rattan India Finance, he was Business Head for Unsecured SME loans for Capital First and has worked with Barclays Bank, ABN AMRO Bank and Standard Chartered Bank.. He is management graduate from Jamnalal Bajaj Institute of Management Studies and an engineering graduate from V.J.T.I., Mumbai.

##### **4) J. Sathiyam - Chief Business Officer**

Mr. Sathiyam is a finance and banking professional who brings over two decades of experience in the domains of SME and Business Finance, Retail Liabilities and Assets, Third Party Products Distribution and other financial services at Religare Finvest and ABN Amro.

##### **4) Nirav B. Shah - Chief Strategy Officer and Head of Investor Relations**

Mr. Nirav Shah leads the Strategy and Investor Relations department of U GRO Capital. He looks after our DFI and Capital Market Coverage. He also helps us build relationships with multiple FI segments for Colending, FinTech and Market Place partnerships. Nirav has 15+ years of Investment Banking experience across firms like Equirus Capital, Centrum, Karvy & HDFC Bank in the past. He is a commerce graduate, has done his Masters in Finance & CFA from ICFAI.

##### **5) Pia Shome - Chief People Officer**

Ms. Pia Shome is the Company's Chief People Officer and is the primary interface between its prospective employees and UGROites. She brings in 17 years of broad exposure in Human Resources, Change Management, Organization Transformation and Culture Building. Notably, she worked as the HR Head at SMEcorner and has previously held leadership positions at IDFC First Bank, RBL, DBS Bank, Barclays and TCS eServe International. She is an HRM MBA graduate from XISS, Ranchi and is an alumnus of INSEAD, Singapore.

##### **7) Sunil Lotke - Chief Officer - Legal, Compliance and Secretarial**

Mr. Sunil holds 18 years of rich experience in Legal, Compliance and Corporate Secretarial affairs with specializations in Financial Services Legislations, Capital Market transactions, Corporate Restructuring, and Securities Regulations. Prior to U GRO Capital, Sunil had held positions in InCred Financial Services, IIFL Group and StarAgri Finance, among others. Sunil is a member of the Institute of Company Secretaries of India, and a law graduate from Mumbai University.

## Credit rating

### Ratings Assigned, Reaffirmed and Withdrawn

<b>Total facilities rated</b>	<b>Rs. 1,839.70 Crore</b>
Commercial Paper Programme	Rs. 100.00 Crore
<b>Short Term Rating</b>	ACUITE A1 (Reaffirmed)
Bank Loan Rating	Rs. 100.00 Crore
<b>Long Term Rating</b>	ACUITE A/ Positive (Reaffirmed)
Bank Loan Rating	Rs. 1000.00 Crore
<b>Long Term Rating</b>	ACUITE A/ Positive (Reaffirmed)
Non-Convertible Debentures	Rs. 450.00 Crore
<b>Long Term Rating</b>	ACUITE A/ Positive (Reaffirmed)
Non-Convertible Debentures	Rs. 150.00 Crore
<b>Long Term Rating</b>	ACUITE A (Withdrawn)
Non-Convertible Debentures	Rs.50.00 Crore
<b>Long Term Rating</b>	ACUITE A/ Positive (Assigned)
Non-Convertible Debenture	Rs. 29.70 Crore
<b>Long Term Rating</b>	ACUITE PP-MLD AA+ (CE)/Stable (Reaffirmed)
Non-Convertible Debenture	Rs. 20.00 Crore
<b>Long Term Rating</b>	ACUITE PP-MLD AA+ (CE)/Stable (Reaffirmed)
Non-Convertible Debenture	Rs. 20.00 Crore
<b>Long Term Rating</b>	ACUITE PP-MLD AA+ (CE)/Stable (Reaffirmed)
Non-Convertible Debenture	Rs. 20.00 Crore
<b>Long Term Rating</b>	ACUITE PP`-MLD AA+ (CE)/Stable (Reaffirmed)
Non-Convertible Debenture	Rs. 50.00 Crore
<b>Long Term Rating</b>	ACUITE PP-MLD AA+ (CE)/Stable (Reaffirmed)

