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UGRO Capital Limited - "Buy", Upside: 37.62% **May 26, 2023**

We had initiated coverage on "UGRO Capital Limited" on October 2021 at Rs. 131.30 with a target price of Rs. 175.5 which was achieved and later got revised from time to time based on the quarterly performance of the Company. We continue our coverage on the Company post its Q4FY23 and FY23 results and revise our price target to Rs. 289 per share and hereby present the updated research report.

UGRO Capital

- **UGRO Capital Limited 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 colending, an upstream and downstream integration with fintechs and liability providers and GRO X application to deliver embedded financing option to MSMEs..**
- **The credit scoring model GRO Score (3.0) a statistical framework using AI / ML driven statistical model to risk rank customers is revolutionizing the MSME credit by providing on-tap financing like consumer financing in India..**
- **The Company is backed by marquee institutional investors (raised Rs. 900+ Cr of equity capital in 2018 and Rs. 340 Crore in 2023) ..**
- **The Company has efficiently leveraged the co-lending partnerships, with off-book AUM at 40% in FY23..**
- **The Company has 46,000+ active borrowers, 1,700+ Employees, 98 branches, partnerships with 66 lenders and 10 Co- lending partners..**
- **Assets under management (AUM) has grown to Rs. 6,081 Crore in FY23 from Rs. 1,317 Crore in FY21 and expected AUM of ~Rs. 10,000 Crore for FY24 with RoA of ~3.1 % for FY24 and RoE**

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Investment Rationale and recommendation

We recommend a "Buy" with a target price of INR 289 (P/BV multiple of 2x at Adjusted FY23 Book Value (post QIP and Preferential issue). We believe the Company deserves a premium in valuation due to the following factors:

1) UGRO Capital is DataTech NBFC and pioneer of Lending as a service (L-a-a-S) which is a highly profitable model;
2) Emerged as one of the fastest-growing and one of the largest Lending-as-a-Service providers in the MSME co-lending space where its total off-book AUM proportion is 40% and on book AUM proportion is 60%.
3) Underwriting in MSME space is moving from collateral based to cashflow based in which UGRO specialises;
4) The Company has a sectoral based lending approach by short listing 8 core sectors of MSMEs and further added 'Micro Enterprises' as the 9th sector post careful filtration of 180+ sectors;
5) The Company has developed Data driven proprietary scoring model powered by AI/ML Models - superior underwriting framework - GRO 3.0 (combines credit bureau data, banking data and GST); Risk management through "Expert Scorecards" for all Sub-sectors;
6) Credit process enabled by Integrated technology and a paperless, seamless customer on boarding & underwriting process supplemented by physical underwriting;
7) The Company's distribution and liability strategies are both powered by proprietary technology modules; U GRO's distribution model is geared towards catering MSMEs across all geographies and ticket sizes with well diversified and granular portfolio;
8) Company is backed by Marquee Institutions. 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, SBI Life Insurance Company, Go Digit General Insurance, PNB Metlife India Insurance Company;
9) The Company's announcement of Equity Capital Raise of INR 340.5 Crore in April 2023 - Private Placement Offering of Rs. 240 Crore to IFU Investeringsfonden for Udviklingslande (IFU) - Danish Development Finance Institution (independent Denmark government - owned fund) and QIP of Rs. 100.5 Crore from marquee domestic investors like SBI Life Insurance Company, Go Digit General Insurance, SBI General Insurance and other marquee investors instills confidence on the Company;
10) Collection efficiency continues to remain robust and restructured loans too have decreased to 1.1% of Total AUM as on Q4FY23 from 3.8% of Total AUM as on Q4FY22;
11) Company surpassing its guidance of AUM growth and is consistently meeting its targets on different parameters which instills confidence;
12) Strong performance in Q4FY23 and FY23 result with strong outlook for the future (Management guidance: AUM target of INR 10,000 Crore for FY24, Disbursement target of INR 6,400 Crore in FY24, with a targeted RoA OF 3.1 percent and RoE of ~10%) and good overall performance expected in the coming years.

CMP	**INR 210 (Face value: Rs. 10)**
Book value	**INR 144.4 per share as on Q4FY23 (adjusted for QIP issue and Preferential Allotment)**
Recommendation	**Buy**
Target price	**INR 289**
Upside	**37.62%**
52 Week High/Low	INR 227.25 /INR 131.25
Market Cap	Rs. 1,940.58 Crore
NSE/BSE code	UGROCAP / 511742
Bloomberg code	UGRO:IN
Price performance	1 month: 20.85%, 3 months: 38.41%, YTD: 39%, 1 Year: 37.91%

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

Source: Company's Audited Financial results of respective years filed with the exchanges , # Adjusted PAT = PAT without considering impact of deferred tax reversal of Rs. 20.6 Crore in FY23; Adj. PAT FY23 is INR 60.4 Crore, ^Net Disbursement = Gross Disbursements – Repayment received in Supply Chain Financing during the period, ^^ does not factor in the capital raise done in the month of April 2023 and May 2023

Management guidance:

AUM target of INR 10,000 Crore for FY24, Disbursement target of INR 6,400 Crore in FY24, with a targeted RoA OF 3.1 percent and RoE of ~10.1 percent

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What makes UGRO Capital Unique?

High Growth, Improving Operating Profitability and good collection efficiency..

