Initiating Coverage

UGRO Capital Ltd

OUTPERFORM

Choice

UGRO Capital, a tech-driven NBFC, specializes in lending to the MSME sector, positioning itself strongly in a substantial market. Key factors underpinning its positive outlook include: (1) a significant opportunity in MSME lending; (2) superior productivity metrics, highlighting the scalability of its business model; (3) advanced systems and data analytics that bolster asset quality management; (4) a focus on co-lending and co-origination, which enhances capital efficiency, AUM growth, and profitability; and (5) an upward trajectory in RoA and RoE as high-yield loans gain a larger share and operating leverage improves. UGRO Capital is projected to achieve a CAGR of 41% in AUM and 42% in EPS from FY24-26E, with anticipated RoA and RoE reaching 4.2% and 15.8% by FY26E. The sustained expansion and increased profitability are expected to drive a favorable re-rating of the stock, which currently trades at a meager 1.38x FY26E P/Adjusted BVPS.

- **Scalable business model in evolving MSME eco-system:** UGRO Capital has built a scalable business model tailored to the evolving MSME ecosystem by leveraging advanced technology and data analytics. Focusing on nine sectors, including tech-based industries, UGRO standardizes data to support large-scale, low-risk underwriting. The model benefits from geographical and product diversity, stress-tested risk controls, and minimal human intervention, aligning management incentives with shareholder interests. This tech-driven approach capitalizes on India's digitalization, consistently achieving industry-leading productivity metrics like an AUM per branch of ₹603 million and an AUM per employee of ₹34.3 million as of FY24.
- **Robust systems, well-defined policies, and data-driven underwriting provide assurance of asset quality:** UGRO Capital combines a Data-Tech approach with traditional methods to maintain its loan portfolio quality. The GRO score, now in its third version, uses banking, bureau, and GST data to assess customers, significantly lowering default rates to almost half of non-GRO-approved cases. Alongside this, UGRO uses traditional inspections to ensure loan integrity. Over the last nine quarters, the 30+ days past due (dpd) rate has remained stable at 4-5%, with Stage 3 assets consistently controlled at 2% over the past five quarters.
- **Operating leverage at play as scale builds up:** UGRO Capital is poised to enhance its financial metrics significantly through the power of operating leverage as it scales its operations. The company is expected to boost its Return on Assets (RoA) from 2.3% in FY24 to 4.2% by FY26E, driven by a strategic shift towards capital-efficient co-lending and co-origination, which is projected to make up 48% of its portfolio. This growth is anticipated to double UGRO's AUM to Rs 178.96 billions by FY26E. Despite this rapid AUM expansion, expenses are expected to grow at a slower pace, thanks to frontloaded investments made in earlier years. As a result, the company's C/I ratio is set to decline from 54% in FY24 to 45% in FY26. An improved financial leverage will support RoE growth from 9.9% to 15.6% over the same period.

Key Financial Highlight

(In Rs Crores)

Metric	FY21	FY22	FY23	FY24
AUM	1,317	2,969	6,081	9,047
Net Disbursements	1,147	3,138	4,641	5,867
Off-book AUM (%)	1%	16%	40%	45%
Net Interest Income	102.3	134.8	189.6	265
PPOP	43.4	61.9	140.6	295
Pre-Tax Profit	12.1	20.2	84	179
PAT	28.7	14.6	40	119
Cost to Income Ratio	70.80%	71.80%	62%	54%
ROA	1.9%	0.70%	1.10%	2.30%
ROE	3.06%	1.50%	4.10%	9.90%
GNPA	2.3%	2.3%	1.6%	2.0%
NNPA	1.4%	1.9%	0.9%	1.1%
stage 3 PCR	38.0%	26.9%	48.6%	48.0%
NIM	7.8%	5.4%	5.2%	5.3%
Book Value	135	137	139	157

Source: Company, CEBPL

Sep 21 , 2024

CMP (Rs)	**256**
Target Price (Rs)	**345**
Potential Upside	**35%**

Company Info

BB Code	UGRO IN
ISIN	INE583D01011
Face Value (Rs)	10.0
52 Week High (Rs)	317.0
52 Week Low (Rs)	213.1
Mkt Cap (Rs bn)	21.9
Mkt Cap ($ bn)	0.3
Shares o/s (bn)	0.9
FY24 ABVPS (Rs)	147.3
FY26E ABVPS (Rs)	188.9

