

# Ugro Capital Limited

Crossed 100 Bn AUM

In Q2FY25, Ugro Capital Ltd (Ugro) reported a ~35% growth in its Total Income on a YoY basis, amounting to ~Rs 3,429 Mn, driven by a ~69% growth in Income on Co-lending, which in turn was driven by strong disbursements of ~Rs 6,150 Mn in Q2FY25. The Company's PPOP grew to ~Rs 945 Mn, showcasing a growth of ~45% on a YoY basis. PAT increased by ~23% on a YoY basis to ~Rs. 355 Mn. The Company's AUM increased to ~Rs. 102 Bn, growing by ~10% on a QoQ and ~34% on a YoY basis, with Off-Book AUM accounting for ~44% of the total.

## Highest ever Net Loan Origination

Ugro achieved its highest-ever net loan origination driven by both its distribution and liability franchises. Ugro recorded a net loan origination of Rs ~19,710 Mn in Q2FY25, compared to Rs ~11,460 Mn in Q1FY25 and Rs ~14,760 Mn in Q2FY24. The micro-enterprises vertical also saw its highest-ever disbursement at ~Rs 4560 Mn, up from ~Rs 2090 Mn in Q1FY25 (up 118% QoQ), contributing 23% to total net disbursements. On the liability front, Ugro reported its highest-ever co-lending volumes of ~Rs 6,150 Mn in Q2FY25, up from ~Rs 3240 Mn in Q2FY24. Additionally, the Company raised a record ~Rs 11,000 Mn in borrowings during Q2FY25, compared to ~Rs 3,150 Mn in Q1FY25 and ~Rs 7,800 Mn in Q2FY24.

## Scaling the Micro-Enterprises Vertical

Ugro aims to significantly boost the share of Micro-enterprises vertical in its portfolio, targeting an increase from ~11% to 35% of the total AUM by FY26. This will be driven by branch expansion which currently stands at 210, with a target of 250 by FY25 and 400 by FY26. In Q2FY25, the Company added 46 new micro-branches, enabling it to enter new markets with a focus on micro-marketing and partnerships with local industry bodies. Although scaling up is complex, the process is streamlined by centralized underwriting and policy execution, supported by comprehensive cross-functional training. This strategy has shown promising results, with the first set of 25 branches breaking even in 18 months, followed by 50 branches breaking even in just 14 months. The goal is for new branches to achieve breakeven within 9 to 12 months. Increasing mix of micro-enterprises loans in total AUM will lead to better yields as current portfolio yield is ~16.7% and micro-enterprise loans offer ~21% yield.

## View & valuation

We expect Ugro Capital to continue its robust growth trajectory. We have revised our estimates and maintain a BUY rating on Ugro Capital Ltd with a target price of Rs. 279 (1.15x FY26E BV).

24<sup>th</sup> October 2024

## BUY

CMP Rs. 240

TARGET Rs. 279 (16%)

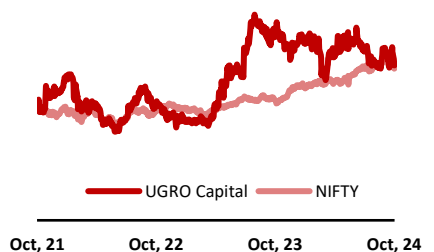
### Company Data

Bloomberg Code	UGRO IN
MCAP (Rs. Mn)	22,610
O/S Shares (Mn)	91.8
52w High/Low	317 / 213
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	49

### Shareholding Pattern %

	Sep 24	Jun 24	Mar 24
Promoters	2.2	2.2	2.2
FIIIs	20.4	20.3	19.7
DIIIs	2.7	2.6	3.7
Non-Institutional	74.6	74.9	74.2

### Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
NII	6.4	8.9	12.3
PPOP	3.0	4.1	5.8
Net Profit	1.2	1.7	2.6
Total Assets	62.8	78.9	106.7
ROA (%)	2.3%	2.4%	2.8%

Source: Company, Keynote Capitals Ltd. estimates

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## Ugro Capital Limited | Quarterly Update

