

# Ugro Capital Limited

28<sup>th</sup> January 2025

## Emerging Markets Channel drives performance

In Q3FY25, Ugro Capital Ltd (Ugro) reported a ~38% growth in its Total Income on a YoY basis, amounting to ~Rs 3,850 Mn, driven by a ~41% growth in Interest Income. Interest Expenses grew by ~43% on a YoY basis, driven mainly by increase in the total debt and a slight increase in cost of borrowing on a YoY basis limiting the Net Total Income growth to ~34% on a YoY basis. The Company's PPOP grew to ~Rs 942 Mn, showcasing a growth of ~24% on a YoY basis. PAT increased by ~15% on a YoY basis to ~Rs. 375 Mn. The Company's AUM increased to ~Rs. 111 Bn, growing by ~9% on a QoQ and ~32% on a YoY basis, with Off-Book AUM accounting for ~44% of the total. Additionally, Ugro raised highest ever borrowings of ~Rs 14,000 Mn during the quarter vs ~Rs 8,000 Mn in Q3FY24.

## Net Loan Origination continues to grow

Ugro continued its disbursements growth with consecutive highest quarter of new loan origination which amounted to ~Rs 20,980 Mn, growing by ~35% on a YoY basis. This was led by the ~202% growth in disbursements in the Emerging Market Channel (previously known as Micro Enterprises) totaling to ~Rs 5,430 Mn vs ~Rs 1,800 Mn in Q3FY24, which is the highest ever for this segment also.

## Emerging Market Channel leads

Ugro's Emerging Market Channel was the standout performer this quarter, in line with the Company's strategy to boost the share of this highest yielding segment in its portfolio. This vertical reported an ~89% growth in AUM on a YoY basis to ~Rs 13,620 Mn vs ~Rs 7,210 Mn in Q3FY24. Ugro added 74 new Emerging Market Channel branches during 9M FY25 taking the total branch count to 224. The Company aims to expand its footprint further in this segment by adding more branches.

## MyShubhlife acquisition performing well

Ugro's targeted acquisition of the embedded finance platform (MSL) is scaling effectively, with strong traction in partner volumes, achieving a monthly run rate of ~Rs 1,500-2,000 Mn. Of the ~30 Mn merchants associated with MSL's partners, the Company has successfully served 28,000 so far.

## View & valuation

We expect Ugro Capital to sustain its strong growth momentum. However, given the lower than expected ROA, we have revised our valuation multiple while maintaining a BUY rating with a target price of Rs. 230 (0.98x FY26E BV).

## BUY

CMP Rs. 199

TARGET Rs. 230 (15%)

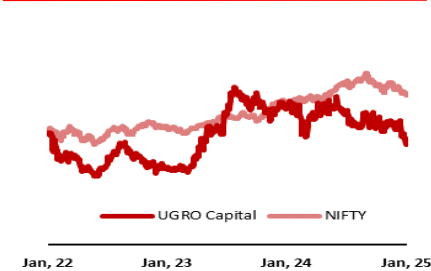
### Company Data

Bloomberg Code	UGRO IN
MCAP (Rs. Mn)	18,506
O/S Shares (Mn)	139.7
52w High/Low	315 / 186
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	28

### Shareholding Pattern %

	Dec 24	Sep 24	Jun 24
Promoters	2.2	2.2	2.2
FIIIs	24.7	20.4	20.3
DIIIs	2.4	2.7	2.6
Non-Institutional	70.7	74.6	74.9

### Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
NII	6.4	8.3	10.8
PPOP	3.0	3.6	4.8
Net Profit	1.2	1.4	1.8
Total Assets	62.8	82.0	108.9
ROA (%)	2.3%	1.9%	1.9%