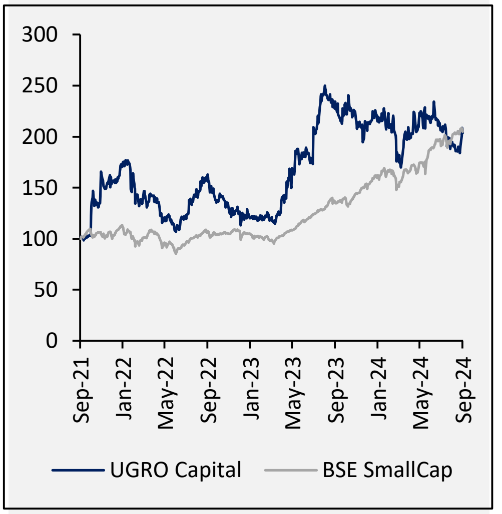
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoter	2.23	2.23	2.24
FII	20.27	19.76	19.77
DII	2.55	3.76	4.46
Public	74.94	74.24	73.53

Relative Performance (%)

YTD	1Y	2Y	3Y
UGRO capital	-10.5	25.0	103.7
BSE Small Cap	49.8	93.2	104.82

Rebased Price Performance



Arshay Agarwal
arshay.agarwal@choiceindia.com
Ph.: +91 22 6707 9913

View and Valuation

- UGRO is a niche tech-based MSME-focused lender with an extensive distribution franchise. The company follows a superior underwriting framework, aided by a strong technology platform. It has delivered superior growth in its business (61.8% CAGR in AUM over FY21-FY24) while maintaining asset quality (GS3 currently at 2.0%). UGRO's unique multi-pronged distribution channels, viz., 1) traditional branch led, 2) ecosystem led, 3) partnership led, and 4) direct-to-customer models cater to MSMEs across geographies and ticket sizes. It has also partnered with over 45+ Fintechs / smaller NBFCs under co-lending / sourcing arrangements. We believe UGRO is well placed to capture the untapped growth potential in the MSME space. Increasing proportion of its off-book AUM should aid its other income and NIMs. Moreover, branch additions in new states should also support AUM growth, underpinning our robust estimate of 41% CAGR. This should translate into 55%/83% CAGR in NII/ PAT over FY24-FY26E, respectively, with RoA/RoE of ~4.2%/~15.6% by FY26E. Currently, the stock trades at **1.28x** FY26E P/BV and 1.37x FY26 P/Adjusted BV. We recommend a **OUTPERFORM** rating and target price of Rs 345, valuing UGRO at ~1.83x FY26E P/ABV.

Peer Comparison

Metric	UGRO Capital	Five Star	SBFC	MAS Financial Services
AUM (INR Cr)	9,047	9,640	6822	10125
Cost to Income Ratio	54.0%	35.5%	45.7%	31.0%
ROA	2.3%	8.4%	4.6%	2.8%
ROE	9.9%	17.6%	11.3%	17.0%
GNPA	2.0%	1.4%	2.4%	2.3%
NNPA	1.1%	0.6%	1.4%	1.5%
stage 3 PCR	48.0%	54.3%	44.7%	38.9%
NIM	5.3%	17.4%	9.9%	6.7%
Book value	157	178	25.9	109
P/Bv	1.64	4.35	3.38	2.71

Source: Company, CEBPL
Figures as of FY24

- UGRO Capital’s performance shows both strengths and challenges when compared to its peers. A key weakness is its **Cost to Income Ratio** of 54.0%, which is higher than competitors like MAS Financial Services (35.5%) and SBFC (31.0%), indicating lower operational efficiency. However, UGRO demonstrates solid **asset quality**, with a Gross NPA of 2.0% and Net NPA of 1.1%, reflecting strong risk management. While its **ROA** of 2.3% and **ROE** of 9.9% are steady, they lag behind MAS Financial's ROA of 8.4% and ROE of 17.6%. Despite these factors, UGRO's **price-to-book ratio (P/Bv)** of 1.64 positions it as an undervalued investment compared to MAS Financial (2.71) and SBFC (3.38), making it an attractive option for investors seeking value, especially given its solid fundamentals and potential for cost optimization.
- The company’s Net Interest Margin (NIM) of 5.3% signifies stable profitability, crucial in managing costs and generating income, although slightly lower than peers. UGRO Capital’s Price to Book value (P/Bv) ratio of 1.64 suggests that the stock is unreasonably low valued compared to Five Star's 4.35, indicating a more attractive valuation for investors seeking growth potential at a fair price. In summary, UGRO Capital showcases a solid combination of potential operational efficiency, risk management, and valuation attractiveness, positioning it as a strong contender among its peers.