Source: Acuité Ratings & Research Limited Credit rating report

### Rating rationale of the issuer

The rating reflects noted improvement in disbursements (Rs.243 Crore in August 2021, Rs.260 Crore in July 2021 and Rs.193 Crore in June 2021) partly supported by co-lending partnership with Bank of Baroda. Acuité takes cognisance of UGRO's strategy of diversifying distribution channel with recent co-lending partnership with Bank of Baroda and proposed partnerships in pipeline, which coupled with focus on building branch network is expected to drive the outstanding portfolio growth going forward. Further, delinquencies in softer buckets (30dpd+) reduced to 8.9% as on August 31,2021 as against 12.9% as on March 31,2021 aided by sustained improvement in collection efficiency (over 92% on current month basis since June 2021) in the backdrop of pandemic. The rating continue to takes into account the governance framework of UGRO wherein the majority of the Board comprising of Independent Directors and nominee directors (four Private Equity Investors) coupled with an experienced management team. The rating also factors in the high capitalization levels and low gearing levels. The capital adequacy ratio stood at about 62 % as on June 30, 2021 and 65.02 % as on March 31, 2021 coupled with low gearing of 0.84 times as on June 30, 2021 and 0.80 times as on March 31, 2021. The company has demonstrated its ability to raise funds of Rs.705.40 Cr. by way of Term Loans, Non-Convertible Debentures, Commercial Paper in FY2021 from a diversified base of around 25 lenders including large Public and Private Sectors Banks. The company has also diversified its borrowing profile by way of direct assignment transactions of ~Rs. 14 Cr. in FY2021. The rating also derives comfort from the business model which is based on technology adoption at each and every stage, right from initial screening of the borrower to monitoring of the exposures at the post disbursal stage. The rating is constrained by high operating costs at ~71% of UGRO's total income (i.e. net interest income and other operating income), though improvement from ~85% during FY2020, as UGRO continues to invest into its distribution channel to diversify its asset profile within MSME from 1 Lac loan to 5 Crores loan segment. This has in return led to subdued Return on Average Assets (RoAA) of 1.98% as on March 31, 2021 (1.90% as on March 31,2020). Though the company has registered significant growth in outstanding portfolio to Rs.1,721 Cr. as on August 31,2021 from Rs.1,316.88 Cr. as on March 31, 2021, its ability to sustain this growth momentum while containing its asset quality given the likelihood of resurgence of the COVID19 and its consequent impact on the recovery of the MSME focused NBFCs like UGRO will be key monitorable.

## Key highlights of Q1FY22 result

### AUM and Disbursement

- a) AUM stood at Rs. 1,375 Crore as on June 2021 (Rs. 847 Crore as June 20). ~62 percent increase on YoY basis
- b) Total Gross Disbursement for Q1FY22 was Rs. 311 Crore and Disbursements (considering only incremental AUM in SCF1 ) was Rs. 159 Crore

### Net Interest Income (NII)

- a) Net Interest Income: NII in Q1FY22 stood at Rs. 27.4 Crore as against Rs. 27.5 Crore in Q4FY21. On YoY basis, NII witnessed a growth of ~15 percent.

### Liability Management

- a) Diversified lender base of 38 active lenders
- b) Borrowing costs on a sequential downtrend; average cost of debt stood at ~10.5% in Q1FY22 compared to ~11.2% in Q1FY21

### Operating expense

- a) Cost to Income ratio saw a marginal increase in Q1FY22 rising to 75 percent as compared to 74 percent in Q1FY21. Opex has risen by 16 percent but the interest income has risen by 63 percent on YoY basis.