- **AUM Crossed INR 6,000 Crore mark within 4 years of Operations as on Q4FY23 - Delivered YoY AUM growth of 105% and 19% QoQ AUM Growth..**

High Growth in AUM has largely been a factor of:

1) **Large Capital Base at Inception:** UGRO was formed by raising ~INR 900+ Crore equity from marquee private equity players, with a large equity base from day 1 the Company leveraged the same to build an infrastructure ecosystem which would be geared to capture 1% market share in MSME lending.

2) **Formidable Distribution Strength:** Over its four years of operations (including 2 COVID -19 waves) the Company has heavily invested in creating four broad distribution channels namely (1) Prime Business (2) Micro Business (3) Ecosystem and (4) Partnerships & Alliances. Across these 4 channels the Company has built an infrastructure of 98 branches, 1,200+ GRO partners, 105+ Anchor / OEM partners and 940+ Sales employees

3) **Robust Underwriting Model:** Company's ability to provide in principle decisioning in < 60 mins significantly improves TAT and customer stickiness at the time of origination.

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

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

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

   a. The Company's Off Book AUM stood around Rs. 2,442 Crore (QoQ growth of 38 percent) as on FY23. The Company's Net Worth stood at INR 984 Crore and a debt-to-equity ratio of 3.2x as on FY23. A traditional NBFC with a similar amount of Capital base and leverage would have been able to generate a lower AUM.

   b. Co - Lending is a value accretive model

Benefits to UGRO Capital

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

Benefits to Partner Institution

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

Growth momentum is expected to continue in next 12 months due to the following factors:

1) ***Large MSME Market:*** MSME credit gap in India stands at ~ INR 23 – 25 lakh Crore basis RBI estimates.

2) ***Underutilized Capacity:*** Large infrastructure created by the Company over the past 4 years is still underutilized and is expected to support growth with minimal investments.

3) ***Sufficient Capital base post Apr'23 Fund Raise:*** INR 340.5 Crore fund raise in Apr'23 through a mix of Preferential Issue (INR 240 Crore from Danish Government Backed DFI, IFU through its Danish Sustainable Development Goals Investment Fund K/S) and QIP (INR 100.5 Crore raised from marquee Domestic Institutions including the likes of SBI Life, SBI General and Go Digit)

❖ Profitability

FY23 Pre - provision Operating Profit (PPOP) stood at INR 140.6 Crore registering a YoY growth of 184%. PPOP in Q4FY23 stood at INR 51.1 Crore registering a QoQ growth of 31% and a YoY growth of ~ 196%

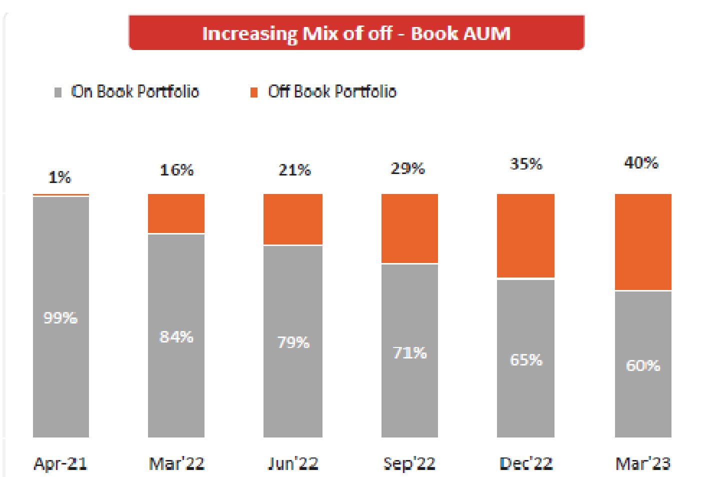
The major factors contributing to the growth in profitability are as below:

1) **Improving Net Total Income:** Net Total Income as a % of Avg. Gross on Book AUM increased to 12.2% for FY23 as compared to 9.2% in FY22, Q4FY23 exit ratio stood at 13.7% whereas Q4FY22 ratio was 10.4% Company has improved its top line through a dual strategy of (1) Improving product mix of high yield products and penetrating into higher yield segments within the existing products and (2) Spread Income on Off Book Portfolio.

   a) UGRO's weighted average portfolio yield has improved to 17.3% as on Mar-23 from 16.4% as on Mar-22. At a product mix level, the combined share of high yield Prime Unsecured and Micro loans (19%+average yield products) has increased from 29% as on Mar-22 to 39% as on Mar-23 thereby improving the overall Company yields.

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

   b) Off Book AUM proportion has increased to 40% as on Mar-23 from 16% as on Mar-22. Management has indicated that the spread income on Off Book portion is marginally higher than the On-Book spreads which further augments top line growth of the Company. Management has indicated that the spread income on Off Book portion is marginally higher than the On-Book spreads which further augments top line growth of the Company.



