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UGRO Capital Limited - Q4FY22 result update **May 28, 2022**

"Buy", CMP: Rs. 152.90, Target price: Rs. 272, Upside: 77.89%

We had initiated coverage on "UGRO Capital Limited" on October 2021 at Rs. 131.30 with a target price of Rs. 175.5, later upgraded to Rs. 220 after its Q2FY22 performance in Diwali - Samvat 2078 report and further upgraded to Rs. 272 after its Q3FY22 result.

We continue our coverage on the Company post its Q4FY22 and FY22 results and maintain our price target to Rs. 272 per share. We hereby present the updated research report as on Q4FY22.

Did you know?

- ***UGRO Capital is Tech focused Small Business 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.***
- ***UGRO Capital aspires to become the largest MSME platform in India and has faith of its 55 lenders in its business mode***
- **Company has developed a superior underwriting framework GRO Score 2.0 (combines credit bureau and banking data into one model)**
- **The Company has evolved to a Data Tech Company within 3 years of Inception**
- **The Company has raised ~Rs. 3,000 crore of equity & debt capital from marquee Private Equity Investors, Family Offices, Banks and other Financial Institution over last 3 years.**
- ***Assets under management (AUM) as of March 31, 2022 stood at Rs. 2,969 Crore as against Rs. 1,317 Crore as of March 31, 2021, a 125 percent growth on YoY basis..***
- **Total cumulative disbursement since inception stands at Rs. 5,652 Crore**
- ***The Company has a strong aspiration and aggressive AUM target of Rs. 20,000 Crore with RoE (Avg.) of 18.8 percent and RoTA (Avg.) of 4.2 percent by FY25..***

Q4FY22 result update Quarterly Performance across different parameters

Particulars	Q4FY22	Q3FY22	Qoq change (%)	Q4FY21	FY22	FY21	YoY change (%)
AUM	2,969	2,589	14.7	1,317	2,969	1,317	125.4
Gross Disbursements	963	1,053	-8.5	449	3,138	1,147	173.6
Net worth	966.6	959	0.79	952	966	952	1.5
Branches	91	82	11.0	34	91	34	167.6
Lenders	55	50	10.0	29	55	29	89.7
Employees	1,111	944	17.7	361	1,111	361	207.8
Net Interest Income	44.3	35.0	26.6	27.4	134.8	102.3	31.8
Other Revenue	20.2	11.9	69.7	4.9	41.3	6.5	534.4
Op. Expense	47.3	32.4	45.9	21.3	126.4	77.0	64.1
Impairment on financial instruments	9.3	9.4	-1.0	8.7	29.4	19.6	49.9
PBT	8.0	5.1	56.8	2.4	20.2	12.1	66.4
Portfolio yield (%)	16.4	16.0		15.5	16.4	15.5	
Borrowing cost (%)#	10.3	10.1		10.4	10.3	10.4	
Cost to Income ratio (%)	73.3	69.1		65.8	71.8	70.8	
D/E ratio (x)	1.86	1.84		0.80	1.86	0.80	

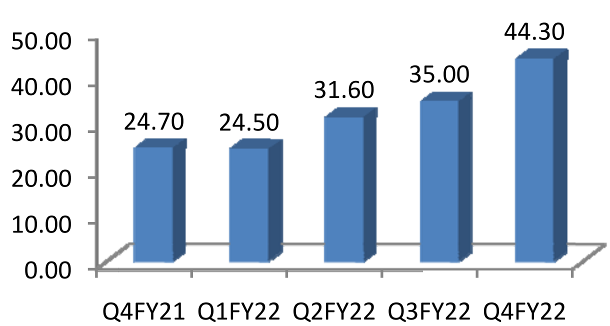
Source: Company, # denotes Restated cost of debt from weighted average costing to IRR based costing

Commenting on the results, **Mr. Shachindra Nath, Vice Chairman and Managing Director of UGRO Capital** stated, “The company has built formidable distribution strength by scaling up its asset channels in FY22 to support future growth plans. We have been pioneers of the Co-lending model in the industry and have set course for transitioning our business model to lending as a service. Data analytics and technology is at the forefront of our business model. We have been able to implement one of the best underwriting models and build a robust tech architecture to support the end-to-end digital customer journey through API. Going forward, our focus shall remain on growing our book profitably, by increasing the proportion of our off-book AUM.”

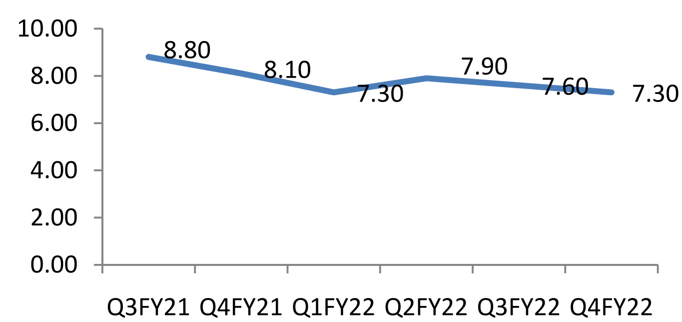
Q4FY22 result analysis
AUM, Disbursement, Operating performance

1) The Company's AUM witnessed a YoY growth of 125 percent and QoQ growth of 14.67 percent to touch Rs. 2,969 Crore in Q4FY22 (Rs. 1,317 Crore as on Q4FY21) as against Rs. 2,589 Crore in Q3FY22.
2) Gross Disbursements for FY22 stood at Rs. 3,138 Crore, a 173% YoY Growth compared to Rs. 1,147 Crore in FY21. This is because all distribution channels following an aggressive strategy.
3) Gross disbursements in Q4FY22 was lower at Rs. 963 Crore in Q4FY22 as against Rs. 1,053 Crore in Q3FY22. The management in its Q4FY22 concall clarified on disbursement being lower in Q4FY22. The Management was of the view that COVID-19 wave in January impacted its business for 20 days and the environment was uncertain too. However, the COVID-19 wave faded quickly but the number of operating days were reduced to around 40-50 days by mid February 2022.
4) Total cumulative disbursement stands at Rs. 5,652 Crore as on Q4FY22 since inception.
5) The Company's business has shown strong resilience by bouncing back quickly from the impact of Covid wave 3 and the Company exits FY22 at a monthly gross disbursement run rate of ~ Rs. 350 Crore
6) Portfolio GNPA and NNPA stood at 2.3% and 1.7% respectively as of March 31, 2022. The Company's total provision coverage improved from 1.4% (% of On Book AUM) as on Dec-21 to 1.7% as on Mar-22
7) Net Interest Income witnessed a QoQ growth of 26.6 percent to Rs. 44.30 Crore in Q4FY22 as against 35 Crore in Q3FY22.
8) The Cost/Income ratio increased to 73.3 percent as against 69.1 percent in Q3FY22 owing to aggressive expansion of branches leading to jump in the operating expenses.
9) The Company's Profit Before Tax (PBT) stood at Rs. 8 Crore in Q4FY22 as against Rs 5.1Crore in Q3 FY22.

