

Ugro Capital Limited

27th Oct 2023

Strong growth persists

In Q2 FY24, Ugro Capital Ltd (Ugro) reported an Interest Income of Rs. 1,719 Mn, showcasing a growth of 49%/6% on YoY/QoQ basis. Additionally, Ugro's co-lending income surged to Rs. 648 Mn, i.e. a growth of 129% on a YoY basis. PAT increased from Rs. 53 Mn to Rs. 289 Mn, marking a substantial growth of 448% on a YoY basis. Moreover, Ugro's AUM expanded by 74% to Rs. ~76 Bn from Rs. 44 Bn in Q2 FY23.

Resilient financial performance

In Q2 FY24, income from interest and co-lending saw a robust growth of 49% and 129% on a YoY basis amounting at Rs. 1719 Mn and Rs. 648 Mn respectively. PPOP and PAT surged to Rs. 654 Mn and Rs. 289 Mn, a growth of 112% and 448% on a YoY basis, respectively. Gross disbursements amounted to Rs. ~25 Bn, an increase of 52% on a YoY basis. The off-book AUM grew by 169% on a YoY basis, from Rs ~13 Bn to Rs. ~34 Bn and now it accounts for 45% of the total AUM as compared to 29% in Q2 FY23. Notably, Cost to income improved from ~63% in Q2 FY23 to ~56% in Q2 FY24. The Portfolio Yield and Cost of borrowing have been stable at 17.4% and 10.6%, respectively. Lastly, ROA and ROE have increased to ~2.3% and ~8.5%, respectively in Q2 FY24 from ~0.6% and ~2.2% in Q2 FY23.

Robust portfolio quality

Over the last 6 months, ~61% and ~23% of disbursements made have been to customers who are classified in Score Bands A and B (high creditworthiness), respectively. Furthermore ~60% of the loans are Prime Loans wherein 'Prime' is defined as those that have the best quality of cash flow evidenced by GST / Banking data, the best quality of repayment behaviour as defined by the GRO Score and the best quality of collateral. As a result of such underwriting, 95% of the AUM is in Stage 1 whereas Stage 2 and 3 at 3% and 2% respectively and over the last year, the PCR for Stage 3 assets has improved from 32% to 49%. Finally, CRAR stands at 24.8%.

View & valuation

We believe that the Company will continue to show strong growth and have thus revised our estimates and maintain a BUY rating on Ugro Capital Ltd with a target price of Rs. 347 (1.7x FY25E BV).

BUY

CMP Rs. 304

TARGET Rs. 347 (14%)

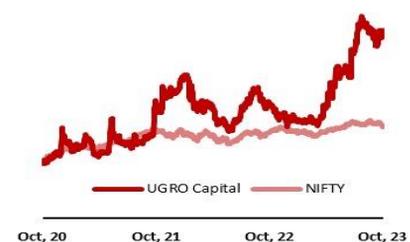
Company Data

Bloomberg Code	UGRO IN
MCAP (Rs. Mn)	28,106
O/S Shares (Mn)	92.5
52w High/Low	320 / 131
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	77

Shareholding Pattern %

	Sept 23	Jun 23	Mar 23
Promoters	2.24	2.19	2.87
FIIIs	19.20	21.99	6.95
DIIIs	5.81	5.46	2.02
Non-Institutional	72.74	70.36	88.15

Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	3.91	5.99	8.87
PPOP	1.41	2.60	5.01
Net Profit	0.40	1.13	2.84
Total Assets	43.06	71.75	98.97
ROA (%)	1.1%	2.0%	3.3%

