

Ugro Capital Limited

17th Feb 2023

All set to unleash the potential of MSME Lending

In Q3 FY23, Ugro Capital Limited reported a staggering 81%/15% YoY/QoQ growth in interest income, as well as a 587%/51% YoY/QoQ increase in co-lending income. Over the past year, the assets under management have grown by 97% to 51Bn from 26Bn. Rising yield with constant cost of borrowing and falling cost to income coupled with its unique business model Ugro Capital is poised to capture the secular trend of growth in Indian MSME.

Strong set of Fundamentals

In Q3 FY23, the Company's major KPIs, including AUM growth, profitability, asset quality, and branch growth, showed significant improvement. AUM grew to 51Bn achieving a QoQ growth of ~16% and a YoY growth of ~97%. Off-book AUM reached 35% of Total AUM increasing from 29% in Q2 FY23. PBT saw a sharp rise of 27% QoQ and 338% YoY (from Rs. 176Mn to 222Mn QoQ and Rs. ~51Mn to ~222Mn YoY). PAT reached Rs. ~131Mn, representing a growth of 287% YoY and 149% QoQ. Additionally, on a YoY basis, Prime and Micro branches grew from 14 and 68 to 23 and 75 respectively with a number of customers rising to 38,000 from 32,000 on a QoQ basis.

Stellar Portfolio Performance

In Q3 FY23, collection efficiencies averaged at 94% (excluding overdue); and GNPA/NNPA stood at 1.7%/1.1% as opposed to 2.4%/2% in Q3FY22. Furthermore, the company demonstrated strong performance in terms of product mix, regional distribution, and sector exposure, with an increase in all types of loans both in absolute terms and in terms of ROI. The ROE/ROA in Q3FY23 were 5.5%/1.4% respectively as opposed to 2.2%/0.6% in Q2 (post adjustment for DTA). The cost of borrowing (debt-equity ratio being 2.98x) has also stayed constant at ~10.5% since Q1 FY23 whereas the portfolio yield has increased from 16.7% in Q1 FY23 to 17.4% in Q3 FY23.

Huge Industry Opportunity

The MSME sector presents a vast opportunity for growth due to the current under-penetration of credit, caused by hindrances such as the lack of data, robust technology to analyse and predict heterogeneous borrower behaviour, high turnaround time, and the difficulties in assessing the ability and intent to repay based on irregular cash flows and/or a lack of collateral. However, these challenges can now be overcome through the use of advanced data analytics-driven assessment and underwriting capabilities of Ugro Capital.

View & Valuation

Given its cutting-edge and data-driven model, along with positive and improving financial metrics, and the expertise of its experienced management team, we believe that Ugro Capital is well-positioned to seize upon the significant growth opportunity in the MSME Lending sector. We maintain our view on Ugro Capital Ltd. with a BUY rating with a target price of Rs. 197, valuing it at 1.2x FY24E BV.

BUY

CMP Rs. 154

TARGET Rs. 197 (28%)

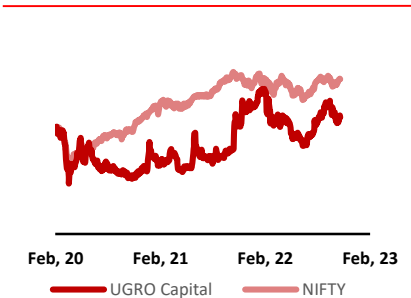
Company Data

MCAP (Rs. Mn)	10,873
O/S Shares (Mn)	70.6
52w High/Low	212 / 120
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	18.9

Shareholding Pattern %

	Dec 22	Sep 22	Jun 22
Promoters	2.87	2.87	2.87
FIIIs	6.96	7.47	7.76
DIIIs	2.02	2.02	2.03
Non-Institutional	88.14	87.63	87.95

Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY22	FY23E	FY24E
NII	1.75	4.11	6.52
PPOP	0.50	1.56	2.78
Net Profit	0.15	0.45	1.36
Total Assets	28.54	47.09	71.76
ROA (%)	0.6%	1.2%	2.3%