### Credit costs

- a) GNPA stood at 2.3 percent and NNPA stood at 1.9 percent
- b) Collection efficiencies was at 96 percent in Branch-led channel, 95 percent in Machinery Finance and 92 percent for Partnership & Alliances channel in Jun-21
- c) Selectively restructured around 7.5 percent of its portfolio for fundamentally sound businesses with short term cash flow issues

### Profitability

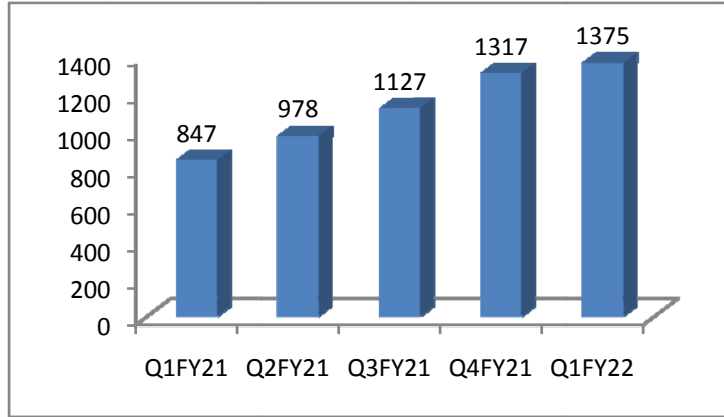
- a) PBT stood at Rs. 2.4 Crore in Q1FY22 compared to Rs. 4.1 Crore in Q1FY21 falling on account of higher provisions

### Networth

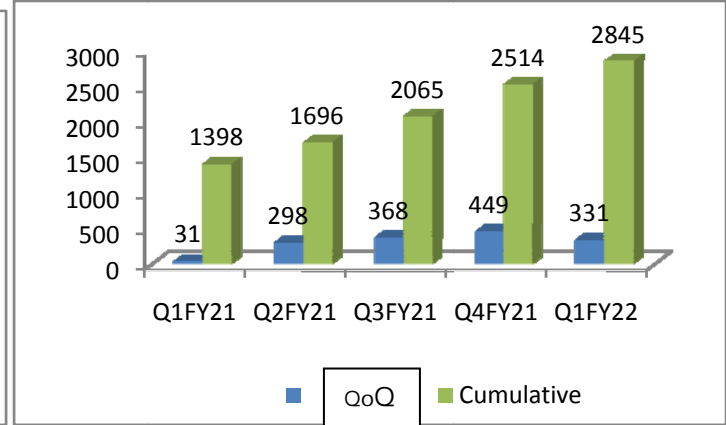
- a) Net worth stood at Rs. 955 Crore in Mar-21 and CRAR was ~62%
- b) Debt-to-equity ratio stood at 0.84x indicating a long runway for growth as the Company leverage our balance sheet

