

Ugro Capital Limited

Growing in line with expectations

In Q1FY25, Ugro Capital Ltd (Ugro) reported a ~38% growth in its Total Income on a YoY basis, amounting to ~Rs 3,016 Mn, driven by a ~44% growth in Interest Income. The Company's PPOP grew to ~Rs 760 Mn, showcasing a growth of ~44% on a YoY basis. PAT increased by 20% on a YoY basis to Rs. 304 Mn. The Company's AUM increased to ~Rs. 92 Bn, growing by ~2% on a QoQ and ~36% on a YoY basis, with Off-Book AUM accounting for ~45% of the total.

Co-Lending Surge: Banks Tap Rs 1 Trillion Market

The co-lending industry is set to hit Rs. 1 Trn in disbursements, offering banks an attractive way to diversify into microfinance. Unlike traditional banking, MFIs bring unique underwriting and distribution channels that give banks access to entirely new customer profiles. Rather than seeing NBFCs as competition, banks view them as growth partners. When engaging in co-lending, banks carefully evaluate the NBFC's distribution reach, cultural fit, risk management, collection capabilities, market experience, and transparency. Notably, co-lending comes without the safety net of a First Loss Default Guarantee (FLDG).

Successful Equity Fund Raise: ~Rs 13 Bn Secured with Rs 5100 Mn Infused

The recent equity fund raise was a success, aligning with the business plan. ~Rs 5100 Mn has been infused, with an additional ~Rs 7550 Mn expected over the next 18 months. A total of ~Rs 13 Bn was raised through equity, with ~Rs 2580 Mn via CCDs and ~Rs 10 Bn through warrants. Of this, ~Rs 5100 Mn was received in June 2024, and 75% of the warrant money is anticipated over the next 18 months. Existing investor Sameena Capital committed ~Rs 5 Bn, while new institutional investors such as Aregence and several prominent Indian family offices also participated in the funding round.

View & valuation

We remain confident in Ugro Capital's ability to continue its robust growth trajectory and achieve its target of Rs 200 Bn in AUM by FY26. We have revised our estimates and maintain a BUY rating on Ugro Capital Ltd with a target price of Rs. 281 (1.25x FY25E BV). The adjustment in our valuation multiple reflects the substantial ~Rs 13 Bn equity capital raise.

27th August 2024

BUY

CMP Rs. 243

TARGET Rs. 281 (15%)

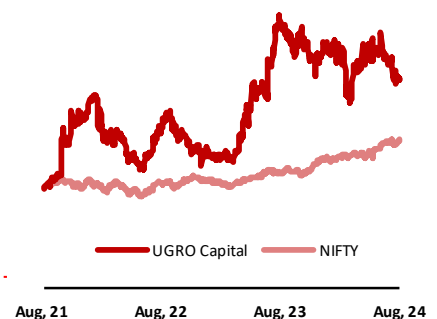
Company Data

Company Data	UGRO IN
Bloomberg Code	UGRO IN
MCAP (Rs. Mn)	22,489
O/S Shares (Mn)	92.8
52w High/Low	318 / 213
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	72

Shareholding Pattern %

	Jun 25	Mar 24	Dec 23
Promoters	2.23	2.23	2.24
FIIIs	20.27	19.76	19.77
DIIIs	2.55	3.76	4.46
Non-Institutional	74.94	74.24	73.53

Ugro Capital vs Nifty



Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
NII	6.39	7.85	11.00
PPOP	2.95	3.43	4.77
Net Profit	1.19	1.42	2.01
Total Assets	62.80	78.58	106.01
ROA (%)	2.3%	2.0%	2.2%