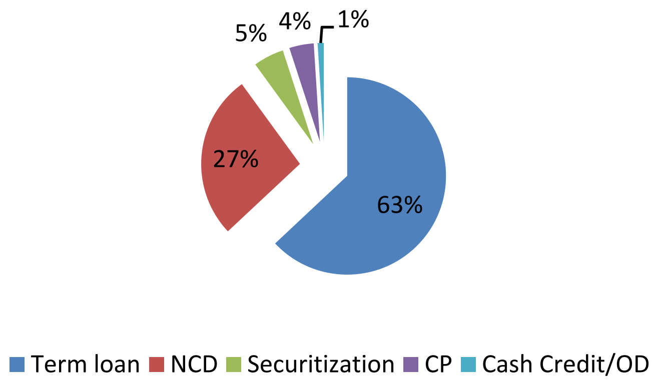
	Apr-21	Mar'22	Jun'22	Sep'22	Dec'22	Mar'23
Off Book AUM	**11**	**478**	**782**	**1,272**	**1,775**	**2,442**
Co-Origination	-	144	304	619	915	1,181
DA & Co-lending	11	333	478	654	860	1,261

Source: Company's Q4FY23 Investor presentation

Over FY23 the overall borrowing cost has increased by ~ 30bps to 10.6%, this increase was marginal considering the overall increase in the larger interest rate market which was adversely impacted by macro-economic headwinds.

The primary source of On Book liabilities continues to be Term loans (63%) from Banks and Financial institutions. However, the Company has also developed other sources such as NCDs, CPs and DFIs.

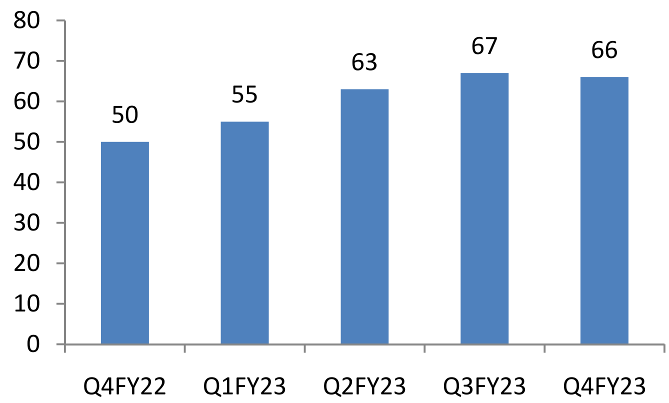
Liability Mix as on Q4FY23



Source: Company's Q4FY23 Investor Presentation

At a lender level the Company has increased its lender count from 50 as on Q4FY22 to 66 as on Q4FY23. New lender addition has remained flat since Q3FY23, Company has indicated that they have been able to penetrate a large lender base and would now move into consolidation phase.

No. of lenders



Source: Company's Q4FY23 Investor Presentation

2) **Improving Operating Leverage**: The Company's Cost to Income ratio decreased to ~ 62% in FY23 from ~ 72% in FY22 whereas for Q4FY23 the same ratio has come down to ~ 56% as compared to ~ 73% for Q4FY22 and ~ 64% for Q3FY23.

Being incorporated as an organization to support large scale of business the Company is benefiting from high growth in its AUM as operating leverage starts playing out.

The Company has established a sourcing infrastructure of 98 branches and 1,700+ employees including ~180 collection employees. As a strategy the Company has started to sweat out its existing infrastructure to achieve its growth targets.

Operating Profitability is expected to improve further in next 12 months with:

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

The Company has recently launched another high yield product GRO X. This is an effort to establish direct to customer business channel offering on tap working capital to merchants through mobile application.

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

c) **Improving Operating Leverage:** Majority of the operating cost was upfronted in the initial built our phase and the Company's current infrastructure is expected to support next 12 month's growth target with minimum cost increments.

❖ Asset Quality

Gross NPA as a % of Total AUM has decreased from 2.3% in FY22 to 1.6% in FY23 while Net NPA as a % of Total AUM has decreased from 1.7% as on Mar'22 to 0.9% as on Mar'23

The various Factors Contributing to healthy portfolio quality:

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

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

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

4) **Partial De Risking of AUM through Co-lending:** Off Book Co-lending book does not carry any credit risk whereas Off Book Co-origination book carries risk to the extent of FLDG. However, absolute credit cost has increased from ~ INR 29 Crore in FY22 to ~ INR 57 Crore in FY23 registering 93% growth whereas credit cost for Q4FY23 stood at ~INR 18 Crore vis a vis ~INR 17 Crore for Q3FY23 and INR 9 Crore for Q4FY22.

5) At an absolute level, though stage 3 AUM has increased from ~ INR 55 Crore as on Mar-22 to ~ INR 99 Crore as on Mar-23, this was partially on account of slippages from the restructured book which has decreased from ~ INR 113 Crore as on Mar'22 to ~INR 65 Crore as on Mar'23. The Management has indicated that as on Mar'23 repayment has started for the entire restructured portfolio and majority of the expected GNPAs from the restructured book have materialized.

ECL Data (March 2023)	Loan exposure	Loan exposure (%)
Stage 1	5,844	96.1
Stage 2	138	2.3
Stage 3	99	1.6
Total	**6,081**	**100.0**

Source: Company's Q4FY23 Investor Presentation

6) **Increase in Provision Coverage Ratio (PCR):** PCR has improved from 26.9% as on Mar'22 to 48.6% as on Mar'23. Management has indicated that this was largely done to align with the broad market standards, and they have now matched the same.

7) **Increase in provision for Standard Assets:** With absolute increase in AUM provisioning for Standard AUM has also increased in absolute amount and the same has driven up the absolute credit cost on P&L as well.