Net Interest Income (Rs. in Crore)

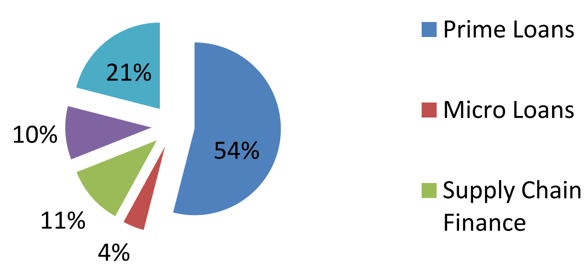


NIM (%)



Source: Company

Product mix



Source: Company

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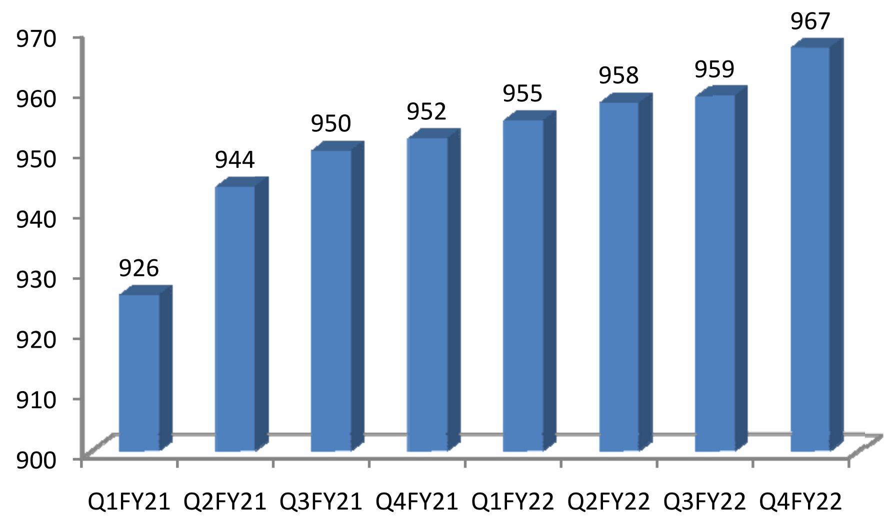
Product Mix

Product category	On Book AUM (Rs. in Crore)	ROI (%)	Ticket size (Lakh)
Prime Loans	1,319	14.9	31.9
Micro Loans	106	21.8	5.4
Supply Chain Finance	269	14.7	41.7
Machinery Loan	241	13.2	43.1
Partnerships and Alliances	519	21.8	6.6
	2,454	**16.4**	**18.3**

Source: Company

Networth(Rs. in Crore)



Source: Company

FY22 Financial Performance

1) The net worth of the Company stood Rs. 966.6 Crore as on March 31, 2022.
2) The company's total income (NII + Other Revenue) increased to Rs. 176.0 Crore in FY22, as compared to Rs. 108.8 Crore in FY21, an increase of 61.8 percent on a YoY basis.
3) The total provisioning as on Mar-22 stood at Rs. 40.6 Crore vs. the regulatory requirement of Rs. 27.2 Crore.
4) The Company declared a PBT of Rs. 20.2 Crore as compared to Rs. 12.1 Cr in FY21.
5) PBT to PAT Bridge of the Company is as follows

Particulars	FY21	FY22
PBT	**12.1**	**20.2**
Less: Current Tax	(4.8)	(6.6)
Add: Deferred Tax	21.4	1.0
Net Tax Impact	**16.6**	**(5.6)**
PAT	**28.7**	**14.6**
PAT excluding Deferred Tax benefit	**7.3**	**13.6**

Source: Company

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Credit rating

CRISIL Ratings Limited has assigned the following credit rating to the below mentioned instruments of the Company:

Instrument	Amount (Rs. in Crore)	Rating
Commercial Papers	200	CRISIL A 1
Non-Convertible Debentures	250	CRISIL A-/ Stable
Long term Principal Protected Market Linked Debentures	250	PPMLD A-r/ Stable
Proposed Long Term Bank Loan Facilities	1500	CRISIL A-/Stable (Assigned)

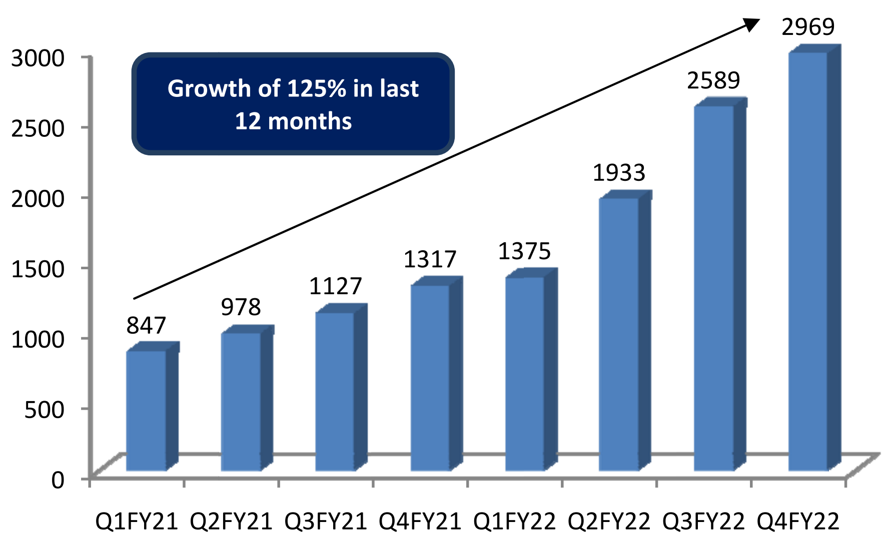
Source: Company

Earlier, Acuite Ratings and Research has assigned the following credit rating to the below mentioned instruments of the Company as on March 04, 2022

Product	Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1100	ACUITE A + | Stable | Reaffirmed	-
Bank Loan Ratings	150	ACUITE A + | Stable | Assigned	-
Commercial Paper (CP)	225	-	ACUITE A1+ | Reaffirmed
Commercial Paper (CP)	50	-	ACUITE A1+ | Assigned
Non-Convertible Debentures (NCD)	139.7	PP-MLD | ACUITE AA+ | CE| Reaffirmed	-
Non-Convertible Debentures (NCD)	200	ACUITE A+ | Stable | Assigned	-
Non-Convertible Debentures (NCD)	25	PP-MLD | ACUITE A+ | Stable | Reaffirmed	-
Non-Convertible Debenture (MLD)	607.85	ACUITE A+ | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	2497.55	-	-
Total Withdrawn (Rs. Cr)	0	-	-

