Ugro Capital Limited

29th August 2025

Sequential softness offset by capital strength, strategic acquisition, and core growth

In Q1FY26, Ugro Capital Ltd (Ugro) reported a ~40%/2% growth in its Total Income on a YoY/QoQ basis, amounting to ~Rs 4,218 Mn. The subdued sequential performance was primarily due to a ~24% degrowth in the co-lending business. The first quarter typically experiences a seasonal moderation in activity. Loan origination was deliberately moderated through stricter underwriting standards, especially around borrower leverage. While April'25 draft on co-lending guidelines temporarily weighed on volumes, the impact was partly offset by increased direct assignments and sustained progress in diversifying the liability profile. Interest Expenses grew by ~51%/13% on a YoY/QoQ basis, limiting the Net Total Income growth to ~31%/-6% on a YoY/QoQ basis. The Company's PPOP reached ~Rs 959 Mn, showcasing a growth of ~26%/-14% on a YoY/QoQ basis. PAT reached to ~Rs. 405 Mn, a growth of ~12%/-14% on a YoY/QoQ basis. The Company's AUM amounted to ~Rs. 120 Bn, growing by ~31%/1% on a YoY/QoQ basis, with Off-Book AUM accounting for ~42% of the total.

Capital adequacy supports measured expansion

During Q1FY26, Ugro strengthened its capital base through a mix of debt and equity issuances. In April 2025, it raised Rs.2 Bn via a public NCD issue, including a green shoe option of Rs.1 Bn. In June 2025, the Company further enhanced its equity base by allotting over 235 Mn shares on a rights basis at Rs.162 per share, raising ~Rs.4 Bn, and it is also in the process of a preferential issue of ~Rs.9.1 Bn. As a result, Ugro's CRAR stood at a healthy 22.4%, providing a strong buffer to support targeted growth.

Profectus Acquisition and Growth Engines Drive Scale

In Q1FY26, Ugro's BoD approved the ~Rs.14 Bn acquisition of Profectus Capital, an RBI-registered NBFC with ~Rs.35 Bn fully secured AUM, strong asset quality (GNPA/NNPA: 1.6%/1.1%), and a 28-branch, 800-employee network. The deal strengthens Ugro's core franchise by lifting the secured AUM mix to 75% and on-book share to 65%, while delivering ~Rs.1 Bn in annual cost synergies and a 60–70 bps ROA uplift. On the growth side, the Emerging Markets segment expanded to 309 branches (target ~346 by Q2FY26) with improving profitability, while Embedded Finance AUM crossed ~Rs.10 Bn on disbursements of ~Rs.6 Bn, supported by strong partner flows from PhonePe and BharatPe.

RBI's Co-Lending Reforms ROE Accretive for NBFCs

The RBI's revised co-lending guidelines unify the framework across asset classes and, for the first time, permit First Loss Cover (FLC) to banks which is a material positive for NBFCs like Ugro. This change improves the risk-reward equation, lowers funding costs, and is highly ROE accretive. While near-term disbursements may moderate due to process realignment and the need to identify partners at origination, the framework materially enhances scalability and competitiveness over the medium term. While some pass-through of bank funding benefits to borrowers may occur, the framework remains highly accretive for NBFCs and strengthens the long-term co-lending opportunity.

View & valuation

We expect Ugro Capital to sustain its strong growth momentum. However, given the lower than expected ROA, we have revised our valuation estimates while maintaining a BUY rating with a target price of Rs. 216 (1x FY26E BV).