8) **Factors to draw partial comfort on Portfolio Quality:**

a) **Range bound Collection Efficiency and Stage 1 assets**: Over the past one year, the Company's collection efficiency has been in the range of 96% - 98% whereas Stage 1 assets have been ~ 96%.

b) **Run Down of Restructured Book and improved PCR:** Restructured book has gradually decreased over period of time and as on Mar-23 stands at ~INR 65 Crore which amounts to ~ 1.1% of AUM. PCR has been brought in line with market standards at ~ 49% and the same provides an adequate cushion for P&L in case the losses were to actually materialize.

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c) According to the Management estimates, unsecured loans would carry a lifetime GNPA of ~ 3% - 3.5% whereas for collateral backed secured loans the same would be in the range of ~ 0.5% - 0.75%.

As a result of the above, PBT for FY23 stood at ~INR 84 Crore registering a YoY growth of ~ 315% whereas PBT for Q4FY23 stood at ~ INR 51 Crore registering a QoQ growth of ~ 31% and YoY growth of ~ 319%. Pre-Tax RoTA for FY23 stood at 2.3% whereas for Q4FY23 the same stood at ~ 3.2%.

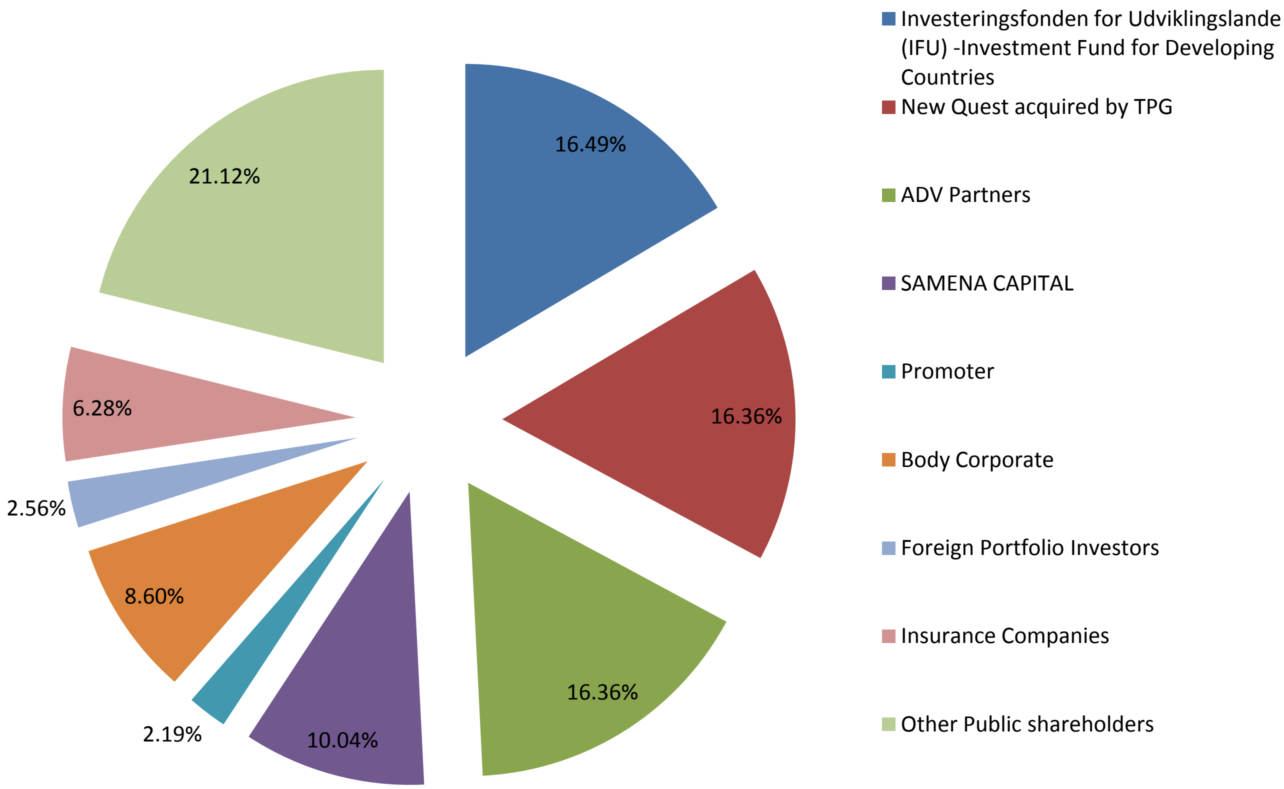
PAT for FY23 stood at INR 39.8 Crore registering a YoY growth of ~173% whereas PAT for Q4FY23 stood at INR 14 Crore registering a QoQ growth of ~7% and YoY growth of ~131%. Return on Average Total Assets (RoTA) for FY23 stood at ~ 1.1% (0.6% in FY22) whereas for Q4FY23 stood at ~ 1.4%.

PAT for FY23 was partially dragged by deferred tax asset write off of ~ INR 21 Crore whereas the same for Q4FY23 stood at ~ INR 9 Crore. Adjusted PAT for FY23 stood at INR 60.4 Crore (YoY growth of ~ 315%) and for Q4FY23 stood at INR 23.2 Crore (QoQ growth of 34% and YoY growth of ~ 282%). Adjusted RoTA for FY23 stood at ~ 1.7% and for Q4FY23 stood at ~ 2.2% (1.8% in Q3FY23)

The Company's ability to scale business profitably shall be put to test in the coming quarters and the credit behaviour of the portfolio shall become clearer with increasing vintage.

