

Ugro Capital Limited

3rd Aug 2023

Beat on all estimates

In Q1 FY24, Ugro Capital Ltd (Ugro) reported an Interest Income of Rs. 1615 Mn, showcasing a growth of 74%/14% on YoY/QoQ basis. Additionally, Ugro's co-lending income surged to Rs. 438 Mn, i.e. a growth of 114% on a YoY basis. PAT increased from Rs. 107 Mn to Rs. 252 Mn, marking a substantial growth of 136% on a YoY basis. Moreover, Ugro's AUM expanded by 85% to Rs. ~68 Bn from Rs. 37 Bn in Q1 FY23.

Strong growth in fundamentals

Ugro's business fundamentals have shown solid growth consistently. In Q1 FY24, income from interest and co-lending increased by 74% and 114% on a YoY basis at Rs. 1615 Mn and Rs. 438 Mn respectively. PPOP surged to Rs. 566 Mn, a growth of 145% on a YoY basis on the back of operating leverage from operating expenses. PAT grew by 136% on a YoY basis at Rs. 252 Mn. Gross disbursements came in at Rs. ~20 Bn, an increase of 50% on a YoY basis. The off-book AUM grew by 281% on a YoY basis, from Rs ~8 Bn to Rs. ~29 Bn.

Poised for further success

We believe that Ugro is well equipped to achieve Rs. ~180 Bn of AUM of which ~50% will be off-book with reducing costs and improving return ratios. In Q1 FY24, total AUM was Rs. ~68 Bn and by FY24's Company target it will be at Rs. ~100 Bn. The Company is also expecting to double the current monthly run rate of disbursement by FY24 end. Other metrics such as cost to income ratio, ROA and ROE are also on track to improve. In Q1 FY24 the cost to income ratio was ~55%, down from ~72% in Q1 FY23 and we further expect it to go down to 45% by FY25. Owing to such exceptional growth, we believe ROA and ROE are expected to reach ~3% and ~14% respectively by FY25 from the current ~1.7% and ~8.7% respectively.

View & Valuation

We have revised our estimates and changed our view from NEUTRAL to BUY on Ugro Capital Ltd with a target price of Rs. 309 (1.5x FY25E BV).

BUY

CMP Rs. 269

TARGET Rs. 309 (15%)

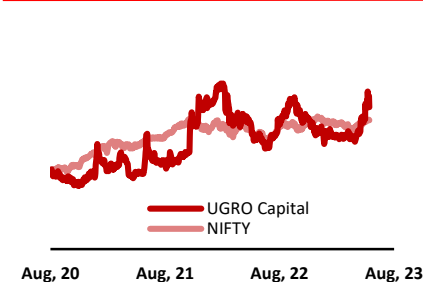
Company Data

Bloomberg Code	UGRO IN
MCAP (Rs. Mn)	24998
O/S Shares (Mn)	92.5
52w High/Low	289 / 131
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	82.2

Shareholding Pattern %

	Jun 23	Mar 23	Dec 22
Promoters	2.19	2.87	2.87
FIIIs	21.99	6.95	6.96
DIIIs	5.46	2.02	2.02
Non-Institutional	70.36	88.15	88.14

Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	3.91	5.97	8.10
PPOP	1.41	2.79	4.33
Net Profit	0.40	1.27	2.33
Total Assets	43.06	71.88	94.67
ROA (%)	1.1%	2.2%	2.8%

Source: Company, Keynote Capitals Ltd. estimates

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Q1 FY24 Result Update

Result Highlight (Rs. Mn)

