

Ugro Capital Limited

29<sup>th</sup> April 2025

Delivering as anticipated

In Q4FY25, Ugro Capital Ltd (Ugro) reported a ~25% growth in its Total Income on a YoY basis, amounting to ~Rs 4,124 Mn. Interest Expenses grew by ~41% on a YoY basis, limiting the Net Total Income growth to ~14% on a YoY basis. The Company’s PPOP grew to ~Rs 1,115 Mn, showcasing a growth of ~15% on a YoY basis. PAT increased by ~24% on a YoY basis to ~Rs. 405 Mn. The Company’s AUM increased to ~Rs. 120 Bn, growing by ~8% on a QoQ and ~33% on a YoY basis, with Off-Book AUM accounting for ~42% of the total. Additionally, Ugro raised highest ever borrowings of ~Rs 15 Bn during the quarter, bringing its total debt to ~Rs 69 Bn.

Focus to shift AUM mix to higher yielding segments

Ugro continues to strategically shift its AUM mix towards higher-yielding segments, particularly through accelerated scale-up in the Emerging Market (incremental yields expected at ~18%) and Embedded Finance (incremental yields expected at ~26%) verticals. Together, these contributed ~28% to total AUM as of Q4FY25 vs ~13% in Q4FY24. The management expects Emerging Market vertical to contribute to 32-35% of AUM in the next 6-8 quarters from the current ~22%. The rapid branch expansion under the Emerging Market channel, now at 212 vs 127 in Q4FY24, highest ever disbursement in Q4FY25 amounting to ~Rs 7 Bn vs ~Rs 2 Bn in Q4FY24, and strong traction in Embedded Finance (AUM at ~Rs 7 Bn) reflect the early success of this mix-shift strategy.

Record disbursements along with stable asset quality

Ugro recorded its highest-ever quarterly loan origination in Q4FY25 at ~Rs 24 Bn, marking a sharp increase of 57/16% on a YoY/QoQ basis. This surge was powered by sustained traction across the Emerging Market, Embedded Finance and Machinery Loans segments, with the former two contributing ~27/26% of total disbursements for the quarter respectively. Despite this aggressive expansion, asset quality remained intact: GNPA and NNPA were stable at 2.3% and 1.6% respectively, supported by a healthy Stage 1 asset share of 92.8% and a PCR of 47%. Collection efficiency stood at a robust 95% for the 6<sup>th</sup> consecutive quarter.

View & valuation

We expect Ugro Capital to sustain its strong growth momentum. However, given the lower than expected ROA, we have revised our valuation estimates while maintaining a BUY rating with a target price of Rs. 226 (0.9x FY26E BV).

BUY

CMP Rs. 183  
TARGET Rs. 226 (24%)

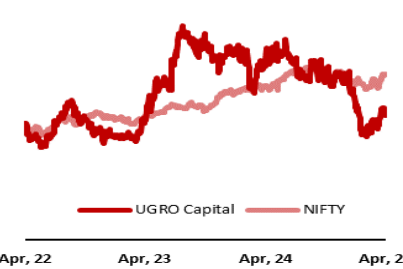
Company Data

Bloomberg Code	UGRO IN
MCAP (Rs. Mn)	17,076
O/S Shares (Mn)	139.9
52w High/Low	317 / 145
Face Value (Rs.)	10
Liquidity (3M) (Rs. Mn)	47

Shareholding Pattern %

	Mar 25	Dec 24	Sep 24
Promoters	2.2	2.2	2.2
FIIIs	27.2	24.7	20.4
DIIIs	1.9	2.4	2.7
Non-Institutional	68.7	70.7	74.6

Ugro Capital vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25	FY26E
NII	6.4	8.1	10.7
PPOP	3.0	3.8	5.1
Net Profit	1.2	1.4	2.1
Total Assets	62.8	91.7	112.2
ROA (%)	2.3%	1.9%	2.0%