BUY

CMP Rs. 170

TARGET Rs. 216 (27%)

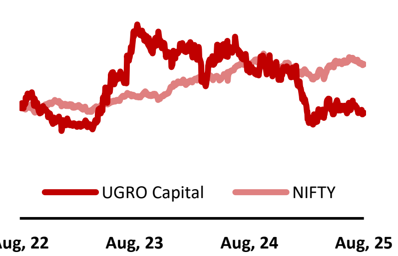
Company Data

Bloomberg Code	UGRO IN
MCAP (Rs. Mn)	19,959
O/S Shares (Mn)	139.9
52w High/Low	265/ 144
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	77

Shareholding Pattern %

	Jun 25	Mar 25	Dec 24
Promoters	2.3	2.2	2.2
FIIs	29.3	27.2	24.7
DIIs	1.6	1.9	2.4
Non-Institutional	66.8	68.7	70.7

Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24	FY25
NII	3.9	6.4	8.1
PPOP	1.4	3.0	3.8
Net Profit	0.4	1.2	1.4
Total Assets	43.1	62.8	91.7
ROA (%)	1.1%	2.3%	1.9%

Source: Company, Keynote Capitals Ltd. estimates

Karan Galaiya, *Research Analyst*
karan@keynotecapitals.net

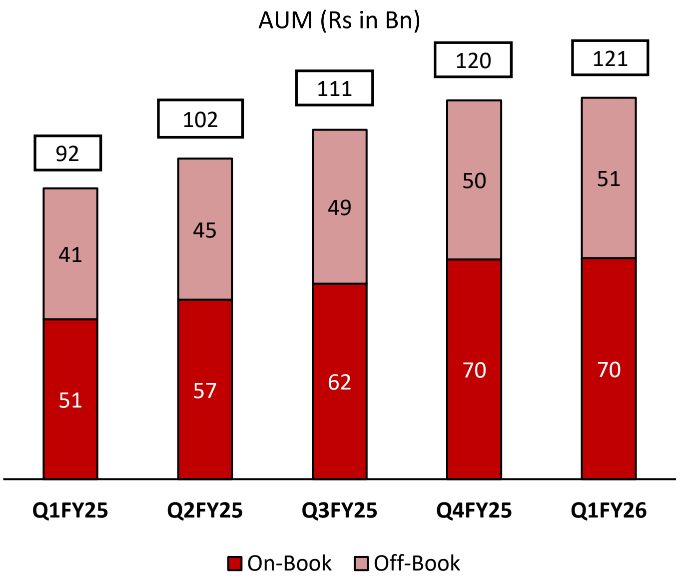
Q1 FY26 Result Update

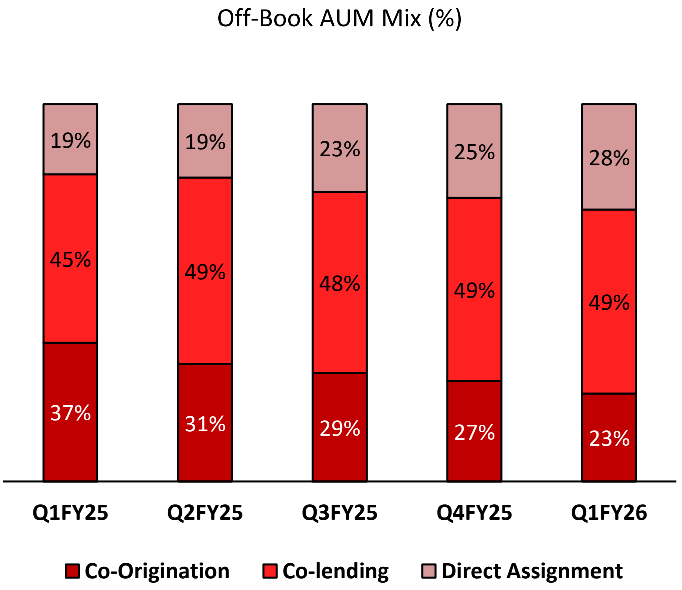
Result Highlight (Rs. Mn)