Source: Company, Keynote Capitals Ltd. estimates

Result Highlight (Rs. Mn)

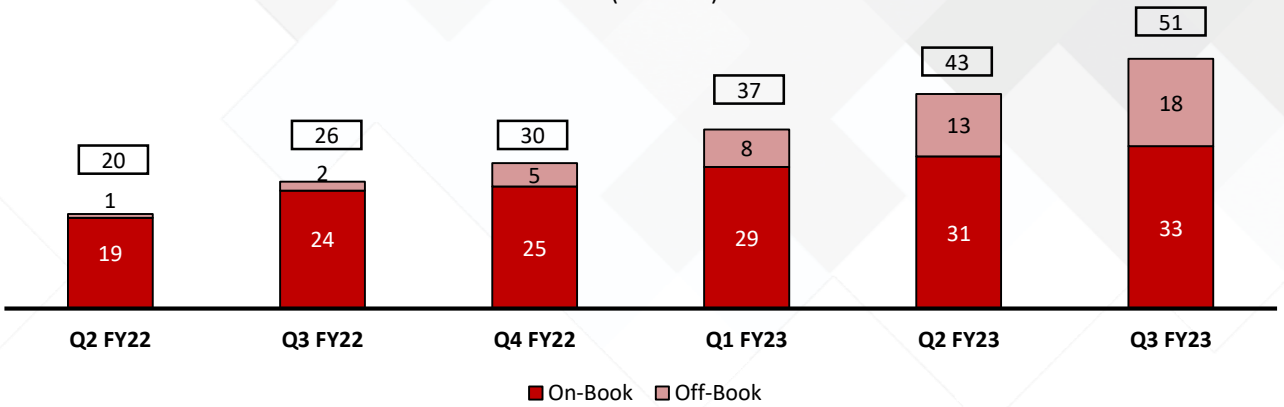
Particulars	Q3FY23	Q3FY22	Change % (Y-o-Y)	Q2FY23	Change % (Q-o-Q)	9MFY23	9MFY22	Change % (Y-o-Y)	FY22
Interest Income	1,331	734	81%	1,157	15%	3,418	1,781	92%	2,721
Income on Co-Lending / Direct Assignment	429	62	587%	284	51%	917	123	644%	269
Other Income	136	56	144%	112	21%	331	88	275%	131
Total Income	1,896	852	123%	1,553	22%	4,666	1,993	134%	3,121
Interest Expenses	816	383	113%	685	19%	2,029	876	132%	1,373
Net Total Income	1,080	468	131%	868	24%	2,637	1,116	136%	1,749
Employee Benefit Expense	405	189	114%	309	31%	1,006	449	124%	729
Other Expenses	286	134	113%	235	22%	720	343	110%	522
PPOP	389	145	169%	324	20%	911	324	181%	498
Credit Cost	167	94	78%	149	13%	409	203	102%	296
PBT	222	51	338%	176	27%	502	121	313%	202
Tax Expense	91	17	440%	123	-26%	244	37	564%	56
PAT	131	34	287%	53	149%	257	85	204%	146

Source: Company, Keynote Capitals Ltd.