## Story in charts..

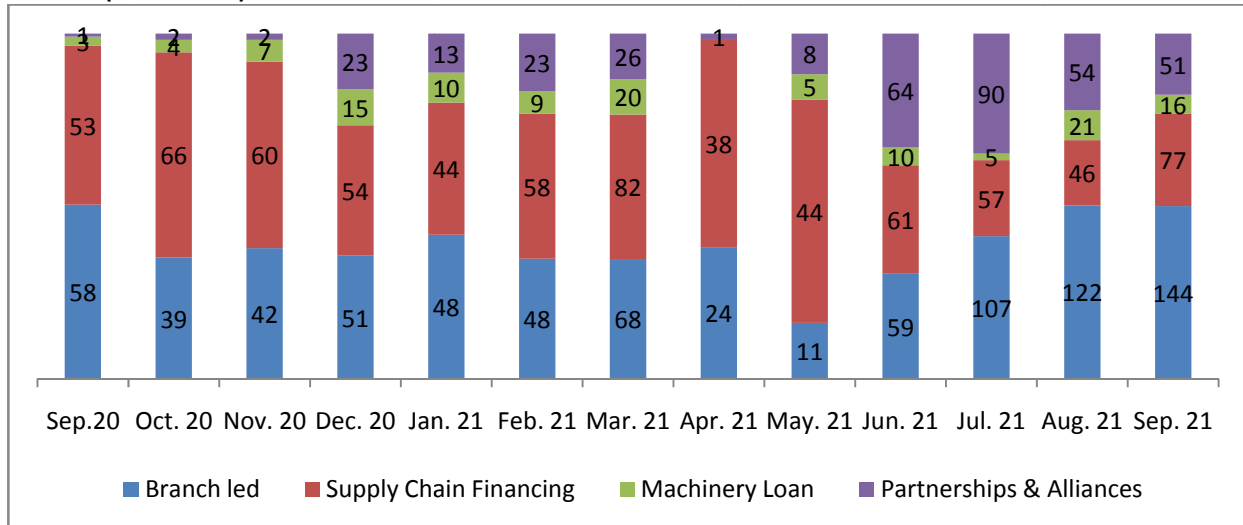
**AUM (Rs. in Crore)**



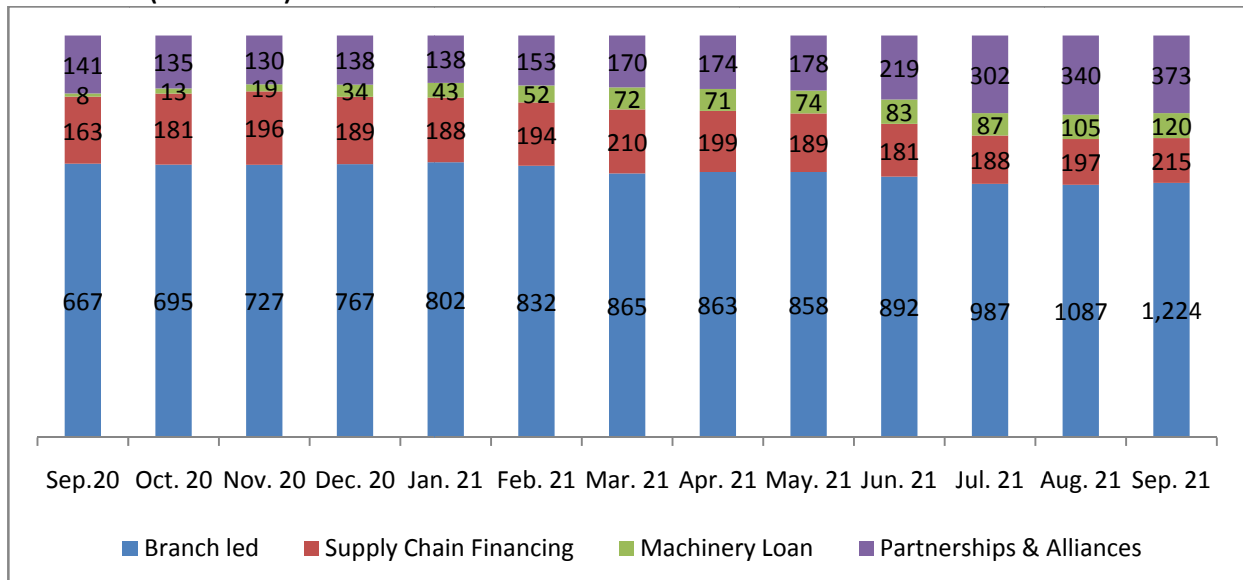
**Disbursals (Rs. in Crore)**



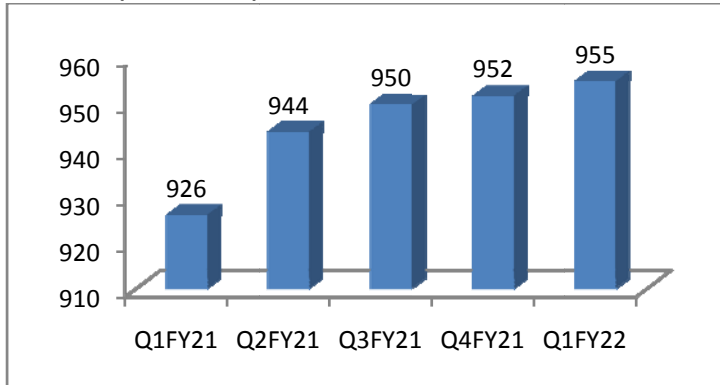
**Monthly AUM trend (Rs. in Crore)**



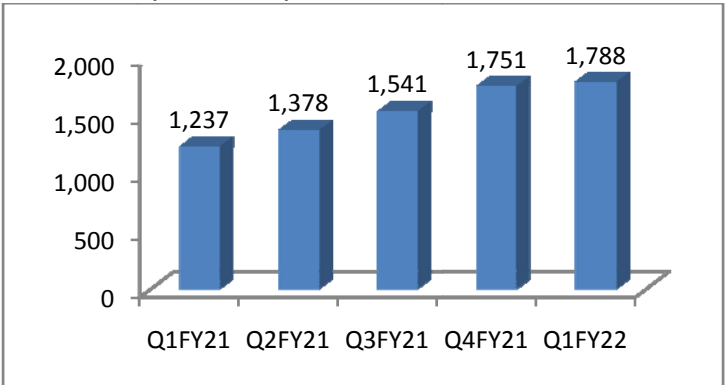
**Monthly Disbursal trend (Rs. in Crore)**