Particulars	Q1 FY26	Q1 FY25	*Change % (Y-o-Y)*	Q4 FY25	*Change % (Q-o-Q)*	FY25
Interest Income	3,042	2,319	31%	2,644	15%	9,588
Income on Co-Lending / Direct Assignment	908	504	80%	1,193	-24%	3,829
Other Income	268	193	39%	287	-6%	1,001
Total Income	**4,218**	**3,016**	**40%**	**4,124**	**2%**	**14,418**
Interest Expenses	2,054	1,361	51%	1,812	13%	6,278
Net Total Income	**2,165**	**1,655**	**31%**	**2,312**	**-6%**	**8,141**
Employee Benefit Expense	609	545	12%	548	11%	2,356
Other Expenses	597	349	71%	649	-8%	2,023
PPOP	**959**	**760**	**26%**	**1,115**	**-14%**	**3,762**
Credit Cost	477	332	44%	543	-12%	1,731
PBT	482	429	12%	572	-16%	2,031
Tax	140	125	13%	167	-16%	592
PAT	**341**	**304**	**12%**	**405**	**-16%**	**1,439**
EPS	**3.32**	**3.19**	**4%**	**4.02**	**-17%**	**14.71**

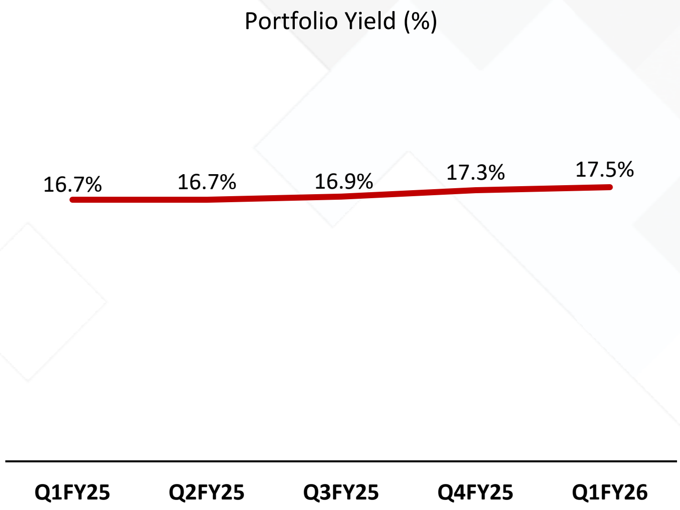
Source: Company, Keynote Capitals Ltd.