Q3 FY23 Conference Call Highlights

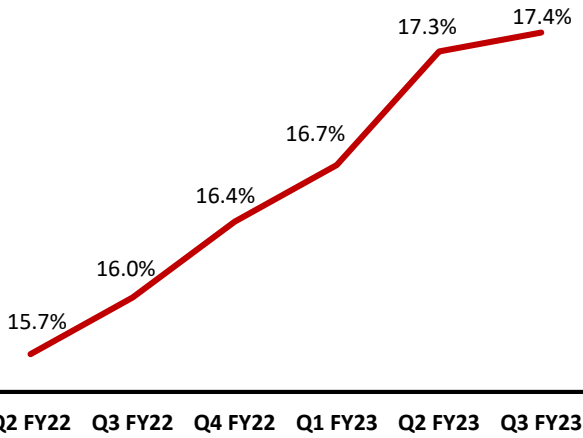
- The company's growth momentum is still in place in this quarter, as seen by AUM growth of 16%/97% on QoQ/YoY terms respectively.
- In Q3 FY23, the Company reported its highest gross disbursement ever, totalling Rs. 19Bn, a growth of 78%/13% on YoY/QoQ basis.
- On a quarterly basis, the portfolio yield grew marginally by 10 bps (from 17.3% to 17.4%) and by 140 bps on YoY terms (from 16% to 17.4%). This occurred as a result of the Company's efforts to expand high yield loans exposure as well as the rise in lending rates to clients brought on by an increase in market rates.
- Cost to Income ratio slightly increased from ~62.9% in Q2FY23 to ~63.9%. This was primarily due to some one-off expenses in Q3 without which it would be ~60%. The management also believes that it will improve each quarter.
- The cost of borrowing has been constant at 10.5% for the Company whereas for other similar companies, it has increased by ~100 bps
- The aim of the management is to double the PAT figure in FY24. The levers for that will be growing the higher yielding segments such as Machinery Loan and Micro Enterprise Loan while keeping the cost to income and cost of borrowing flat.
- Given its growth rate the Company will have to raise capital in Q4FY23 or by Q1FY24, the magnitude of which is unclear at present.

AUM (Rs. in Bn)

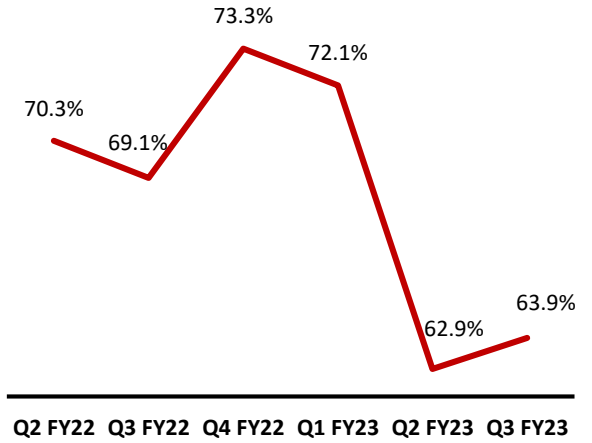


Source: Company, Keynote Capitals Ltd.

Portfolio Yield (%)

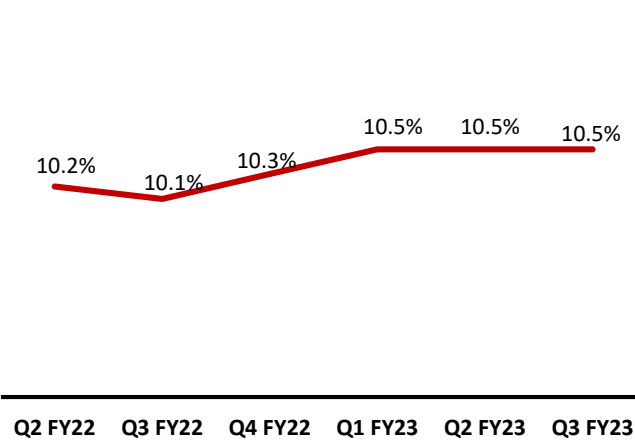


Cost to Income (%)

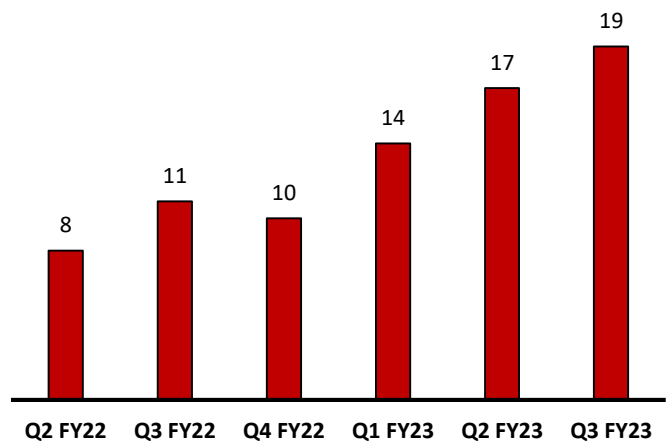


Source: Company, Keynote Capitals Ltd.