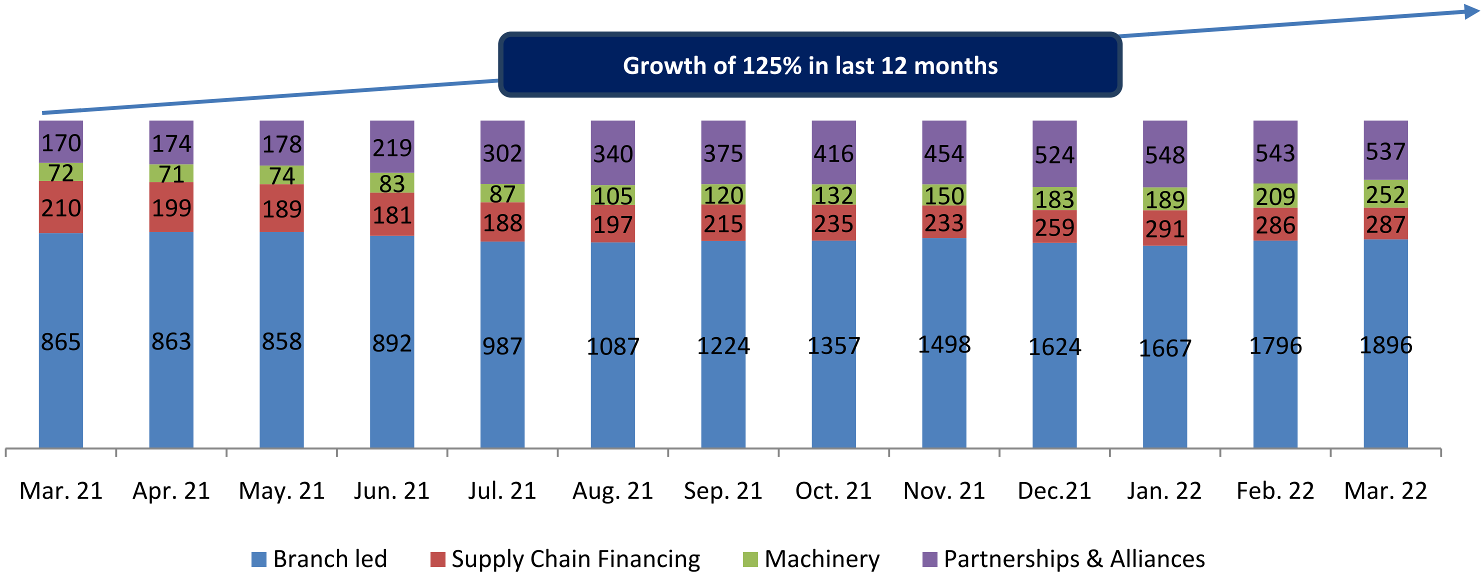
Source: Company

AUM (Rs. in Crore)



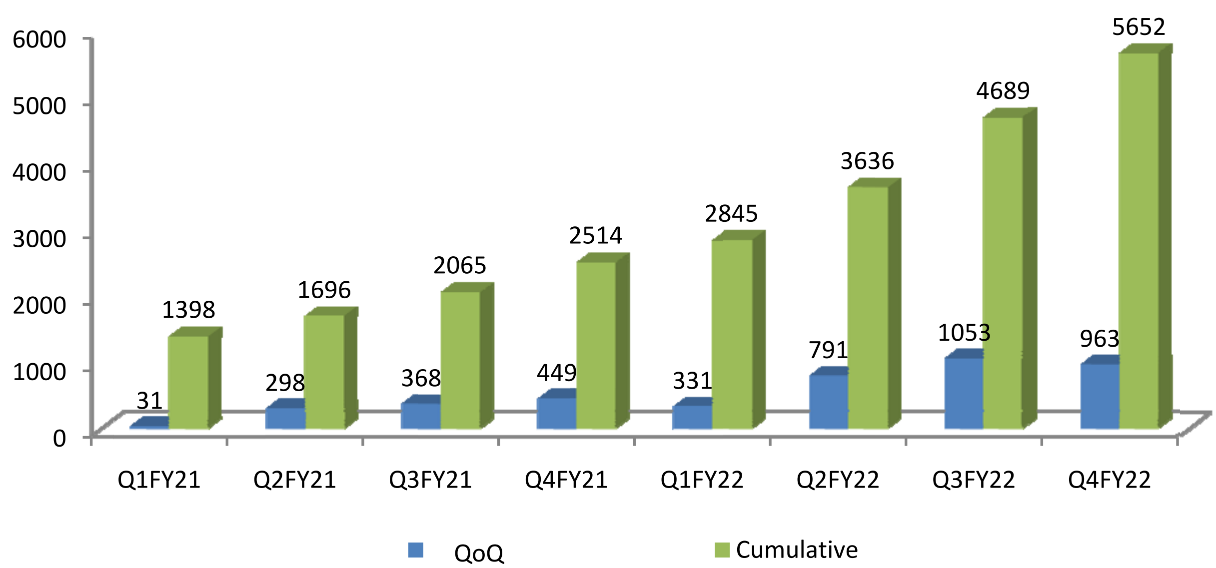
Source: Company

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



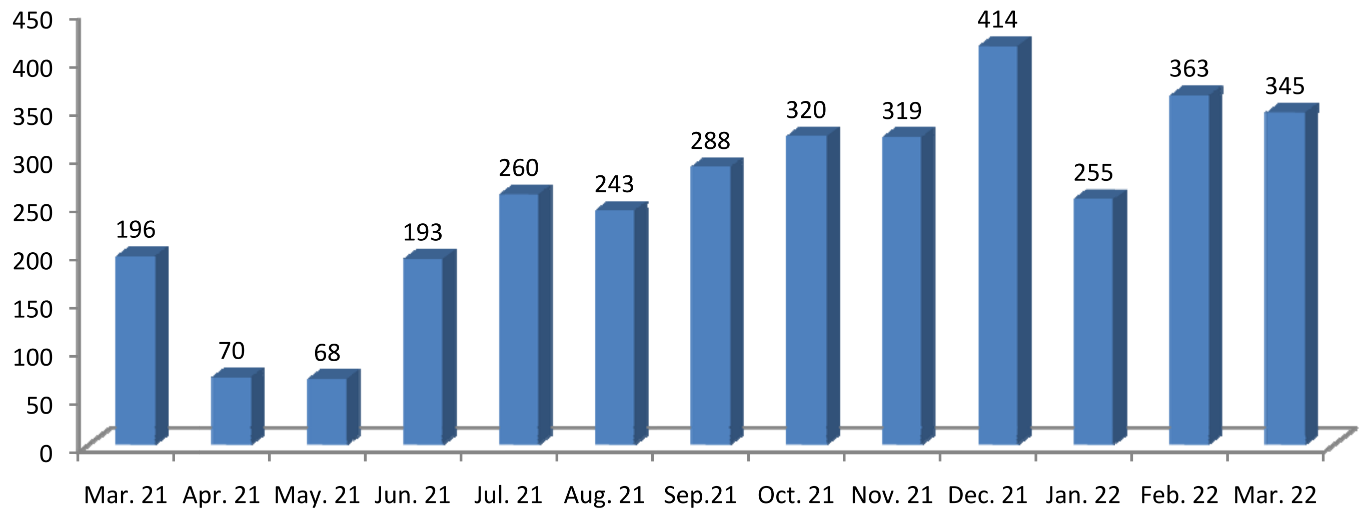
Source: Company

Quarterly Disbursals trend (Rs. in Crore)



