

Ugro Capital Limited

6th May 2024

On its way to achieve Rs 200 Bn AUM

Ugro Capital Ltd (Ugro) ended Q4FY24 on a strong note with a growth of 52% in total income on a YoY basis to Rs 1224 Mn, driven by Income on Co-Lending which nearly doubled, propelled by increase of co-lending in overall AUM and rate resets done by the Company. Ugro achieved its highest PPOP at Rs. 970 Mn, growing at ~90% on a YoY basis. PAT increased by 133% on a YoY basis to Rs. 327 Mn. The Company's AUM increased to ~Rs. 90 Bn, growing by ~8% on a QoQ and ~49% on a YoY basis.

Capital Infusion: Fueling Growth

Ugro Capital announced an Equity Fund raise totaling ~Rs. 13 Bn. This capital infusion comprises Compulsorily Convertible Debentures of ~Rs. 2.75 Bn and Warrants of ~Rs. 10.6 Bn. Management asserts that this financial injection adequately caters to the Company's capital needs for the coming 2-3 years. This capital raise is anticipated to bolster the CRAR from ~21% to ~29%. The raised funds are expected to underpin the Company's ambitious growth trajectory, facilitating a ~30-35% growth in AUM. Moreover, this liberates management from capital constraints, allowing undeterred focus on objectives such as securing rating upgrades and curbing borrowing costs.

Strategic Expansion: MyShubhlife Acquisition

The Company's BoD approved the acquisition of 'MyShubhlife' an embedded finance fintech platform, for an enterprise value of Rs. 450 Mn. Financed through a blend of 64% equity and 36% cash, the move signifies an entry into the untapped embedded finance market previously unexplored by Ugro. Boasting seven years of refined expertise in technology solutions, data integration, and analytics, MyShubhlife is poised to contribute significantly to Ugro's bottom line and its incremental AUM by Rs. 1 Bn and Rs. 15 Bn respectively over the next three years. The Company's decision to acquire 'MyShubhlife' aligns with its strategic direction towards bolstering its higher-yielding retailer financing portfolio, aimed at enhancing overall portfolio yield and granularity. As a prominent player in the embedded finance, MyShubhlife boasts partnerships with industry leaders such as Pine Labs, Fino, Airtel Payment Banks, Mobikwik, and Spice Money, underscoring its credibility and market presence. Moreover, MyShubhlife's extensive network and capabilities position Ugro to onboard an estimated 200,000 retailer customers within the next three years, unlocking substantial growth opportunities, in line with its expansion objectives.

View & valuation

We expect Ugro to continue its high growth trajectory and achieve its target of Rs. 200 Bn AUM. We have revised our estimates and maintain a BUY rating on Ugro Capital Ltd with a target price of Rs. 319 (1.7x FY25E BV).

BUY

CMP Rs. 269

TARGET Rs. 319 (19%)

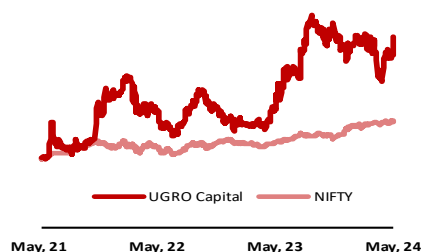
Company Data

Bloomberg Code	UGRO IN
MCAP (Rs. Mn)	25,008
O/S Shares (Mn)	92.8
52w High/Low	339 / 186
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	87

Shareholding Pattern %

	Mar 24	Dec 23	Sept 23
Promoters	2.23	2.24	2.24
FIIIs	19.76	19.77	19.20
DIIIs	3.76	4.46	5.81
Non-Institutional	74.24	73.53	72.74

Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24	FY25E
NII	3.91	6.39	8.26
PPOP	1.41	2.95	4.21
Net Profit	0.40	1.19	2.09
Total Assets	43.06	62.80	84.03
ROA (%)	1.1%	2.3%	2.8%

Source: Company, Keynote Capitals Ltd. estimates

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Ugro Capital Limited | Quarterly Update