Source: Company, Keynote Capitals Ltd. estimates

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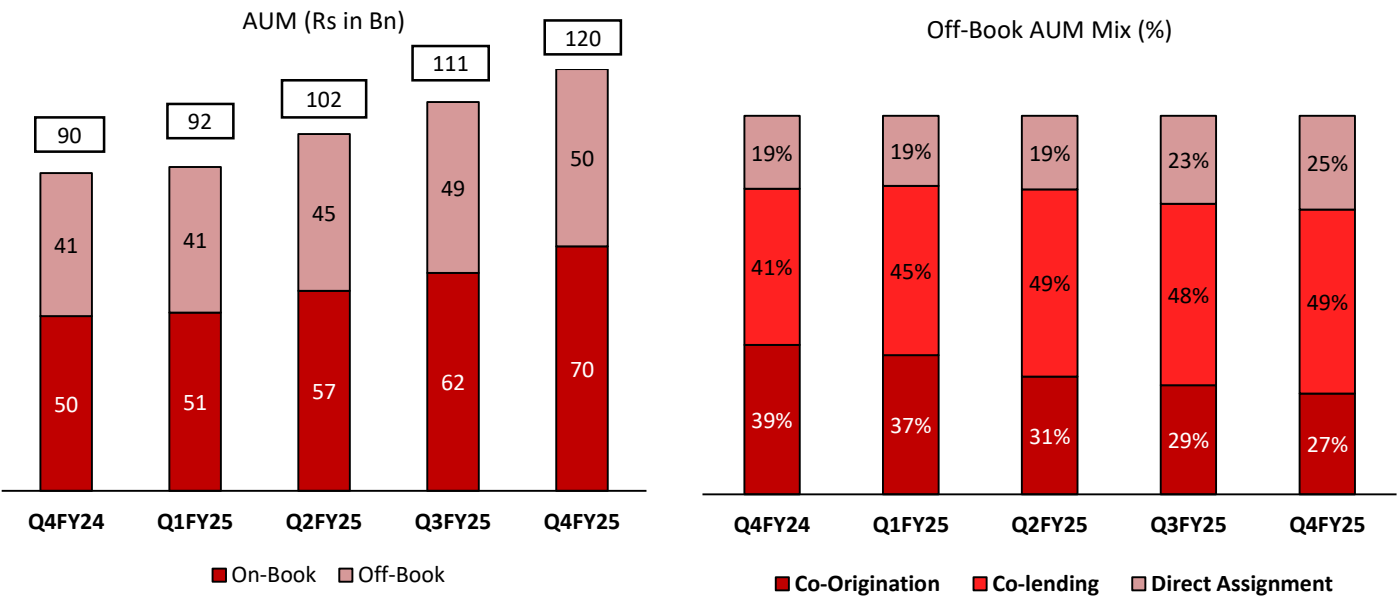
Q4 FY25 Result Update

Result Highlight (Rs. Mn)

Particulars	Q4 FY25	Q4 FY24	Change % (Y-o-Y)	Q3 FY25	Change % (Q-o-Q)	FY25	FY24	Change % (Y-o-Y)
Interest Income	2,644	1,918	38%	2,544	4%	9,588	7,079	35%
Income on Co-Lending / Direct Assignment	1,193	1,224	-3%	1,036	15%	3,829	3,075	25%
Other Income	287	162	77%	269	7%	1,002	663	51%
<b>Total Income</b>	<b>4,124</b>	<b>3,304</b>	<b>25%</b>	<b>3,850</b>	<b>7%</b>	<b>14,419</b>	<b>10,817</b>	<b>33%</b>
Interest Expenses	1,812	1,281	41%	1,673	8%	6,278	4,429	42%
<b>Net Total Income</b>	<b>2,312</b>	<b>2,022</b>	<b>14%</b>	<b>2,177</b>	<b>6%</b>	<b>8,141</b>	<b>6,388</b>	<b>27%</b>
Employee Benefit Expense	548	514	7%	646	-15%	2,356	1,829	29%
Other Expenses	649	538	21%	588	10%	2,023	1,609	26%
<b>PPOP</b>	<b>1,115</b>	<b>970</b>	<b>15%</b>	<b>942</b>	<b>18%</b>	<b>3,762</b>	<b>2,950</b>	<b>28%</b>
Credit Cost	543	411	32%	413	32%	1,731	1,163	49%
PBT	572	559	2%	530	8%	2,031	1,788	14%
Tax	167	233	-28%	155	8%	592	594	0%
<b>PAT</b>	<b>405</b>	<b>327</b>	<b>24%</b>	<b>375</b>	<b>8%</b>	<b>1,439</b>	<b>1,193</b>	<b>21%</b>
<b>EPS</b>	<b>4.06</b>	<b>3.52</b>	<b>15%</b>	<b>3.78</b>	<b>7%</b>	<b>14.71</b>	<b>13.20</b>	<b>11%</b>

Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression



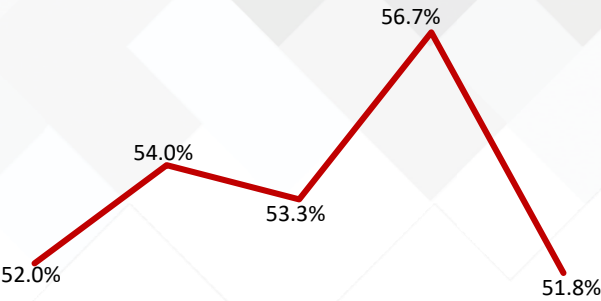
Source: Company, Keynote Capitals Ltd.

Portfolio Yield (%)



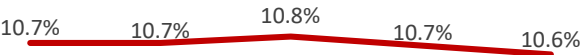
Q4FY24    Q1FY25    Q2FY25    Q3FY25    Q4FY25

Cost to Income (%)



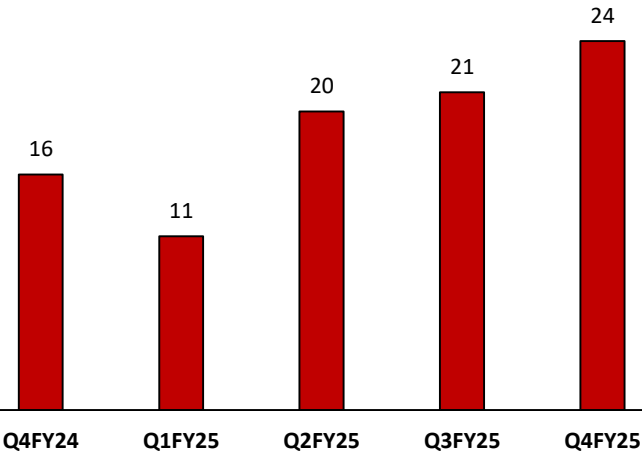
Q4FY24    Q1FY25    Q2FY25    Q3FY25    Q4FY25

Cost of Borrowing (%)

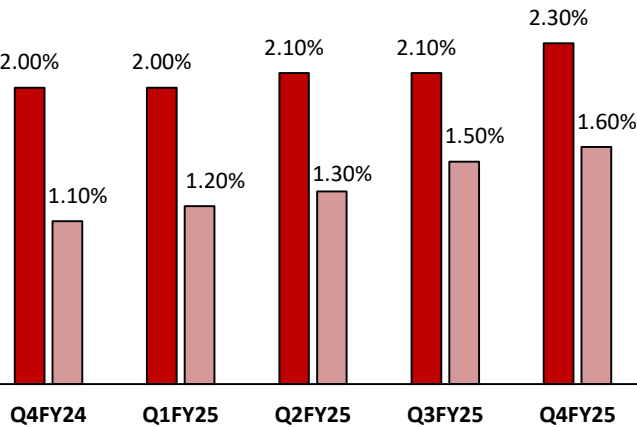


Q4FY24    Q1FY25    Q2FY25    Q3FY25    Q4FY25

Net Loan Origination (Rs in Bn)

