

# Ugro Capital Limited

17<sup>th</sup> May 2023

Consistent and robust execution

In Q4 FY23, Ugro Capital Ltd (Ugro) achieved noteworthy financial results. The Company reported an interest income of Rs. 1411 Mn, indicating a growth of 50%/6% YoY/QoQ. Additionally, Ugro experienced a remarkable increase in co-lending income, with a YoY/QoQ growth of 327%/45% amounting to Rs. 624 Mn. The Company's profitability demonstrated significant improvement as its PAT surged from Rs. 61 Mn to Rs. 140 Mn, representing a substantial YoY growth of 131%. Moreover, Ugro witnessed significant growth in its AUM, which expanded by 105% to Rs. ~60 Bn from Rs. 30 Bn. Recently, the Company has raised Rs. 3.41 Bn of funds of which Rs. 2.4 Bn is Preferential issue and Rs. 1.01 Bn is Qualified Institutional Placement.

## Sustained track record

Ugro's key metrics have showcased a consistent upward trajectory, reflecting its sustained improvement. Over a period of 4 quarters, its AUM has roughly doubled, soaring from around Rs. ~30 Bn to Rs. ~60 Bn. Simultaneously, the off-book AUM share has risen significantly from 4% to 40%. Notably, Ugro has managed to increase its portfolio yield while maintaining a constant borrowing cost. Additionally, it has effectively reduced its cost-to-income ratio from ~70% in Q2FY22 to ~56% in Q4FY23. Furthermore, in Q4FY23, Ugro's ROE/ROA ratios, have increased from 2.4%/0.8% to 9.5%/2.2% on YoY basis. The Company has also remarkably expanded its customer base to 48,000+ as of Q4 FY23 without a corresponding increase in NPAs.

## GRO Score 3.0

The GRO Score 3.0 is an improved version of the proprietary scoring model, incorporating GST, credit bureau, and banking data. It analyses three components: GST transaction data, 12-month bank statements, and repayment history. Unlike the previous version, GRO Score 3.0 includes GST data as a statistical parameter, enhancing its predictive abilities. By considering various parameters in repayment history, banking transactions, and GST data, it aims to identify correlations with the customer's future repayment behaviour, resulting in a more comprehensive assessment of creditworthiness and repayment potential.

## Underwriting Discipline

Ugro's strong underwriting practices are evident through the declining GNPA's and NNPA's since five quarters. This is driven by factors such as an experienced underwriting team with deep MSME business and subsector understanding, an automated tech-based underwriting process with a conservative 30% approval rate, and a transition from collateral-based to cash flow-based lending. Additionally, Ugro segments customers into A to E buckets, where non-disbursed loans perform worse than disbursed ones. Notably, ~88% of recent disbursals are allocated to A and B bucket customers.

## View & Valuation

We have revised our estimates and changed our view from BUY to a NEUTRAL rating on Ugro Capital Ltd with a target price of Rs. 203 (1.3x FY24E BV).

# NEUTRAL

CMP Rs. 189

TARGET Rs. 203 (8%)

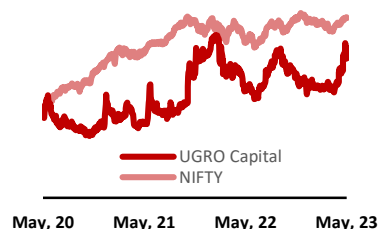
## Company Data

MCAP (Rs. Mn)	14,875
O/S Shares (Mn)	92.5
52w High/Low	217 / 120
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	62.8

## Shareholding Pattern %

	Apr 23	Mar 23	Dec 22
Promoters	2.63	2.87	2.87
FII's	6.24	6.95	6.96
DII's	8.16	2.02	2.02
Non-Institutional	82.96	88.15	88.14

## Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

## Key Financial Data

(Rs Bn)	FY22	FY23	FY24E
NII	1.75	3.91	6.45
PPOP	0.50	1.41	2.71
Net Profit	0.15	0.40	1.21
Total Assets	28.54	43.06	70.56
ROA (%)	0.6%	1.1%	2.1%

Source: Company, Keynote Capitals Ltd. estimates

Result Highlight (Rs. Mn)