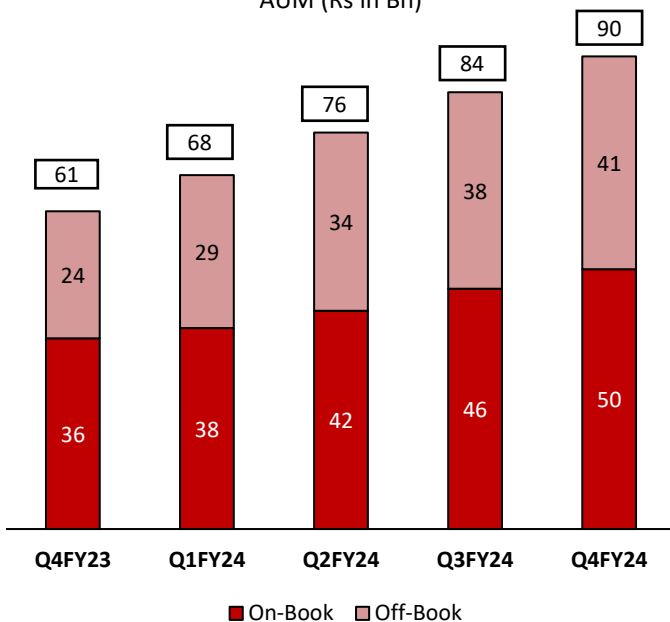
Q4 FY24 Result Update

Result Highlight (Rs. Mn)

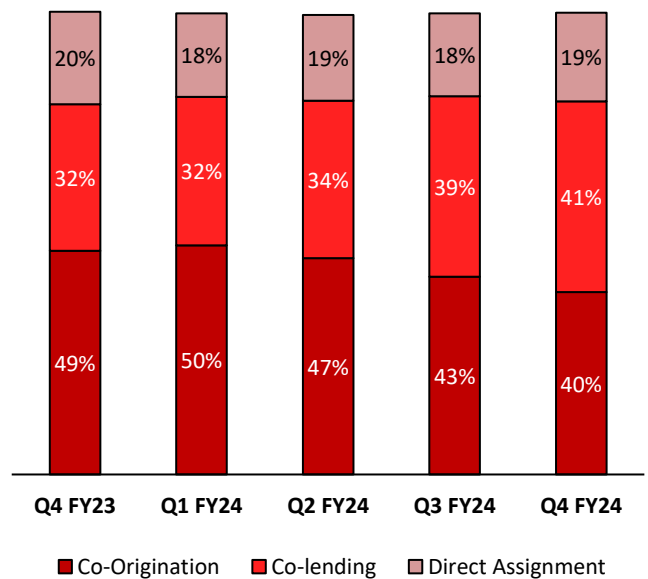
Particulars	FY24 Q4	FY23 Q4	Change % (Y-o-Y)	FY24 Q3	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Interest Income	1918	1411	36%	1828	5%	7079	4829	47%
Income on Co-Lending / Direct Assignment	1224	624	96%	764	60%	3075	1541	100%
Other Income	162	137	19%	201	-19%	663	468	42%
Total Income	3304	2172	52%	2793	18%	10817	6838	58%
Interest Expenses	1281	904	42%	1167	10%	4429	2933	51%
Net Total Income	2022	1268	60%	1626	24%	6388	3905	64%
Employee Benefit Expense	514	401	28%	485	6%	1829	1407	30%
Other Expenses	538	355	52%	380	42%	1609	1091	47%
PPOP	970	511	90%	761	27%	2950	1406	110%
Credit Cost	411	175	135%	297	38%	1163	568	105%
PBT	559	337	66%	464	21%	1788	838	113%
Tax	233	196	19%	138	68%	594	441	35%
PAT	327	140	133%	325	0%	1193	398	200%
EPS	3.57	2.03	76%	3.56	0%	13.39	5.69	135%

Quarterly Business Progression

AUM (Rs in Bn)



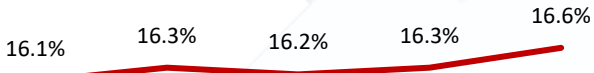
Off-Book AUM Mix (%)



Source: Company, Keynote Capitals Ltd.