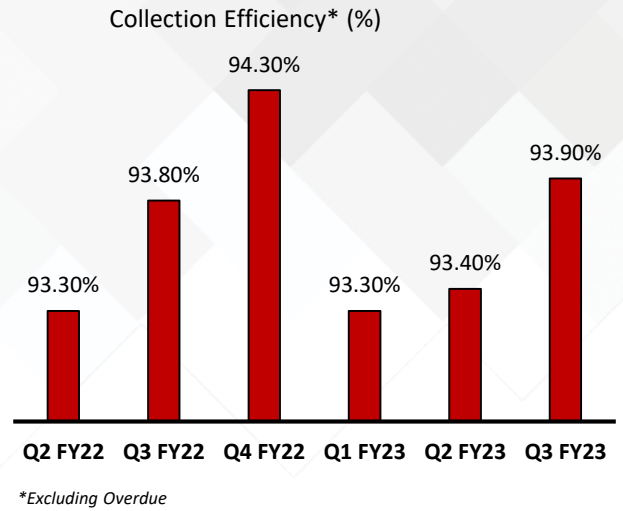
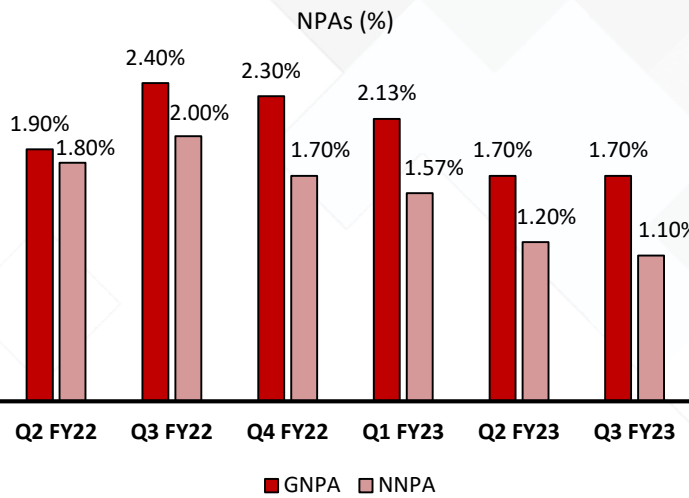
Cost of Borrowing (%)



Gross Disbursals (Rs. in Bn)

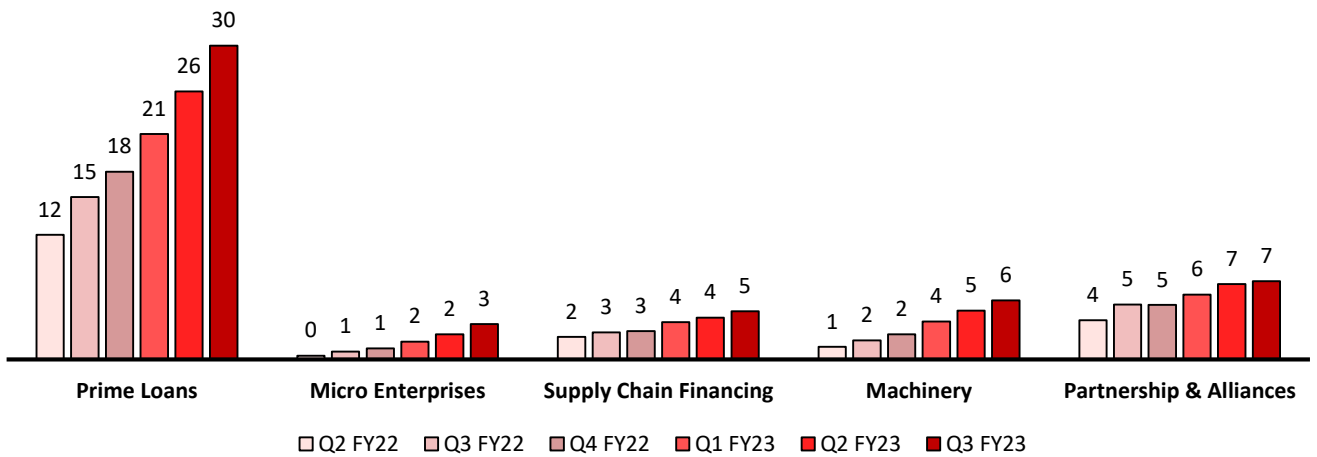


Source: Company, Keynote Capitals Ltd.