Source: Company, Keynote Capitals Ltd. estimates

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Q3 FY25 Result Update

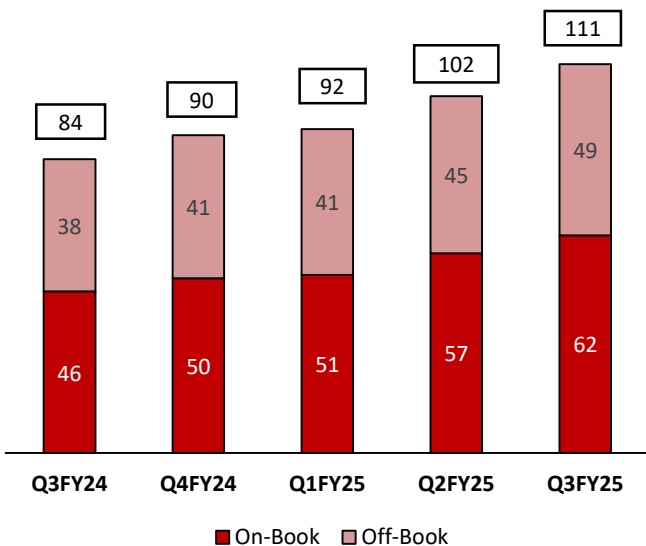
Result Highlight (Rs. Mn)

Particulars	Q3 FY25	Q3 FY24	Change % (Y-o-Y)	Q2 FY25	Change % (Q-o-Q)	9M FY25	9M FY24	Change % (Y-o-Y)	FY24
Interest Income	2,544	1,811	41%	2,080	22%	6,944	5,143	35%	7,079
Income on Co-Lending / Direct Assignment	1,036	764	36%	1,095	-5%	2,636	1,851	42%	3,075
Other Income	269	218	23%	253	6%	715	519	38%	663
<b>Total Income</b>	<b>3,850</b>	<b>2,793</b>	<b>38%</b>	<b>3,429</b>	<b>12%</b>	<b>10,294</b>	<b>7,513</b>	<b>37%</b>	<b>10,817</b>
Interest Expenses	1,673	1,167	43%	1,431	17%	4,466	3,148	42%	4,429
<b>Net Total Income</b>	<b>2,177</b>	<b>1,626</b>	<b>34%</b>	<b>1,998</b>	<b>9%</b>	<b>5,829</b>	<b>4,365</b>	<b>34%</b>	<b>6,388</b>
Employee Benefit Expense	646	485	33%	616	5%	1,808	1,314	38%	1,829
Other Expenses	588	380	55%	437	35%	1,374	1,070	28%	1,609
<b>PPOP</b>	<b>942</b>	<b>761</b>	<b>24%</b>	<b>945</b>	<b>0%</b>	<b>2,647</b>	<b>1,980</b>	<b>34%</b>	<b>2,950</b>
Credit Cost	413	297	39%	443	-7%	1,188	752	58%	1,163
PBT	530	464	14%	501	6%	1,459	1,228	19%	1,788
Tax	155	138	12%	146	6%	425	362	18%	594
<b>PAT</b>	<b>375</b>	<b>325</b>	<b>15%</b>	<b>355</b>	<b>6%</b>	<b>1,034</b>	<b>867</b>	<b>19%</b>	<b>1,193</b>
<b>EPS</b>	<b>3.78</b>	<b>3.51</b>		<b>3.61</b>		<b>10.64</b>	<b>10.55</b>		<b>13.20</b>

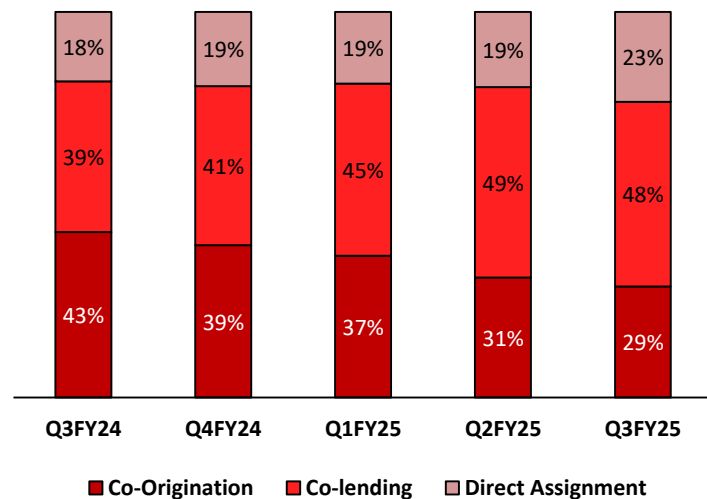
Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression