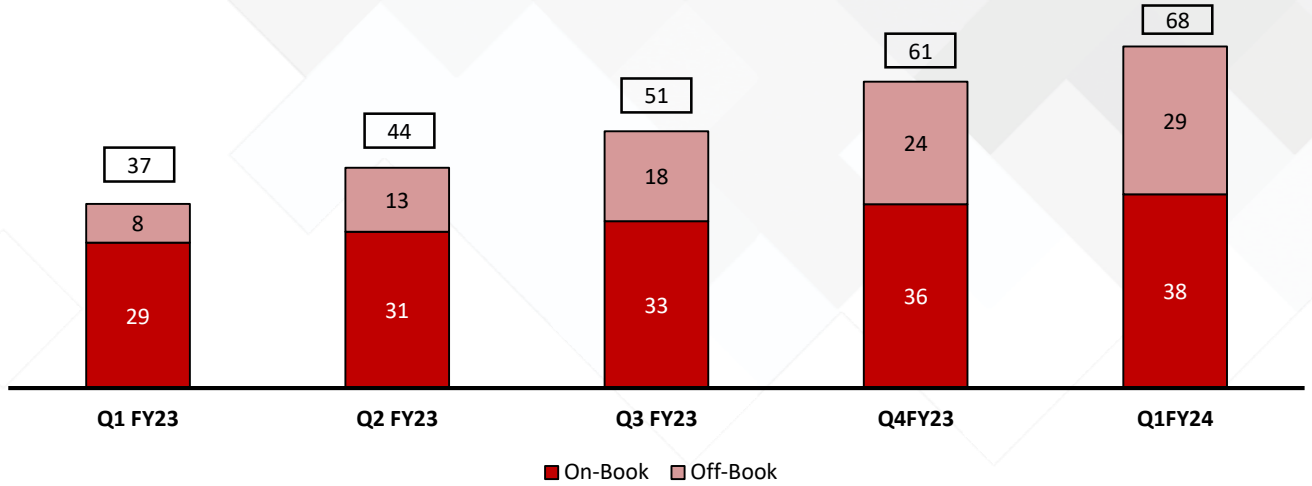
Particulars	FY24 Q1	FY23 Q1	Change % (Y-o-Y)	FY23 Q4	Change % (Q-o-Q)	FY23
Interest Income	1615	930	74%	1411	14%	4,829
Income on Co-Lending / Direct Assignment	438	205	114%	624	-30%	1,541
Other Income	130	116	12%	137	-5%	468
Total Income	2183	1251	75%	2172	1%	6,838
Interest Expenses	927	528	76%	904	3%	2,933
Net Total Income	1257	723	74%	1268	-1%	3,905
Employee Benefit Expense	369	292	27%	401	-8%	1,407
Other Expenses	322	200	61%	355	-9%	1,091
PPOP	566	231	145%	511	11%	1,406
Credit Cost	209	94	124%	175	20%	568
PBT	356	138	159%	337	6%	838
Tax Expense	104	30	242%	196	-47%	441
PAT	252	107	136%	140	80%	398

Source: Company, Keynote Capitals Ltd.

Q1 FY24 Conference Call Highlights

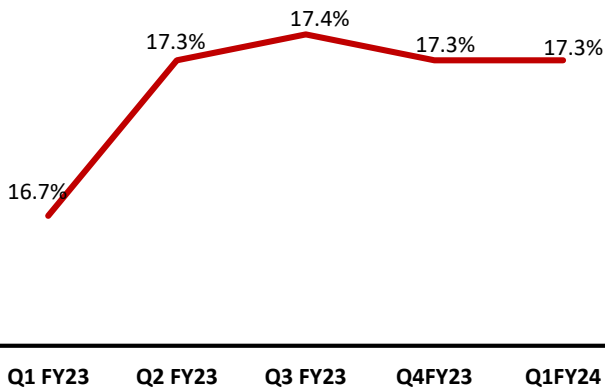
- Currently, 43% of AUM is Off-Book and the Company has guided that it will end FY24/FY25 with ~47%/50% Off-Book AUM respectively. Post FY25, the management would like to maintain it at 50%, with total AUM growth targeted at 30%, and focus more on the bottom line performance.
- The slight rise in the Gross NPA on a QoQ basis is due to the seasoning of the book and was completely calibrated and projected internally. The Company expects FY24 GNPA <= 1.9%.
- The sequential decline in Co-Lending income was purely because the volumes in Q4 FY23 were extremely high and this isn't indicative of any change in rates as they are always pre-negotiated. Also, since the assets are priority sector assets, there is some seasonality effect.
- The MSME Lending industry is still below the pre-pandemic level and though it has increased from FY17-22 (7.2% CAGR), the gap between required and available funding has also increased.
- The Company has >10 machine learning models with them including predictive models, NLP models, and time series analysis models, which source their data from various APIs (completely digital) and host it on cloud to further engineer and develop the models.
- ~86% of the recent disbursements are in the A or B buckets which are the best score bands according to their proprietary GRO score model. Additionally, the approval rates for these A and B scores are ~50%.

AUM (Rs. in Bn)

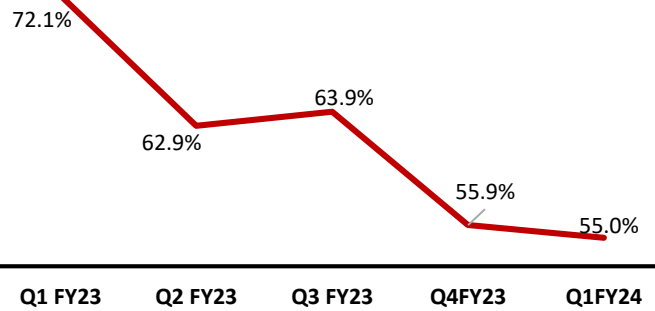


Source: Company, Keynote Capitals Ltd.

