

Ugro Capital Limited

25th January 2024

Reaches the \$1Bn AUM club

In Q3 FY24, Ugro Capital Ltd (Ugro) recorded a strong growth in total income, driven by Income on Co-Lending which grew by 18% on a QoQ and 78% on a YoY basis to Rs. 764 Mn. Further, Interest Income grew by 6% on a QoQ and 37% on a YoY basis to Rs. 1828 Mn. PPOP increased from Rs. 389 Mn to Rs. 761 Mn, showing a robust growth of 95% on a YoY basis. AUM has increased to Rs. 84 Bn, growing by 10% on a QoQ and 64% on a YoY basis.

Strong Loan Origination

Ugro continues to deliver strong net loan origination which amounted to Rs. 281 Mn in Q3 FY24, growing by 33% on a YoY basis. This was driven primarily by the Partnerships & Alliances, Machinery Loan and Prime Unsecured segments which grew by 78%, 68% and 52% respectively on a YoY basis. The Company has seen business rebound in the post pandemic times as evident in the increase in total loans per customer from Rs. ~4-4.5 Mn in CY19-21 to Rs. ~7-9Mn CY22 onwards. Such persisting growth and a huge market opportunity (Rs. 92 Trn MSME Credit Gap) shall further solidify Ugro's market position.

Operating Leverage continues to unfold

Underpinned by Ugro's early investments in operating expenses and infrastructure, the Company continues to witness robust growth in both top line and bottom line performance. In 9M FY24, Ugro achieved a notable 64% increase in AUM on a YoY basis, alongside a threefold rise in PAT from Rs. 257 Mn to Rs. 867 Mn, propelled by a formidable operating leverage. Further, over the past eight quarters, the Company's PBT has consistently climbed from Rs. 50 Mn in Q3 FY22 to an impressive Rs. 460 Mn in Q3 FY24. This upward trajectory correlates with the tripling of AUM, rising from Rs. 25 Bn to Rs. 84 Bn, and can be attributed to strategic early investments in a diversified distribution channel, robust partnerships with leading banks and major NBFCs for co-lending and co-origination, investments in the GRO score and sustained support from its balance sheet liability providers, demonstrating the seamless integration of strategic foresight and operational leverage.

View & valuation

We have revised our estimates and maintain a BUY rating on Ugro Capital Ltd with a target price of Rs. 323 (1.7x FY25E BV).

BUY

CMP Rs. 280

TARGET Rs. 323 (15%)

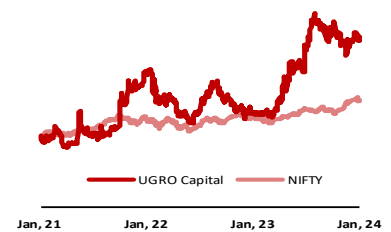
Company Data

Bloomberg Code	UGRO IN
MCAP (Rs. Mn)	25,928
O/S Shares (Mn)	92.8
52w High/Low	320 / 144
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	72

Shareholding Pattern %

	Dec 23	Sept 23	Jun 23
Promoters	2.24	2.24	2.19
FII's	19.77	19.20	21.99
DII's	4.46	5.81	5.46
Non-Institutional	73.53	72.74	70.36

Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	3.91	6.02	8.39
PPOP	1.41	2.77	4.34
Net Profit	0.40	1.26	2.33
Total Assets	43.06	67.60	92.74
ROA (%)	1.1%	2.3%	2.9%

Source: Company, Keynote Capitals Ltd. estimates

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Ugro Capital Limited | Quarterly Update