AUM Comparison

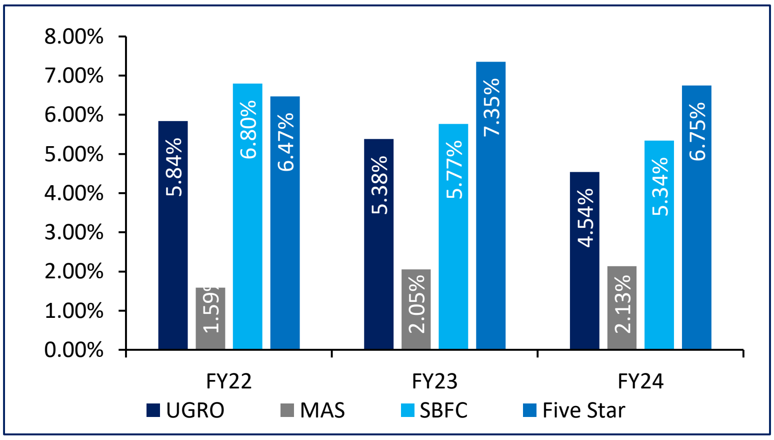
(In Rs Crores)

Company	FY20	FY21	FY22	FY23	FY24	FY20-24 CAGR
UGRO	860	1320	2970	6080	9047	80.09%
Five Star	3890	4450	5070	6910	9640	25.47%
SBFC	3520	2220	3190	4940	6822	17.99%
MAS	5970	5370	6250	8090	10125	14.12%

Source: Company, CEBPL

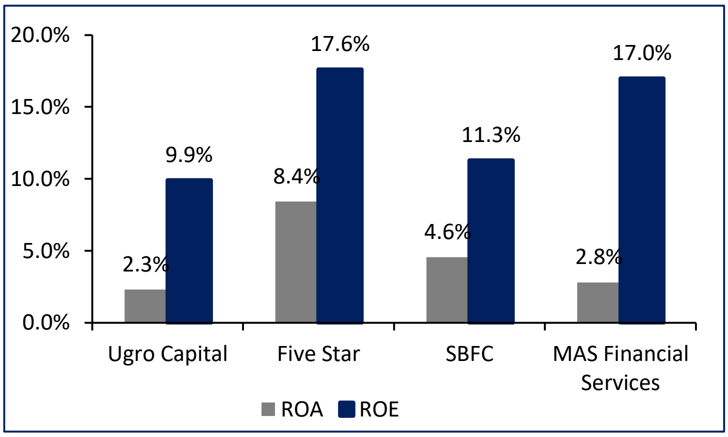
- UGRO Capital’s AUM grew impressively from ₹860 Cr in FY20 to ₹9,047 Cr in FY24, reflecting a stellar CAGR of 80.09%, significantly outpacing its peers. In contrast, Five Star, SBFC, and MAS Financial Services achieved CAGRs of 25.47%, 17.99%, and 14.12%, respectively. UGRO’s rapid growth highlights its superior business execution, market penetration, and strategic expansion, positioning it as a standout performer with robust scaling capabilities compared to its peers.

Opex to AUM



Source: Company, CEBPL

RoA And Roe



Source: Company, CEBPL
Figures as of FY24

- UGRO Capital's Opex to AUM ratio has consistently improved, dropping from 5.84% in FY22 to 4.54% in FY24, showcasing superior cost management compared to Five Star and SBFC, whose ratios remained above 5%. This efficient cost control supports UGRO’s steady ROA of 2.3%, enhancing profitability despite being lower than peers. UGRO's disciplined approach to reducing operating expenses helps boost returns, reflecting in its balanced ROE of 9.9%, and positions it well for sustainable growth compared to peers.

