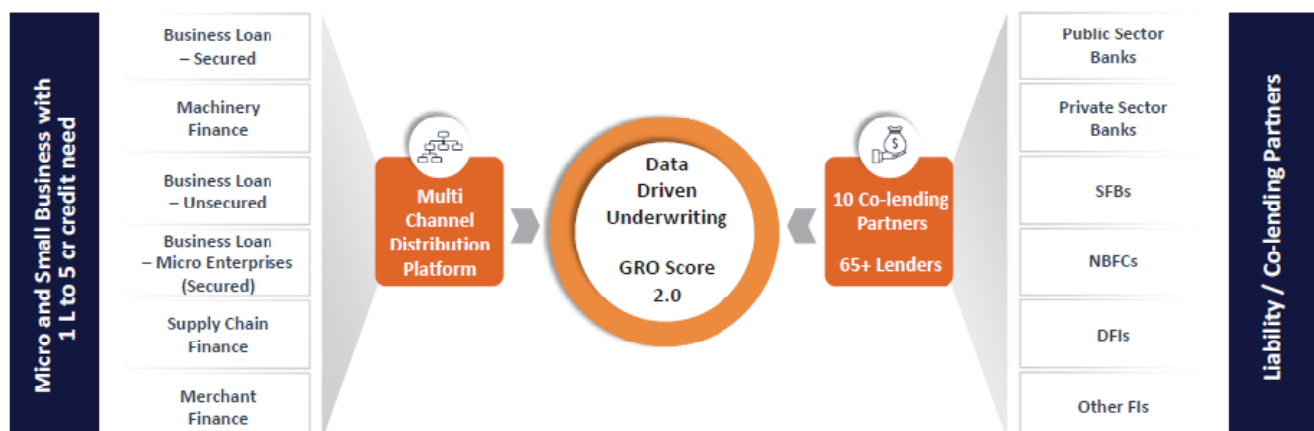


CMP: Rs. 151.45|Target price: Rs. 280|Upside: 85%|FV:Rs. 10|9MFY23 Book value per share: Rs. 139.78  
|Market Cap: Rs. 1,068.62 Crore|9MFY23 Networth: Rs. 969 Crore| 52 Week High/Low: Rs. 211.50/  
Rs. 130.90|NSE code: UGROCAP|BSE code:511742|Bloomberg code: UGRO:IN

We had initiated coverage on "UGRO Capital Limited" on October 2021 at Rs. 131.30 with a target price of Rs. 175.5 which got revised from time to time based on the quarterly performance of the Company. We continue our coverage on the Company post its Q3FY23 results and revise our price target to Rs. 280 per share and hereby present the updated research report.

### Did you know?

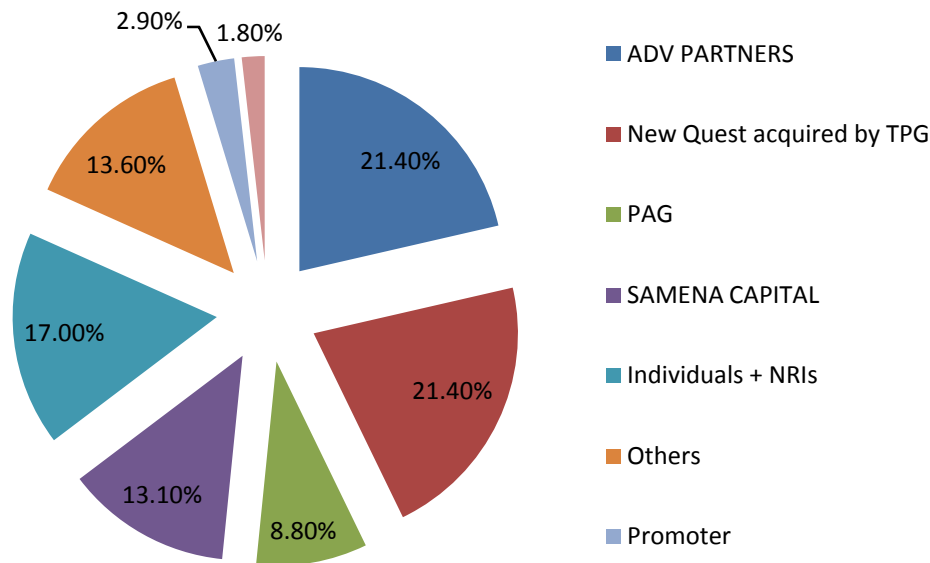
- ❖ UGRO Capital Limited (Listed on the NSE and BSE), a professionally managed Company, is a DataTech NBFC and has pioneered the "Lending as a Service" (Laas) model in India ( building India's largest Co-Lending platform)
- ❖ UGRO Capital's mission is 'Solve the Unsolved' – Small Business Credit Need with its omnichannel distribution model combining physical and digital journey of the customer. The Company envisions to spearhead India's transition of MSME lending market to the new age of on-tap financing
- ❖ Company's prowess of Data Analytics and strong Technology architecture allows for customized sourcing platforms for each sourcing channel. GRO Plus module which has uberized intermediated sourcing, GRO Chain, a supply chain financing platform with automated end to end approval and flow of invoices, GRO Xstream platform for 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) and GRO Score 3.0 (combines credit bureau, banking data and GST data into one model) using AI / ML driven statistical model to risk rank customers
- ❖ The Company has evolved to a Data Tech Company within 3 years of Inception
- ❖ UGRO Capital has collaborated with ten co-lending partners, over 65 lenders, 25 fintechs, and 1,000 GRO partners to provide data-backed customized credit solutions to a large number of borrowers across the country including the small cities and towns.
- ❖ Assets under management (AUM) as on Q3FY23 stood at Rs. 5,095 Crore
- ❖ Company is backed by marquee Private Equity funds and family offices (raised INR 900+ Crore of equity capital in 2018) and aims to reach AUM of Rs. 20,000 Crore + by FY25 with RoE (Avg.) of 18 percent by FY25..