Source: Company, Keynote Capitals Ltd. estimates

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Q1 FY25 Result Update

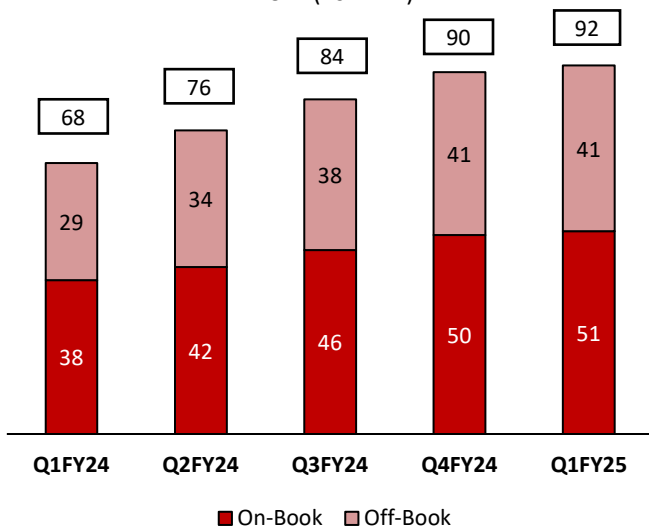
Result Highlight (Rs. Mn)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Interest Income	2,320	1,615	44%	1,918	21%	7,079
Income on Co-Lending / Direct Assignment	504	438	15%	1,224	-59%	3,075
Other Income	192	130	48%	162	18%	663
Total Income	3,016	2,183	38%	3,304	-9%	10,817
Interest Expenses	1,361	927	47%	1,281	6%	4,429
Net Total Income	1,654	1,257	32%	2,022	-18%	6,388
Employee Benefit Expense	545	369	48%	514	6%	1,829
Other Expenses	349	322	8%	538	-35%	1,609
PPOP	760	566	34%	970	-22%	2,950
Credit Cost	332	209	58%	411	-19%	1,163
PBT	428	356	20%	559	-23%	1,788
Tax	125	104	20%	233	-46%	594
PAT	304	252	20%	327	-7%	1,193
EPS	3.22	3.04	6%	3.52	-9%	13.20

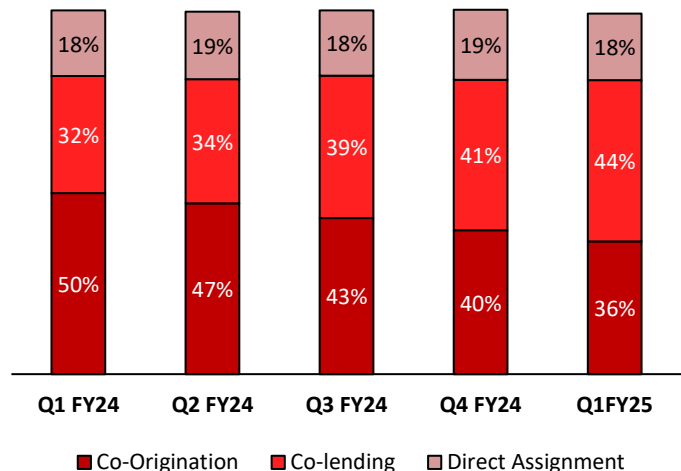
Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression

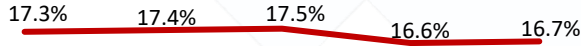
AUM (Rs in Bn)



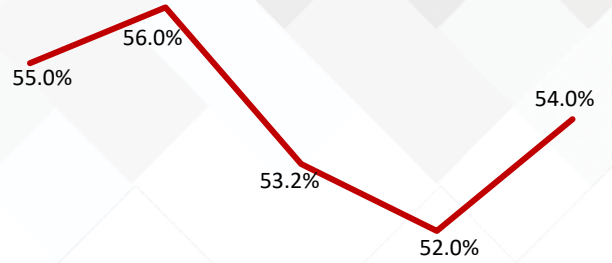
Off-Book AUM Mix (%)



Portfolio Yield (%)



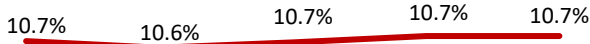
Cost to Income (%)