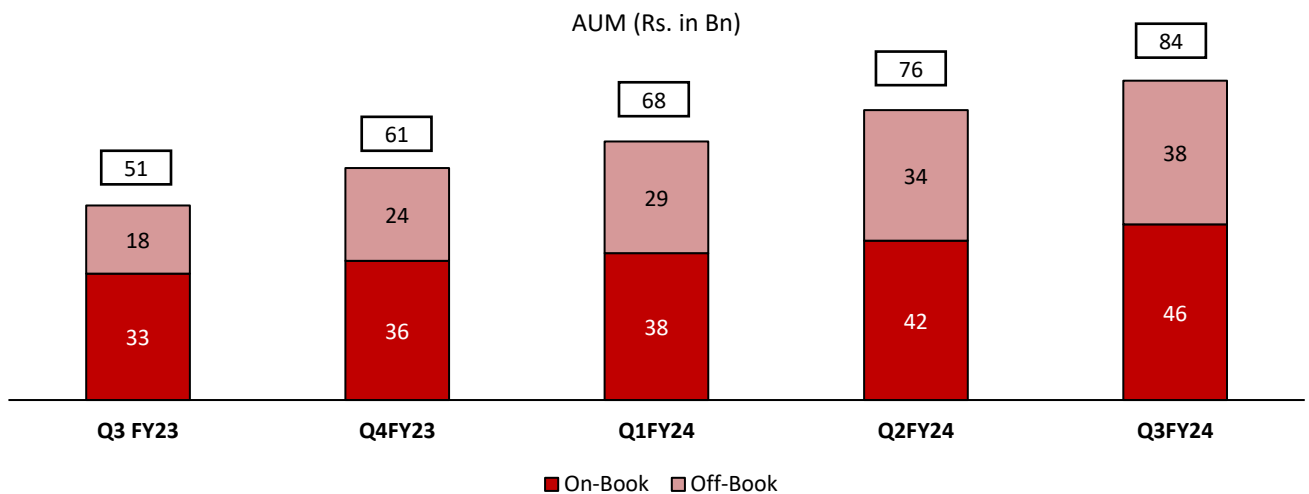
Q3 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Interest Income	1,828	1,331	37%	1,719	6%	5,162	3,418	51%	4,829
Income on Co-Lending / Direct Assignment	764	429	78%	648	18%	1,851	917	102%	1,541
Other Income	201	136	48%	170	18%	500	331	51%	468
Total Income	2,793	1,896	47%	2,536	10%	7,513	4,666	61%	6,838
Interest Expenses	1,167	816	43%	1,054	11%	3,148	2,029	55%	2,933
Net Total Income	1,626	1,080	51%	1,482	10%	4,365	2,637	66%	3,905
Employee Benefit Expense	485	405	20%	460	5%	1,314	1,006	31%	1,407
Other Expenses	380	286	33%	368	3%	1,070	736	45%	1,091
PPOP	761	389	95%	654	16%	1,980	895	121%	1,406
Credit Cost	297	167	78%	246	21%	752	393	91%	568
PBT	464	222	109%	408	14%	1,228	502	145%	838
Tax Expense	138	91	52%	119	16%	362	244	48%	441
PAT	325	131	148%	289	13%	867	257	237%	398

Source: Company, Keynote Capitals Ltd.

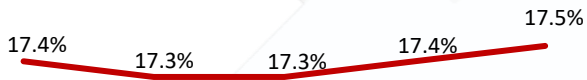
Quarterly Business Progression



Source: Company, Keynote Capitals Ltd.

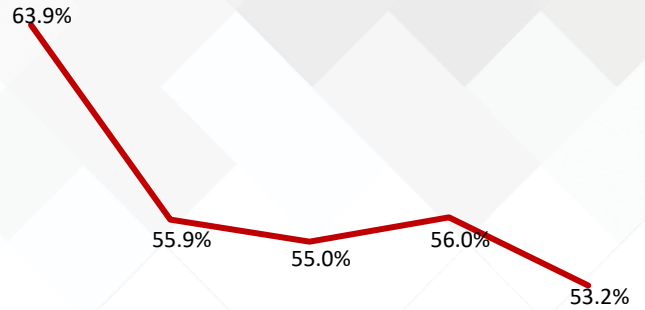
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Portfolio Yield (%)



Q3 FY23 Q4 FY23 Q1 FY24 Q2 FY24 Q3 FY24

Cost to Income (%)



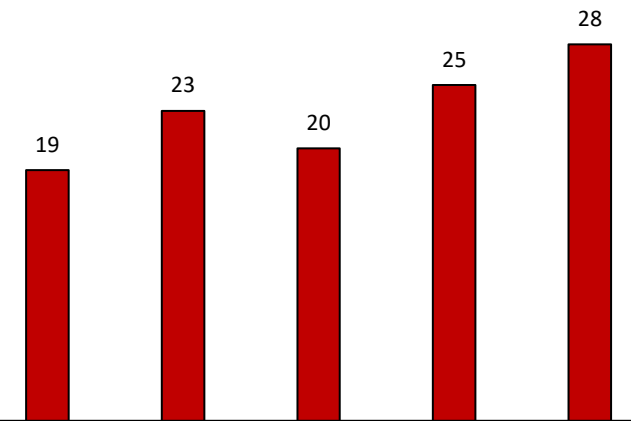
Q3 FY23 Q4 FY23 Q1 FY24 Q2 FY24 Q3 FY24

Cost of Borrowing (%)



Q3 FY23 Q4 FY23 Q1 FY24 Q2 FY24 Q3 FY24

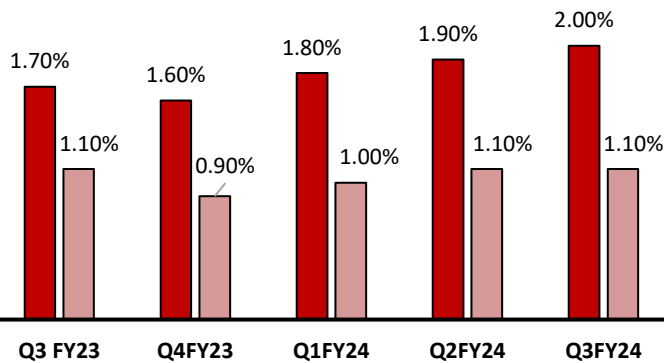
Gross Disbursals (Rs. in Bn)



Q3 FY23 Q4 FY23 Q1 FY24 Q2 FY24 Q3 FY24

Source: Company, Keynote Capitals Ltd.