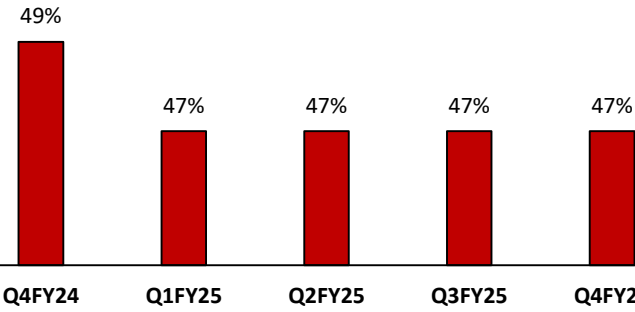


NPAs (%)

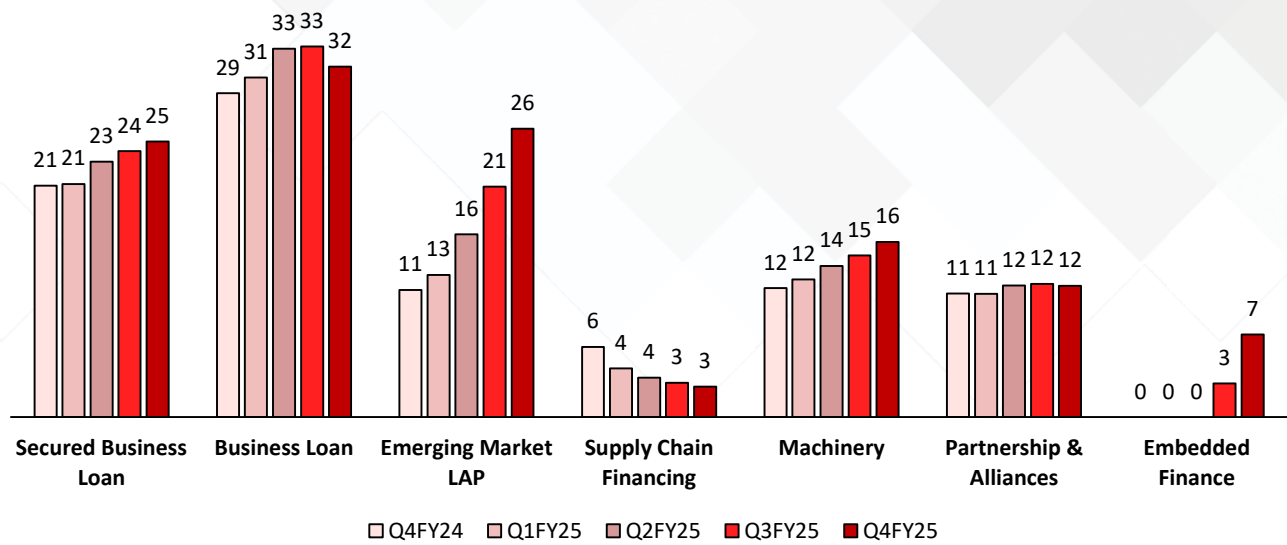


■ GNPA    ■ NNPA

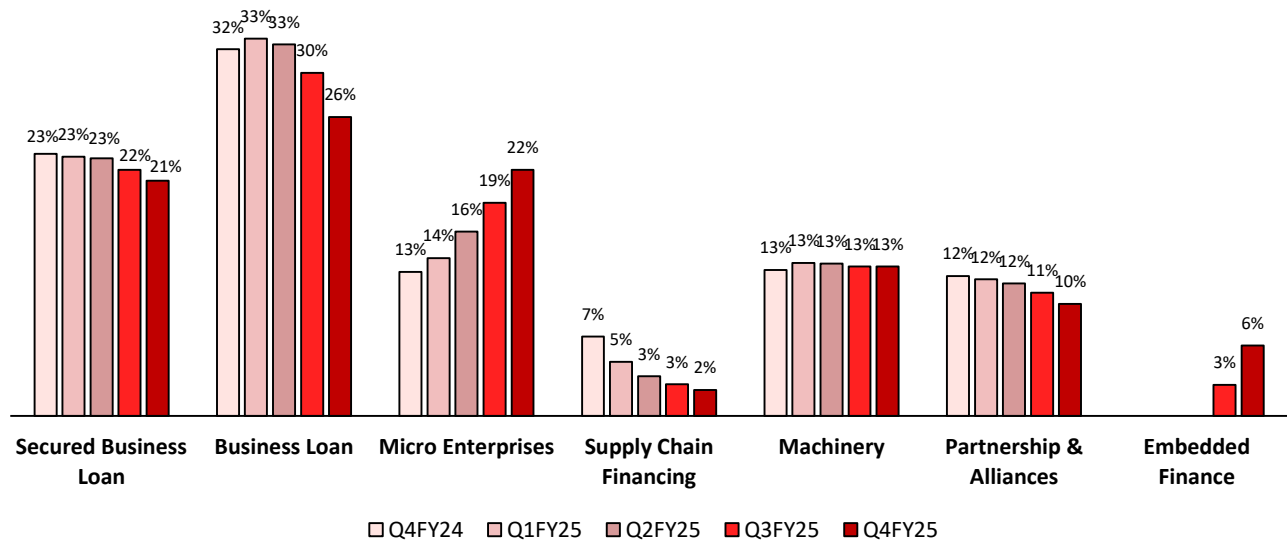
Provision Coverage Ratio (%)



Types of Loans (Rs in Bn)



Loan Types (%)



Source: Company, Keynote Capitals Ltd.

### Q4 FY25 Conference Call Takeaways

- Currently, the operating expense to AUM ratio for the Emerging Markets channel stands at 8-9%, but once the branch network fully matures, management expects it to normalize to 4-4.5%.
- In the Emerging Market Segment, Ugro lends to customers with turnovers up to Rs 30 Mn in Tier 2-5 cities, initially offering collateralized loans up to Rs 0.5 Mn, and recently expanding to slightly higher ticket sizes. Yields in this segment range between 18-21%, making it affordable for borrowers compared to informal lenders. Absolute affordability is assessed through detailed cash flow analysis - using GST, banking, and bureau data for larger customers, and sector-specific cash flow templates for smaller businesses.
- The average loan-to-value ratio across Ugro's portfolio is maintained between 55-60%.
- The Management reiterated the ambition to achieve a 4% ROA over the next 12–18 months, supported by multiple levers:
  - Yield Improvement: Expected 75-100 bps increase, driven by higher contribution from the Emerging Markets segment (rising from 15% to 22% of AUM currently, and targeted at ~35% after opening the next 80 branches) and scaling of the higher-yielding Embedded Finance platform. The branch rollout is expected to uplift portfolio yields by 100-150 bps.
  - Operating Leverage: Opex-to-AUM is expected to decline by ~50 bps as the Emerging Markets branch network matures and productivity improves.