FY23 ROE for the Company improved to ~4.1% and Q4FY23 ROE stood at ~ 5.8%. Adjusted FY23 ROE stood at ~6.2% whereas for Q4FY23 the same was ~9.5%. Based on management discussion in Q4FY23 concall, the Company is expected to deliver ROA of ~ 3.1% and ROE of ~ 10% for FY24.

Shareholding pattern as on May 12, 2023 post issuance of equity to Investeringsfonden for Udviklingslande (IFU)



Source: Company's Q4FY23 Investor Presentation

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Quarterly result update

Quarterly Income statement

Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Interest Income	94.0	93.1	115.7	133.1	141.1
Income on Co-Lending / Direct Assignment	14.6	22.6	28.4	42.9	62.4
Other Income	4.3	8.1	11.2	13.6	13.7
Total Income	**112.8**	**123.8**	**155.3**	**189.6**	**217.2**
Interest expense	49.6	53.1	68.5	81.6	90.4
Net Total Income	**63.2**	**70.7**	**86.8**	**108.0**	**126.8**
Employee cost	28.0	21.8	30.9	40.5	40.1
Other expenses	18.0	29.2	23.5	28.6	35.5
PPOP	**17.3**	**19.7**	**32.4**	**38.9**	**51.1**
Credit cost	9.3	9.4	14.9	16.7	17.5
PBT	**8.0**	**10.4**	**17.6**	**22.2**	**33.7**
Tax	1.9	3.0	5.1	4.9	10.4
PAT (Adjusted)*	**6.1**	**7.3**	**12.5**	**17.3**	**23.2**
Deferred Tax write-off	-	-	7.2	4.2	9.2
PAT	**6.1**	**7.3**	**5.3**	**13.1**	**14.0**

Source: Company's Investor presentation for respective quarters

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

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

Key Parameters

Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Balance sheet Parameters					
AUM	2,969	3,656	4,375	5,095	6,081
Growth %		23%	20%	16%	19%
Gross loans originated	963	1,359	1,653	1,874	2,314
Growth %		41%	22%	13%	23%
Net loans originated	612	917	1,100	1,166	1,459
Growth %		50%	20%	6%	25%
Off Book AUM	478	782	1,272	1,775	2442
Off Book AUM (% of Total AUM)	16%	21%	29%	35%	40%
CRAR	34.4%	28.2%	24.7%	21.5%	20.2%
Leverage	1.9x	2.26x	2.9x	3.0x	3.2x
Profit & Loss Parameters					
Portfolio Yield	16.4%	16.7%	17.3%	17.4%	17.3%
Cost of Borrowings	10.3%	10.5%	10.5%	10.5%	10.6%
Net Total Income (% of Gross On-Book AUM)	10.4%	10.5%	11.3%	12.9%	13.7%
Cost to Income Ratio	73.3%	72.1%	62.7%	63.9%	55.9%
Credit cost (% of Avg Total AUM)	1.5%	1.4%	1.5%	1.3%	1.4%
ROA	0.9%	1.0%	0.6%	1.4%	1.4%
ROE	2.5%	3.0%	2.2%	5.5%	5.8%
Adjusted ROA	0.9%	1.0%	1.4%	1.8%	2.2%
Adjusted ROE	2.5%	3.0%	5.2%	7.2%	9.5%
Asset Quality Parameters					
GNPA	1.9%	1.7%	1.7%	1.7%	1.6%
NNPA	1.4%	1.3%	1.2%	1.1%	0.9%
Collection Efficiency	98.1%	96.9%	97.4%	97.3%	97.6%
Restructured Book	3.9%	2.7%	1.9%	1.5%	1.1%

Source: Company's Investor presentation for respective quarters

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Key Takeaways from Q4FY23 Earnings conference call

AUM

1) Continued with Growth momentum and achieved an AUM of 6,000+ Crore registering 105% growth on YoY basis
2) One of largest Lending as a service provider in the MSME Co-lending space with total off book AUM of 40%
3) 52% LTV for secured property and 70% LTV for secured machinery
4) Achieve an off-book AUM of 50% by 2025

Capital Raise

1) Raised INR 340 Crore through combination of QIP and Preferential allotment, INR 240 Crore has been raised through Preferential issue where Denmark government backed sovereign fund IFU has participated and invested INR 240 Crore and its QIP amounting to ~INR 100 Crore was completed during the month of April where funds were raised from domestic institutions and some of the large insurance companies participated as primary participants of the issue. According to the management, CRAR, post capital infusion is around 30%.

Operating expenses

1) Cost to Income ratio has reduced to 56% in Q4FY23 against 73.3% in Q4FY22 and the management has guided to improve it further to ~47% in FY24.

Borrowing cost

1) During the quarter, the borrowing cost has increased by ~7 bps from 10.50% to 10.57%. On full year basis, where the overall rate has increased by 225 bps for the broader market, the Company's overall borrowing costs has gone up from 10.30% to 10.57%, registering only ~ 27 bps increase in borrowing cost.

Branches

1) Most of the micro branches have reached the breakeven point.
2) With regards to opening of micro branches, the Management expects to open 25-30 branches in first 2 quarters of FY24 and will have around 250 branches in period of 24-30 months

Sectors

1) The Management is not planning to enter any new sector but will keep exploring interesting opportunities within other sectors which it works with. According to the Management, within the light engineering sectors and electrical equipment, there have been very interesting subsectors, which have opened up, especially on green energy and solar.