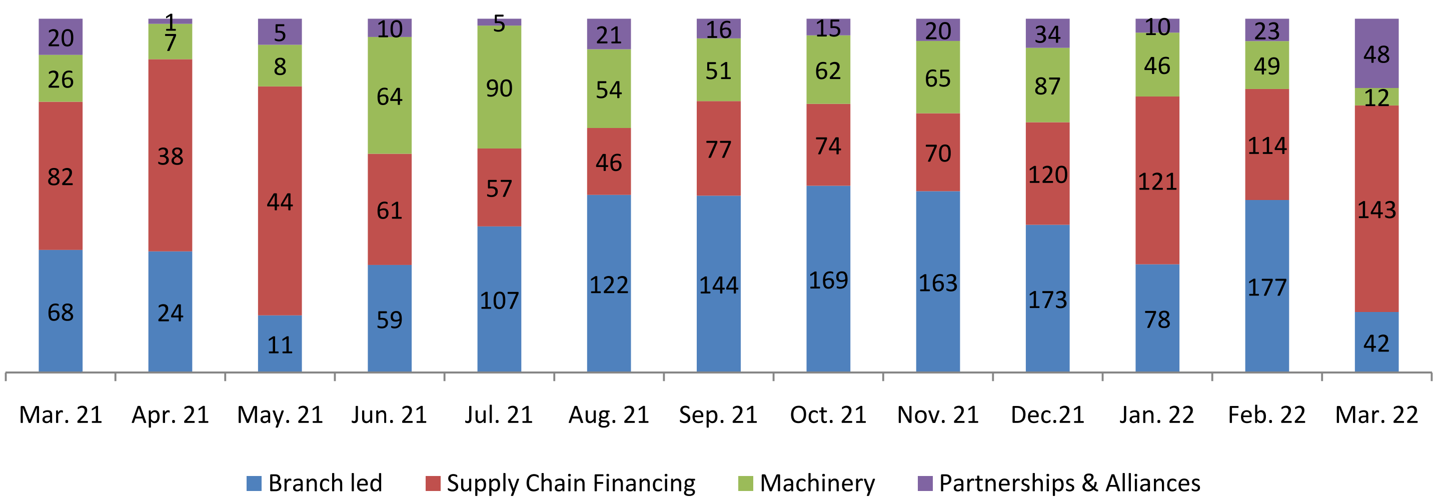
Source: Company

Monthly Disbursement Trend (Rs. in Crore)



Source: Company

Monthly Disbursement Trend (Segment - wise M-o-M)



Source: Company

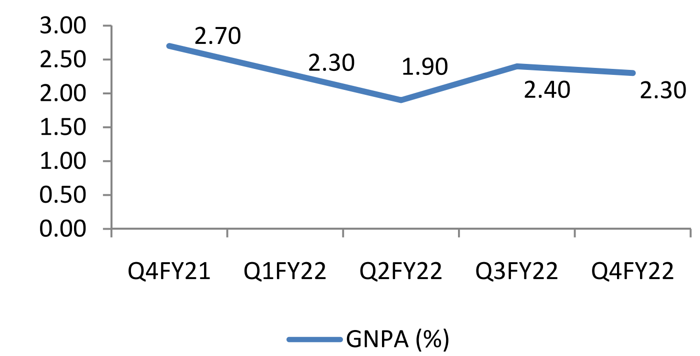
Liability and liquidity position

1) The Company strengthened its lender base by adding 26 new lenders during FY22. As on March 31, 2022, total lender count stood at 55.
2) The Company's total Debt stood at Rs. 1,802 Crore as on March 31,2022 and the overall debt to equity ratio still remains low at 1.86x, indicating a long runway for growth.
3) The Company has efficiently implemented and executed the Co-lending Model during FY22 by 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 ~16% as on Mar-22.
4) During FY22, the company raised liabilities through innovative debt instruments which were earlier unheard of in the lending market.

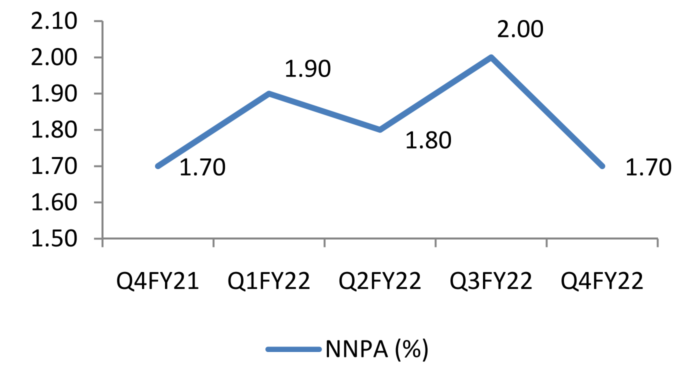
5) The company maintains a CRAR of 34%, indicating a comfortable capital position.

Asset Quality, Collection Efficiency and Restructured Portfolio

GNPA(%)



NNPA (%)



Source: Company

Collection efficiency and ECL data (Rs. in Crore)

Dec 2021	Collection efficiency	Particulars	Loan exposure	Loan exposure (%)
Q4FY22	93.9%	**Stage I**	2,366.2	96.4%
Q3FY22	93.8%	**Stage 2**	32.4	1.3%
Q2FY22	93.3%	**Stage 3**	55.3	2.3%
Q1FY22	93.0%	**Total**	**2,453.9**	**100.0**

Source: Company

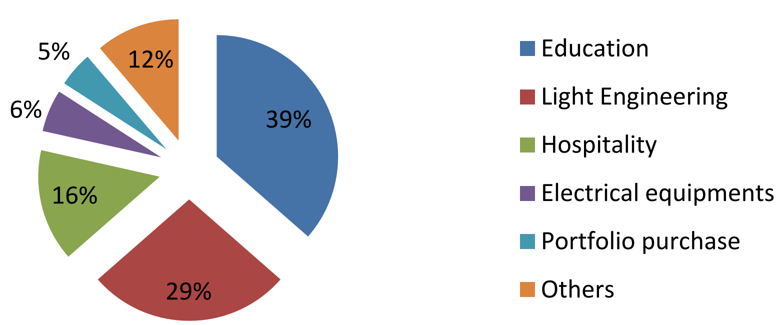
1) Total Provisions as of March 2022 stood at Rs. 40.6 Crore (1.7 percent of AUM) vs. the regulatory requirement of Rs. 27.2 Crore. ~49 percent above the provision prescribed by IRACP and RBI.