  - Reduction in Cost of Borrowing: Anticipated 50 bps decline supported by softening market rates and expected rating upgrades with scale and portfolio vintage.
  - Credit Cost stabilization: Credit costs are expected to settle around ~2% as the portfolio seasons
- Co-lending share temporarily declined due to overall sectoral caution in unsecured financing, leading to some banks pausing activity. However, most partner banks have now restarted their co-lending programs and management expects the share to recover steadily going forward.
- The management emphasized that NBFC asset classes are not homogeneous and issues in MFI or consumer lending don't directly impact MSME lenders. Ugro differentiates itself by focusing on business customers with turnover between Rs 1.5 -150 Mn, not individuals or near-MFI profiles.
- Ugro's moat lies in its distribution depth, underwriting speed, tech-driven credit models, and sectoral focus. For the Prime Intermediated segment, UGRO delivers in-principle approvals within 60 minutes via its automated stack, making it a preferred partner for DSAs. In Emerging Markets, UGRO leverages physical presence and templated credit models for over 300 micro-sectors (e.g., bakeries, tiffin vendors) to enable faster and more accurate underwriting. In Green & Ecosystem financing, it applies domain-level data - like OEM-linked residual value analysis for machinery or electricity bill-matching for rooftop solar - to tailor product structures. Its Embedded Finance platform integrates directly with partners like PhonePe and Airtel, enabling real-time, short-tenure loan approvals for small merchants at scale.