Comparable companies addressing the diverse MSME industry

Company	Product Suite	Target Customer	ATS Product Wise	Average Yield	Branches	Mix of Secured Portfolio
UGRO Capital	Secured Business Loans, Unsecured Loans, Machinery finance, Micro Enterprise Loan, Partnership Alliance	MSMEs including small business owners, retailers, traders, professionals, small manufacturers	Secured loans: Rs6.9mn, Biz loans: ~Rs1.7mn, Micro enterprise loans: Rs0.8 mn, Machinery Loan: ~Rs3.6mn, Partnership: ~Rs0.5mn	13-21%	150 branches	69% secured
MAS Financial Services	Micro Enterprise Loan, SME Loan, CV, Used Car & Two-wheeler Loan, Salaried PL, Home Loan	Small business owners, retailers, traders, professionals, small manufacturers, small road transporters, farmers	Micro Enterprise Loan: ~Rs44k, SME Loan: ~Rs2.18mn, CV & Used Car: ~Rs0.4mn, Two-wheeler Loan: ~Rs55k, Salaried PL: ~Rs0.13mn, Home Loan: ~Rs0.74mn	12%	155 branches	75.6% secured
Five-Star Business Finance	Small ticket secured loan	Small business owners, micro-entrepreneurs, self-employed individuals	Average ticket size: ~Rs0.35mn	22-25%	386 branches in 9 states	100% secured, 99% collateral residential property
SBFC Finance	Secured MSME, Gold Loan	MSMEs, entrepreneurs, and individual customers	MSME: ~Rs98.4mn, Gold Loan: ~Rs85k	16.2%	162 branches across 16 states	97% secured against property and gold

Source: Company, CEBPL
Figures as of FY 24

- UGRO Capital stands out for its comprehensive and strategically diversified product suite designed to address the unique financial needs of Micro, Small, and Medium Enterprises (MSMEs). The company's offerings encompass Secured business Loan, Unsecured Loans (USL), Machinery Finance, and Micro Enterprise Loans. These products cater to a wide range of financing requirements, with average ticket sizes reflecting the company's ability to serve both smaller and larger businesses. For instance, Micro enterprise loans average around ₹0.8 million, while Business loans can reach up to ₹6.9 million, showcasing UGRO's capacity to address various financial demands.
- UGRO Capital's average yield across its products ranges from 13% to 24%, indicating a well-calibrated balance between risk and return. This competitive yield structure is a testament to the company's effective financial management and market positioning. The firm operates through an extensive network of 150 branches, which includes 23 prime branches and 127 micro branches. This geographical spread of branches ensures robust market penetration, with a dominant presence in South India (48%) and significant coverage in the West (40%) and Rest of India (12%) (as of FY24). This strategic branch distribution enables UGRO Capital to effectively serve its diverse customer base and expand its footprint in key regions.
- Secured lending is a cornerstone of UGRO Capital's strategy, with 69% of its portfolio comprising secured loans. This focus on collateral-backed lending is instrumental in managing credit risk and maintaining high asset quality. By securing a substantial portion of its loans, UGRO Capital effectively mitigates potential risks associated with unsecured lending.
- The company's emphasis on leveraging technology to enhance its lending processes and customer service further distinguishes it from its peers. UGRO Capital's tech-enabled approach not only streamlines operations but also provides a competitive edge in the rapidly evolving financial landscape. This combination of diverse product offerings, strategic geographic presence, and a strong focus on secured lending positions UGRO Capital as a leading player in the MSME finance sector. Its innovative solutions and effective risk management strategies underline its commitment to delivering sustainable growth and value to its stakeholders, establishing it as a key competitor in the industry.

Company Profile and Background

- UGRO Capital, established as a specialized Non-Banking Financial Company (NBFC), primarily serves India's MSME (Micro, Small, and Medium Enterprises) sector. The company, regulated by the Reserve Bank of India (RBI), was rebranded in 2018 after Shachindra Nath and Poshika Advisory Services LLP acquired Chokhani Securities Private Limited. UGRO Capital raised ₹9.2 billion from prominent private equity investors, high-net-worth individuals, and family offices, kick-starting its journey under a new management team dedicated to supporting the underserved MSME sector. Despite initial slow growth due to the broader credit crisis and the impact of the COVID-19 pandemic, the company has significantly increased its lending activities since 2021.