2) GNPA stood at 2.3 percent and NNPA stood at 1.7 percent as of March 2022. GNPA of 2.3 percent is post adoption of the Asset Classification circular of November 2021.

3) Majority of the restructuring was done in the Branch Led Portfolio within the Education and Hospitality Sector

4) ~82 percent of the restructured portfolio is current as of March 2022. The NPA column incorporates the total NPA's including those classified on account of new IRAC asset classification norms/account classification on account of restructuring.

Sectoral breakup of Restructured AUM as on Q4FY22



Source: Company

Restructured book is ~4.6% of AUM

Source: Company

Branch and customer network

1) The Company's customer count is ~20,000 as March 2022
2) During FY22, the Company expanded it network by adding 57 branches, the Company's total branch count as on Mar-22 stood at 91.
3) Increase in branch count was majorly driven by scaling up of our Micro vertical (71 branches as on Mar-22 vis-avis 25 as on Mar-21)

People power

1) In line with the growth strategy, the Company continued to hire additional workforce.
2) The Company hired an additional 750 employees during the year and saw its total employee strength rise to more than 1,100 employees.

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UGRO Capital Limited (UGRO) - "Buy", May 28, 2022

CMP	**Rs. 152.90 per share (FV: Rs. 10)**
Book value	Rs. 137 per share
Recommendation	**Buy**
Target price	**Rs.272**
Upside	77.89%
52 Week High/Low	Rs. 229/Rs.85.2
Market Cap	Rs. 1,078 Crore
NSE|BSE code	UGROCAP|511742
Bloomberg code	UGRO:IN

Particulars (Rs. Crore)	FY22	FY21	FY20	FY19
Interest income and income from investments	304	148.47	71.47	1.10
Other operating income/sale of services	12.4	4.87	33.67	40.71
Financing costs	137.38	44.56	13.67	0.01
Profit before tax	20.2	12.1	3.32	1.09
Profit after tax	14.6	28.72	19.51#	1.46
PAT excluding Deferred Tax benefit	13.6	7.3	5.6	-
AUM	2,969	1,317	861	80
Disbursals	5,652	2,514	1,366	-
GNPA (%)	2.3	2.7	0.9	-
NNPA (%)	1.3	1.7	-	-
Equity share cap.	70.55	70.53	70.53	-
Networth	967	952	851	638
Book value (Rs.)	137	135	121	90
P/BV (x)	1.1	0.95	1.06	1.43
RoE (%)	1.50	3.06	2.14	2.4
CRAR (%)	34	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

About the Company

UGRO Capital is a NBFC-ND-SI company registered with the RBI. The equity shares of the Company are listed on NSE and BSE. The Company's mission is to provide financing to the underserved MSME sector. The Company was originally incorporated in 1993, by the name 'Chokhani Securities Private Limited'. On December 31, 2017, Poshika Advisory Services LLP & Mr. Shachindra Nath made a public announcement to acquire control of the management of the Company. The name of the Company was further changed to UGRO Capital Limited, and a fresh certificate of incorporation was issued dated September 26, 2018. The Company has a sectoral based lending approach by shortlisting 8 core sectors of MSMEs and further added 'Micro Enterprises' as the 9th sector post careful filteration of 180+ sectors. The Company's business is primarily driven by analytics, data - centric approach enabling customer offerings faster disbursals thereby reducing operating cost and containing risk. The Company's business model blends the traditional branch-based approach with modern Fin Tech based Lending by bringing in sector, geographical and product specialisation and combining that with new age technology platform.

Technology underpins every aspect of UGRO's lending process, from API integrations, sectoral and subsectoral statistical scorecards, state-of-the-art AI/ML credit underwriting engine combining bank, bureau and GST statement analyzers, automated policy approvals, and machine learning OCR technology. Company's GRO Extreme platform empowers fintech and other institutional platforms to deepen their distribution reach through a plug and play API driven seamless integration with U GRO. The company has developed full tech stack to fully automate the complete life cycle of a loan right from origination to collection during the entire customer journey.

UGRO Capital lends exclusively to MSMEs and caters to all the borrowing needs through its diverse range of product offerings like Term Loan (Secured and Unsecured), Supply Chain Financing, Machinery Loan and Short- Term financing through its multiple FinTech and NBFC Partners. It lends to customers right from the prime segment (<10% interest rates) to the micro enterprises (20-25% interest rates). Additionally, it does co-lending with FinTech and smaller NBFC Partners to expand its reach and lend to the micro enterprises through the length and breadth of India. UGRO Capital aspires to serve one million small businesses with an asset book of 1% of outstanding MSME credit of India as its first milestone. It uses the emerging Data Tripod of GST, Banking and Bureau coupled with its sectoral analysis to solve the problem of credit for small businesses.

The Company has raised ~Rs. 3,000 Crore of equity & debt capital from marquee Private Equity Investors, Family Offices, Banks and other Financial Institution over last 3 years. The Company is backed by Marquee Private Equity Funds. Majority of the Company's shareholding is institutionally owned which instills confidence. The Company's key shareholders include ADV Partners, NEWQUEST Capital Partners, PAG, SAMENA Capital and PNB Metlife.

Investment recommendation and rationale

At CMP of Rs. 152.90, the stock is valued at a P/BV of 1.1x (FY22 Book Value of Rs. 137). We recommend a "Buy" with a target price of Rs. 272(2x at Book Value). The RoE is low at 1.5 percent as the Company is expansion phase and recent capital infusion. We believe the Company deserves a premium in valuations due to the following factors: a) UGRO Capital is Tech focused Small Business profitable lending platform; b) Company's business model is well suited to the new age, c) big opportunity presented to the Company in MSME lending space, d) specialized lenders like UGRO Capital are better positioned to bridge the MSME Credit gap, e) the Company has evolved to a Data Tech Company within 3 years of inception, f) the Company's distribution and liability strategies are both powered by proprietary technology modules, g) Company being Industry pioneers in Co-lending, h) UGRO's distribution model is geared towards catering MSMEs across all geographies and ticket sizes, i) the Company has a strong, experienced management team across all the functions, j) Company shareholding is institutionally owned and backed by Marquee Institutions, k) the Company intends to create a specialized scalable platform optimized for end-to-end lending, l) focus on 8 sectors after an extensive study of macro and micro economic parameters, m) 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, n)underwriting in MSME space is moving from collateral based to cashflow based where UGRO specialises, n) enjoys faith of 55 lenders, o) Risk management through "Expert Scorecards" for all Sub-sectors, m)credit process enabled by Integrated technology, p) paperless, and seamless customer onboarding & underwriting process supplemented by physical underwriting, q) the Company has demonstrated robust growth since its inception, r) decent overtall performance in last few quarters, s) Acuite Ratings and Research had upgraded UGRO Capital's Long Term rating to A+ (stable) and Short Term rating to A1+, t) robust AUM and disbursement growth on YoY basis in Q4FY22, t) strong outlook for the future and good performance expected in coming quarters, u) strong AUM target of around Rs. 20,000 Crore with RoE (Avg.) of 18.8 percent and RoTA (Avg.) of 4.2 percent by FY25E.