AUM (Rs in Bn)

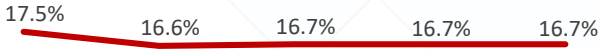


Off-Book AUM Mix (%)

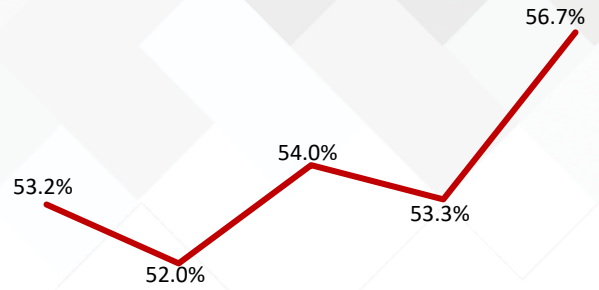


Source: Company, Keynote Capitals Ltd.

Portfolio Yield (%)



Cost to Income (%)



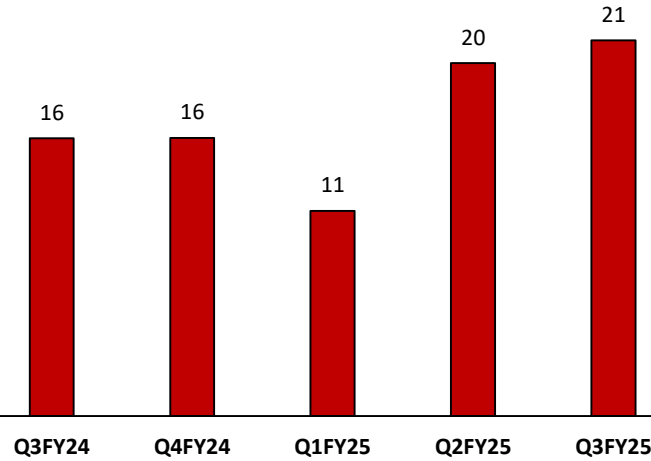
Q3FY24 Q4FY24 Q1FY25 Q2FY25 Q3FY25

Q3FY24 Q4FY24 Q1FY25 Q2FY25 Q3FY25

Cost of Borrowing (%)



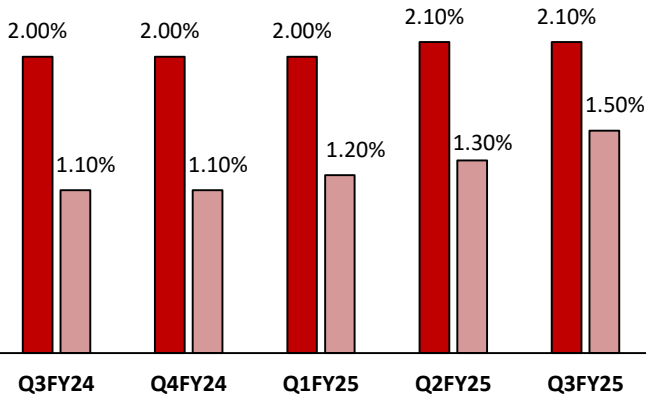
Net Loan Origination (Rs in Bn)