### Q2 FY25 Result Update

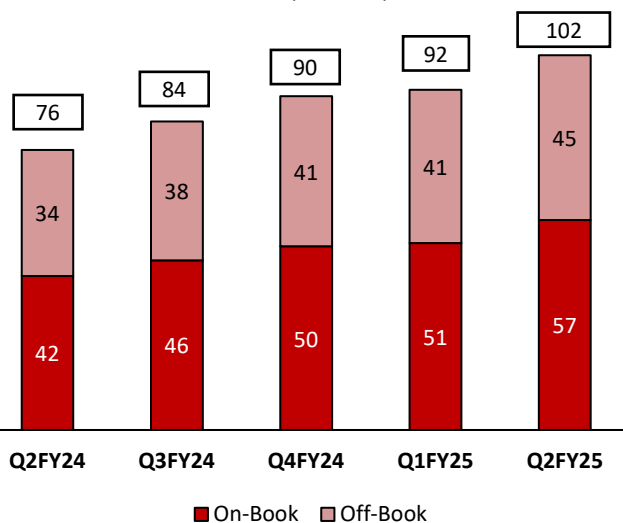
#### Result Highlight (Rs. Mn)

Particulars	Q2 FY25	Q2 FY24	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY25	H1 FY24	Change % (Y-o-Y)	FY24
Interest Income	2,080	1,717	21%	2,319	-10%	4,399	3,332	32%	7,079
Income on Co-Lending / Direct Assignment	1,095	648	69%	504	117%	1,600	1,086	47%	3,075
Other Income	253	171	48%	193	32%	446	301	48%	663
<b>Total Income</b>	<b>3,429</b>	<b>2,536</b>	<b>35%</b>	<b>3,016</b>	<b>14%</b>	<b>6,445</b>	<b>4,720</b>	<b>37%</b>	<b>10,817</b>
Interest Expenses	1,431	1,054	36%	1,361	5%	2,792	1,981	41%	4,429
<b>Net Total Income</b>	<b>1,998</b>	<b>1,482</b>	<b>35%</b>	<b>1,655</b>	<b>21%</b>	<b>3,652</b>	<b>2,739</b>	<b>33%</b>	<b>6,388</b>
Employee Benefit Expense	616	460	34%	545	13%	1,162	830	40%	1,829
Other Expenses	437	368	19%	349	25%	786	690	14%	1,609
<b>PPOP</b>	<b>945</b>	<b>654</b>	<b>45%</b>	<b>760</b>	<b>24%</b>	<b>1,705</b>	<b>1,219</b>	<b>40%</b>	<b>2,950</b>
Credit Cost	443	246	81%	332	34%	775	455	70%	1,163
PBT	501	408	23%	429	17%	930	764	22%	1,788
Tax	146	119	23%	125	17%	271	223	21%	594
<b>PAT</b>	<b>355</b>	<b>289</b>	<b>23%</b>	<b>304</b>	<b>17%</b>	<b>659</b>	<b>541</b>	<b>22%</b>	<b>1,193</b>
<b>EPS</b>	<b>3.61</b>	<b>3.12</b>		<b>3.22</b>		<b>6.83</b>	<b>6.16</b>		<b>13.20</b>

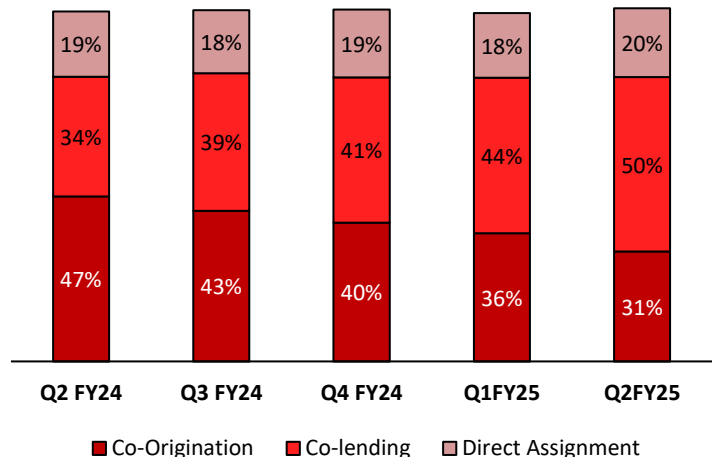
Source: Company, Keynote Capitals Ltd.

### Quarterly Business Progression

AUM (Rs in Bn)

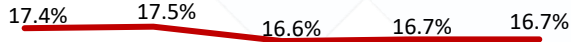


Off-Book AUM Mix (%)

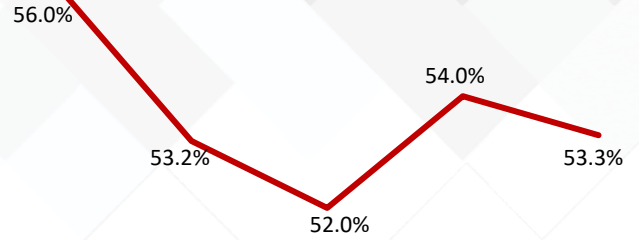


Source: Company, Keynote Capitals Ltd.