Asset Quality

1) Budgeted lifetime NPA for secured loans is 0.5%-0.75% and for unsecured loans is 3%-3.5%
2) PCR for unsecured loans is ~ 65%-70% whereas PCR for secured loans is between 20%-30%
3) NPA for supply chain is higher on account of two large anchors becoming NPA just before COVID
4) Once the account becomes NPA, approximately 1%-2% of NPA roll backs per month in unsecured loans. In secured loans, the Company has been able to roll back almost 100% within 12-18 months

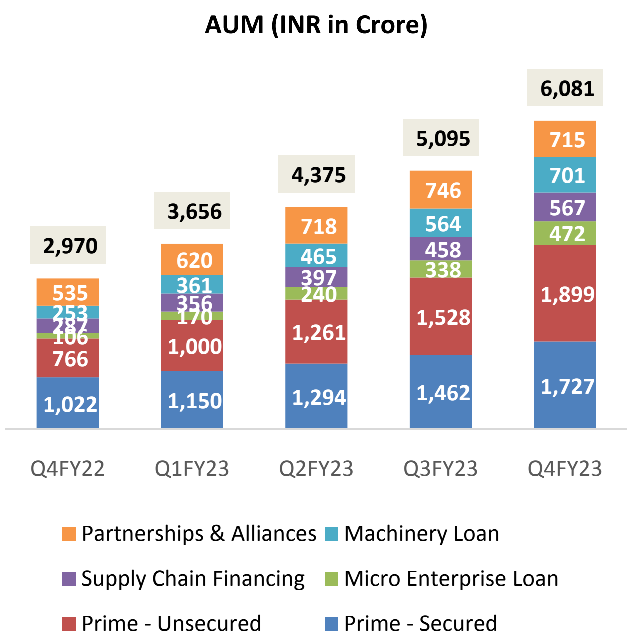
FY24 Guidance

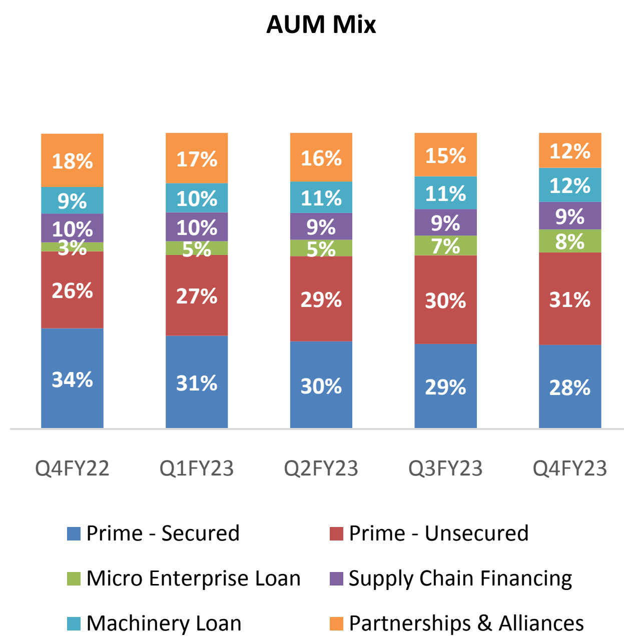
1) The Company has closed March month within disbursement of closer to INR 600 Crore. For FY24, the Company has planned for disbursement of close to INR 6,400 Crore
2) AUM guidance of ~INR 10,000 Crore for FY24
3) ROA guidance of ~3.1% for FY24
4) ROE guidance of ~10 % for FY24
5) NIM of 12.8% on On-Book AUM and 9% on Total AUM
6) The Company has planned for raising about INR 2,500 Crore of fresh liability for the whole year.

Business Updates

1) 56% of loan origination is done through intermediary.
2) For every 100 application, 30 loans are disbursed.
3) For collection, the company has built out large litigation team and early warning system developed by data analytics team which gives warning signals to in house call centres.
4) Early warning signal for the stressed customer is not the bureau, not the banking but the GST. Bureau typically takes 4-5 months lag before stress is reported. Banking early warning is a little better but still, one doesn't know till the cheque bounces. In GST, the moment the sale starts going down, that is the first and your primary early warning signal. This is the Company's hypothesis and with this,it built and included that as a major parameter in GRO Score.
5) UGRO Capital has recently launched its first brand campaign, a one-of-its-kind 3D animation film, Fund Island for the launch of its most awaited digital solution for small businesses. UGRO Capital's newly launched GRO X App enables MSMEs across India to obtain collateral-free instant credit for immediate working capital requirements and to manage their financial liquidity. This app-based lending, which the Company has launched, is basically to serve the need of very small merchant.