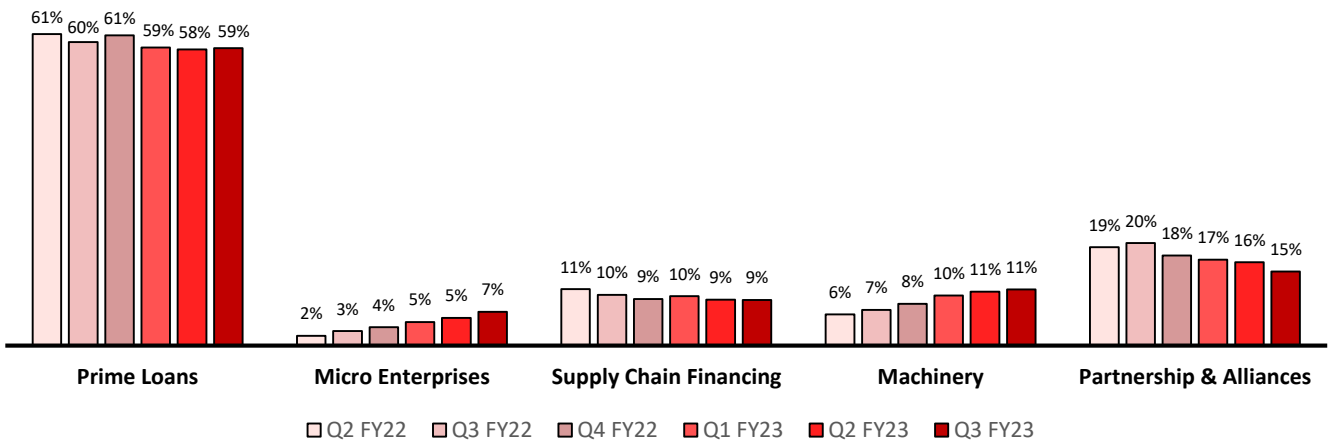
Source: Company, Keynote Capitals Ltd.

Types of Loans (Rs. in Bn)



Source: Company, Keynote Capitals Ltd.

Loan Types (%)



Source: Company, Keynote Capitals Ltd.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	1,468	2,721	4,772	7,468	9,723
Income from Co-Lending/DA	13	269	1,687	3,185	4,268
Other Income	52	131	520	851	1,035
Total Income	1,533	3,121	6,980	11,504	15,026
Interest Expense	446	1,373	2,872	4,985	6,582
Net Total Income	1,088	1,749	4,107	6,519	8,444
Employee Benefits Expense	453	729	1,477	1,985	2,351
Other Expenses	317	522	1,066	1,750	2,224
PPOP	317	498	1,564	2,783	3,869
Credit Cost	196	296	759	1,125	1,483
PBT	121	202	805	1,658	2,386
Tax expense	-166	56	360	299	430
PAT	287	146	445	1,360	1,957

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash and Bank balances	3,160	1,884	3,000	4,500	5,000
Loans	12,827	24,505	41,980	64,602	85,899
Fixed Assets	401	616	451	571	640
Investments	552	694	565	988	1,253
Other assets	607	844	1,098	1,098	1,098
Total Assets	17,548	28,542	47,094	71,759	93,889
Equity share capital	705	706	706	706	706
Other equity	8,819	8,960	9,599	10,959	12,915
Incremental Equity	-	-	4,000	4,000	6,000
Net worth	9,524	9,666	14,305	15,665	19,621
Borrowings	7,657	18,018	31,933	55,237	73,411
Other liabilities	367	858	857	857	857
Total Liabilities and Equity	17,548	28,542	47,094	71,759	93,889

Source: Company, Keynote Capitals Ltd.

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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