Portfolio Yield (%)

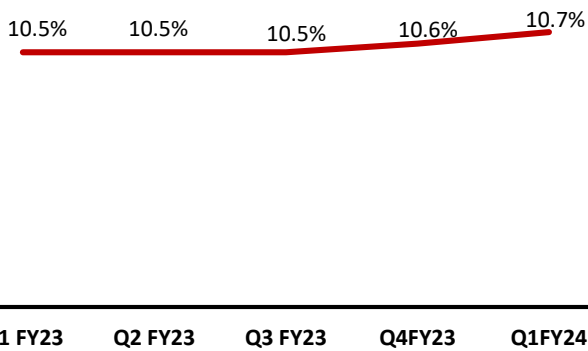


Cost to Income (%)

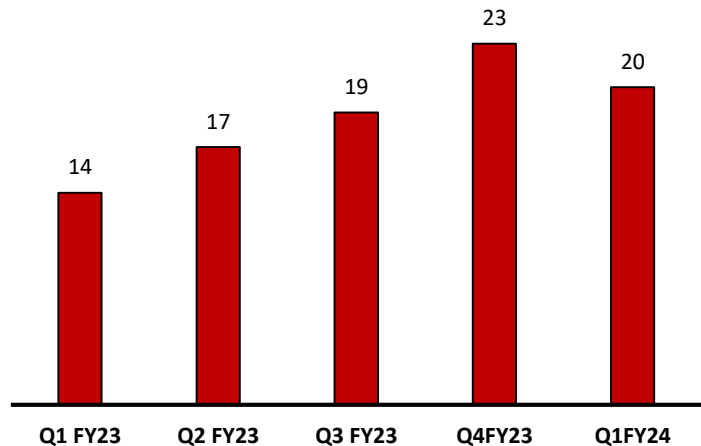


Source: Company, Keynote Capitals Ltd.

Cost of Borrowing (%)

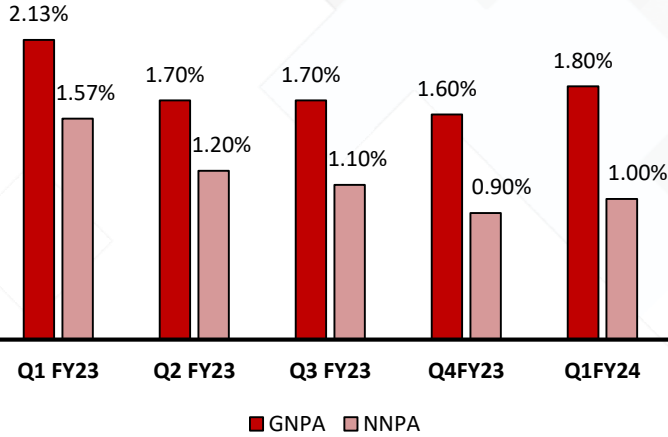


Gross Disbursals (Rs. in Bn)

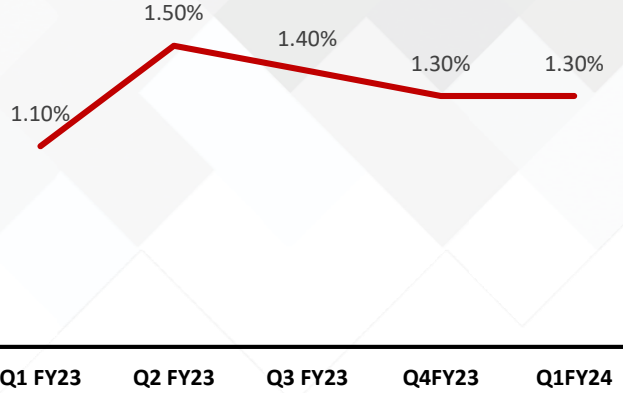


Source: Company, Keynote Capitals Ltd.

NPAs (%)