- UGRO Capital provides a wide range of financial products, including Secured business loans, Unsecured Business Loans, Machinery Loans, and Micro Enterprise Loans. The company has strategically diversified its offerings to cater to the varying financial needs of MSMEs. Notably, it has developed specialized products such as GRO X. The company's average interest yields range from 13% to 21%, depending on the risk and type of the loan product.

- To further its outreach, UGRO employs a multi-channel distribution model that integrates both traditional and digital approaches. The primary channels include Branch-led, Ecosystem, Partnership & Alliance, and Direct Digital channels. Branch-led sourcing focuses on securing business loans, while the Ecosystem channel facilitates Machinery and Supply Chain Finance through collaborations with industry anchors and OEM partners. The Partnership & Alliance channel targets co-lending arrangements with fintech companies and other NBFCs, utilizing their origination capabilities. The Direct Digital channel is designed for rapid, on-demand financing for merchants through UGRO's proprietary digital platforms.

- A significant aspect of UGRO Capital's operations is its innovative use of technology in underwriting and loan disbursement. The company follows a Data-Tech approach, combining traditional credit assessment methods with advanced data analytics to enhance its portfolio quality. One of UGRO's standout tools is the GRO Score, an advanced risk-scoring system that uses a combination of banking, credit bureau, and Goods and Services Tax (GST) data. The GRO Score incorporates over 25,000 parameters, categorizing customers into five bands ranging from "A" (least risky) to "E" (most risky). Loans approved using the GRO Score show default rates that are significantly lower compared to those approved through conventional scoring methods, underlining UGRO's analytical strength.

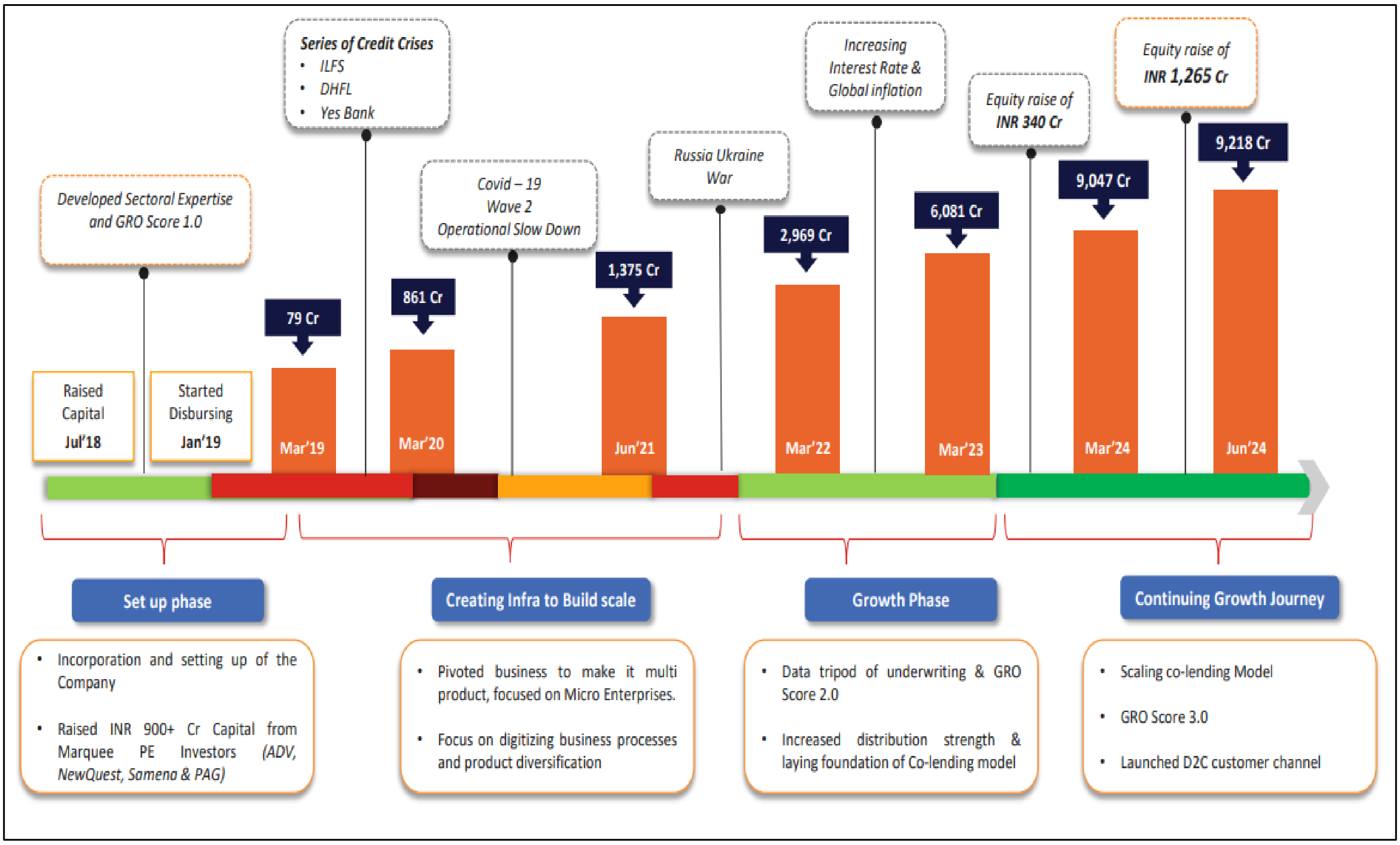
- UGRO's technology infrastructure is further supported by a Business Rule Engine (BRE) that automates policy decisions based on customer behaviour. The BRE is product and channel agnostic, designed to handle customer data collected at every stage of the lending process, from origination to collections. All data is stored in a Data Lake, enabling the development of Machine Learning (ML) models that facilitate faster decision-making, including in-principle loan approvals within 60 minutes.