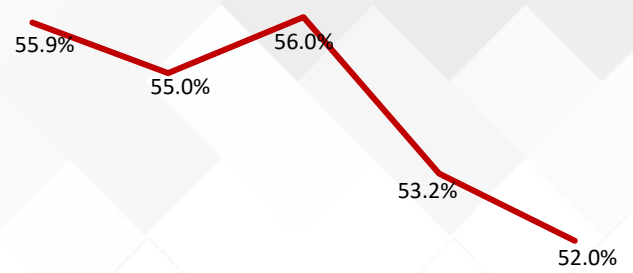
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Net Yield (%)



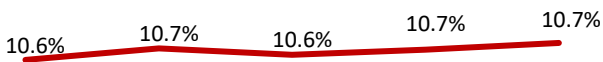
Q4 FY23 Q1 FY24 Q2 FY24 Q3 FY24 Q4 FY24

Cost to Income (%)



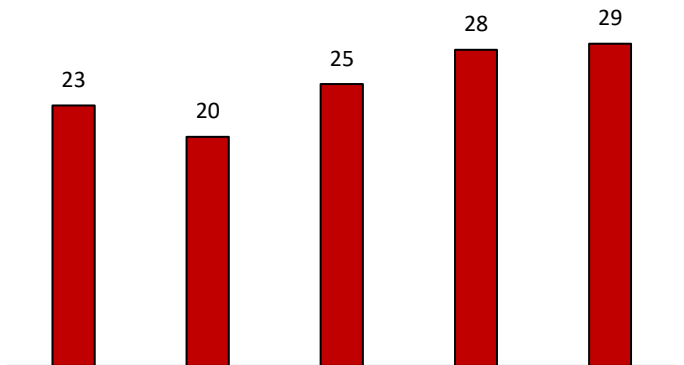
Q4FY23 Q1FY24 Q2FY24 Q3FY24 Q4FY24

Cost of Borrowing (%)



Q4FY23 Q1FY24 Q2FY24 Q3FY24 Q4FY24

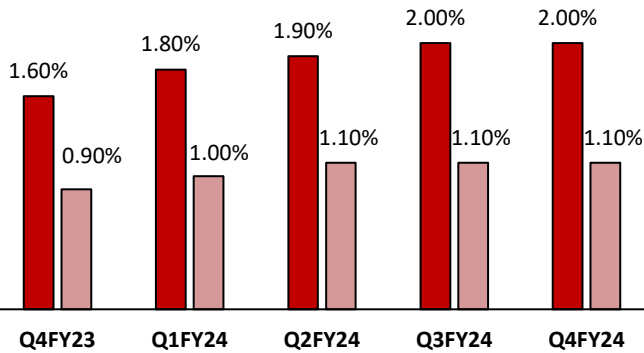
Gross Disbursals (Rs in Bn)



Q4FY23 Q1FY24 Q2FY24 Q3FY24 Q4FY24

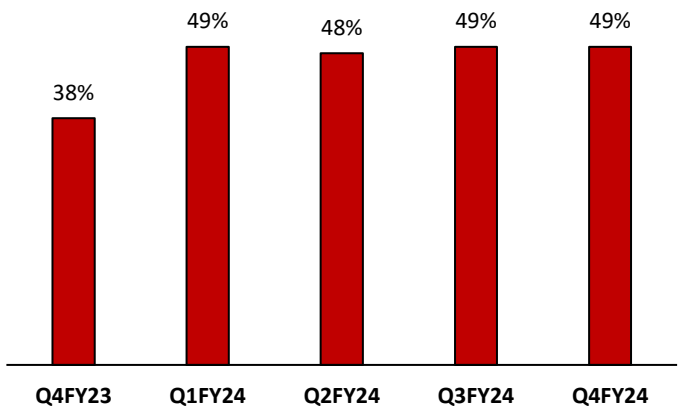
Source: Company. Keynote Capitals Ltd.