Source: Company

Institutionally owned: Majority held by Institutional Investors

Shareholding pattern as on Q3FY23



Source: Company

Q3FY23 result update- Quarterly Performance across different parameters

Particulars	Q3FY23	Q2FY23	QoQ (%)	Q3FY22	YoY(%)	9MFY23	9MFY22	YoY (%)	FY22
<b>AUM</b>	<b>5,095</b>	<b>4,375</b>	<b>16%</b>	<b>2,589</b>	<b>97%</b>	<b>5,095</b>	<b>2,589</b>	<b>97%</b>	<b>2,969</b>
<b>Disbursements</b>	<b>1,874</b>	<b>1,653</b>	<b>13%</b>	<b>1,053</b>	<b>78%</b>	<b>4,885</b>	<b>2,174</b>	<b>125%</b>	<b>3,138</b>
<b>Total Income</b>	<b>189.6</b>	<b>155.3</b>	<b>22%</b>	<b>85.2</b>	<b>123%</b>	<b>466.6</b>	<b>199.3</b>	<b>134%</b>	<b>313.6</b>
Interest expense	81.6	68.5	19%	38.3	113%	202.9	87.7	131%	137.4
<b>Net Total Income</b>	<b>108.0</b>	<b>86.8</b>	<b>24%</b>	<b>46.8</b>	<b>131%</b>	<b>263.7</b>	<b>111.6</b>	<b>136%</b>	<b>176.2</b>
Employee cost	28.6	23.5	22%	13.4	113%	72.0	34.3	110%	72.9
Other expenses	40.5	30.9	31%	18.9	114%	100.6	44.9	124%	53.5
<b>PPOP</b>	<b>38.9</b>	<b>32.4</b>	<b>20%</b>	<b>14.5</b>	<b>169%</b>	<b>91.1</b>	<b>32.4</b>	<b>181%</b>	<b>49.8</b>
Credit cost	16.7	14.9	13%	9.4	78%	40.9	20.3	102%	29.6
<b>PBT</b>	<b>22.2</b>	<b>17.6</b>	<b>27%</b>	<b>5.1</b>	<b>338%</b>	<b>50.2</b>	<b>12.1</b>	<b>313%</b>	<b>20.2</b>
Tax	9.1	12.3	(26)%	1.7	440%	24.4	3.7	564%	5.6
<b>PAT</b>	<b>13.1#</b>	<b>5.3#</b>	<b>149%</b>	<b>3.4</b>	<b>287%</b>	<b>25.7#</b>	<b>8.5</b>	<b>204%</b>	<b>14.6</b>
<b>RoA (%)</b>	<b>1.4%</b>	<b>0.6%</b>		<b>0.6%</b>		<b>0.8%</b>	<b>0.5%</b>		<b>0.6%</b>

Source: Company, #During FY20, there was a demerger of Asia PragatiCapfin 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 was reversed in Q2FY23 and a further reversal of Rs. 4.10 crore has been done in Q3FY23 due to which the total tax line item for 9MFY23 is higher by around 11.30 Crore (as clarified by the CFO in the Company's Q3FY23 analyst concall).

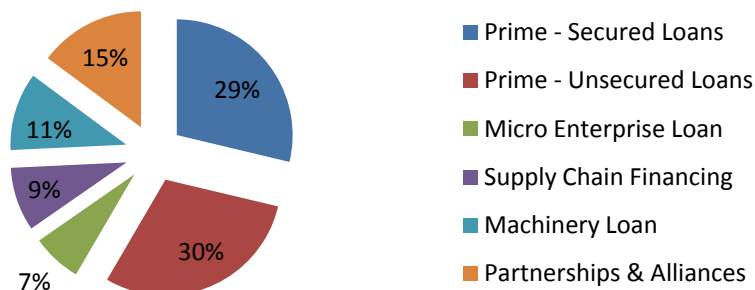
Commenting on the Q3FY23 results, **Mr. ShachindraNath, Vice Chairman and Managing Director of UGRO Capital stated**, "We scaled our business reaching to the INR 5,000 Crore AUM milestone and have met our FY23 off book AUM guidance a quarter ahead of schedule thanks to our unwavering focus on our core competencies, extensive use of data analytics in decision-making, and widespread acceptance in the banking and MSME industries. Our Q3'23 results, with the highest ever disbursement and improved profitability, demonstrate our unwavering commitment to growth. We continue to make progress towards the company's core profitability on QoQ basis. We have already assisted over 38,000 MSMEs and disbursed over INR 10,500 crores. Taking the pandemic into account, we reached this level in about 2.5 years, beginning in April of 2019. This is incomparable, especially when compared to our overall credit performance, which is

industry leading. Our underwriting model, GRO Score 3.0, is being upgraded to derive power insights and better underwrite the MSME segment and we will soon launch a credit line on UPI for small businesses."

### Q3FY23 result analysis - AUM, Disbursement, Operating performance

- 1) The Company's AUM witnessed a YoY growth of 97 percent and QoQ growth of 16 percent to touch Rs. 5,095 Crore in Q3FY23 as against Rs. 4,375 Crore in Q2FY23.
- 2) Co-Lending book/Off. book AUM increased to Rs. 1,750+ Crore in Q3FY23 (35% of Total AUM) as against Rs. 1,275 Crore in Q2FY23 (29% of Total AUM). The management expects off balance sheet AUM in FY25 will be 50 percent of the overall book.
- 3) Disbursements in Q3FY23 grew by 78 percent on YoY basis and by 13 percent on QoQ basis to Rs. 1,874 Crore (Rs. 1,053 Crore in Q3FY22) as against Rs. 1,653 Crore in Q2FY23. This is because all distribution channels following an aggressive strategy.
- 4) Total Income stood at 189.6 Crore in Q3FY23 (Rs. 85.2 Crore in Q3FY22) as against Rs. 155.3 Crore for Q2FY23 (up 123% YoY and 22% QoQ). 9MFY23 Total income increased by 134 percent on YoY basis to Rs. 466.6 Crore for 9MFY23 as against Rs. 199.3 Crore in 9MFY22.
- 5) Net Total Income grew by 24 percent on QoQ basis and by 131 percent on YoY basis to Rs. 108 Crore in Q3FY23 (Rs. 46.8 Crore in Q3FY22) as against Rs. 86.8 Crore in Q2FY23. In 9MFY23, Net Total Income grew by stood at Rs. 263.7 Crore (up 144% compared H1FY22).
- 6) The portfolio yield has improved by 10 bps on QoQ basis to 17.4 percent in Q3FY23 as against 17.3 percent in Q2FY23.
- 7) The Cost/Income ratio stood at 63.9 percent in Q3FY23 as against 62.7 percent in Q2FY23.
- 8) PBT increased by 27 percent on QoQ basis to Rs. 22.2 Crore in Q3FY23 as against Rs. 17.6 Crore in Q2FY23. 9MFY23 it stood at Rs. 50.2 Crore as against Rs. 12.1 Crore in 9MFY22 (up by 313 percent on YoY basis)
- 9) Mr. Shachindra Nath - Vice Chairman and Managing Director of UGRO Capital in the Company's Q3FY23 concall said "We have started to see the result of the scale and liability franchise that we have created. Efficiency has started building out in our network and same has started to reflect in our profitability on quarter-on-quarter basis. He further added "We have proven our asset engine, its growth potential, our credit engine, and its ability to control credit costs and now our focus for next year will be delivering profitability, which is comparable to any traditional or vintage lender. This, we believe, would put us in the bracket which is superior to banks and traditional NBFC. We have demonstrated that from the last year PBT of INR 20 crores, this year at nine months itself, we have reached INR 50 crores. But now we will focus on doubling the bottom line over next financial year, while asset engine would continue to grow. It takes a lifetime to build financial institutions."
- 10) The Company's Networth as on 9MFY23 stood at Rs. 969 Crore.
- 11) GNPA and NNPA stood at 1.7% and 1.1% (as a % of Total AUM) respectively as on Q3FY23.
- 12) Collection efficiency has been good in the last three months (Dec. 2022, Nov. 2022, Oct. 2022): i.e 97.8% for Dec 2022, 97.4% for Nov. 2022 and 96.7 % for Sep. 22.
- 13) It has over 38,000 customers as on Q3FY23.
- 14) UGRO Capital has 98 branches (as on Dec'22) with around 1,590+ employees.
- 15) With regards to Competition, the Vice Chairman and MD of UGRO Capital said "if you look at our asset profile and our business profile, we don't have a direct peer set. So our prime business compete with the bank, our microenterprise business compete with Five Star, Vistaar, Veritas, our supply chain finance business see a compete with global FinTechs, which are in supply chain, our machinery business compete with Electronica and others, our P&A business is similar to that would be a Max Financial, which is a listed entity. And when we launch our digital channels, that's will be a completely FinTech platform. So I think , we are creating a category of India's largest small business financing platform driven by data and tech."