Source: Company, Keynote Capitals Ltd. estimates

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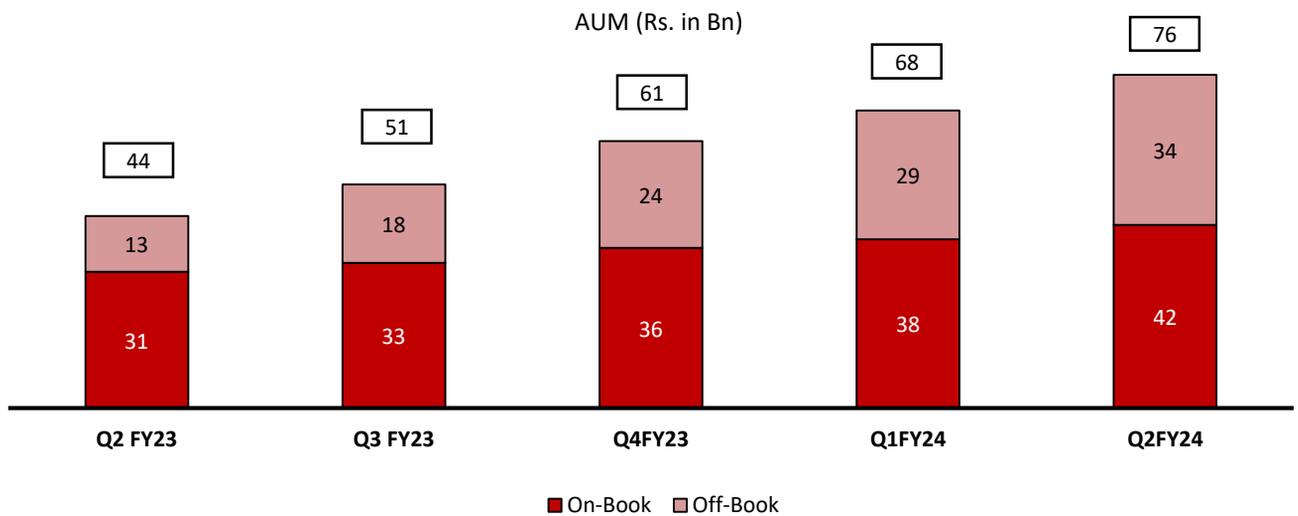
Q2 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Interest Income	1,719	1,157	49%	1,615	6%	3,334	2,087	60%	4,829
Income on Co-Lending / Direct									
Assignment	648	284	129%	438	48%	1,086	488	123%	1,541
Other Income	170	112	51%	130	30%	300	195	54%	468
Total Income	2,536	1,553	63%	2,183	16%	4,720	2,770	70%	6,838
Interest Expenses	1,054	685	54%	927	14%	1,981	1,213	63%	2,933
Net Total Income	1,482	868	71%	1,257	18%	2,739	1,557	76%	3,905
Employee Benefit Expense	460	309	49%	369	25%	830	601	38%	1,407
Other Expenses	368	250	47%	322	15%	690	450	53%	1,091
PPOP	654	308	112%	566	16%	1,219	506	141%	1,406
Credit Cost	246	133	85%	209	17%	455	226	101%	568
PBT	408	176	132%	356	14%	764	279	174%	838
Tax Expense	119	123	-3%	104	14%	223	153	46%	441
PAT	289	53	448%	252	14%	541	126	329%	398

Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression



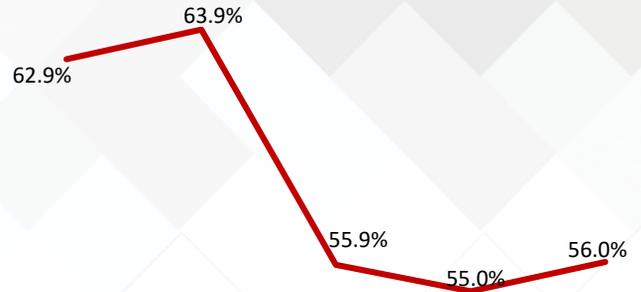
Source: Company, Keynote Capitals Ltd.

Portfolio Yield (%)



Q2 FY23 Q3 FY23 Q4FY23 Q1FY24 Q2FY24

Cost to Income (%)



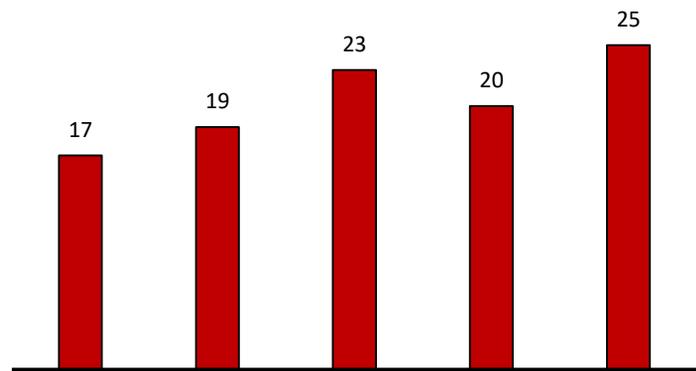
Q2 FY23 Q3 FY23 Q4FY23 Q1FY24 Q2FY24

Cost of Borrowing (%)