Journey since inception - History and key milestone

Dec'17	•Birth of UGRO through acquisition of listed Company - Chokhani Securities •Onboarding of New Management Team •Demerger of the lending business of Asia Pragati approved - US$ 25 mn
Dec'17 - Aug'2018	•Raised ~Rs. 920 Crore of Capital from multiple PE investors of global repute
Jan 2019	•The Company started disbursement in Jan 2019
Dec 2019	•Crossed Rs. 1,000 Crore in cumulative disbursement
March 2021	•Crossed Rs. 2,500 Crore in cumulative disbursement
Dec 2021	•Crossed Rs. 4,689 Crore in cumulative disbursement
March 2022	•Crossed Rs. 5,652 Crore in cumulative dibursement

Jul 18 - 19 Mar	Mar19-Apr 20 (Growth stage)	During COVID-19 Wave 2	Post resuming growth stage
Gro Score 1.0	SCF Launch	Products: Sanjeevani, Saathi	Gro Score 2.0
Sector and Subsector Selection	D2C Pilot	Machinery Finance	Co-Lending
Initial hiring	Credit Rating	Micro Loan Branches (25)	Partnerships and Alliances
LOS design and Go Live		Video PD and KYC	GeM Sahay
Prime Loan Branches (9)	#	Digital Agreement	5 Prime Loan Branches and 16 Micro Loan Branches

Source: Company

What makes UGRO Capital Unique?

MSME Lending presents a big opportunity

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

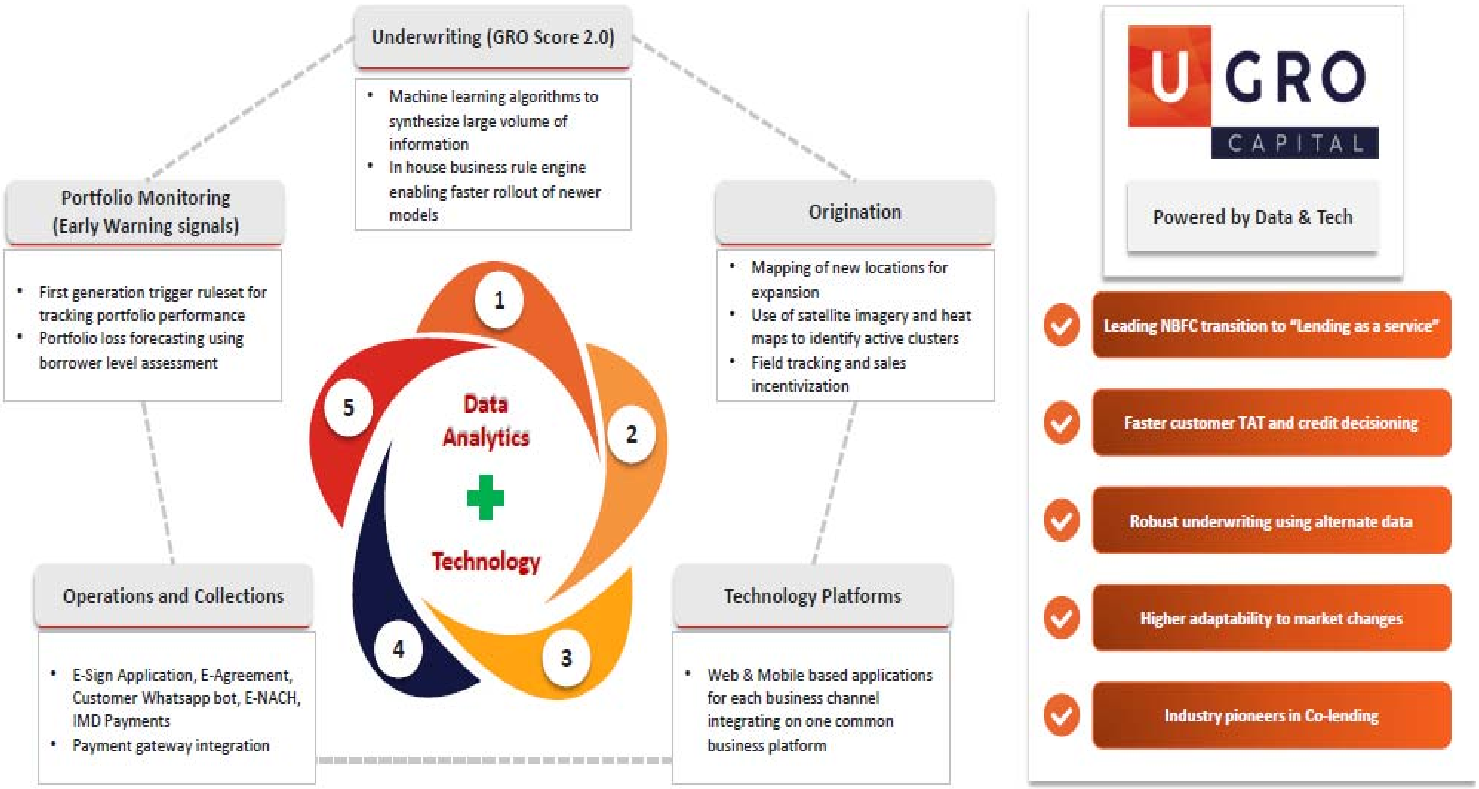
2) The overall opportunity in MSME market is approximately US$600 Bn+. Of this huge market opportunity, only US$250 Bn is currently served by the formal lending institutions. That is, almost 60 percent of the MSME lending opportunity, is currently served by informal sources which charge exorbitant rates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

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

Particulars	Specialized MSME Lenders	Traditional NBFCs	Banks
Product	Customised products based on the nature of business, non-financial parameters, end use, payment capacity/frequency of underlying customer	Loans against property, supply chain financing, unsecured loans	Loans against property, supply chain financing
Distribution	Omnichannel, Ecosystem based lending	Branch/DSA led	Branch/DSA led
Credit Appraisal	Sector specific approach, Cash Flow based, Automated Review	One size fits all Collateral/Bureau score	One size fits all Collateral/Bureau score
Turnaround time	4-5 days	15-20 days	30-45 days
	Combining traditional and non- traditional sources. Use of information available in public and private domains. Digital document submission		