### Product mix as on Q3FY23



Source: Company

#### Product Mix as on Q3FY23

Product category	AUM (Rs. in Crore)	ROI (%)	Ticket size (Lakh)
Prime - Secured Loans	1,462	13.8%	115
Prime - Unsecured Loans	1,528	19.3%	17
Micro Enterprise Loan	338	22.1%	7
Supply Chain Financing	458	16.0%	84
Machinery Loan	564	13.4%	38
Partnerships & Alliances	746	22.9%	6
<b>Total</b>	<b>5,095</b>	<b>17.4%</b>	<b>19</b>

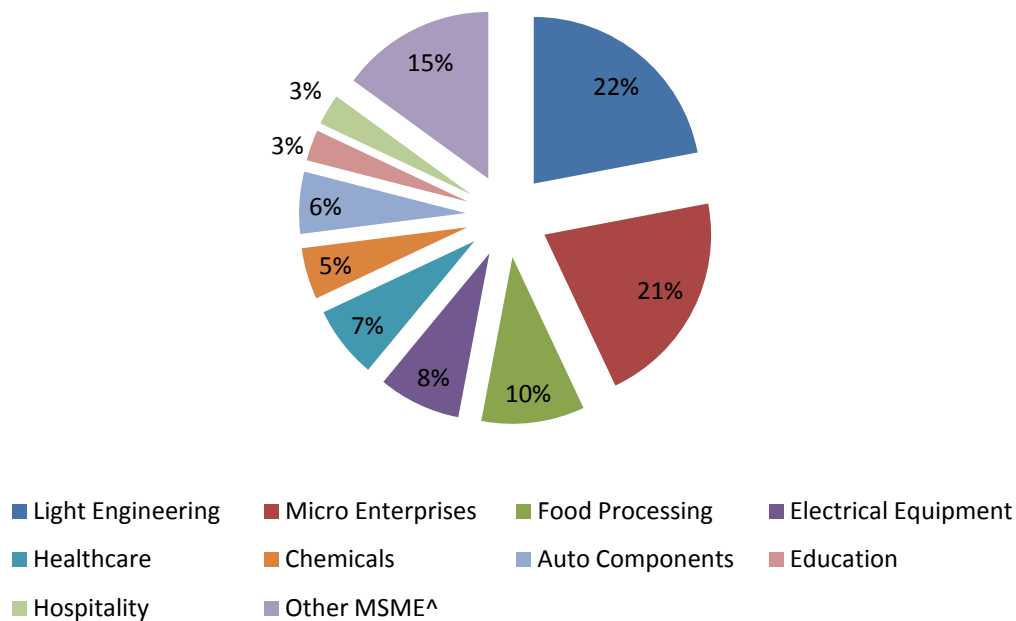
Source: Company

#### 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
<b>Total</b>	<b>75</b>	<b>23</b>	<b>98</b>

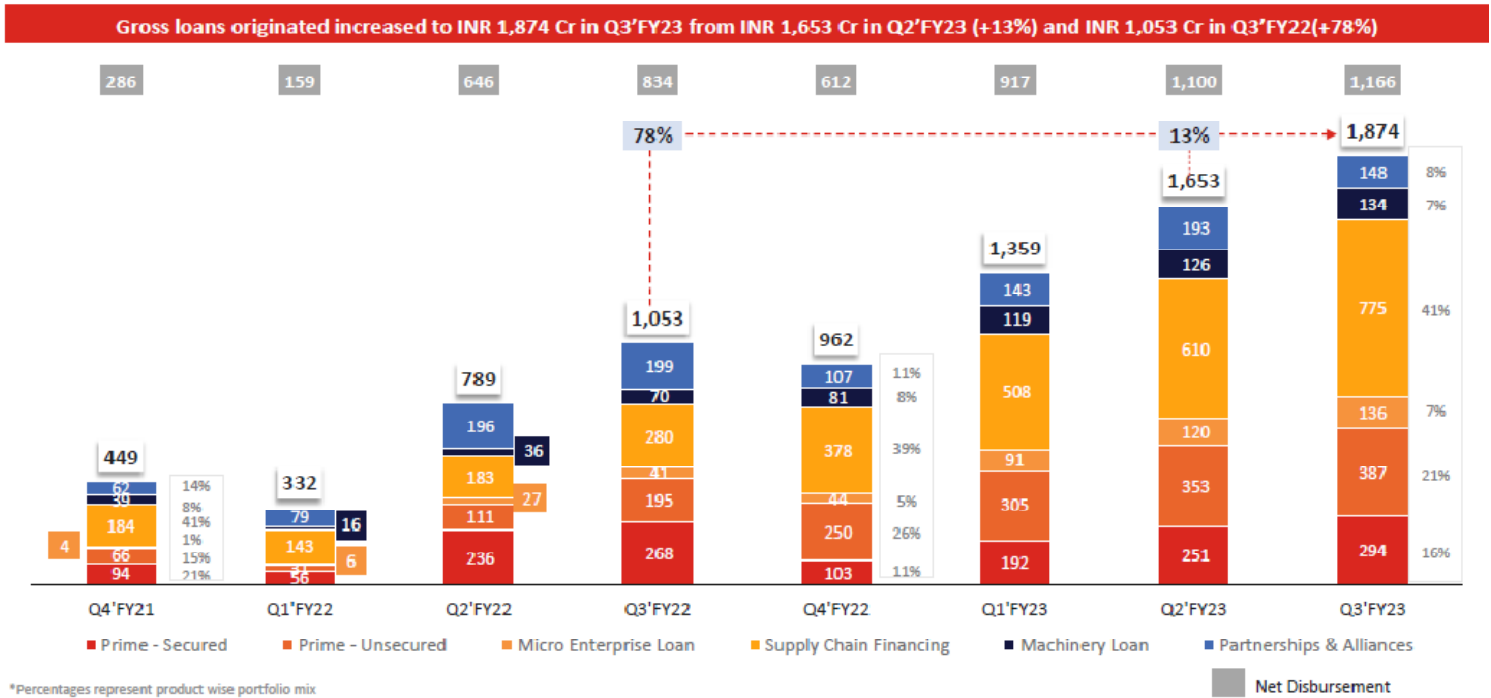
Source: Company

#### Sectoral Mix as on Q3FY23



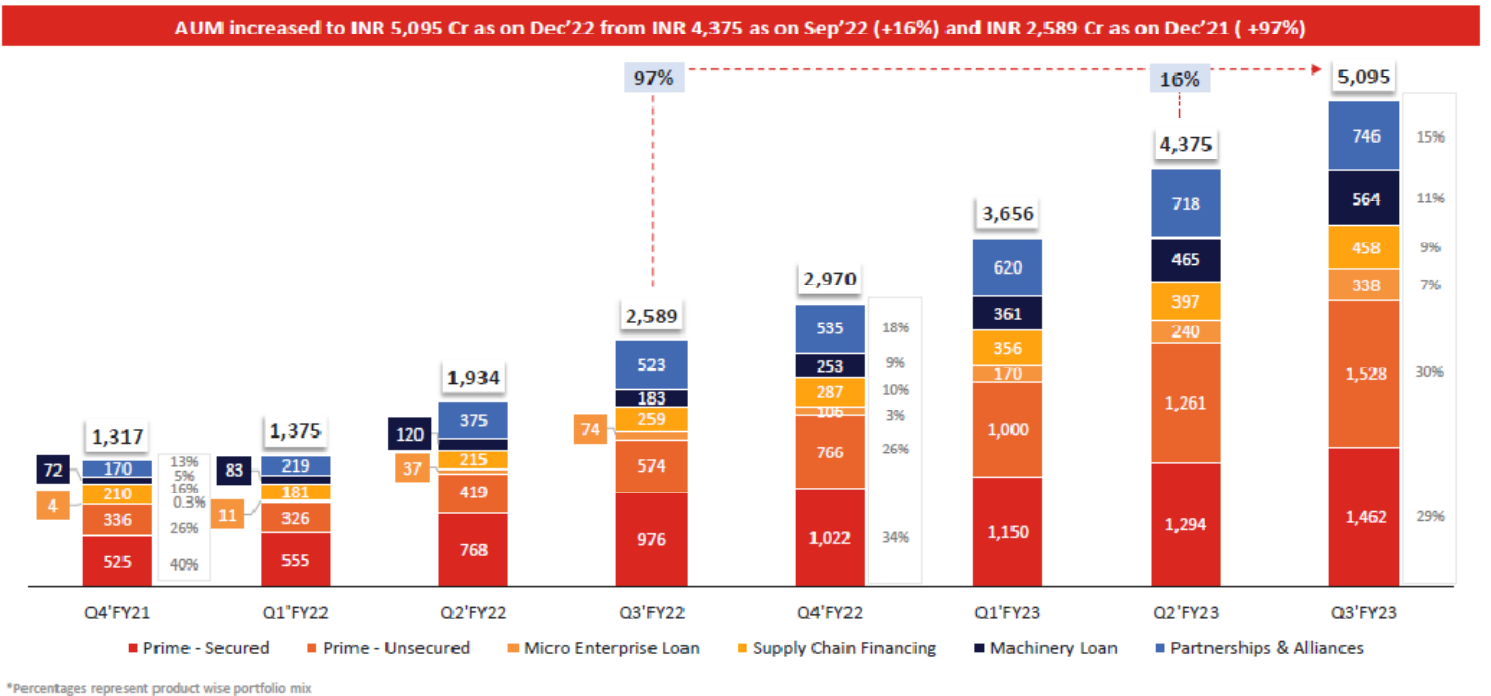
Source: Company

## Loan origination/Disbursement Trend (Product - wise Q-o-Q)( Rs. in Crore)



Source: Company

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

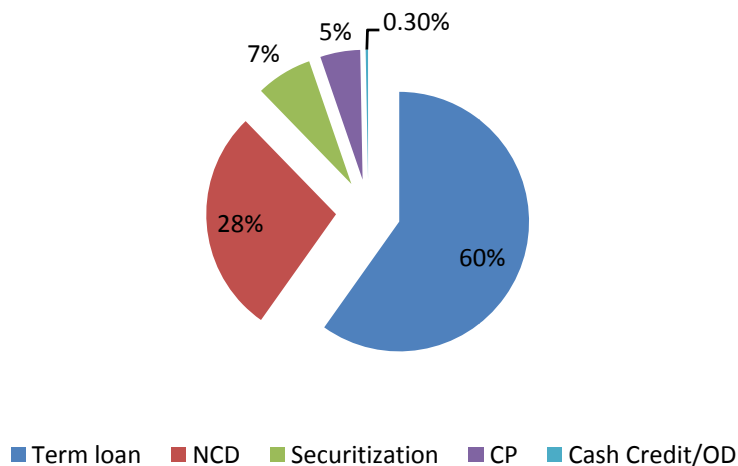


Source: Company

### Liability and liquidity position

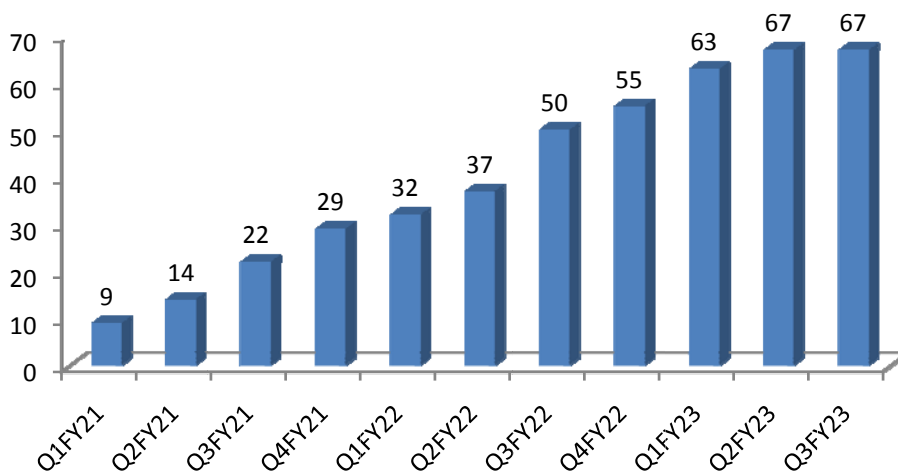
- 1) As on December 2022, total lender count stood at 67. The Company's total Debt stood at Rs. 2,885 Crore as on Q3FY23.
- 2) Overall Debt to Equity Ratio stood at 3x. The management in its Q2FY23 analyst concall had said that it will cap its Debt to Equity ratio at 4.5x.