Q2 FY23 Q3 FY23 Q4FY23 Q1FY24 Q2FY24

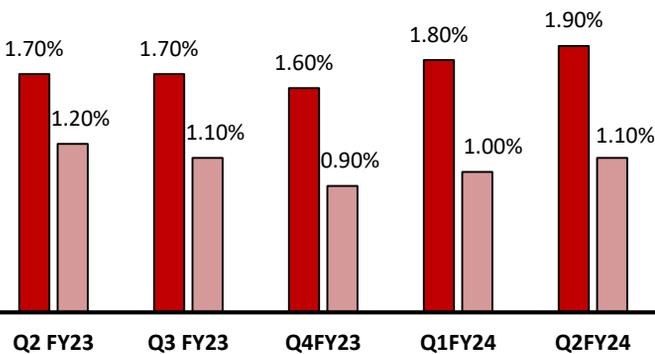
Gross Disbursals (Rs. in Bn)



Q2 FY23 Q3 FY23 Q4FY23 Q1FY24 Q2FY24

Source: Keynote Capitals Ltd.

NPAs (%)



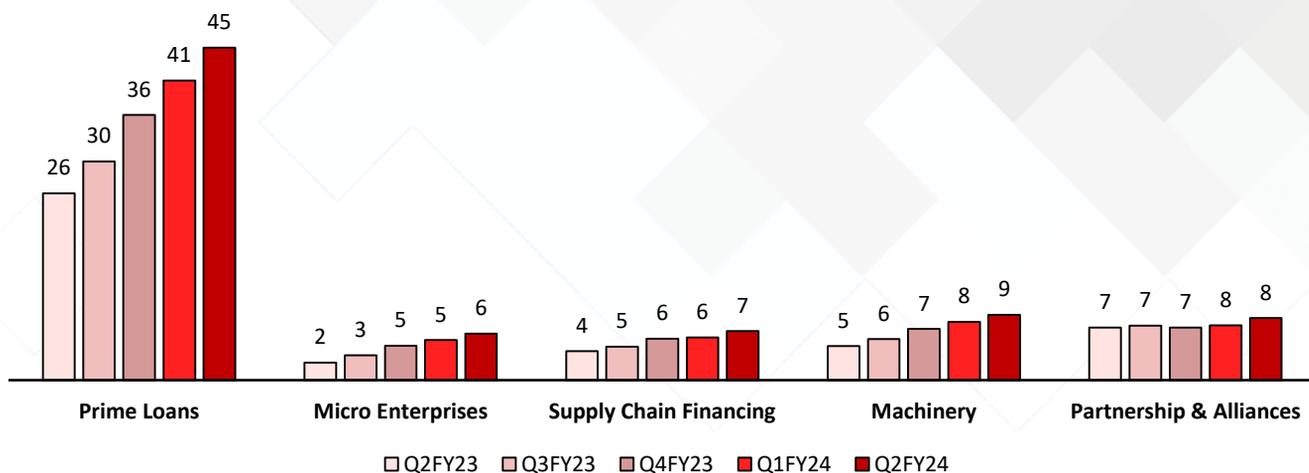
■ GNPA ■ NNPA

Credit Cost (%)