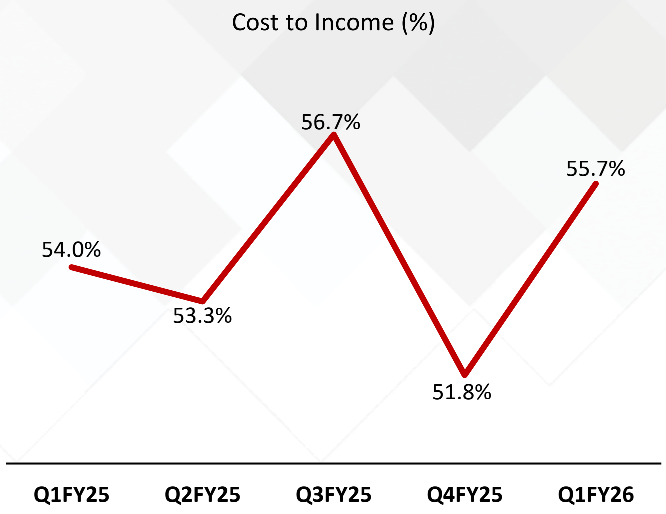
Quarterly Business Progression

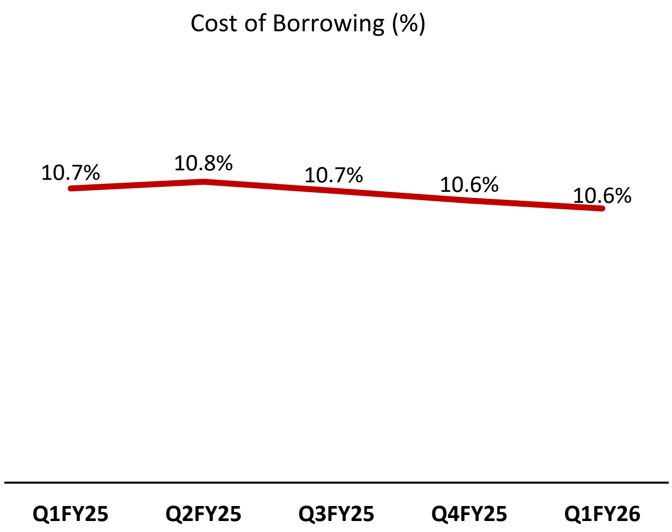


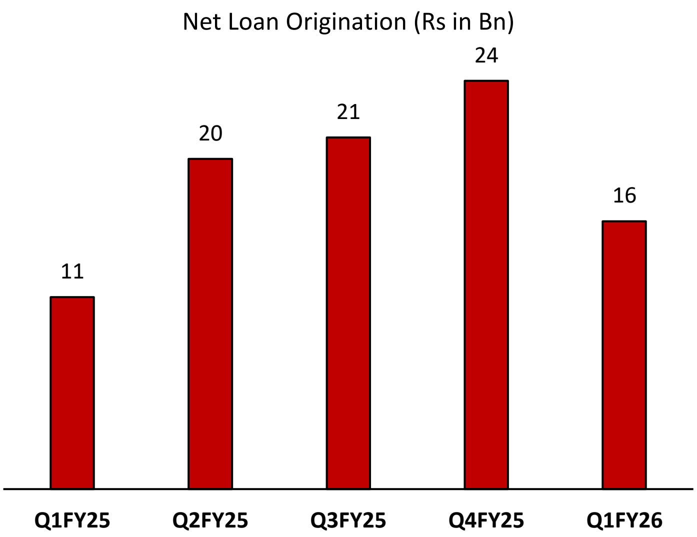


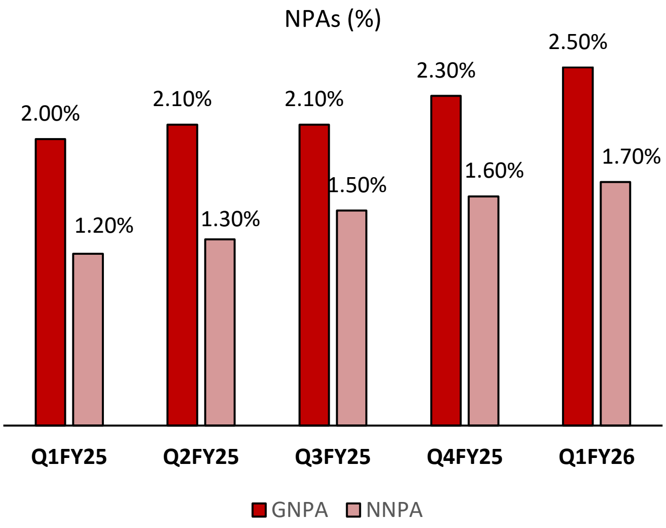
Source: Company, Keynote Capitals Ltd.