- 3) The Company has efficiently 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 35 percent in Q3FY23 as against 29 percent 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 21.54% as on Dec. 2022

### Liability Mix as on Q3FY23



Source: Company

### No. of lenders



Source: Company

**Current Month Collection (excluding overdue)/Current Month Demand**

Particulars	Collection efficiency
Dec. 2022	93.9%
Nov. 2022	93.7%
Oct. 2022	93.5%
Sep. 2022	93.8%
Aug. 2022	93.9%
July 2022	93.9%
June 2022	93.9%
May 2022	93.4%
April 2022	94.3%

Source: Company

**Total Collections\* (including overdue)/Current Month Demand**

Particulars	Collection efficiency
Dec. 2022	97.8
Nov. 2022	97.4
Oct. 2022	96.7
Sep. 2022	97.7
Aug. 2022	97.7
July 2022	96.9
June 2022	97.2
May 2022	96.4
April 2022	96.9

Source: Company

ECL Data (Dec. 22)	Loan exposure	Loan exposure (%)
Stage 1	4,901	96.2
Stage 2	106	2.1
Stage 3	88	1.7
<b>Total</b>	<b>5,095</b>	<b>100.0</b>

Source: Company

- 1) Total Provisions as of Dec. 2022 stood at Rs. 74.4Crore (1.5 percent of AUM)
- 2) GNPA stood at 1.7 percent and NNPA stood at 1.1 percent as of December 2022.
- 3) Total restructured portfolio stood at 1.5 percent of Total AUM