NPAs (%)



■ GNPA ■ NNPA

Q3 FY23 Q4 FY23 Q1 FY24 Q2 FY24 Q3 FY24

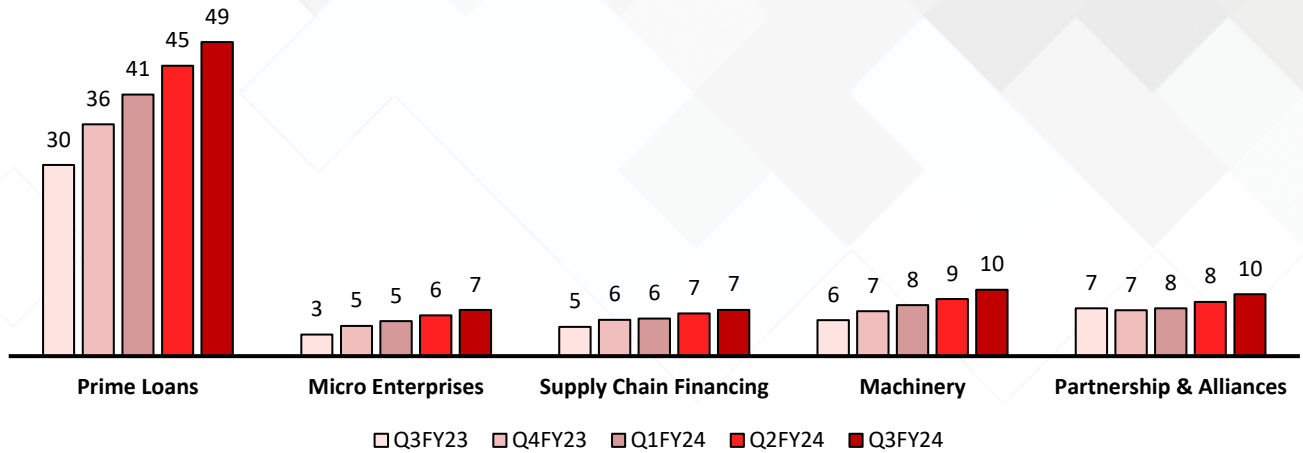
Credit Cost (%)



Q3 FY23 Q4 FY23 Q1 FY24 Q2 FY24 Q3 FY24

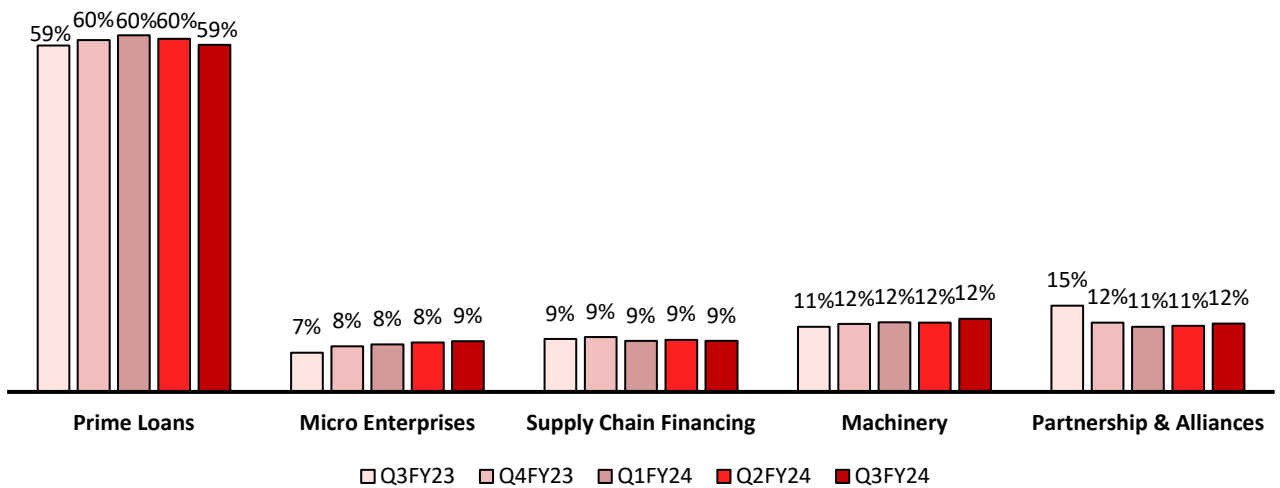
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Types of Loans (Rs. in Bn)



Source: Company, Keynote Capitals Ltd.