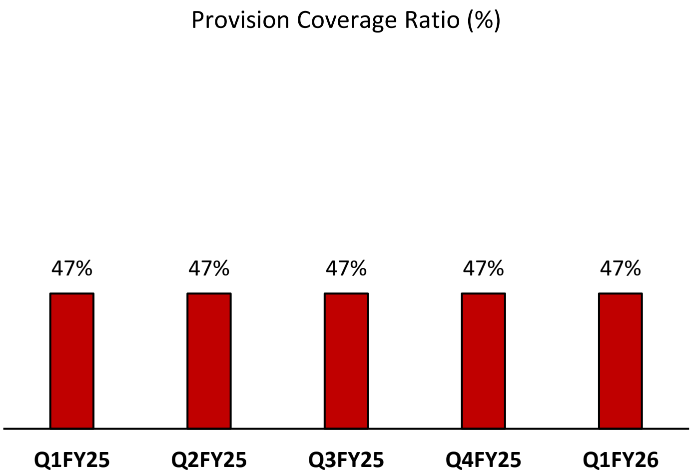




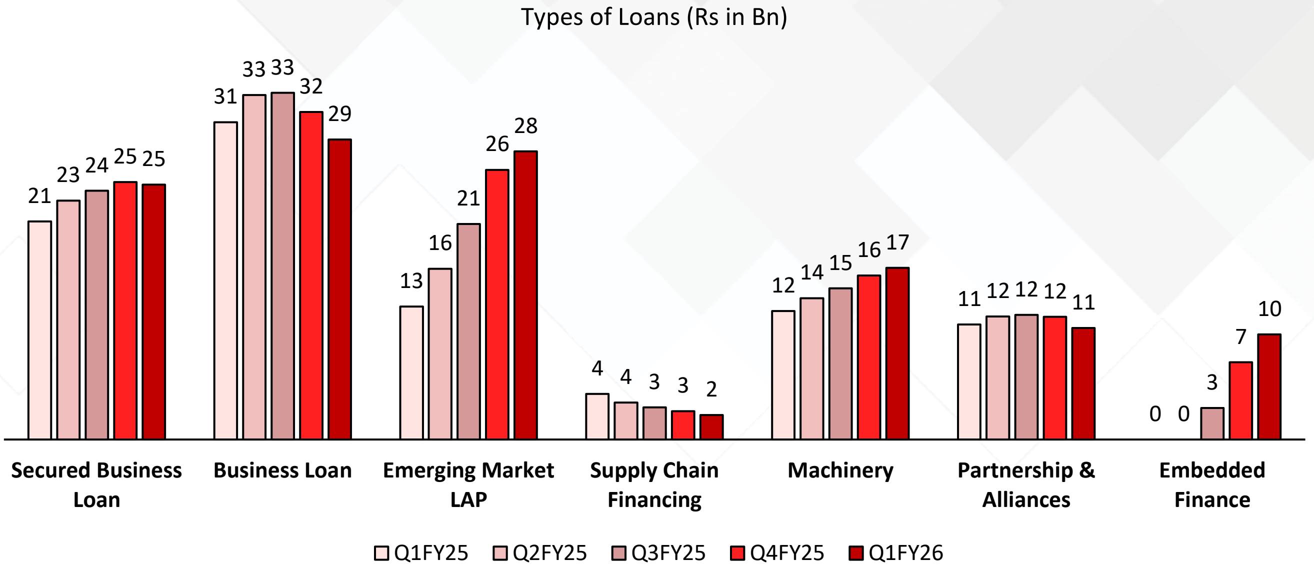


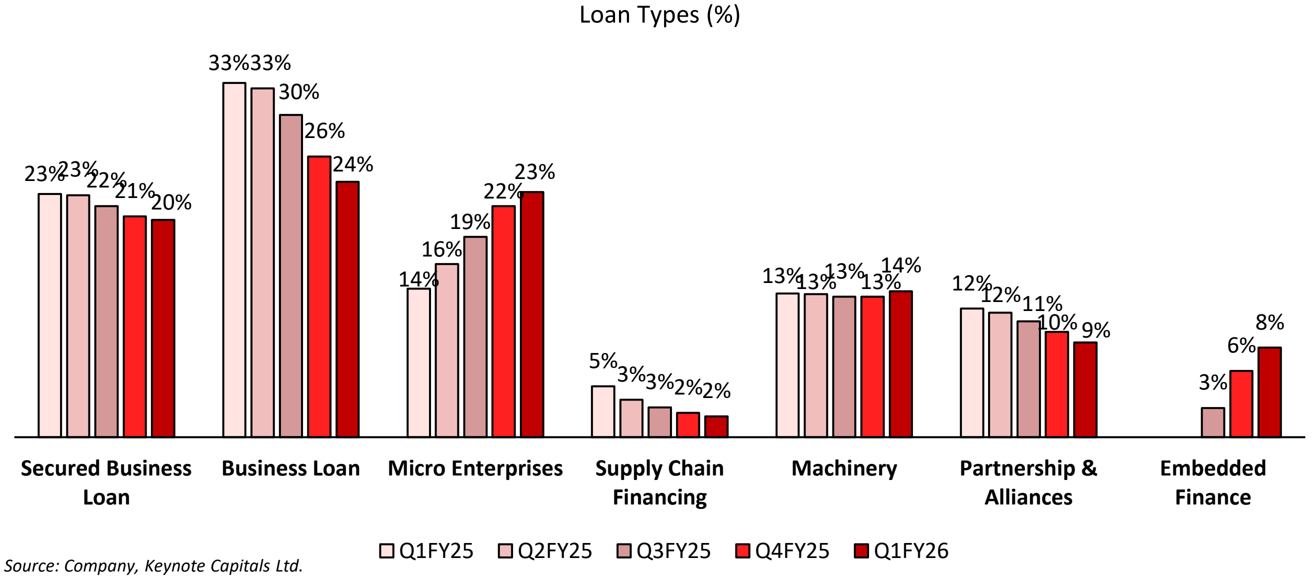






Source: Company, Keynote Capitals Ltd.





Source: Company, Keynote Capitals Ltd.

Q1 FY26 Conference Call Takeaways

General highlights

- Embedded Finance crossed the milestone of Rs. 10Bn AUM in Q1 FY26. Disbursements through the MyShubLife platform were ~Rs. 5.8Bn, with a monthly run rate of ~Rs. 1-1.5Bn.

- During the quarter, disbursements stood at ~Rs. 16Bn, an increase from ~Rs. 11.5Bn in Q1 FY25. The sequential decline from Q4 FY25 (Rs. 24.4Bn) was by design and in line with budgets, reflecting a tightening of underwriting filters, especially in areas with elevated borrower leverage.

- The Company focuses on a daily repayment product, not monthly EMI, with an average ticket size of less than Rs. 0.2Mn.

- For risk mitigation, the Company is capping Loan EMI at not more than 20% of daily collection (e.g., Rs. 2,000 EMI on Rs. 10,000 daily collection), automatically collected from daily transaction flow.

- Overall GNPA stood at 2.5% and Net NPA at 1.7%, well within internal estimates.

- Average LTV of the portfolio is 55% [up to 80% in prime secured loans]. Collateral includes self-occupied residential, commercial, industrial properties, and machine collateral for machinery loans.

- In digital alliances and partnerships, First Loss Default Guarantee (FLDG) from partners and high provision coverage ratio act as collateral.

Profectus Deal

- Rs. 14Bn all-cash acquisition of Profectus Capital is underway, having secured shareholder approval and progressing with regulatory approvals.

- The Company has a medium-term goal of increasing its AUM to ~Rs.200Bn from ~Rs.150Bn at FY25-end

- The acquisition strengthens the secured asset mix and unlocks Rs. 20Bn growth potential through Profectus's school finance expertise.

- Profectus acquisition was considered more tactical than a long-term strategy, primarily to accelerate ROA improvement, improve asset mix, add school financing, and provide flexibility to manage Cost of Borrowings.

Update on capital raise

- The Company successfully completed a rights issue of ~Rs. 3.8Bn and is in the process of a preferential issue of ~Rs. 9.1Bn. This combined capital raise has improved capital adequacy ratios to 22.4%, ensuring continued expansion without compromising quality. The preferential issue, largely taken by existing warrant investors at an effective price of Rs. 162 (after a 12.5% upfront coupon on the Rs. 185 preferential pricing), was balanced by a matching rights issue to mitigate dilution for public shareholders.