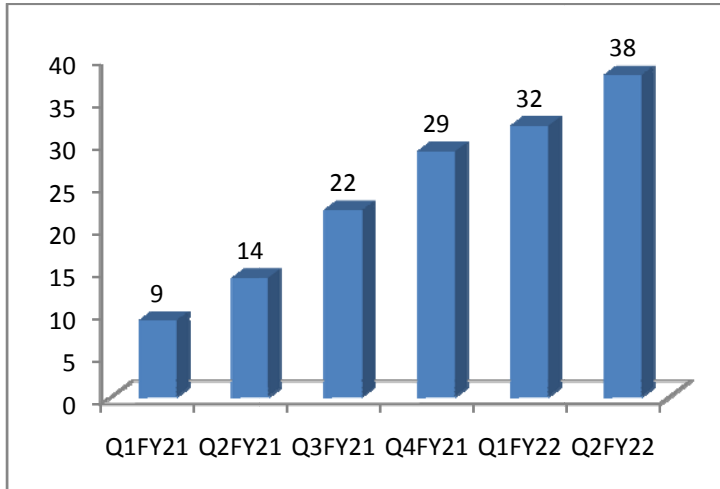
**Networth (Rs. in Crore)**



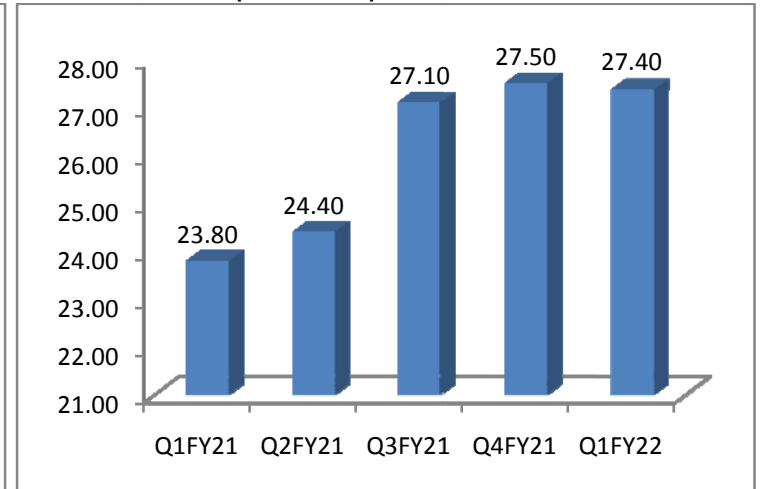
**Total Assets (Rs. in Crore)**



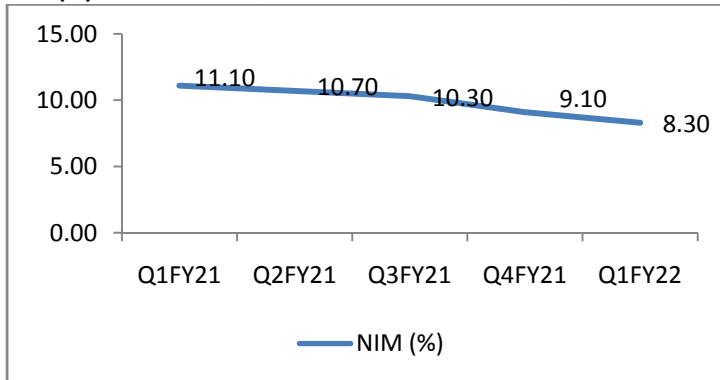
**Total number of Lenders**



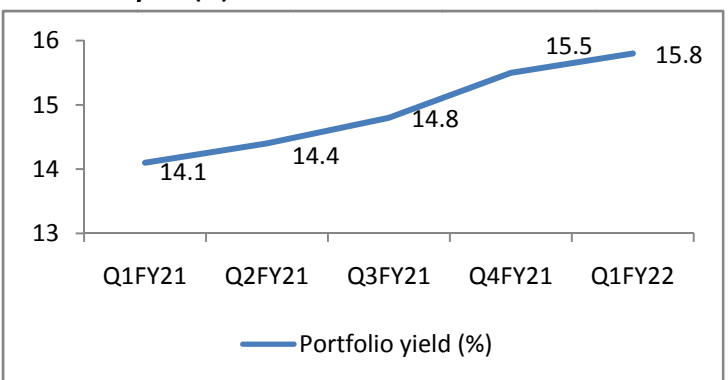
**Net Interest Income (Rs. in Crore)**



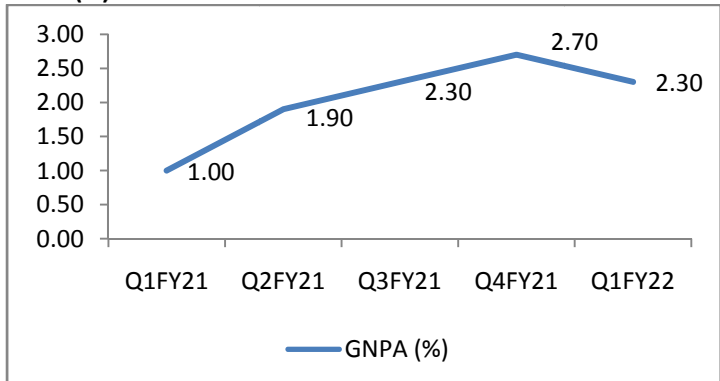
**NIM (%)**



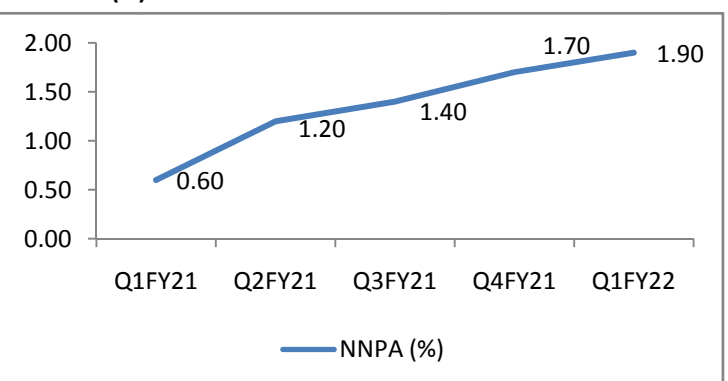
**Portfolio yield (%)**



**GNPA (%)**



**NNPA (%)**



**Strong outlook for the future - Big targets for AUM, Disbursement, RoE and RoA..**

***With a target to capture 1 percent of the MSME lending market in the next five years, the Company aims to achieve an AUM of roughly Rs. 20,000 Crore and total disbursements of ~Rs. 12,000 crore in FY25E. 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 of 18.8 percent and RoA of 4.2 percent by FY25***

**Way forward**

- a) FY25E target to reach 270 total branches of which 225 direct distribution branches
- b) Target to open 36 Intermediated branches in Tier 2 & 3 cities by FY25E while no plans to open any new such branches in Tier I cities
- c) FY25E total cumulative disbursements target of ~Rs. 119 bn; ~68% CAGR over FY20-25E
- d) Branch led channel to remain as the largest contributor in total disbursements
- e) Prime Branches products Pratham, Sanjeevani & Saathi and Micro Branch product launched to drive disbursements in branch led channels
- f) Partnerships and Alliances to remain a key distribution channel with ~15% contribution to total disbursements by FY25E; Digital channel disbursements to grow substantially over the next 5 years
- g) FY25E AUM target of Rs. 200 bn; ~70% contribution from Branch led channels led by Pratham, Sanjeevani, Saathi, Micro-Enterprise product