Portfolio Yield (%)



Cost to Income (%)



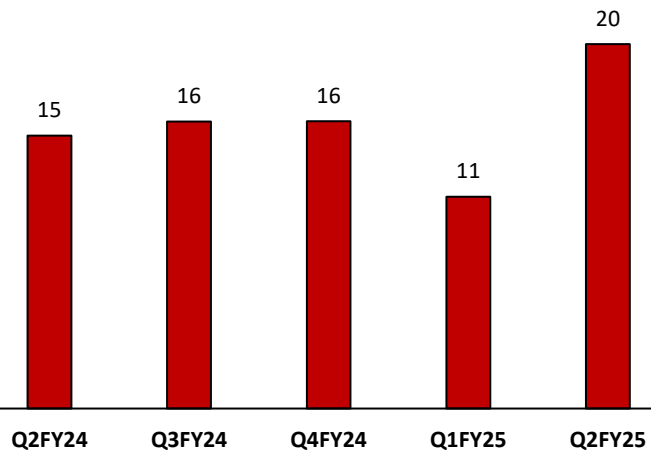
Q2FY24 Q3FY24 Q4FY24 Q1FY25 Q2FY25

Q2FY24 Q3FY24 Q4FY24 Q1FY25 Q2FY25

Cost of Borrowing (%)



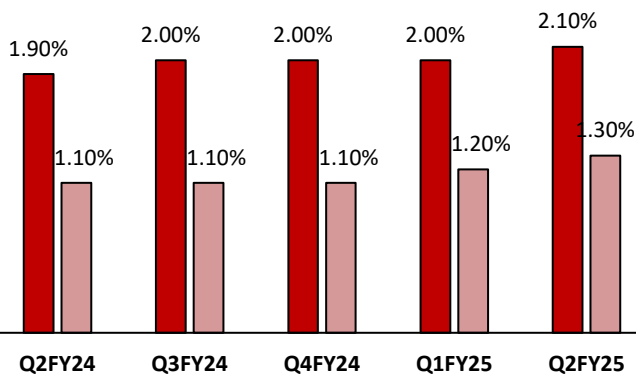
Net Loan Origination (Rs in Bn)



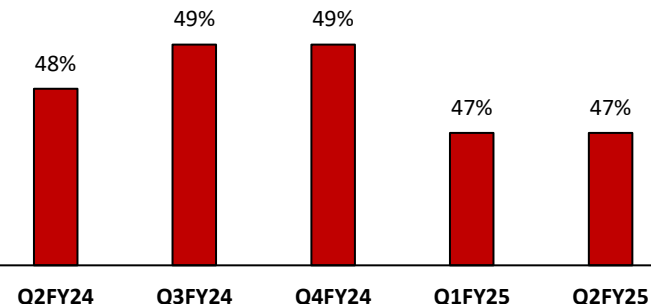
Q2FY24 Q3FY24 Q4FY24 Q1FY25 Q2FY25

Q2FY24 Q3FY24 Q4FY24 Q1FY25 Q2FY25

NPAs (%)



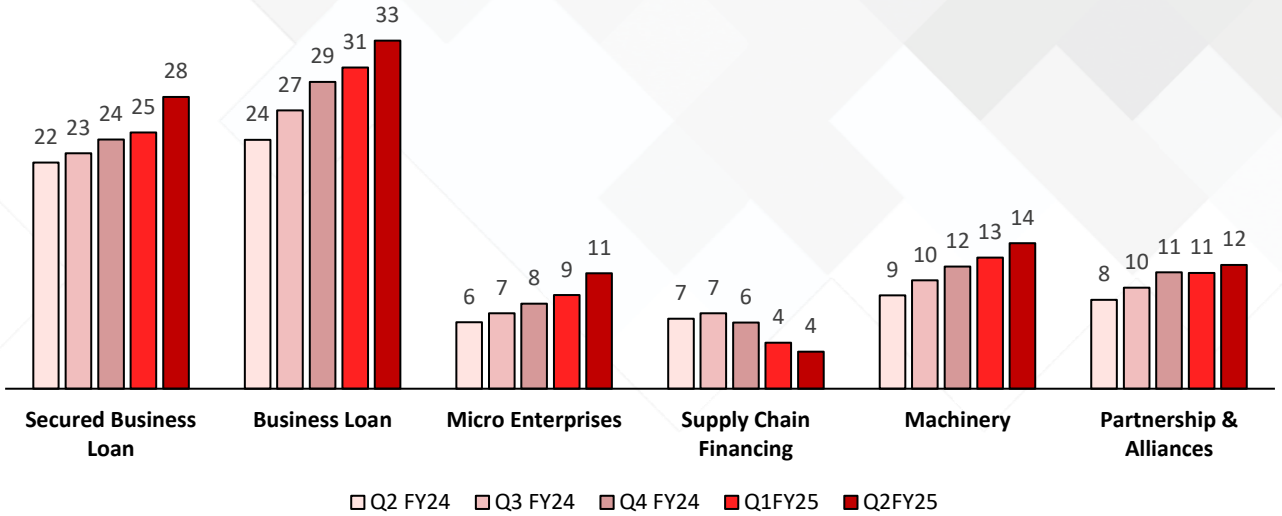
Provision Coverage Ratio (%)