## Ugro Capital Limited | Quarterly Update

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- The proprietary GRO Score is continuously upgraded, with a new version rolled out every 15-18 months. The model predicts probability of default over a 12-month horizon, ensuring continuous improvement through machine learning feedback.
- According to the new draft guidelines by the RBI, co-lending has been formalized across NBFC-Bank and NBFC-NBFC partnerships under a unified framework. The guidelines also permit co-lending outside PSL norms and allow NBFCs to provide FLDG, making the model more attractive for banks by mitigating credit risk. Ugro sees this as a key liability-side growth driver. The shift from CLM-2 to CLM-1 may cause minor disbursement delays over the next 60 days.

Financial Statement Analysis

Income Statement

Particulars (Rs in Mn)	FY23	FY24	FY25	FY26E	FY27E
Interest Income	4,829	7,079	9,588	12,646	15,464
Income from Co-Lending/DA	1,541	3,075	3,829	4,769	5,961
Other Income	468	663	1,002	1,000	1,100
<b>Total Income</b>	<b>6,838</b>	<b>10,817</b>	<b>14,419</b>	<b>18,415</b>	<b>22,525</b>
Finance cost	2,933	4,429	6,278	7,717	9,015
<b>Net Total Income</b>	<b>3,905</b>	<b>6,388</b>	<b>8,141</b>	<b>10,698</b>	<b>13,510</b>
Employee benefits expense	1,407	1,829	2,356	3,002	3,604
Depreciation, amortisation and impairment	176	353	464	649	844
Other expenses	916	1,256	1,559	1,996	2,435
<b>PPOP</b>	<b>1,406</b>	<b>2,950</b>	<b>3,762</b>	<b>5,051</b>	<b>6,627</b>
Impairment on financial instruments	568	1,162	1,731	2,100	2,700
<b>PBT</b>	<b>838</b>	<b>1,788</b>	<b>2,031</b>	<b>2,951</b>	<b>3,927</b>
Tax expense	440	595	592	885	1,178
<b>PAT</b>	<b>398</b>	<b>1,193</b>	<b>1,439</b>	<b>2,066</b>	<b>2,749</b>

Balance Sheet

Particulars	FY23	FY24	FY25	FY26E	FY27E
Cash and Bank balances	2,118	4,549	5,444	7,577	8,941
Loans	38,064	54,322	79,191	95,457	1,12,982
Fixed Assets	992	1,298	1,623	2,110	2,743
Investments	601	592	1,034	1,344	1,747
Other assets	1,281	2,039	4,391	5,708	7,421
<b>Total Assets</b>	<b>43,056</b>	<b>62,800</b>	<b>91,683</b>	<b>1,12,197</b>	<b>1,33,834</b>
Equity share capital	693	916	919	919	919
Other equity	9,147	13,468	19,544	21,610	24,359
Incremental Equity				12,650	12,650
<b>Net worth</b>	<b>9,840</b>	<b>14,384</b>	<b>20,464</b>	<b>35,180</b>	<b>37,929</b>
Borrowings	31,489	46,180	68,704	74,200	92,751
Other liabilities	1,727	2,236	2,515	2,817	3,155
<b>Total Liabilities and Equity</b>	<b>43,056</b>	<b>62,800</b>	<b>91,683</b>	<b>1,12,197</b>	<b>1,33,834</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%
28 <sup>th</sup> January 2025	BUY	199	15%
29 <sup>th</sup> April 2025	BUY	183	24%

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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