## What makes UGRO 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	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

#### Technology Platforms

- Web & Mobile based applications for each business channel integrating on one common business platform

#### Origination

- Mapping of new locations for expansion
- Use of satellite imagery and heat maps to identify active clusters
- Field tracking and sales incentivization



- Machine learning algorithms to synthesize large volume of information
- In house business rule engine enabling faster rollout of newer models

#### Operations and Collections

- E-Sign Application, E-Agreement, Customer WhatsApp bot, E-NACH
- Payment gateway integration

#### Portfolio Monitoring (Early Warning signals)

- First generation trigger ruleset for tracking portfolio performance
- Portfolio loss forecasting using borrower level assessment

**U GRO**  
CAPITAL

Powered by Data & Tech

- Leading NBFC transition to "Lending as a service"
- Faster customer TAT and credit decisioning
- Robust underwriting using alternate data
- Higher adaptability to market changes
- Industry pioneers in Co Lending

Source: Company



**Data driven proprietary scoring model powered by AI/ML Models**

**Ability to capture alternate data from banking and bureau...**



**Machine generates 25,000+ data features from an applicant's bureau record and bank statement**

**Across Multiple parameters**

- Turnover and transaction intensity
- Borrowing mix and nature
- Cheque bounces & bank charges
- Frequency and magnitude of defaults
- Payment cycles
- History of high-cost debt/ credit card usage
- Obligations as % of turnover
- Balances and withdrawals
- Counterparties & relative strengths
- Pace of borrowing

**...to draw meaningful insights out of unorganized data...**

**GRO 2.0**  
Credit Bureau Data + Banking Data

**GRO 3.0**  
Credit Bureau Data + Banking Data + GST



Matches Banking & Bureau Scorecards to generate one single score which further gets augmented with GST data as an external input



**Artificial Intelligence**  
Engineering of making Intelligent Machines and Programs



**Machine Learning**  
Ability to learn without being explicitly programmed



**Deep Learning**  
Learning based on Deep Neural Network

Historical aggregation – several pages of statement going back 12 months can be summarized instantly

Normalization – convert absolute values to scale, for even comparison

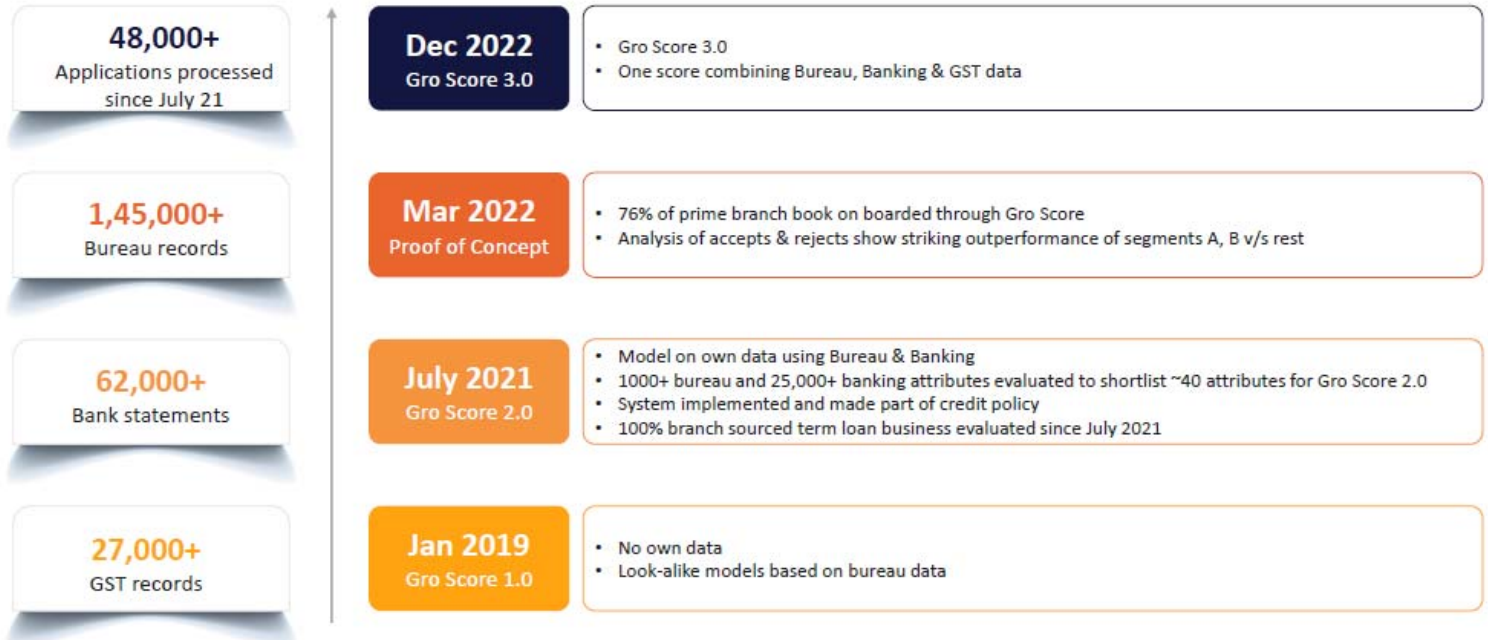
Trending – changes over time, create standardized measure of comparison across diverse nature of entities, sectors, geographies

Scoring of each case into one of the five bands of A – E with A being the best and E being the worst



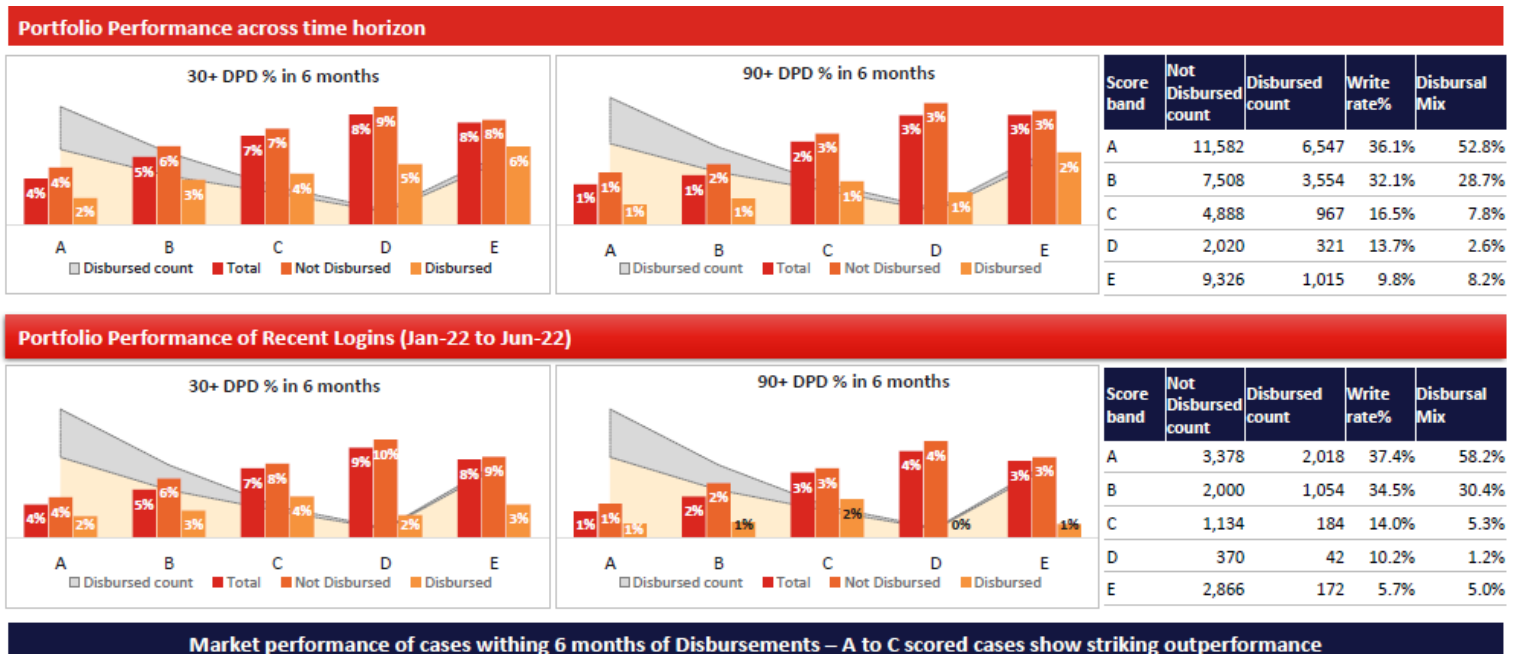
**... and decide whether to disburse or not disburse the loan within 60 minutes.**