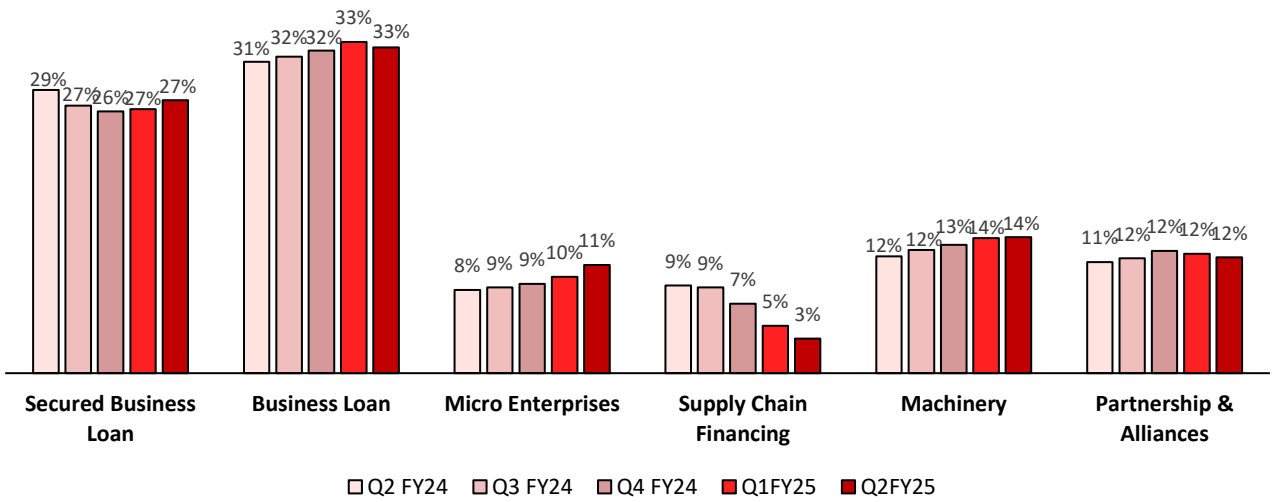
■ GNPA ■ NNPA

Q2FY24 Q3FY24 Q4FY24 Q1FY25 Q2FY25

Types of Loans (Rs in Bn)



Loan Types (%)



Source: Company, Keynote Capitals Ltd.