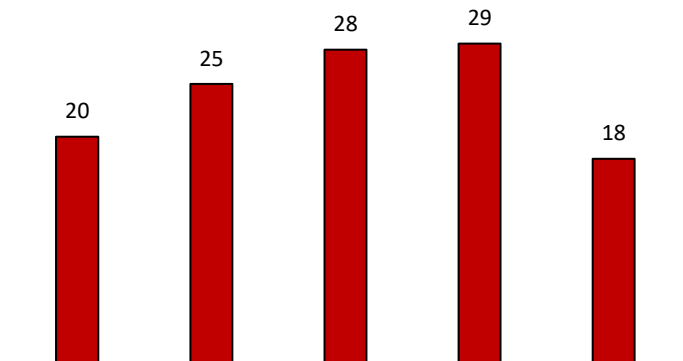
Q1FY24 Q2FY24 Q3FY24 Q4FY24 Q1FY25

Q1FY24 Q2FY24 Q3FY24 Q4FY24 Q1FY25

Cost of Borrowing (%)



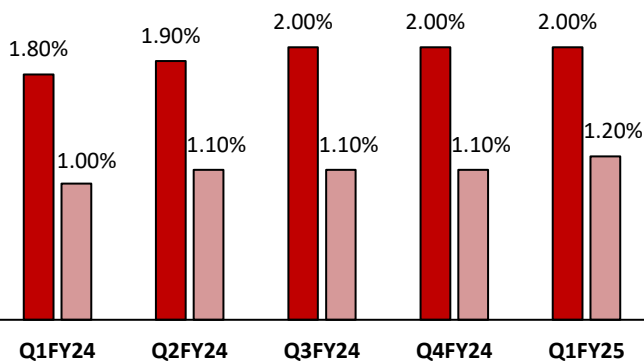
Gross Disbursals (Rs in Bn)



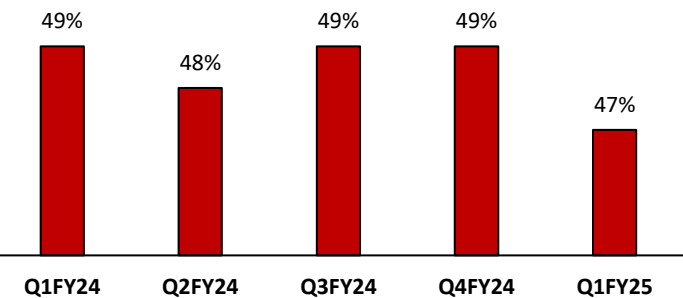
Q1FY24 Q2FY24 Q3FY24 Q4FY24 Q1FY25

Q1FY24 Q2FY24 Q3FY24 Q4FY24 Q1FY25

NPAs (%)