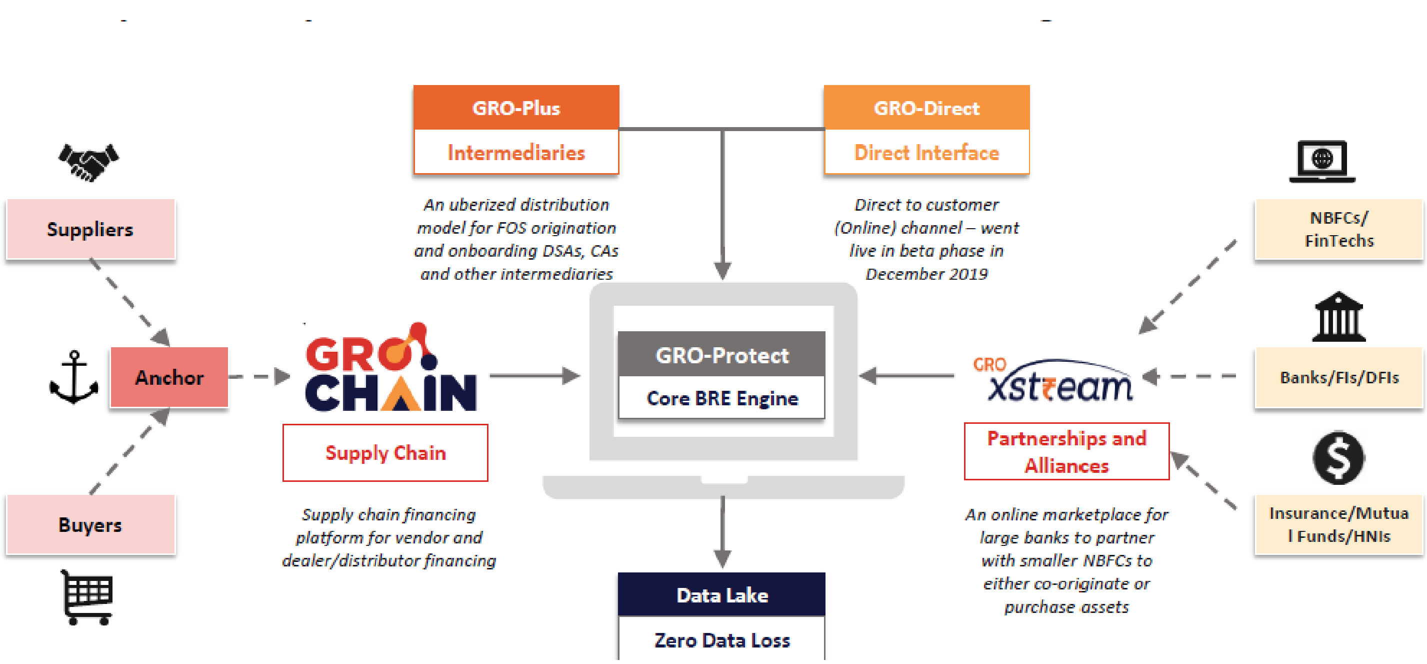
Source: Company

Evolved to a Data Tech Company within 3 years of Inception



Source: Company

Development of System Architecture for full - suite SME Lending



Source: Company

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Multipronged approach led by offline presence and tech capabilities

Branch Led Channel| GRO-Plus	Ecosystem Channel| GRO-Chain	Partnerships & Alliances| GRO - Xtstream	Direct Digital Channel |GRO - Direct
Prime Loan Branches - 18 Branches with loans largely sourced through intermediate channel	**Supply Chain Financing** - Anchor and its ecosystem financing of Supply Chain	**Co-Lending** - Joint lending partnerships with NBFCs on the downstream	**Digital Lending Platform** - Allows MSMEs to directly apply for credit further reducing TATs
Micro Loan Branches - 71 branches across 5 states. Loans to be directly sourced by FOS	**Machinery Finance** - Secured Loans to machine buyers with a charge on machines	**Fintech Partnerships -** to originate loans. Loans quasi secured with FLDG.	**60 Mins Decisioning -100%Digital**
Turnover - Rs. 0.2 Crore to 200 Crore	**Turnover -** Rs. 2 Crore to Rs. 200 Crore	**Direct Assignment& Portfolio Acquisition** - Upstream or downstream DA to Banks & NBFCs	**Targeted to be launched in last quarter of FY22**
Ticket size - Rs. 0.005 Crore to 3 Crore	**Ticket size** - Rs. 0.1 Crore to Rs. 3 Crore	**Turnover** - Rs. 0.2 Crore to Rs. 200 Crore	**Turnover -** Rs. 0.2 to Rs. 200 Crore
		Ticket size - Rs. 0.01 Crore to Rs. 5 Crore	**Ticket size -** Rs. 1 lakh-15 lakhs

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

1) Branch led channel | GRO - Plus

a) Prime Loan Branches - Branches with loans largely sourced by DSAs
b) Micro Loan Branches - 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
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 lit 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%, Laon to value ratio: 70-80% depending on customer and asset categorisation, Tenor: 12-60 months

3) Partnerships & Alliances| GRO - Xstream- The Company continues to forge partnerships with different Fintech's and NBFCs

a) Partnerships with FinTechs and NBFCs for a range of secured and unsecured loans
b) Partnership channel - Highly customised, API driven tech platform for large and emerging lending institutions to collaborate on upstream and downstream and downstream activities while leveraging GRO score.
c) Ugro choses to fund the Fintech companies rather than directly funding the merchants as it allows the company to source a granular portfolio of Rs. 1-5 lakhs with sufficient coverage of credit by way of FLDG (5%-15%).

Source: Company

4) Direct Digital Channel| GRO - Direct

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

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

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

Source: Company

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

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

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

Distribution

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

Credit underwriting

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

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**

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

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

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

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

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

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

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

Source: Company

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

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

1) Decision making & adoption

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

2) Results

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

3) Differentiation with other players

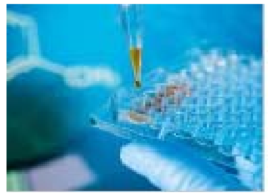
a) **Capability development** – UGRO has recognised the potential for data-driven decisioning in SME lending and has invested in converting deep sector-level wisdom into a scalable decision system through use of advanced data science. The Company's deep focus on analytics driven underwriting keeps it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

b) **Data strategy** – in post pandemic era, UGRO has pivoted to cashflow based underwriting which implies banking and gst transaction reports are obtained through APIs and stored for future learning. This rich database will enable models to come up the maturity curve very fast and translate the tripod of bureau + banking + GST into scoring models. Players who are using banking & GST data selectively and not efficiently managing the storage system will find themselves slowed down in their analytics journey. For UGRO data collection and assimilation happens as a process.

c) **Adoption/ cultural orientation** – an area of particular challenge is giving empowerment to machine led decision making in a field which has traditionally been driven by human experience to a very large extent. This would be particularly true for larger organisations with complex structures, where even today the score is considered as one of the inputs and final decision rests with an experienced credit manager. At UGRO capital score based decisioning has already been established as a way of doing business.