## Revolutionizing credit to MSMEs through data driven underwriting



Source: Company

## GRO Score 2.0 - Analysis of accepts and rejects



Source: Company

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

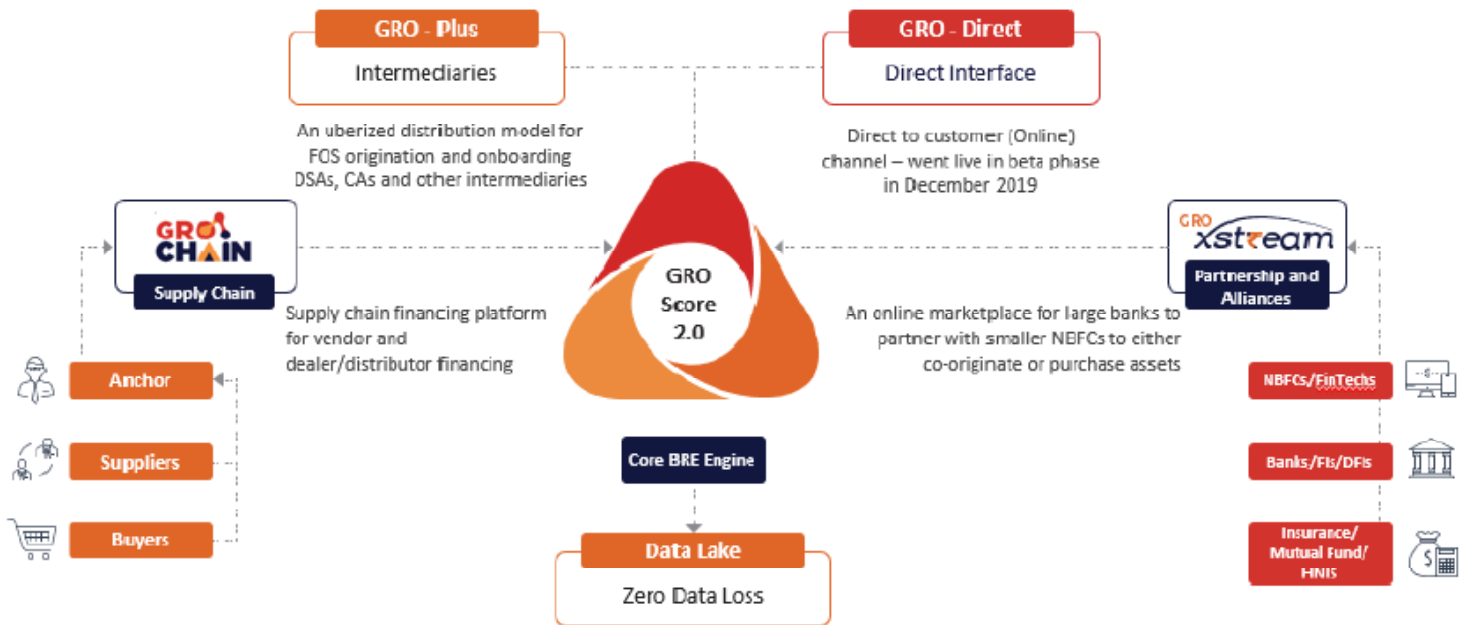
Sector focused approach with ability to address all credit needs of MSMEs



Source: Company

On an analyst query with regards to looking beyond the shortlisted sectors, Mr. Anuj Pandey: Chief Revenue Officer, UGRO Capital in the Q3FY23 analyst concall said "we had selected these 8 sectors and then we added a 9th sector called Micro when we started the business, they were actually pretty large sectors in themselves and contributed about 45% to 50% of total SME GDP. And now we are seeing traction overall and the buoyancy. If you recall, our 8 sectors, 3 are quite service-oriented and 5 are mixed, all towards consumption. We are seeing very good growth in these sectors. And at this point in time, we don't see any reason why we should add more. But in case there is some opportunity which comes in where we see a lot of potential, theoretically, we are open, but at this point in time, we would like to focus on these 8 sectors and keep building our expertise."

### 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
<b>Catering through 95+branches</b>	<b>Catering through Anchor and OEM partners</b>	<b>Catering through Fintech Partners</b>	<b>100% Digital sourcing of MSME loans</b>
<b>Prime Loan Branches</b> - 23 Branches with loans largely sourced through intermediate channel	<b>Supply Chain Financing</b> - Anchor and its ecosystem financing of Supply Chain	<b>Co-Lending</b> - Joint lending partnerships with NBFCs (downstream)	Allows MSMEs to directly apply for credit and further reducing TATs
<b>Micro Loan Branches</b> - 75 branches across 5 states, loans to be directly sourced by FOS	<b>Machinery Finance</b> - Secured Loans to machine buyers with a charge on machines	<b>Fintech Partnerships</b> - 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
<b>LAP</b>	50L-500L	12%-12.5%	<b>LAP</b>	0.5L-25L	18%-23%
<b>Affordable LAP</b>	10L-15L	14%-18%	<b>Unsecured</b>	0.5L-5L	25%-28%
<b>Unsecured</b>	1L-35L	14%-26%			

Source: Company

	<b>Ticket size</b>	<b>ROI</b>
<b>Machinery Finance</b>	10L-300L	13%-15%
<b>Supply Chain Finance</b>	10L-300L	13%-14%

Source: Company

	<b>Ticket size</b>	<b>ROI</b>
<b>Secured/Unsecured Loans</b>	0.5L - 30 L	18% - 28%