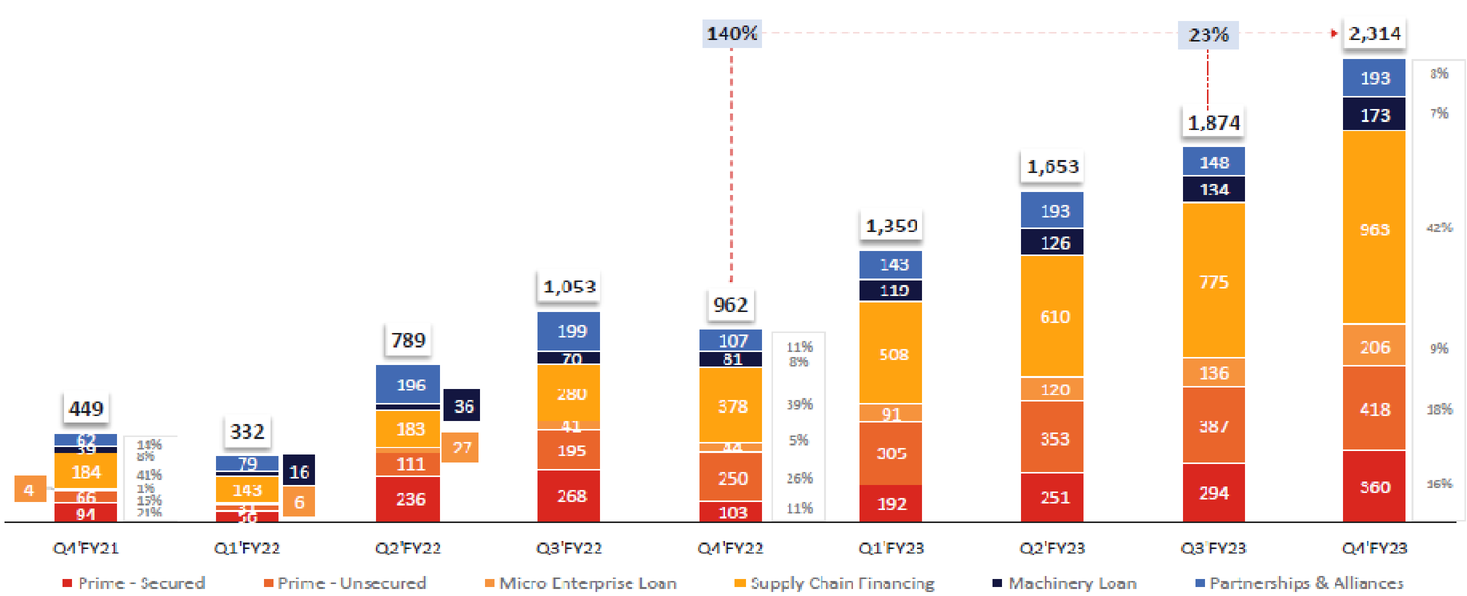
UGRO Capital story in charts..





Disbursement (INR in Crore)

Gross loans originated increased to INR 2,314 Cr in Q4'FY23 from INR 1,874 Cr in Q2'FY23 (↑23%) and INR 962 Cr in Q4'FY22(↑140%).



*Percentages represent product wise portfolio mix

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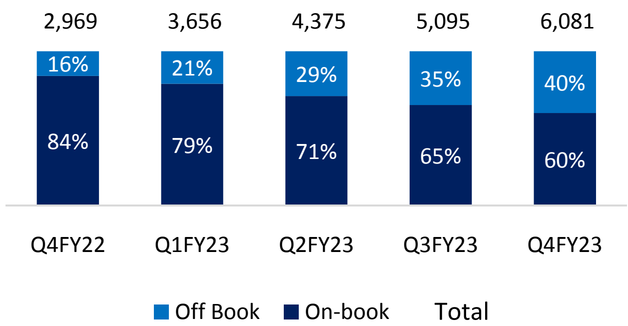
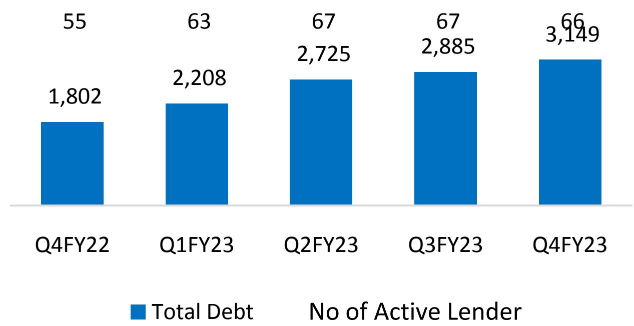
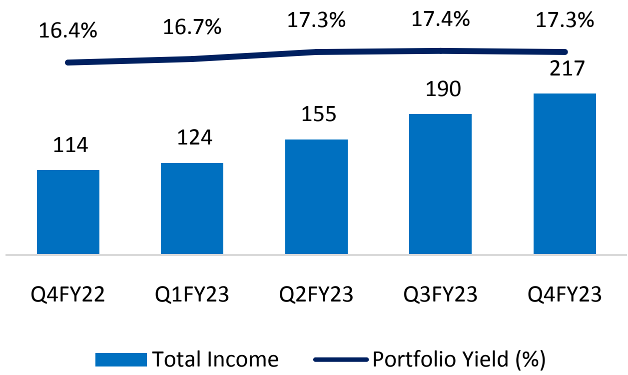
AUM (INR Crore) - On Book and Off book AUM Mix



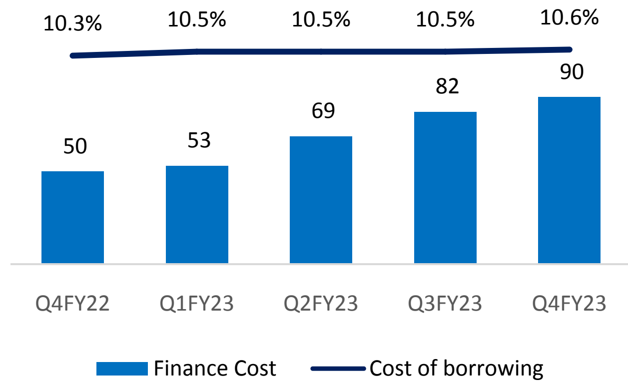
Total Debt (INR Crore) and No. of Active Lenders