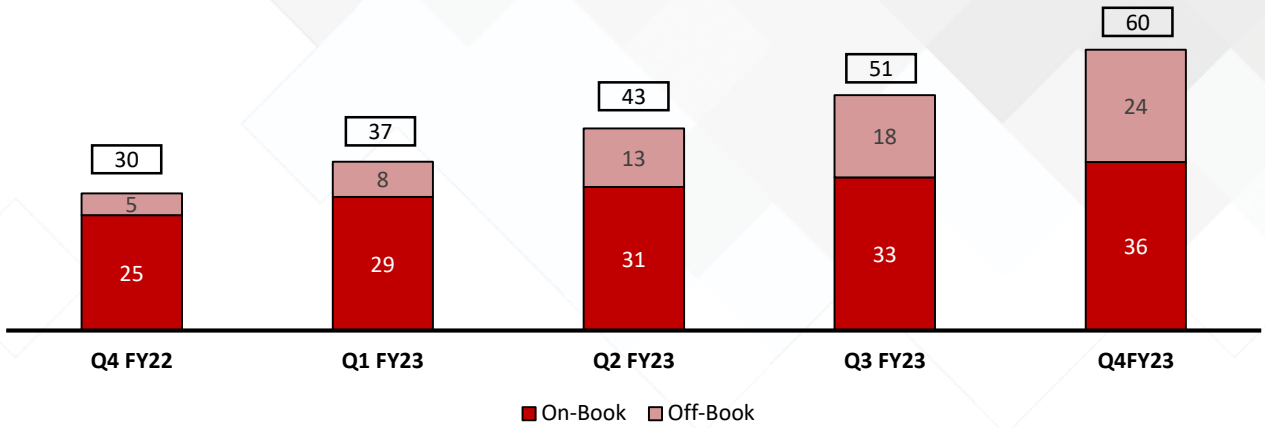
Particulars	FY23 Q4	FY22 Q4	Change % (Y-o-Y)	FY23 Q3	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Interest Income	1,411	940	50%	1,331	6%	4,829	2,721	77.46%
Income on Co-Lending / Direct								
Assignment	624	146	327%	429	45%	1,541	269	472.02%
Other Income	137	43	221%	136	1%	468	131	258.29%
<b>Total Income</b>	<b>2,172</b>	<b>1,128</b>	<b>92%</b>	<b>1,896</b>	<b>15%</b>	<b>6,838</b>	<b>3,121</b>	<b>119.08%</b>
Interest Expenses	904	496	82%	816	11%	2,933	1,373	113.67%
<b>Net Total Income</b>	<b>1,268</b>	<b>632</b>	<b>101%</b>	<b>1,080</b>	<b>17%</b>	<b>3,905</b>	<b>1,749</b>	<b>123.32%</b>
Employee Benefit Expense	401	280	44%	405	-1%	1,407	729	93.05%
Other Expenses	355	180	98%	286	24%	1,091	524	108.41%
<b>PPOP</b>	<b>511</b>	<b>173</b>	<b>196%</b>	<b>389</b>	<b>31%</b>	<b>1,406</b>	<b>496</b>	<b>183.56%</b>
Credit Cost	175	93	89%	167	5%	568	296	92%
PBT	337	80	319%	222	51%	838	200	319%
Tax Expense	196	19	909%	91	115%	441	56	683%
<b>PAT</b>	<b>140</b>	<b>61</b>	<b>131%</b>	<b>131</b>	<b>7%</b>	<b>398</b>	<b>144</b>	<b>176%</b>

Source: Company, Keynote Capitals Ltd.