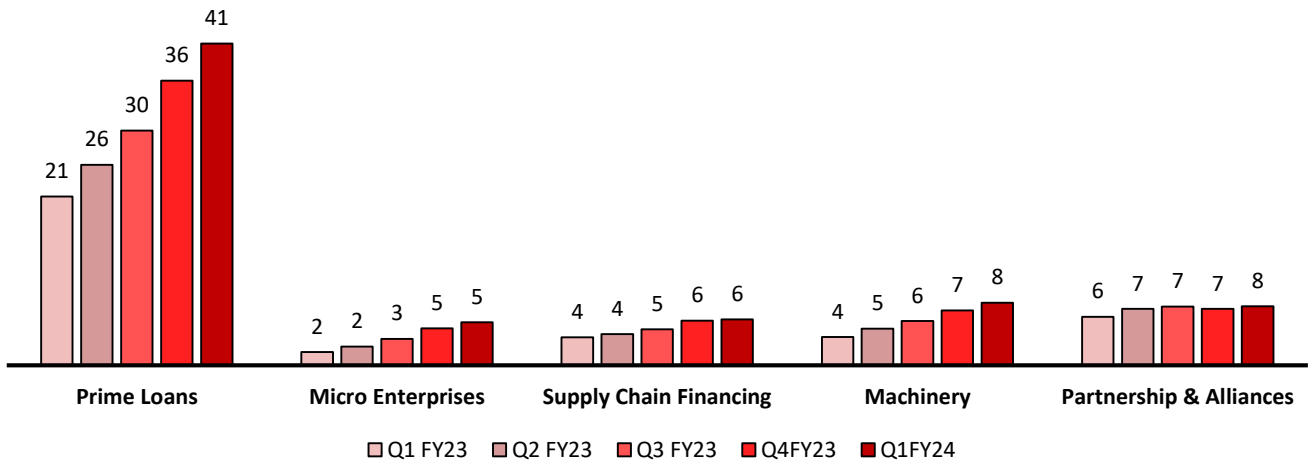


Credit Cost (%)



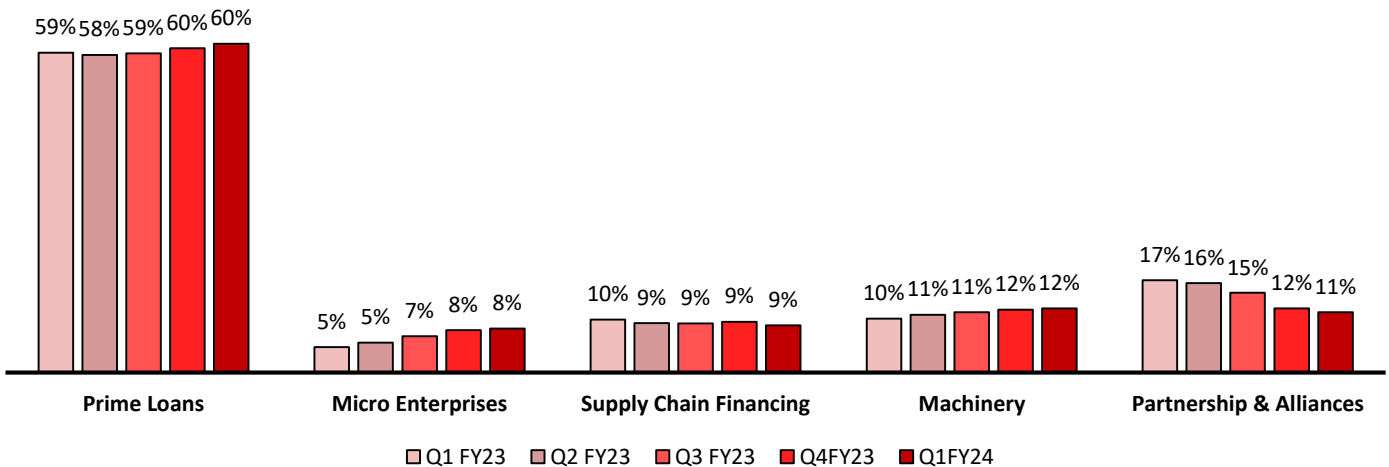
Source: Company, Keynote Capitals Ltd.

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	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	2,721	4,829	7,482	9,876	12,740
Income from Co-Lending/DA	269	1,541	2,620	3,799	4,938
Other Income	131	468	851	1,009	1,250
Total Income	3,121	6,838	10,952	11,431	18,928
Interest Expense	1,373	2,933	4,985	6,582	8,721
Net Total Income	1,749	3,905	5,967	8,101	10,207
Employee Benefits Expense	729	1,407	1,625	1,925	2,203
Other Expenses	522	1,092	1,553	1,845	2,196
PPOP	498	1,406	2,789	4,331	5,808
Credit Cost	296	568	1,025	1,225	1,500
PBT	202	838	1,764	3,106	4,308
Tax expense	56	440	494	777	1,077
PAT	146	398	1,270	2,330	3,231

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash and Bank balances	1,884	2,118	4,709	6,209	7,919
Loans	24,505	38,064	63,404	83,693	1,07,964
Fixed Assets	616	992	1,389	1,944	2,528
Investments	694	601	781	938	1,224
Other assets	844	1,281	1,601	1,889	2,456
Total Assets	28,542	43,056	71,884	94,674	1,22,092
Equity share capital	706	693	925	925	925
Other equity	8,960	9,147	13,817	16,147	19,378
Incremental Equity	-	-	-	2,000	2,000
Net worth	9,666	9,840	14,742	19,072	22,303
Borrowings	18,018	31,489	55,237	73,411	97,270
Other liabilities	858	1,727	1,905	2,191	2,519
Total Liabilities and Equity	28,542	43,056	71,884	94,674	1,22,092

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%

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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