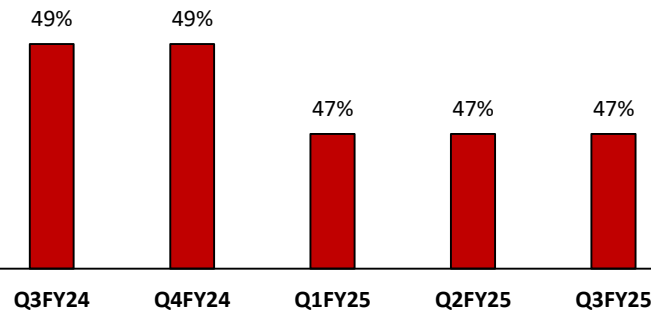
Q3FY24 Q4FY24 Q1FY25 Q2FY25 Q3FY25

Q3FY24 Q4FY24 Q1FY25 Q2FY25 Q3FY25

NPAs (%)



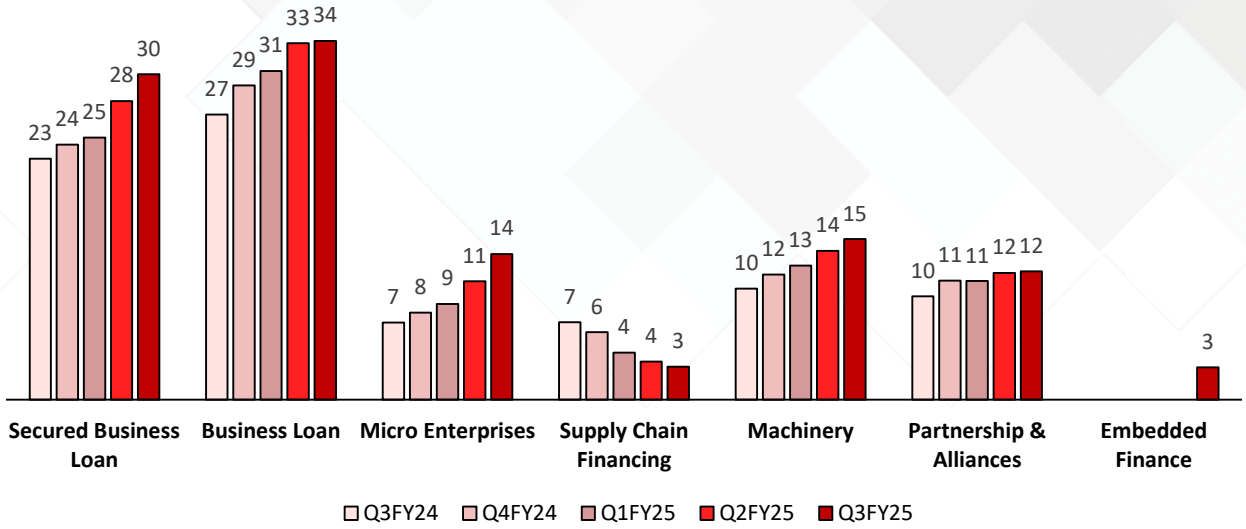
Provision Coverage Ratio (%)