## Ugro Capital Limited | Quarterly Update

### Q2 FY25 Conference Call Takeaways

- The Company is targeting a 4% ROA, which requires a 1.5% increase in yield. This will be driven by increasing the share of micro-enterprises in its AUM from ~11% to ~35% by FY26, which have a higher yield and are expected to add ~150 bps to the portfolio yield.
- Current branch count stands at 210 with guidance to reach 250 by FY25 and 400 by FY26. New branches have been able to break even quickly, with the first set of 25 branches breaking even within 18 months and the next 50 branches in 14 months. New branches are targeted to break even within 9 to 12 months.
- The Supply Chain Financing vertical has been downsized over the last year due to unsustainable yields. With AUM peaking at ~Rs 7,220 Mn, the Company faced some adverse customer selection. Provisions had been accelerated, and the Company wrote off ~Rs 160 Mn in bad loans in Q2FY25. Outstanding loans of ~Rs 3,550 Mn are mostly from good customers, and NPA are ~Rs 350 Mn, down from a peak of ~Rs 520 Mn. No further stress is expected in this vertical.
- Ugro is gradually reducing its reliance on Co-origination with NBFCs and is increasing Co-lending with banks and DA portfolios. Co-origination with banks will continue, though it's challenging. Banks are becoming more comfortable with co-lending and the management expects that it will take 12-18 months before banks are more comfortable for Co-origination with NBFCs.
- Overall GNPA is at ~2.1%, with off-book GNPA at ~1%. GNPA in Secured Business and Machinery Loans verticals have decreased, while Unsecured, Micro-enterprise, and Supply Chain Financing verticals have seen a slight uptick. The on-book GNPA look artificially higher because some off-book loans revert to the Company's balance sheet when the FLDG is applied. The portion remaining with the partner is usually the good part of the loan, and the Company bears the riskier portion. Lifetime GNPA in unsecured loans are expected at ~4.5%, translating to a credit cost of 2.5%. Lifetime GNPA in Micro-enterprises loans is expected to be ~3-3.5%, leading to a credit cost of ~1%.
- Credit costs are expected to peak at 2% of AUM.
- Interest income declined due to an increase in DA and Co-lending. The RBI's new regulation also affected interest income. Cheques issued to customers cause delays, and as long as these cheques aren't cleared, NBFCs cannot charge interest. Despite this, DA and Co-lending are expected to grow in line with or slightly ahead of AUM given the target to achieve ~50% off-book AUM.
- Branch expansion and co-lending partnerships are driving growth. Ugro saw record co-lending volumes in the last quarter, reaching ~Rs 6150 Mn.
- Borrowing costs are expected to slightly increase by 5 bps over the next 2-3 months before stabilizing and then declining from Q1FY26.

Financial Statement Analysis

Income Statement

Particulars (Rs in Mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	4,829	7,079	9,167	12,128	15,987
Income from Co-Lending/DA	1,541	3,075	4,282	5,866	8,037
Other Income	468	663	900	1,000	1,100
<b>Total Income</b>	<b>6,838</b>	<b>10,817</b>	<b>14,349</b>	<b>18,994</b>	<b>25,124</b>
Finance cost	2,933	4,429	5,421	6,696	8,654
<b>Net Total Income</b>	<b>3,905</b>	<b>6,388</b>	<b>8,928</b>	<b>12,298</b>	<b>16,470</b>
Employee benefits expense	1,407	1,829	2,439	3,191	4,221
Depreciation, amortisation and impairment	176	353	494	692	899
Other expenses	916	1,256	1,884	2,543	3,306
<b>PPOP</b>	<b>1,406</b>	<b>2,950</b>	<b>4,111</b>	<b>5,872</b>	<b>8,043</b>
Impairment on financial instruments	568	1,162	1,700	2,200	2,700
PBT	<b>838</b>	<b>1,788</b>	<b>2,411</b>	<b>3,672</b>	<b>5,343</b>
Tax expense	440	595	723	1,102	1,603
<b>PAT</b>	<b>398</b>	<b>1,193</b>	<b>1,688</b>	<b>2,570</b>	<b>3,740</b>

Balance Sheet

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Cash and Bank balances	2,118	4,549	5,874	8,473	9,359
Loans	38,064	54,322	67,903	91,679	1,14,610
Fixed Assets	992	1,298	1,773	2,305	2,997
Investments	601	592	758	985	1,281
Other assets	1,281	2,039	2,539	3,300	4,290
<b>Total Assets</b>	<b>43,056</b>	<b>62,800</b>	<b>78,846</b>	<b>1,06,743</b>	<b>1,32,536</b>
Equity share capital	693	916	918	918	918
Other equity	9,147	13,468	17,700	20,270	24,010
Incremental Equity			2,520	12,650	12,650
Net worth	<b>9,840</b>	<b>14,384</b>	<b>21,137</b>	<b>33,837</b>	<b>37,578</b>
Borrowings	31,489	46,180	55,138	70,025	91,733
Other liabilities	1,727	2,236	2,571	2,880	3,226
<b>Total Liabilities and Equity</b>	<b>43,056</b>	<b>62,800</b>	<b>78,846</b>	<b>1,06,743</b>	<b>1,32,536</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%
3 <sup>rd</sup> August 2023	BUY	269	15%
27 <sup>th</sup> October 2023	BUY	304	14%
25 <sup>th</sup> January 2024	BUY	280	15%
6 <sup>th</sup> May 2024	BUY	269	19%
27 <sup>th</sup> August 2024	BUY	243	15%
24 <sup>th</sup> October 2024	BUY	240	16%

## 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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