- The company's emphasis on data-driven decisions extends to its branch expansion strategy. UGRO uses a detailed analysis of state-wise and pin-code level business opportunities to identify locations for new branches, particularly focusing on underserved micro-enterprise segments. This approach helps UGRO target regions with high potential for MSME growth while maintaining a close watch on portfolio performance through advanced scorecards that provide Early Warning Signals based on macroeconomic and customer-specific indicators.

- UGRO Capital's growth strategy is further bolstered by partnerships with fintech companies, lending service providers, and other financial institutions. These partnerships allow UGRO to leverage the technological and distribution strengths of its partners while retaining control over credit risk through mechanisms like First Loss Default Guarantees (FLDG). These collaborative efforts have been instrumental in expanding UGRO's reach and enhancing its ability to serve the diverse financial needs of MSMEs across India.

- Looking ahead, UGRO Capital aims to continue its focus on innovation and partnership-driven growth to empower India's MSMEs. With a commitment to maintaining robust portfolio quality through its tech-driven underwriting methods and expanding its product offerings, UGRO is well-positioned to be a leading financial services provider in the MSME sector. The company's strategic approach, combining data analytics, technology, and traditional customer insights, positions it uniquely to navigate the evolving financial landscape and drive sustainable growth for India's MSME ecosystem

Company history



Source: Company, CEBPL

- The company's journey from inception to its current status is a narrative of strategic growth, resilience, and innovation. Established in July 2018, the company set out with a clear vision to make a significant impact in its sector. In its initial phase, the focus was on setting up operations and building a solid foundation. With over INR 900 crore raised from marquee private equity investors such as ADV, NewQuest, Samena, and PAG, the company was well-equipped to embark on its mission. This capital was crucial in developing the infrastructure and expertise needed to succeed in a competitive market.
- Early on, the company concentrated on developing sectoral expertise, leading to the creation of its proprietary GRO Score 1.0, a significant milestone that established a robust framework for evaluating and managing risks. By January 2019, the company began disbursing funds, marking the start of its operational journey.
- Despite facing early challenges, including the IL&FS, DHFL, and Yes Bank crises, the company demonstrated remarkable resilience. By March 2019, it had successfully AUM INR 79 crore, underscoring its ability to navigate turbulent times. The following year saw continued growth, with AUM reaching INR 861 crore by March 2020, despite the COVID-19 pandemic. The company pivoted its business model, diversifying its offerings and focusing on micro-enterprises and digitization to mitigate the pandemic's impact.
- Post-pandemic, the company faced further global challenges, including the Russia-Ukraine war and rising interest rates. Nonetheless, it continued to scale, with AUM reaching INR 1,375 crore by June 2021. The growth phase saw the development of GRO Score 2.0, enhancing the company's data-driven decision-making and underwriting capabilities. By March 2022, the company had achieved a substantial AUM milestone of INR 2,969 crore.
- The momentum continued with an additional INR 340 crore raised by March 2023, supporting further growth and leading to AUMs of INR 6,081 crore by the end of the fiscal year. The company's strategic focus on scaling its co-lending model and launching GRO Score 3.0 further solidified its market position.
- By June 2024, the company had reached an impressive AUM total of INR 9,218 crore, supported by another equity raise of INR 1,265 crore. The launch of a Direct-to-Consumer (D2C) customer channel marked a new chapter in the company's journey, setting the stage for continued innovation and growth.
- In summary, the company's history is one of strategic foresight, adaptability, and continuous evolution. From its early days of setting up operations to its current status as a leading player in the sector, the company has consistently demonstrated its ability to navigate challenges and capitalize on opportunities.