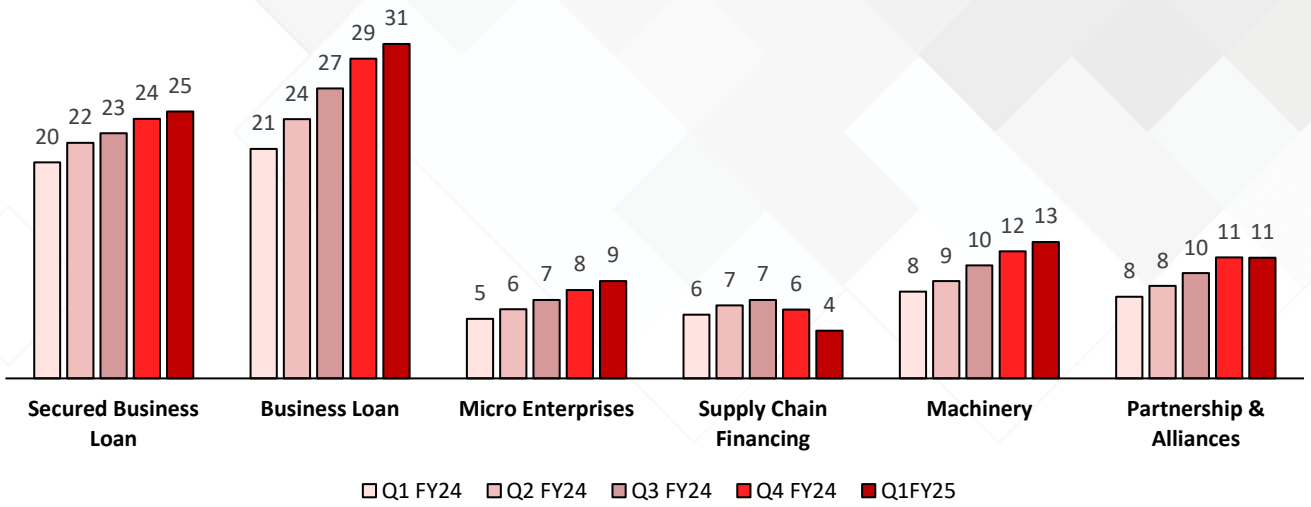
Provision Coverage Ratio (%)



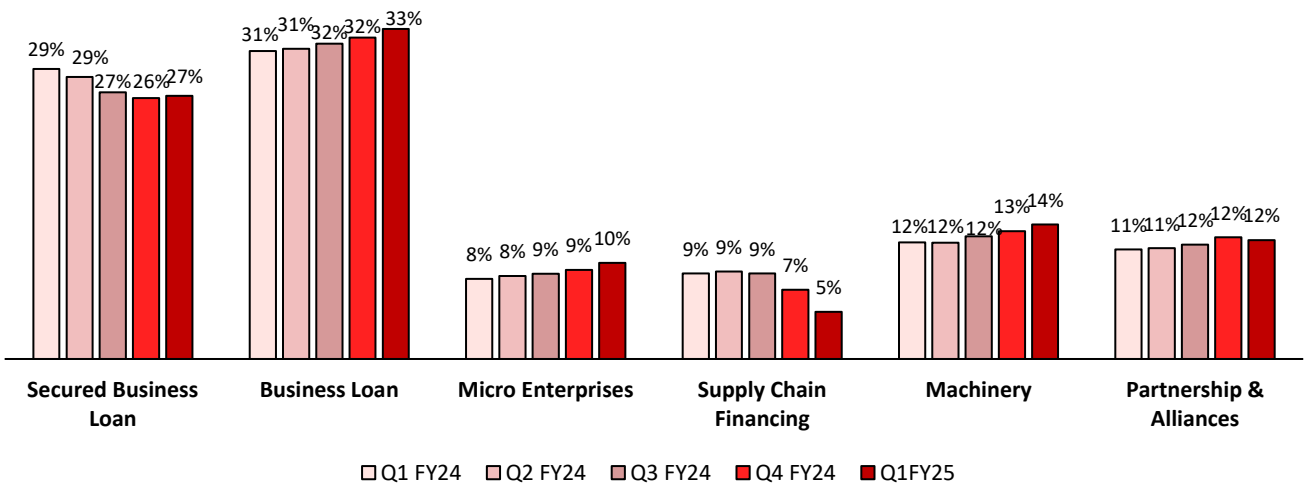
Q1FY24 Q2FY24 Q3FY24 Q4FY24 Q1FY25

■ GNPA ■ NNPA

Types of Loans (Rs in Bn)



Loan Types (%)



Source: Company, Keynote Capitals Ltd.