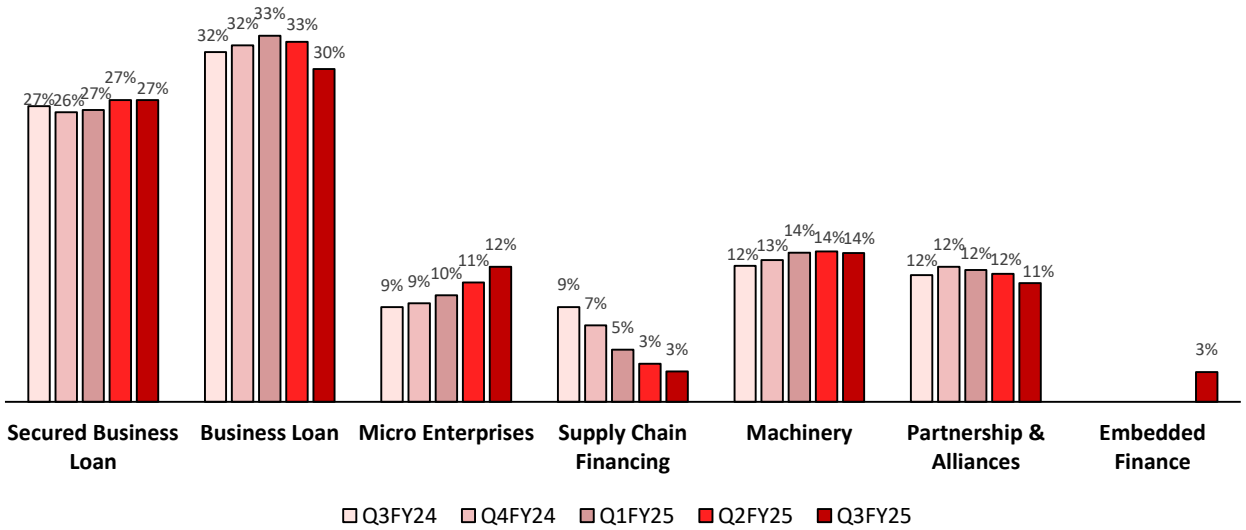
■ GNPA ■ NNPA

Q3FY24 Q4FY24 Q1FY25 Q2FY25 Q3FY25

Types of Loans (Rs in Bn)



Loan Types (%)



Source: Company, Keynote Capitals Ltd.

**Q3 FY25 Conference Call Takeaways**

- Emerging Markets vertical was a standout performer in this quarter. Disbursements increased to ~Rs 5,430 Mn, from ~Rs 1,800 Mn, driven by addition of 74 new branches, bringing the total branch count to 224 across 11 states. The Company also has a strong collection and litigation infrastructure for this vertical with 210 active branches and 250 collection personnel. The branch network follows a cluster model: 5 branches form a cluster, 3-4 clusters form a state, and multiple states form a region and for each set of 5-10 branches there is a dedicated litigation domain expert to execute litigation orders that Ugro gets.
- Each Emerging Market branch has a branch manager, 6 sales people, credit manager, operations manager, and collection manager, with a total of 11 employees per branch. Monthly branch operating cost comes to ~Rs 0.4-0.45 Mn.
- The average loan tenor for Emerging Market vertical is 7-8 years. While this segment primarily offers loans up to ~Rs 2.5 Mn, the introduction of larger ticket-size Sanjeevni loans has further fueled growth. The Company's strategy is to capture opportunities in Tier 3, 4, and 5 towns to expand its reach in underserved markets.
- Significant regulatory changes continue for NBFCs; however, Ugro's performance remains strong. For unsecured lending, co-lending volumes declined as banks remain cautious. However, the Company's secured loan portfolio remains well anchored as they are guaranteed under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) coverage. Banks are expected to restart the business loans volumes in Q4 FY25 or by Q1 FY26.
- The secured lending portfolio is growing and will offset the slowdown in unsecured lending. 70% of loans are secured, while 30% are unsecured (non-collateralized), and even within those 30%, 41% of the loans are covered under the CGTMSE scheme.
- The Company pays an annual premium (~1% of the portfolio size) under the CGTMSE guarantee scheme, covering unsecured loans. In case of an NPA, claims can be raised, typically capped at 2x the premium paid per year. CGTMSE reimburses 75% of the principal outstanding post necessary documentation. Ugro has been utilizing this scheme for 1.5 years, with NPAs reflected in accounts until claims are settled.
- The target to achieve a 4% ROA by FY26 has been delayed by 2-3 quarters due to a slower liquidity environment, particularly for NBFCs of Ugro's size. The key challenge is the cost of funds, and Ugro is cautious about increasing borrowing costs solely to expand its loan book.
- The Company is confident to achieve ~30% growth in AUM.
- The rise in cost to income ratio can be attributed to 5 factors – a) there are certain costs which come along with higher disbursement, b) as an NBFC grows, it can only take 50% of the input credit (i.e. 9%) and the remaining half is charged in the P&L statement, c) CGTSMSE costs ~1% of the portfolio which is written off over a period of 12 months, d) general inflation of 6-7% for all the costs and e) expansion of branch network.
- Productive Asset financing (Machinery Loans) remains an untapped market. Ugro is disbursing ~Rs 750 Mn per month in this vertical with a target to raise to ~Rs 1000 Mn per month by Q4FY25 and to ~Rs 1,500 Mn per month in FY26 by gradually increasing ticket sizes rather than lowering interest rates on the advances.
- Gross portfolio yield has increased due to Emerging Market and Embedded Finance verticals, however that was offset by some competitive pricing pressure in larger ticket LAPs and Machinery Financing which led to the Net Yield remaining flat at 16.7%.