Source: Company

	<b>Ticket size</b>
<b>Direct Digital Channel</b>	INR 1L- 15 L

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

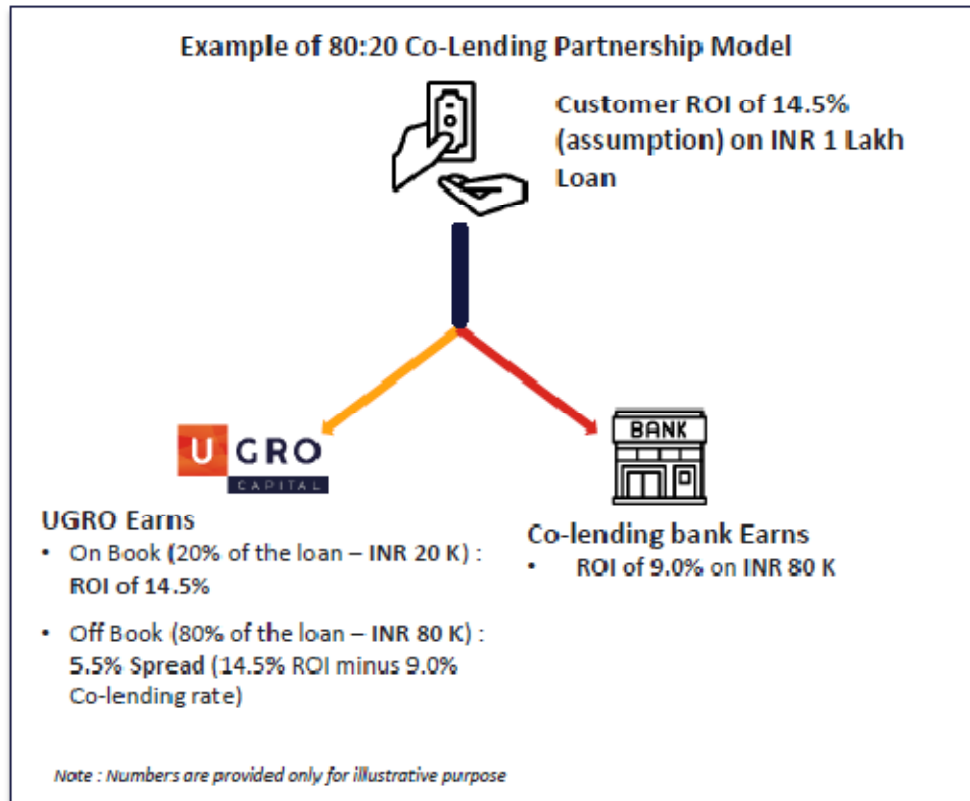
- 1) Co-origination with larger banks to originate higher ticket loans
- 2) Co- origination partnership with larger banks
  - a) Bank of Baroda
  - b) State Bank of India
  - c) IDBI Bank
  - d) Central Bank of India
  - e) Indian Overseas Bank
  - f) Punjab & Sind Bank
- 3) Co- origination partnership with 4 NBFCs

### 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 accretive model



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. At present, Co - Lending portfolio contributes 35 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) Paripassu risk sharing with the partner

### Benefits to Partner Institution

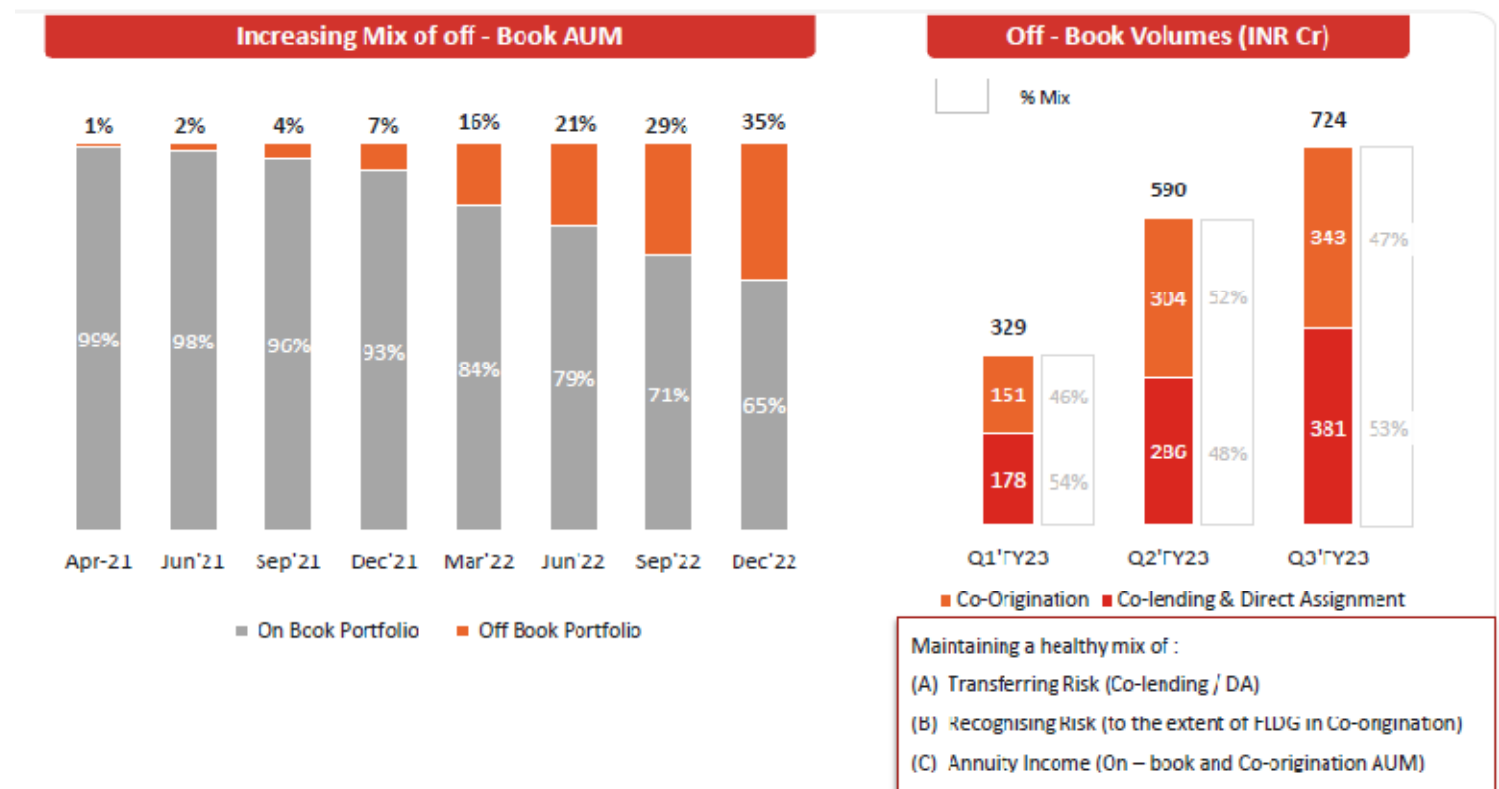
- 1) Risk weight lower in case of Co-lending vis-a- vis lending directly to NBFCs
- 2) Cost of Capital advantage combined with no operating cost leading to higher returns on risk adjusted basis
- 3) Granular build-out of Portfolio
- 4) Build-out of PSL portfolio
- 5) End use visibility of funds disbursed

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

In addition, UGRO Capital also has co - lending partnerships with 4 NBFCs.