Update on Co-lending guidelines

- The RBI's revised guidelines mark a critical development by bringing all forms of co-lending under a unified regulatory framework. For the first time, the regulator has permitted First Loss Cover (FLC) to be extended to banks. This is a significant positive for non-bank lenders such as UGRO.

- The introduction of FLC materially alters the risk-reward equation in co-lending. Banks are expected to become more comfortable expanding partnerships when backed by an FLC structure, which could drive multi-fold growth in disbursal volumes. This also implies a lower net cost of funds in co-lending arrangements, enhancing competitiveness.

- From a return profile perspective, the move is highly ROE accretive. It allows the Company to operate with leverage similar to larger incumbents, without a commensurate increase in direct capital deployment. Additionally, the scope of co-lending has been broadened beyond priority sector lending (PSL) to all asset classes, providing lenders with far greater flexibility in portfolio construction and growth.

- Management has guided for a potential two-quarter disruption beginning January 2026, as operating processes are realigned to comply with the revised co-lending framework. The key procedural shift is the requirement to identify the co-lending partner at the point of origination, as opposed to the earlier practice of disbursing loans first and subsequently allocating them to partner banks.

- Technology integration is not expected to be a bottleneck, management highlighted that the distribution architecture will need to be recalibrated. This transition is likely to temporarily moderate disbursement volumes, but is viewed as a necessary adjustment to align long-term business scalability with the new regulatory architecture.

- The concept of a blended lending rate has been part of earlier RBI circulars. However, the latest guideline introduces a new requirement mandating separate disclosure of bank and NBFC rates to customers. Management indicated that this change is unlikely to materially compress NBFC spreads, although some pass-through of lower bank funding costs to end-borrowers may occur over time. Importantly, this remains an evolving area, with further clarity expected as industry consultations with the RBI progress.

Management guidance

- Management guides that disbursements are expected to pick up from Q2 FY26 as seasonal effect subside.

- The Company aims to increase business contribution from emerging markets from 22% in FY25 to 35% by the end of FY26.

- Management expects yields to go up by 0.25%-0.5% in the coming year.

- Long term target for 4% ROA still remains intact.

- The management is increasing its focus on reducing Cost of borrowings which is 150-200bps higher than peers.

Emerging markets

- The emerging market business expanded to 286 operational branches by June 2025, with further expansion planned by September 2025. Out of 286 branches, 150 are more than 18 months old, and 136 are less than 18 months old.

- AUM per branch for vintage (>18 months) branches is Rs. 154Mn, significantly higher than newer branches (<18 months) at Rs. 34Mn.

- Average ticket size in emerging market is Rs. 2Mn with an average yield of 17.8%-18%

- 121 branches have already breakeven levels, with others expected to achieve in the next 12-15 months.

- Only secured business is done in the emerging market channel. Geographically, AUM is well-diversified : 48% South, 25% North, 27% West

- With increasing maturity of branches, the Company expects to reach an exit runrate of Rs. 4Bn per month from emerging markets

Financial Statement Analysis

Income Statement

Particulars (Rs in Mn)	FY23	FY24	FY25
Interest Income	4,829	7,079	9,588
Income from Co-Lending/DA	1,541	3,075	3,829
Other Income	468	663	1,002
Total Income	**6,838**	**10,817**	**14,419**
Finance cost	2,933	4,429	6,278
Net Total Income	**3,905**	**6,388**	**8,141**
Employee benefits expense	1,407	1,829	2,356
Depreciation, amortisation and impairment	176	353	464
Other expenses	916	1,256	1,559
PPOP	**1,406**	**2,950**	**3,762**
Impairment on financial instruments	568	1,162	1,731
PBT	**838**	**1,788**	**2,031**
Tax expense	440	595	592
PAT	**398**	**1,193**	**1,439**