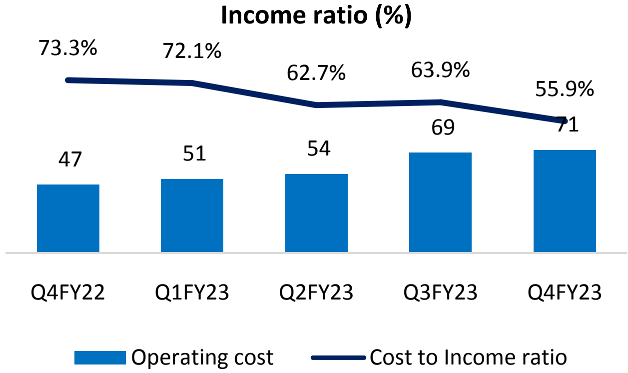
Total Income (INR Crore) and portfolio yield



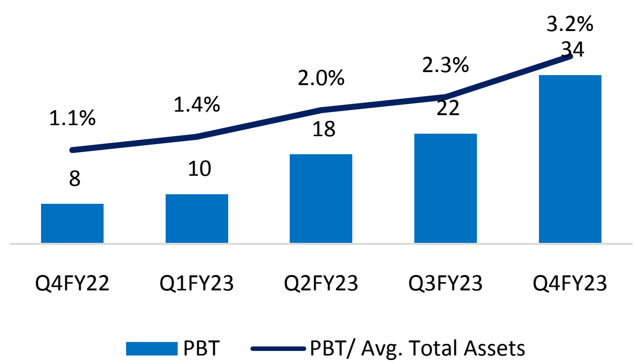
Finance cost (INR Cr.) and cost of borrowing



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



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



Source: Company's Q4FY23 Investor Presentation

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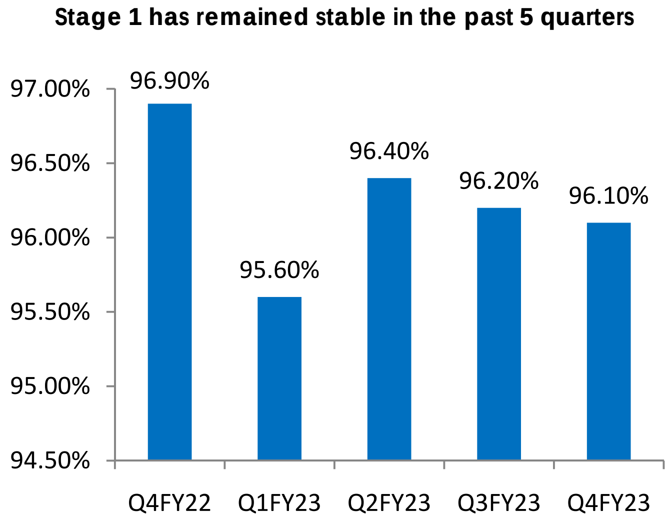

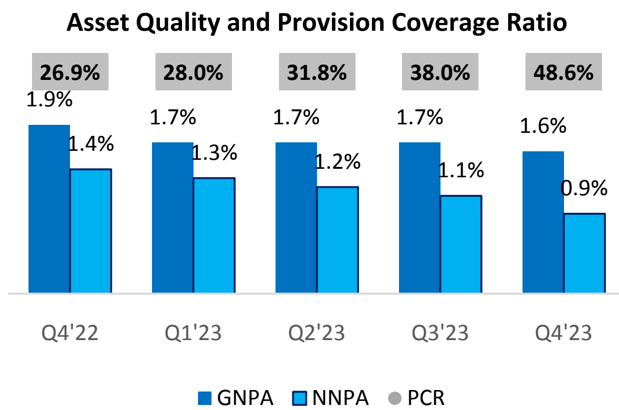

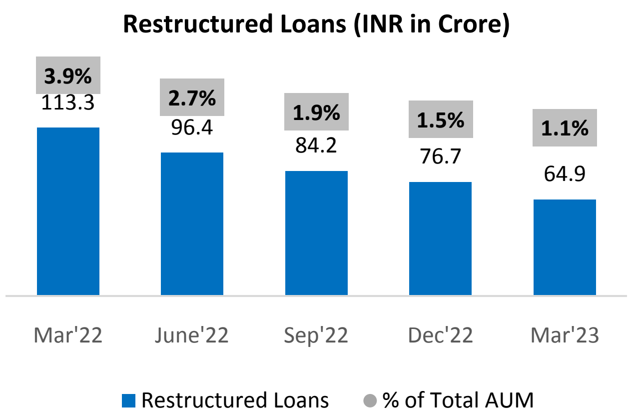

Source: Company's Q4FY23 Investor Presentation

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Financial Summary

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

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

Balance Sheet summary of last three ye (Rs. in Crore)

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

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

Key Parameters

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

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

**Note: Book value per share for FY23 is adjusted for equity infusion of INR 341 Cr ore, # does not factor in the capital raise done in the month of April 2023 and May 2023.*

Source: Company's Investor presentations for respective period

One year price movement chart

Source: Moneycontrol

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Accumulate – Absolute return between 15% and above
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