Financial Statement Analysis

Income Statement

Particulars (Rs in Mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	4,829	7,079	9,551	12,400	15,500
Income from Co-Lending/DA	1,541	3,075	3,976	5,169	6,461
Other Income	468	663	920	1,000	1,100
<b>Total Income</b>	<b>6,838</b>	<b>10,817</b>	<b>14,447</b>	<b>18,569</b>	<b>23,062</b>
Finance cost	2,933	4,429	6,185	7,786	10,078
<b>Net Total Income</b>	<b>3,905</b>	<b>6,388</b>	<b>8,262</b>	<b>10,784</b>	<b>12,983</b>
Employee benefits expense	1,407	1,829	2,470	3,138	3,459
Depreciation, amortisation and impairment	176	353	494	692	899
Other expenses	916	1,256	1,696	2,170	2,648
<b>PPOP</b>	<b>1,406</b>	<b>2,950</b>	<b>3,602</b>	<b>4,783</b>	<b>5,977</b>
Impairment on financial instruments	568	1,162	1,650	2,200	2,700
<b>PBT</b>	<b>838</b>	<b>1,788</b>	<b>1,952</b>	<b>2,583</b>	<b>3,277</b>
Tax expense	440	595	586	775	983
<b>PAT</b>	<b>398</b>	<b>1,193</b>	<b>1,366</b>	<b>1,808</b>	<b>2,294</b>

Balance Sheet

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Cash and Bank balances	2,118	4,549	6,091	7,577	8,941
Loans	38,064	54,322	70,831	94,720	1,19,661
Fixed Assets	992	1,298	1,817	2,362	3,071
Investments	601	592	758	985	1,281
Other assets	1,281	2,039	2,539	3,300	4,290
<b>Total Assets</b>	<b>43,056</b>	<b>62,800</b>	<b>82,036</b>	<b>1,08,945</b>	<b>1,37,243</b>
Equity share capital	693	916	918	918	918
Other equity	9,147	13,468	17,378	19,186	21,480
Incremental Equity			2,520	12,650	12,650
<b>Net worth</b>	<b>9,840</b>	<b>14,384</b>	<b>20,816</b>	<b>32,754</b>	<b>35,048</b>
Borrowings	31,489	46,180	58,649	73,311	98,970
Other liabilities	1,727	2,236	2,571	2,880	3,226
<b>Total Liabilities and Equity</b>	<b>43,056</b>	<b>62,800</b>	<b>82,036</b>	<b>1,08,945</b>	<b>1,37,243</b>

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
17 <sup>th</sup> February 2023	BUY	154	28%
17 <sup>th</sup> May 2023	NEUTRAL	189	8%
3 <sup>rd</sup> August 2023	BUY	269	15%
27 <sup>th</sup> October 2023	BUY	304	14%
25 <sup>th</sup> January 2024	BUY	280	15%
6 <sup>th</sup> May 2024	BUY	269	19%
27 <sup>th</sup> August 2024	BUY	243	15%
24 <sup>th</sup> October 2024	BUY	240	16%
28 <sup>th</sup> January 2025	BUY	199	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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