Q4 FY23 Conference Call Highlights

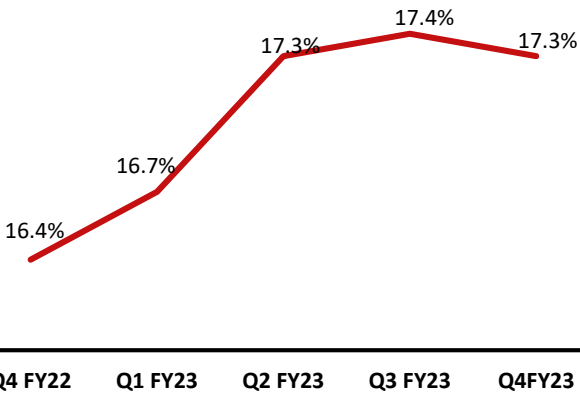
- Cost to Income ratio was at ~56% in Q4 FY23, as against ~73.3% in Q4 FY22 and the Management has guided it to fall further in FY24 to~47%.
- The Company doesn't plan to raise more equity capital in FY24 and further Balance Sheet growth will be supported by debt capital, without any pressure on the capital adequacy ratio, which currently stands at ~20%. However, the Company does plan to raise more equity in the middle of next year for growth capital.
- The Company has guided to add 20-25 Micro Enterprise branches in FY24. Branch additions had been flat in FY23 as they wanted to establish the proof of concept that new branches break even in 12 months, which notably the Company has been able to achieve.
- Net Interest Margin on Balance Sheet / AUM figures stood at 12.8% / 8.9% respectively and is expected to be similar range based on the product mix.
- Guidance for FY24 for AUM, ROA and ROE is Rs. 100 Bn, 3% and ~10% respectively. Further, the Management believes they can achieve high double-digit ROE in FY25.
- The Provision Coverage Ratio stood at 65-70% for unsecured loans and 20-30% for secured loans.
- The overall rejection rates for loans is 70%. Loss given default for the secured portfolio (70% of total) is close to 0, and is relatively higher for unsecured loans but not 100%.

AUM (Rs. in Bn)

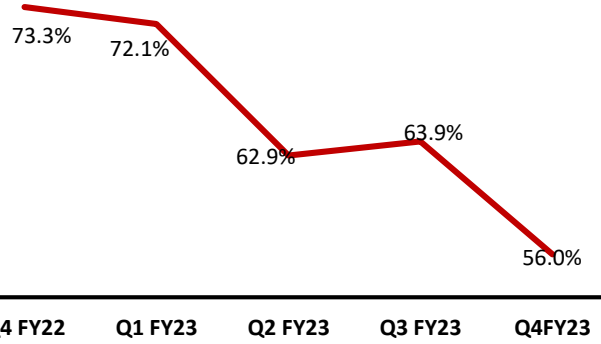


Source: Company, Keynote Capitals Ltd.

Portfolio Yield (%)

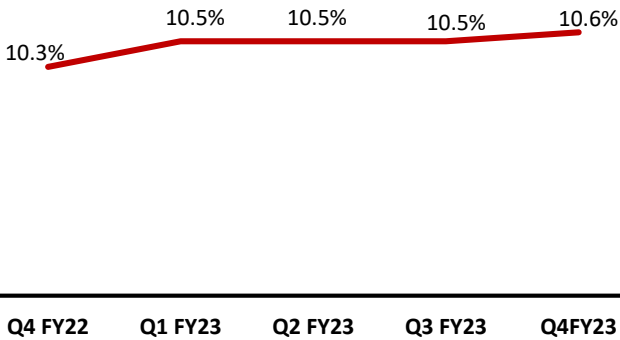


Cost to Income (%)

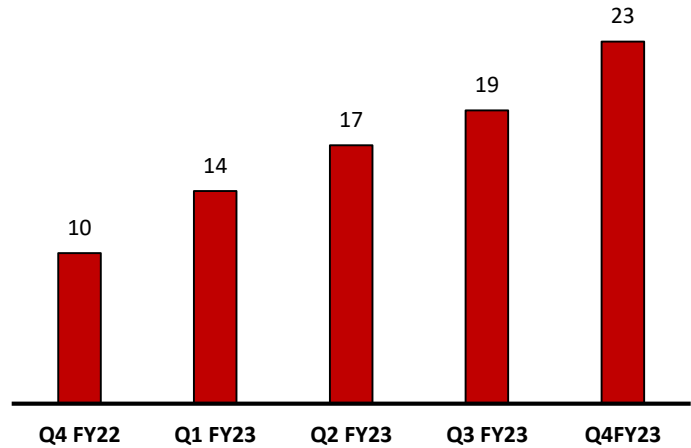


Source: Company, Keynote Capitals Ltd.