NPAs (%)



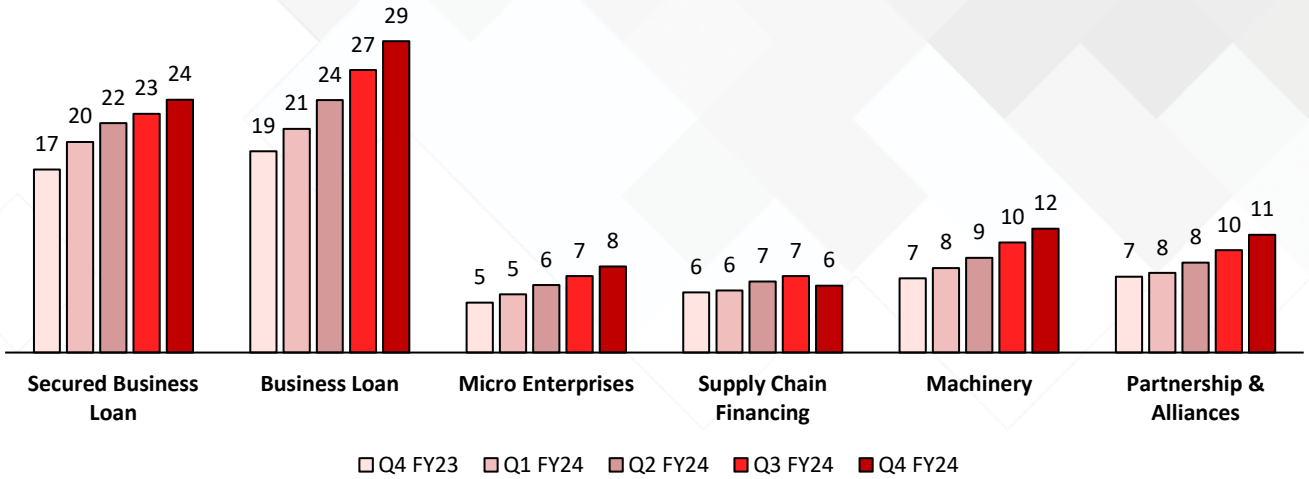
■ GNPA ■ NNPA

Provision Coverage Ratio (%)



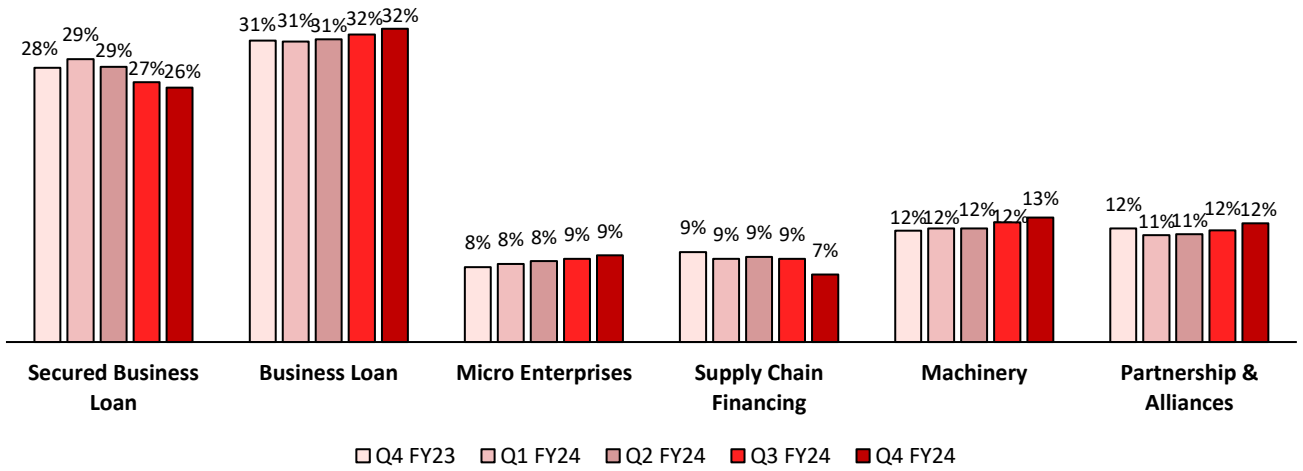
Q4FY23 Q1FY24 Q2FY24 Q3FY24 Q4FY24

Types of Loans (Rs in Bn)



Source: Company, Keynote Capitals Ltd.