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 Sathiyayan -**  
**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

## Independently Supervised: Eminent Board of Directors



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



**S. Karuppasamy -**  
**Chairman, Compliance**  
**Committee**  
Ex-Executive Director, RBI



**Abhijit Sen -**  
**Chairman, Audit Committee**  
Ex-CFO, Citi-India



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



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



**Rajeev K. Agarwal -**  
**Chairman, Stakeholder**  
**Committee**  
Ex-Whole Time Member, SEBI



**Smita Aggarwal -**  
**Independent Director**  
Global Investment Advisor at  
Flourish Ventures



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



**Chetan Gupta**  
**(Samena Nominee)**  
Managing Director at Samena  
Capital



**Manoj Sehrawat**  
**(ADV Nominee)**  
Partner at ADV

Legend: Independent Directors, Non-executive Directors

Source: Company



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

**Business model evolving to generate significant cashflows**

- 1) 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	Q3FY23*	Q2FY23**	Q1FY23*	FY23P	FY25P
<b>AUM (Rs. in Crore)</b>	5,095	4,375	3,656	7,000+	20,000+
<b>Off Book AUM</b>	35%	29%	21%	35%	50%
<b>Net Total Income as a % of Gross On Book AUM</b>	12.9%	11.3%	10.5%	13.0%	15.0%
<b>Cost/Income Ratio</b>	63.9%	62.9%	72.1%	60.0%	45.0%
<b>Credit cost/Avg. Total AUM</b>	1.4%	1.5%	1.1%	1.5%	1.5%
<b>PBT/Avg. TA</b>	2.3%	2.0%	1.5%	2.5%	5.5%
<b>PAT/Avg. TA</b>	1.4%	0.6%#	1.0%	2.0%	4.5%
<b>ROE % (Avg.)</b>	5.5%	2.2%	3.0%	6.0% - 8.0%	18.0%
<b>Leverage</b>	3.0x	2.9x	2.3x	2.4x^	3.8x^

Source: Company, \* Annualized ratios, " post accounting for regroupings of Q2FY23, ^ Presumed infusion of equity capital, #post factoring impact of deferred tax reversal (~Rs. 7.19 Crore in Q2FY23) adjusted PAT of ~12.5 Crore for Q2FY23: adjusted ROE of ~5.2% (Q2FY23)

#### Investment recommendation and rationale

At CMP of Rs. 151.45 the stock is valued at a P/BV of 1.08x (Book Value per share as on 9MFY23 - Rs. 139.78). We recommend a "Buy" with a target price of Rs. 280 (P/BV multiple of 2x at 9MFY23 Book Value).

We believe the Company deserves a premium in valuation due to the following factors:

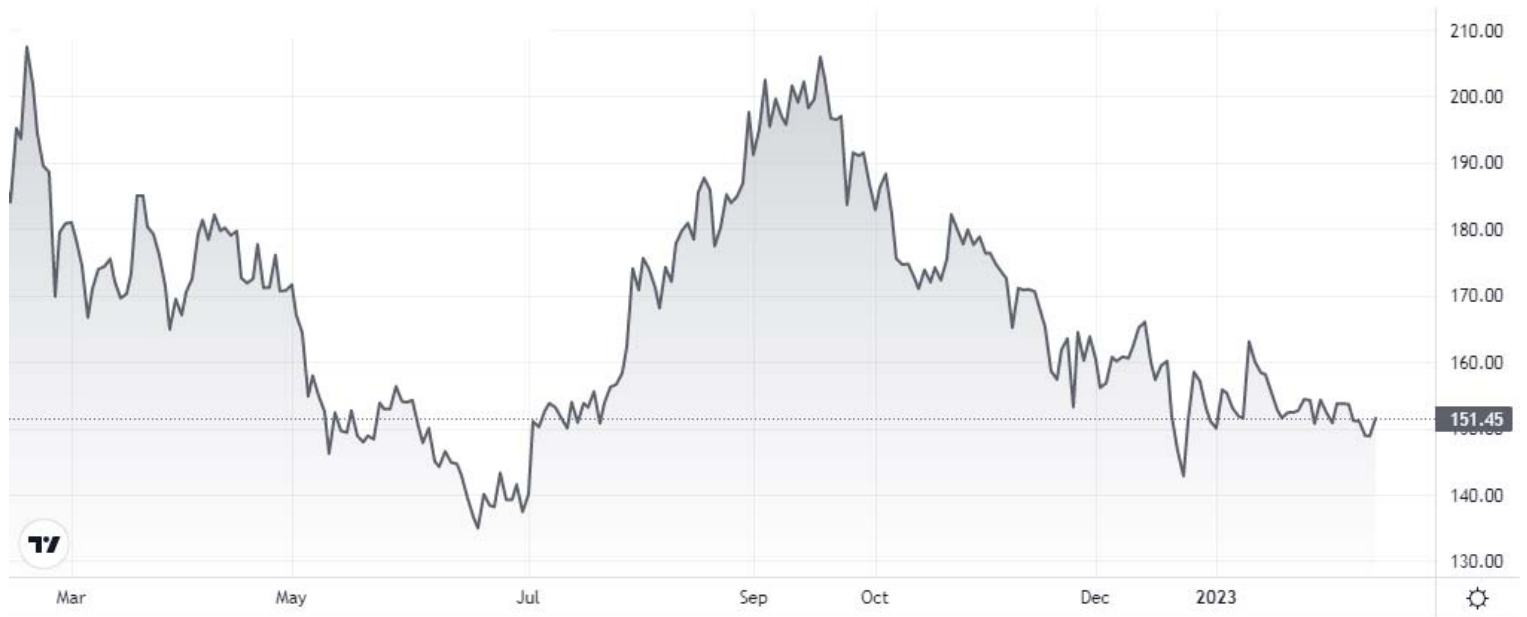
- 1) U GRO Capital is DataTech NBFC and pioneer of Lending as a service (L-a-a-S) which is a highly profitable model;
- 2) Company's business model is well suited to the new age;
- 3) Specialized lenders like U GRO Capital are better positioned to bridge the MSME Credit gap;
- 4) Underwriting in MSME 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) The Company's distribution and liability strategies are both powered by proprietary technology modules;
- 8) U GRO's distribution model is geared towards catering MSMEs across all geographies and ticket sizes;
- 9) Well diversified and granular portfolio;
- 10) 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;

- 11) **Active lenders: 67 as on December 2022;**
- 12) **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 - just piloted);**
- 13) **Risk management through "Expert Scorecards" for all Sub-sectors;**
- 14) **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;**
- 15) **Credit process enabled by Integrated technology and a paperless, seamless customer onboarding & underwriting process supplemented by physical underwriting;**
- 16) **Collection efficiency continues to remain robust;**
- 17) **Company surpassing its guidance of AUM growth and is consistently meeting its targets on different parameters which instills confidence;**
- 18) **Good performance in 9MFY23 result with strong outlook for the future and good performance expected in the coming quarters.**



**AJCONGLOBAL**  
YOUR FRIENDLY FINANCIAL ADVISORS

One year price movement chart



Source: Moneycontrol

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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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