**1) ROE is a function of the following variables:**

- a. Growth – The Company did a disbursement of Rs. 250 Crore each in the last 2 months and have set up channels that will rapidly scale up the AUM in the coming months
- b. Cost of borrowing – The Company's cost of borrowing is trending downwards and has fallen from 11.6 percent to 10.6 percent in the last one year.
- c. Opex – The Company's opex has not increased on an absolute basis and is expected to realise significant benefits as it scales up and economies of scale are realised.
- d. Credit cost – The Company's low GNPA and NNPA is a testimony to its good underwriting practices & conservative provisioning.

**2) The Company has been growing at a rate of 50 percent + on a YoY basis and it seems that the Company is well on track to reach an RoA of 18%+ based on current run rate.**

- a) Under the branch led distribution channel, the Company made a strategic pivot with the launch of its micro business. The Company operationalised 25 new Micro Branches across 5 different states which takes the total tally of its branches to 34. Branch led channel, which will be a key lever in realising its 5-year plans, will remain as the largest contributor in total disbursements and AUM in the coming years. The Company's FY25E target is to reach total branches to 270. The Company saw the launch of its product lines which enables it to cater to the entire spectrum of the market. This includes the launch of its co-lending product, Pratham, with Bank of Baroda.
- b) Under Eco-system channel, the Company will continue to build the momentum in addition of new anchors in its supply chain channel.
- c) Under Partnership & Alliances channel, the Company has been growing via both the levers; addition of new partners/FinTechs and increase in disbursement throughput per partner.
- d) On the liability side, the Company has increased its lender base to 36 with addition of lenders from across the entire spectrum of public & private sector Banks, NBFCs, DFIs etc. Going forward, its focus would be to get long term debt capital from Development Finance Institutions.
- e) All of its distribution engines are primed, and the Company is now disbursing Rs. 250 Crore of loans every month. The above measures makes the Company confident of achieving its 5-year target of 20,000 Cr.
- f) The Management believes, that in eventuality of successful 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.



Future outlook in numbers..

ROA Tree projected	FY25
Interest Income	16-17%
Cross sell	0.2 - 0.5%
Co-lending/Assignment Income	0.4-0.6%
Other income	0.5-1%
Interest on cash	0.5-1%
<b>Total Income</b>	<b>17.5 -19.5%</b>
Borrowing costs	7.5-9%
Employee expenses	2-3%
Provisions	0.4-0.8%
Other operating expenses	1.4-1.6%
<b>Total expenses</b>	<b>12-14%</b>
<b>PBT</b>	<b>~5.5%</b>
Tax	~1-2%
<b>PAT</b>	<b>~4-5%</b>
<b>ROE</b>	<b>~18.8%</b>

Source: Company

Interest yield - 16.3%

Borrowing costs - 9.5%

Net Interest Margin (NIM) - 8.5%

Return on Assets - 4.2%

Return on Equity - 18.8%

Debt/Equity ratio - 3.8x

## Financial summary

Balance sheet(Rs. in Crore)	FY21	FY20
<b>Financial Assets</b>	<b>1,656.89</b>	<b>1,144.33</b>
Loans	1,278.81	832.30
Cash and investments	371.27	222.17
Other Financial Assets	6.81	89.86
Non-Financial Assets	94.01	68.05
<b>Total Assets</b>	<b>1,750.89</b>	<b>1,212.38</b>
<b>Financial Liabilities</b>	<b>793.22</b>	<b>287.37</b>
Trade/other payables	10.23	14.20
Borrowings & Debt securities	765.69	254.54
Other Financial Liabilities	17.29	18.62
<b>Non - Financial Liabilities</b>	<b>5.24</b>	<b>3.49</b>
<b>Total Equity</b>	<b>952.44</b>	<b>921.52</b>
Equity Share Capital	70.53	70.53
Other Equity	881.91	850.99
<b>Total Liabilities + Equity</b>	<b>1,750.89</b>	<b>1,212.38</b>

Source: Company

One year price movement chart



Source:Tradingview

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**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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