Loan Types (%)



Source: Company, Keynote Capitals Ltd.

Ugro Capital Limited | Quarterly Update

Q4 FY24 Conference Call Takeaways

- The Company announced an Equity Fund raise of Rs. 13.32 Bn of which Rs 2.75Bn is in the form of Compulsorily Convertible Debentures (CCD) and Rs 10.6 Bn in the form of Warrants. This fund raise shall fulfil Ugro's capital needs for the next years of growth.
- The Company's board approved the acquisition of an embedded finance fintech platform, 'MyShubhlife' for an enterprise value of Rs 450 Mn (1.9x book value of the target company) through a combination of 64:36 Equity : Cash transaction. The rationale behind the acquisition was to enter a the embedded finance market which previously Ugro wasn't servicing. Over the last 7 years, MyShubhlife has achieved a high degree of perfection in its technology solutions, data integration and analytics. This acquisition can potentially add Rs 15 Bn of incremental AUM and Rs 1 Bn of PAT in the next 3 years. MyShubhlife provides short tenor loans spanning 30-90 days, which are priced at 30% interest rate.
- The Company has guided for a ROA of 4% which bridging the gap from the current 2.3% through a combination of several factors: i) yield expansion through sheer focus to grow the micro-enterprises vertical, which is a higher yielding business (~20%), ii) decrease in cost of borrowing which will be driven by both company specific factors of increasing vintage, scale and sizeable capital (~50bps) and macroeconomic rate cycle change (~25-30bps), iii) operating leverage effect due to operational expenses decreasing along with an increase in productivity of both physical and digital infrastructure, and iv) limiting the credit costs to 2%.
- The Company disbursed ~Rs. 59 Bn in FY24 as compared to ~Rs. 46 Bn in FY23, an increase of 26% on a YoY basis. In Q4 FY24, the disbursements grew modestly by 6% on a YoY basis attributable to slightly higher than expected foreclosures. However these will be rectified and matched with a higher growth rate.
- The management has guided to have a maximum leverage of ~4.5x over the next 2-3 years.
- The co-lending income has increased significantly because more proportion of co-lending in overall AUM is rising. In Q4 FY24, there was a blip on the higher side because of rate resets, constituting a one-off effect.
- The GNPA's in Supply Chain Financing segment were higher primarily attributable to decision by management aimed at restraining AUM growth in that segment and the presence of a few underperforming customers in the vertical.

Financial Statement Analysis

Income Statement

Particulars (Rs in Mn)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	2,721	4,829	7,079	9,167	13,110
Income from Co-Lending/DA	269	1,541	3,075	4,241	5,938
Other Income	131	468	663	1,009	1,250
Total Income	3,121	6,838	10,817	14,417	20,298
Finance cost	1,373	2,933	4,429	6,152	8,351
Net Total Income	1,749	3,905	6,388	8,265	11,947
Employee benefits expense	729	1,407	1,829	2,125	2,504
Depreciation, amortisation and impairment	123	176	353	400	450
Other expenses	399	916	1,256	1,529	1,956
PPOP	498	1,406	2,950	4,211	7,037
Impairment on financial instruments	296	568	1,162	1,225	1,500
PBT	202	838	1,788	2,986	5,537
Tax expense	56	440	595	896	1,661
PAT	146	398	1,193	2,090	3,876

Balance Sheet

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Cash and Bank balances	1,884	2,118	4,549	5,606	7,737
Loans	24,505	38,064	54,322	73,335	104,880
Fixed Assets	616	992	1,298	1,773	2,305
Investments	694	601	592	770	1,005
Other assets	844	1,281	2,039	2,549	3,313
Total Assets	28,542	43,056	62,800	84,033	119,240
Equity share capital	706	693	916	1,016	1,421
Other equity	8,960	9,147	13,468	18,102	32,258
Incremental Equity	0				
Net worth	9,666	9,840	14,384	19,118	33,679
Borrowings	18,018	31,489	46,180	62,343	82,604
Other liabilities	858	1,727	2,236	2,571	2,957
Total Liabilities and Equity	28,542	43,056	62,800	84,033	119,240

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%
6 th May 2024	BUY	269	19%

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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