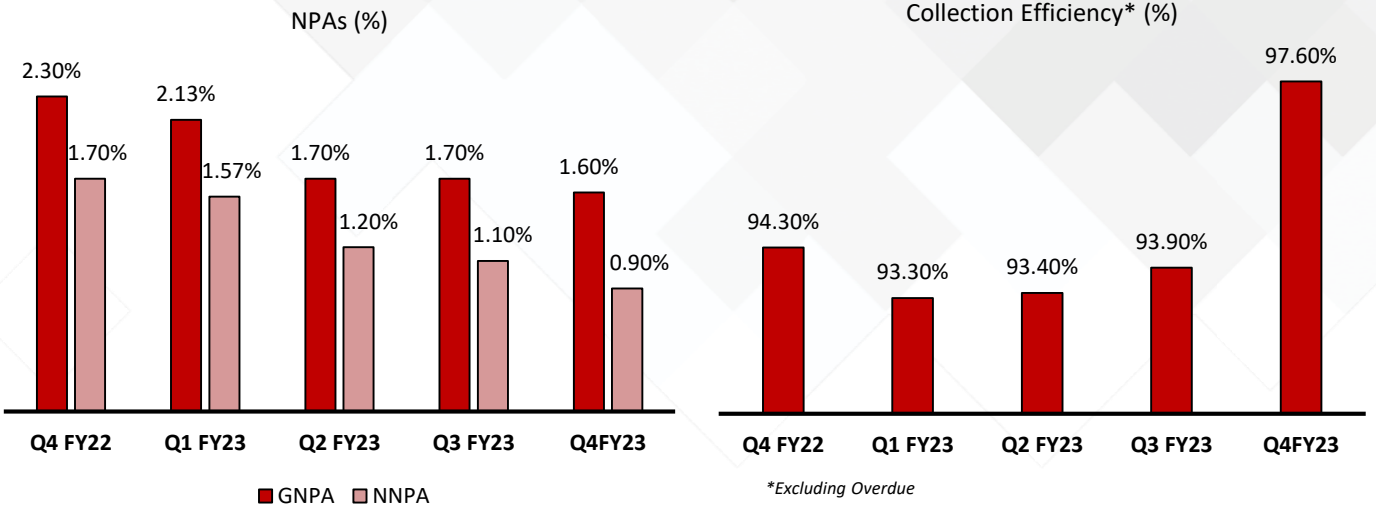
Cost of Borrowing (%)



Gross Disbursals (Rs. in Bn)

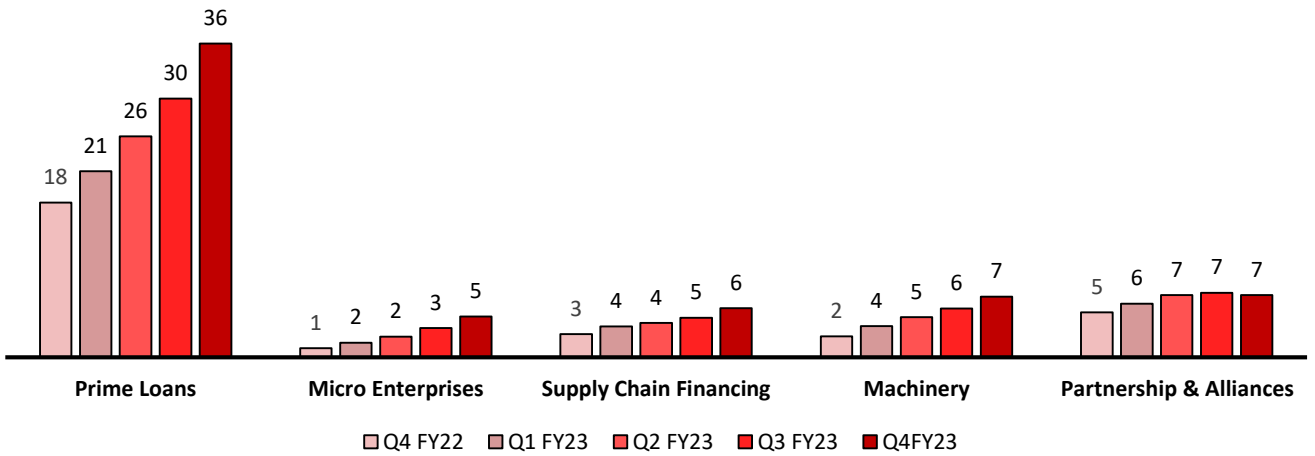


Source: Company, Keynote Capitals Ltd.