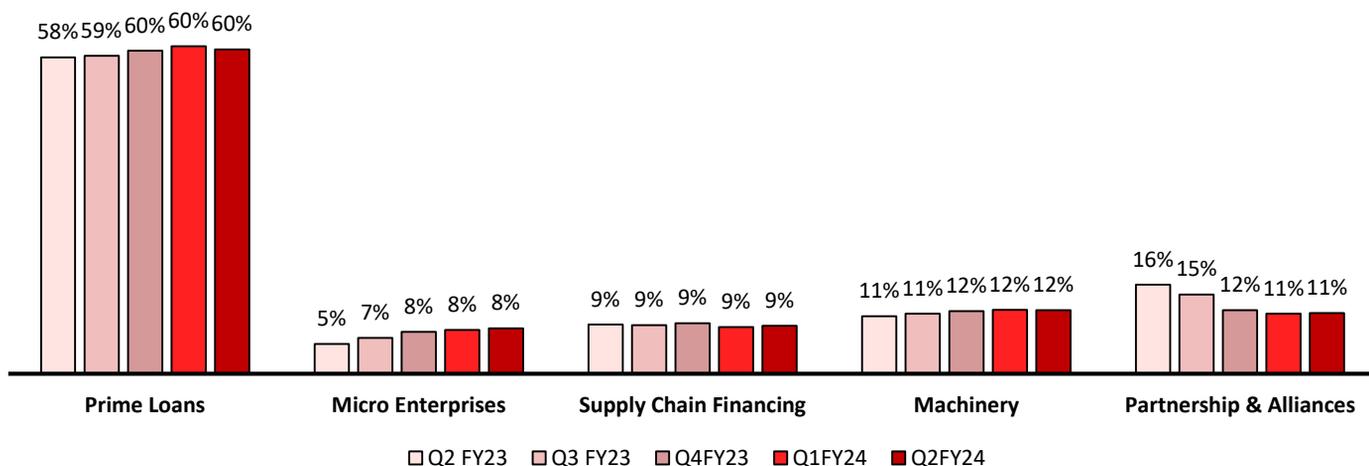
Q2FY23 Q3FY23 Q4FY23 Q1FY24 Q2FY24

Types of Loans (Rs. in Bn)



Source: Company, Keynote Capitals Ltd.

Loan Types (%)



Source: Company, Keynote Capitals Ltd.

Q2 FY24 Conference Call Highlights

- The Cost to Income ratio has stayed at higher levels because the Company has held some liquidity to give comfort to the co-lending partners but it has negative carry. It isn't because of the employee addition or employee cost hike.
- The Company plans to active 75 branches in order to get more physical presence over the next two quarters. These will get productive in FY25. The typical breakeven time is 12-16 months.
- The ticket size in the supply chain segment has fallen due to the focus on more granular and high yielding loans.
- Co-lending of loans generate higher ROA as compared to Co-Originiation but since Co-Originiation helps in making annuity income (through the lifecycle of the loan), the Company plans to maintain a healthy mix between the two.
- The Company has ~62000 active customers and is adding 15000-16000 customers per quarter.
- The guidance for FY24 continues to be at achieving Rs. 10,000cr of AUM and 3% ROA.

Financial Statement Analysis

Income Statement

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	2,721	4,829	7,608	10,652	13,741
Income from Co-Lending/DA	269	1,541	2,620	3,799	4,938
Other Income	131	468	751	1,009	1,250
Total Income	3,121	6,838	10,979	15,459	19,929
Finance cost	1,373	2,933	4,985	6,582	8,721
Net Total Income	1,749	3,905	5,994	8,877	11,208
Employee benefits expense	729	1,407	1,840	2,021	2,203
Depreciation, amortisation and impairment	123	176	201	216	240
Other expenses	399	916	1,352	1,629	1,956
PPOP	498	1,406	2,601	5,011	6,809
Impairment on financial instruments	296	568	1,025	1,225	1,500
PBT	202	838	1,576	3,786	5,309
Tax expense	56	440	441	947	1,327
PAT	146	398	1,135	2,840	3,982

Balance Sheet

Particulars (Rs in Mn)	FY22	FY23	FY24E	FY25E	FY26E
Cash and Bank balances	1,884	2,118	4,574	5,432	7,696
Loans	24,505	38,064	63,404	88,766	1,14,508
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	71,749	98,969	1,28,412
Equity share capital	706	693	925	925	925
Other equity	8,960	9,147	13,537	16,215	20,017
Incremental Equity	-	-	-	2,000	2,000
Net worth	9,666	9,840	14,462	19,140	22,942
Borrowings	18,018	31,489	55,237	77,332	1,02,465
Other liabilities	858	1,727	1,905	2,191	2,519
Total Liabilities and Equity	28,542	43,056	71,604	98,662	1,27,926

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%
27 th October 2023	BUY	304	14%

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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