Balance Sheet

Particulars	FY23	FY24	FY25
Cash and Bank balances	2,118	4,549	5,444
Loans	38,064	54,322	79,191
Fixed Assets	992	1,298	1,623
Investments	601	592	1,034
Other assets	1,281	2,039	4,391
Total Assets	**43,056**	**62,800**	**91,683**
Equity share capital	693	916	919
Other equity	9,147	13,468	19,544
Incremental Equity			
Net worth	**9,840**	**14,384**	**20,464**
Borrowings	31,489	46,180	68,704
Other liabilities	1,727	2,236	2,515
Total Liabilities and Equity	**43,056**	**62,800**	**91,683**

Source: Company, Keynote Capitals Ltd.

**Note: We will be publishing forecasted numbers post Profectus Capital's books get merged with Ugro Capital.*

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
17th February 2023	BUY	154	28%
17th May 2023	NEUTRAL	189	8%
3rd August 2023	BUY	269	15%
27th October 2023	BUY	304	14%
25th January 2024	BUY	280	15%
6th May 2024	BUY	269	19%
27th August 2024	BUY	243	15%
24th October 2024	BUY	240	16%
28th January 2025	BUY	199	15%
29th April 2025	BUY	183	24%
29th August 2025	BUY	170	27%

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

Disclosures and Disclaimers

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Keynote Capitals Ltd. (KCL) is a SEBI Registered Research Analyst having registration no. INH000007997. KCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. Details of associate entities of Keynote Capitals Limited are available on the website at https://www.keynotecapitals.com/associate-entities/

KCL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

KCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that KCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Details of pending Enquiry Proceedings of KCL are available on the website at https://www.keynotecapitals.com/pending-enquiry-proceedings/

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of KCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from KCL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL & its group companies to registration or licensing requirements within such jurisdictions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Specific Disclosure of Interest statement for subjected Scrip in this document:

Financial Interest of Research Entity [KCL] and its associates; Research Analyst and its Relatives	**NO**
Any other material conflict of interest at the time of publishing the research report by Research Entity [KCL] and its associates; Research Analyst and its Relatives	**NO**
Receipt of compensation by KCL or its Associate Companies from the subject company covered for in the last twelve months; Managing/co-managing public offering of securities in the last twelve months; Receipt of compensation towards Investment banking/merchant banking/brokerage services in the last twelve months; Products or services other than those above in connection with research report in the last twelve months; Compensation or other benefits from the subject company or third party in connection with the research report in the last twelve months.	**NO**
Whether covering analyst has served as an officer, director or employee of the subject company covered	**NO**
Whether the KCL and its associates has been engaged in market making activity of the Subject Company	**NO**
Whether the Research Entity [KCL] and its associates; Research Analyst and its Relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.	**NO**

The associates of KCL may have:

- financial interest in the subject company
-actual/beneficial ownership of 1% or more securities in the subject company
-received compensation/other benefits from the subject company in the past 12 months
-other potential conflict of interests with respect to any recommendation and other related information and opinions.; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
-acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
-be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
-received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of KCL has not received any compensation or other benefits from third party in connection with the research report.

Above disclosures includes beneficial holdings lying in demat account of KCL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of KCL for other purposes (i.e. holding client securities, collaterals, error trades etc.). KCL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by KCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KCL. The report is based on the facts, figures and information that are believed to be true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KCL will not treat recipients as customers by virtue of their receiving this report

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. KCL, its associates, their directors and the employees may from time to time, effect or have affected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. KCL, its associates, their directors and the employees may from time to time invest in any discretionary PMS/AIF Fund and those respective PMS/AIF Funds may affect or have effected any transaction in for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of KCL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL to any registration or licensing requirement within such jurisdiction.

Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

For any complaints email at kcl@keynoteindia.net