Lending focused on selected sectors





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

Source: Company

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

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.

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

In COVID 1.0 and 2.0, the Company had tightened its credit underwriting for some sub-sectors (like Apparels, Banquet Halls etc.).

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.

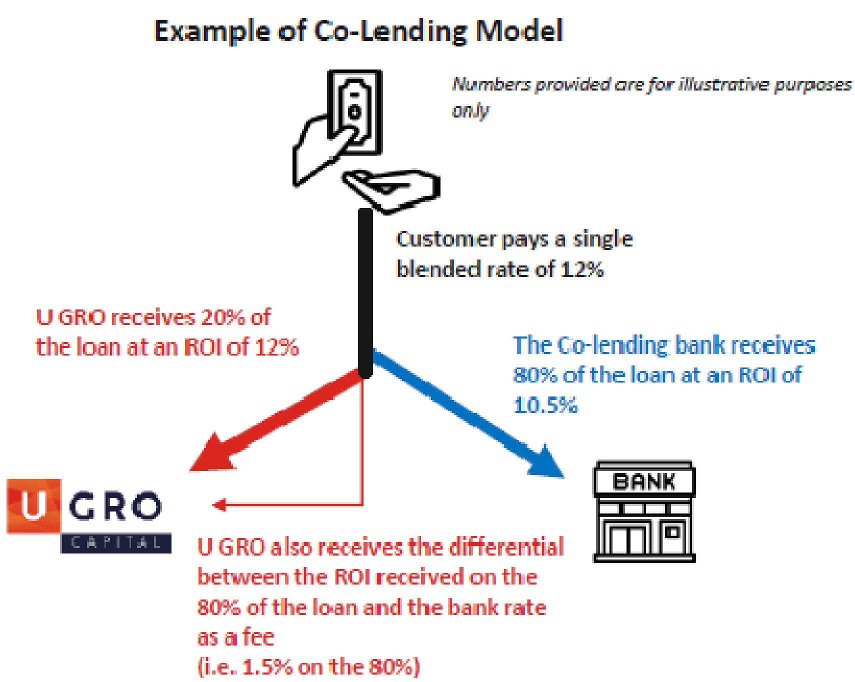
2) Co-origination with Larger Banks/NBFCs

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

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

Co - lending arrangement - Building India's largest Co-Lending platform: Lending as Service



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 and Indian Overseas Bank. According to the Management, the Company has 7 more such partnerships in pipeline. At present, Co - Lending portfolio contributes 16 percent of its total AUM.

Bank of Baroda	State Bank of India	IDBI Bank	Central Bank of India	Indian Overseas Bank
Secured Business Loans	Small Ticket Secured and Unsecured Business Loans	Secured Business Loans	Secured, Unsecured Business Loans and Machinery Loans	Secured Business Loans
Original Agreement signed - Oct. 2019	Original Agreement Signed - Nov. 2019	Agreement signed in Oct.2021	Agreement signed In Dec. 2021	Agreement signed in Feb. 22
Agreement under new co-lending regulation - June 2021	Agreement under new co-lending regulation - Nov 2021		First multi product co-lending agreement	

Source: Company

Increasing mix of Off Book AUM

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

Source: Company

Impact of COVID-19

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. As expected, the Company saw higher restructuring requests from the sectors that it thought were impacted severely. i.e. few sub-sectors within Hospitality and Education sector.

Competition

The financial services industry is highly competitive and the Company expects competition to intensify in the future. The Company faces competition in the lending business from domestic and international banks as well as other NBFCs, fintech lending platforms and private unorganized lenders. Banks are increasingly expanding into retail loans in the rural and semi-urban areas of India. The Company is exposed to the risk that these banks continue to expand their operations into the markets in which its operates, which would result in greater competition and lower spreads on its loans. In particular, many of the competitors may have operational advantages in terms of access to cost-effective sources of funding and in implementing new technologies and rationalising related operational costs.

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

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

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 and RoA (Avg.) of 4.5 percent by FY25..

Particulars	FY22	Q4FY22*	FY23P	FY25P
AUM (Rs. in Crore)	2,969	2,969	7,000+	20,000+
Off Book AUM	16%	16%	35%+	~50%
Yield	14.3%	15.4%	~14.5%	~15.0%
Cost of Borrowing	10.7%	11.2%	~10.75%	~9.5%
NIM	7.1%	7.3%	~7.0%	~7.5%
Other operating Rev.	1.8%	3.0%	~7.5%	~9.0%
Cost to Income Ratio	71.8%	73.3%	~60.0%	~45.0%
Credit cost	1.5%	1.5%	~1.5%	~1.5%
ROTA (Avg.)	0.6%	0.8%	~2.0%	~4.5%
ROE (Avg.)	1.5%	2.4%	~6.0%-8.0%	~18.0%
Leverage	1.86x	1.86x	~2.4x	~3.8x^

Source: Company, * Annualized ratios, ^ Presumed infusion of equity capital

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Balance Sheet

Balance sheet(Rs. in Crore)	FY22	FY21
Financial Assets		
Cash & Bank Balance	188.4	316.0
Derivative financial instruments	0.2	0.0
Loans	2,450.5	1,282.7
Investments	69.4	55.2
	2,716.4	**1,660.8**
Non Financial Assets		
Property, plant and equipment	4.3	4.7
Right of use asset	25.4	10.9
Capital work in progress	0.2	0.0
Intangible assets under development	5.7	3.9
Other intangible assets (Software)	26.0	20.6
Deferred tax assets (net)	43.8	42.9
Other Non Financial Assets	32.4	10.9
	137.8	**93.9**
Total Assets (Financial Assets + Non Financial Assets)	**2,854.2**	**1,754.7**
Financial Liabilities		
Trade payables	6.8	3.3
Debt securities	703.8	315.6
Borrowings (other than debt securities)	1,098.1	450.1
Other financial liabilities	47.2	21.2
	1,855.9	**790.1**
Non - Financial Liabilities		
Current tax liabilities (net)	1.3	1.4
Provisions	26.9	9.4
Other Non Financial Liabilities	3.6	1.4
	31.8	**12.2**
Total Equity		
Equity Share Capital	70.60	70.53
Other Equity	896.0	881.9
	966.6	**952.4**
Total Liabilities + Equity	**2,854.2**	**1,754.7**

Source: Company

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One year price movement chart

Source:Tradingview

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