Ugro Capital Limited | Quarterly Update

Investors and Analysts Meet Takeaways

General Highlights

- In secured asset class, majority of the underwriting is automated however manual underwriting can take place.
- UGRO has different criteria to lend money compared to banks.
- Fiscal policies are major driver for MSME growth. Policies like Pradhan Mantri Mudra Yojana, Stand-Up India, Prime Minister Employment Generation Programme, MSME Competitive (Lean) Scheme etc.
- MSME lending is becoming easier due to availability of banking data, digital turnover data and repayment behavior data.
- Banks are unable to lend money to MSMEs because majority of their revenue is in cash.
- The Company is increasing focus on machine learning which assists them to do financial analysis on a click of a button.
- GST data helps the Company understand the stress occurring in sales.
- Though Ugro's approval rate is 30%, they keep track of the remaining 70%, which helps them if they decide to extend loans in the future.
- The reason for the lower disbursement on a QoQ basis was the slowdown in supply chain financing.

Co-Lending Industry

- The co-lending industry is poised to reach Rs. 1 Trn in terms of disbursement.
- Co-lending is attractive to banks because it allows them to add microfinance to their portfolios. The underwriting and distribution channels of microfinance institutions (MFIs) differ from those of banks, enabling banks to tap into markets with significantly different customer profiles.
- Banks do not view NBFCs as competitors but rather as partners in mutual growth. In co-lending arrangements, banks assess several factors in MFIs, including the NBFC's distribution reach, cultural alignment with the bank, risk management and collection capabilities, market longevity (having experienced a full credit cycle), and the transparency that the NBFC can offer.
- In co-lending, there is no First Loss Default Guarantee (FLDG).

Management Guidance

UGRO aims to become a category leader in the MSME sector.

- Looking ahead, the management expects that 40% of the AUM will be contributed by GRO+ (Micro: Tier 3 to 6 branches).
- The Company's focus is to become a pan-India player.
- Management indicates that it would be challenging for banks and NBFCs to achieve a ROE of 18% with a debt-to-equity ratio of 3-4x.
- Over time, the Company's cost of borrowing is expected to improve.

Financial Statement Analysis

Income Statement

Particulars (Rs in Mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	4,829	7,079	8,624	11,643	14,555
Income from Co-Lending/DA	1,541	3,075	3,711	5,084	7,118
Other Income	468	663	900	1,000	1,100
Total Income	6,838	10,817	13,235	17,727	22,773
Finance cost	2,933	4,429	5,288	6,725	8,935
Net Total Income	3,905	6,388	7,946	11,002	13,838
Employee benefits expense	1,407	1,829	2,425	3,371	4,180
Depreciation, amortisation and impairment	176	353	459	597	746
Other expenses	916	1,256	1,633	2,270	2,837
PPOP	1,406	2,950	3,430	4,765	6,075
Impairment on financial instruments	568	1,162	1,400	1,900	2,250
PBT	838	1,788	2,030	2,865	3,825
Tax expense	440	595	609	860	1,148
PAT	398	1,193	1,421	2,006	2,678

Balance Sheet

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Cash and Bank balances	2,118	4,549	5,606	7,737	8,898
Loans	38,064	54,322	67,903	91,679	1,14,610
Fixed Assets	992	1,298	1,773	2,305	2,997
Investments	601	592	758	985	1,281
Other assets	1,281	2,039	2,539	3,300	4,290
Total Assets	43,056	62,800	78,578	1,06,007	1,32,075
Equity share capital	693	916	916	916	916
Other equity	9,147	13,468	17,433	19,438	22,116
Incremental Equity			2,520	12,650	12,650
Net worth	9,840	14,384	20,869	33,004	35,682
Borrowings	31,489	46,180	55,138	70,122	93,167
Other liabilities	1,727	2,236	2,571	2,880	3,226
Total Liabilities and Equity	43,056	62,800	78,578	1,06,007	1,32,075

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
17 th February 2023	BUY	154	28%
17 th May 2023	NEUTRAL	189	8%
3 rd August 2023	BUY	269	15%
27 th October 2023	BUY	304	14%
25 th January 2024	BUY	280	15%
6 th May 2024	BUY	269	19%
27 th August 2024	BUY	243	15%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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