Loan Types (%)



Source: Company, Keynote Capitals Ltd.

Q3 FY24 Conference Call Takeaways

- The business activity has seen strong rebound since Q3 CY21 wherein 77% of MSMEs in UGRO's target segment experienced business resumption and in the year after that, 68% of MSMEs showed 10% growth in turnover on a YoY basis. This led to an increase in credit sanctioned per customer highlighting the resilience of the sector.
- The increase in GNPA by 10/30 bps on a QoQ/YoY basis is attributed to the maturation of the portfolio and the management does not see it as weakening of credit quality, backed by the stable collection efficiency data over time at ~97% (excluding overdue). The GNPA of Prime Unsecured segment which is currently at 3.6% is within the lifetime target range of 4.5-5%. Beyond the NPAs, the corresponding credit costs are also aligned with the strategic target range of annualized 1.5-2%.

Ugro Capital Limited | Quarterly Update

- The Company expects, the steady-state GNPA for Micro Enterprise Loan segment to be ~2.5-3%, where the corresponding credit cost would be in the range of 0.75-1%. The GNPA's for the retailer finance segment on a steady state basis would be 2-2.5%. For the Machinery Loan segment, GNPA's are expected in the range of 0.75-1% with corresponding credit costs at 0.2-0.3%.
- The Company expects to go live with 75 new physical branches over the next two quarters of which 30 will go live in the current quarter, which will take 12-15 months to breakeven. The relative increase in operating expenses of the physical infrastructure has very limited impact on overall profitability. Currently, the Company has 75 matured branches which are contributing Rs. 750 Mn per month and expects the new branches to perform similarly once they breakeven.
- Net loan origination in the Micro Enterprise Loan segment was lower on a QoQ basis due to the moderation of the non-collateralized loans within the segment because it was cannibalizing the secured loan products as the customers tended to not offer a collateral when that option was available.
- 95% to 98% of Ugro's co-origination was done with the larger NBFCs, whereby Ugro also provided some kind of first loss cover. However, with the introduction of the credit guarantee scheme for co-lending, coupled with the recent adjustment in the interest rate cap from 18% to 21%, has led to co-origination business transition towards the banks, leading to increase in the co-lending income.
- The net origination in the Prime Secured segment has experienced a decline over the last few quarters because of the decision to scale down the affordable LAP part of the segment. That business was conducted on the periphery of the large cities, where the collateral, may not have been considered prime and the Company saw some resistance by some of the co-lending partners to onboard this collateral prompting a scaling down of the business.
- Though there are some transactions on the debt side and the Company has an approval to raise Rs. 5 Bn, the Company is currently well capitalized and the exact timing of the fund raise is yet to be determined.

Financial Statement Analysis

Income Statement

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	2,721	4,829	7,126	9,976	12,869
Income from Co-Lending/DA	269	1,541	2,746	3,982	5,177
Other Income	131	468	751	1,009	1,250
Total Income	3,121	6,838	10,623	14,967	19,296
Finance cost	1,373	2,933	4,602	6,582	8,721
Net Total Income	1,749	3,905	6,021	8,385	10,575
Employee benefits expense	729	1,407	1,840	2,021	2,203
Depreciation, amortisation and impairment	123	176	296	400	450
Other expenses	399	916	1,116	1,629	1,956
PPOP	498	1,406	2,769	4,335	5,966
Impairment on financial instruments	296	568	1,025	1,225	1,500
PBT	202	838	1,744	3,110	4,466
Tax expense	56	440	488	778	1,116
PAT	146	398	1,256	2,333	3,349

Balance Sheet

Particulars (Rs in Mn)	FY22	FY23	FY24E	FY25E	FY26E
Cash and Bank balances	1,884	2,118	4,545	5,282	6,901
Loans	24,505	38,064	59,380	83,132	1,07,240
Fixed Assets	616	992	1,289	1,504	1,956
Investments	694	601	781	938	1,224
Other assets	844	1,281	1,601	1,889	2,456
Total Assets	28,542	43,056	67,596	92,745	1,19,777
Equity share capital	706	693	928	928	928
Other equity	8,960	9,147	13,436	15,768	19,118
Incremental Equity	-	-	-	2,000	2,000
Net worth	9,666	9,840	14,364	18,696	22,046
Borrowings	18,018	31,489	51,327	71,858	95,212
Other liabilities	858	1,727	1,905	2,191	2,519
Total Liabilities and Equity	28,542	43,056	67,596	92,745	1,19,777

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%
25 th January 2024	BUY	280	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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