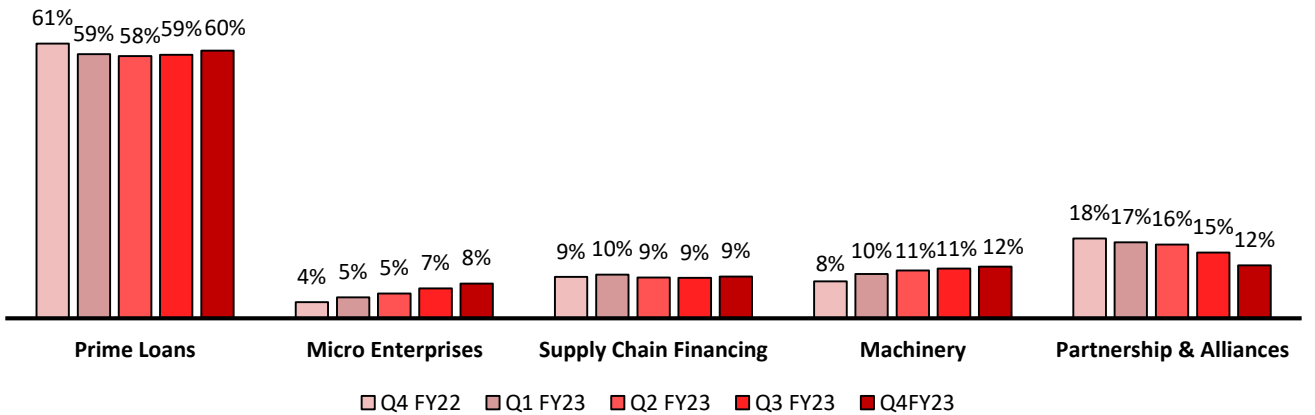
Source: Company, Keynote Capitals Ltd.

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	FY23	FY24E	FY25E
Interest Income	1,468	2,721	4,829	7,395	9,723
Income from Co-Lending/DA	13	269	1,541	3,185	4,198
Other Income	52	131	468	851	1,009
<b>Total Income</b>	<b>1,533</b>	<b>3,121</b>	<b>6,838</b>	<b>11,431</b>	<b>14,930</b>
Interest Expense	446	1,373	2,933	4,985	6,582
<b>Net Total Income</b>	<b>1,088</b>	<b>1,749</b>	<b>3,905</b>	<b>6,446</b>	<b>8,348</b>
Employee Benefits Expense	453	729	1,407	1,985	2,351
Other Expenses	317	522	1,092	1,750	2,224
<b>PPOP</b>	<b>317</b>	<b>498</b>	<b>1,406</b>	<b>2,710</b>	<b>3,773</b>
Credit Cost	196	296	568	1,025	1,384
PBT	121	202	838	1,685	2,389
Tax expense	-166	56	440	472	597
<b>PAT</b>	<b>287</b>	<b>146</b>	<b>398</b>	<b>1,214</b>	<b>1,792</b>

## Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Cash and Bank balances	3,160	1,884	2,118	4,500	5,000
Loans	12,827	24,505	38,064	63,404	85,136
Fixed Assets	401	616	992	571	640
Investments	552	694	601	988	1,253
Other assets	607	844	1,281	1,098	1,098
<b>Total Assets</b>	<b>17,548</b>	<b>28,542</b>	<b>43,056</b>	<b>70,561</b>	<b>93,126</b>
Equity share capital	705	706	693	706	706
Other equity	8,819	8,960	9,147	10,361	12,152
Incremental Equity	-	-	-	3,400	6,000
<b>Net worth</b>	<b>9,524</b>	<b>9,666</b>	<b>9,840</b>	<b>14,467</b>	<b>18,858</b>
Borrowings	7,657	18,018	31,489	55,237	73,411
Other liabilities	367	858	1,727	857	857
<b>Total Liabilities and Equity</b>	<b>17,548</b>	<b>28,542</b>	<b>43,056</b>	<b>70,561</b>	<b>93,126</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%

## 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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