Veteran Management Steering Future Success

Management Team

Name	Designation	Details
Amit Mande	Chief Revenue Officer	Extensive experience in profitable asset businesses and technology. Oversees business scaling and manages teams across product verticals. 22 years of experience in institutions like Standard Chartered Bank, ABN AMRO Bank, and Barclays Bank.
Anuj Pandey	Chief Risk Officer	Founding member of UGRO Capital. Specializes in practical risk models using analytics and technology. Over 20 years of experience from Barclays Bank, ABN AMRO Bank, GSK Consumer, and Religare Finvest.
Kishore Lodha	Chief Financial Officer	Over 20 years of experience. Previous CFO at Hinduja Leyland Finance. Expertise in accounting, taxation, financial control, RBI compliances, and treasury functions.
Sunil Lotke	Chief Legal and Compliance Officer	20 years of experience in legal, compliance, and corporate secretarial matters. Formerly led the Legal & Compliance function at InCred Financial Services and has worked with Reliance Group, Future Capital Holdings, IIFL Group, and StarAgri Finance.
J. Sathiayan	Chief Business Officer	Over two decades of experience in SME & Business Finance, Retail Liabilities and Assets, and financial services. Previously held senior roles at ABN Amro Bank N.V. and Religare Finvest Limited.
Rajni Khurana	Chief People Officer	Rajni Khurana,, has over 24 years of experience in human resources, particularly in the financial services sector. She has held roles at prominent companies like CRISIL, Birla Sunlife Insurance, HDFC Bank, and WNS.. Rajni holds an MBA from IMI, New Delhi
Rishabh Garg	Chief Operating and Technology Officer	Sharad Agarwal, UGRO Capital's Chief Operating & Technology Officer, has 24+ years of experience in fintech, operations, and IT, previously held leadership roles at RapiPay, Max Life Insurance, and Citibank, with expertise in driving operational efficiencies and growth.
Subrata Das	Chief Innovation Officer	Dedicated to data-driven decision-making and creating innovative customer solutions. Over 17 years of experience in financial services, with previous roles at Standard Chartered Bank, India Infoline Finance, and Fractal. Expertise in credit scoring, risk assessment, and portfolio management.

Board Members

Name	Position	Details
Mr. Satyananda Mishra	Non-Executive Chairman and Independent Director	Former Chief Information Commissioner of India (2010-2013), with a career spanning over 40 years in the Indian Administrative Services. He held significant roles at the Multi Commodity Exchange of India and SIDBI.
Mr. Shachindra Nath	Founder and Managing Director	Founder of UGRO Capital, previously established multiple insurance companies, asset management businesses, and lending institutions. He managed business verticals and formed successful joint ventures. He is a qualified lawyer and University Rank Holder from Banaras Hindu University.
Mr. Karuppasamy Singam	Independent Director	Former Executive Director at the Reserve Bank of India and Nominee Director at Indian Bank. He serves on various influential committees. He holds a Postgraduate Degree in Economics, is a Certified Associate of the Indian Institute of Bankers, and has a Postgraduate Diploma in Bank Management from NIBM.
Mr. Karnam Sekar	Independent Director	Has extensive experience in Indian banking, including roles as Managing Director and Deputy Managing Director at public sector banks, with over four years of board-level experience at SBI. No specific educational background is mentioned.
Mr. Hemant Bhargava	Independent Director	Retired as Managing Director of LIC in 2019 after 38 years of service. He has diverse experience in international operations and new ventures. He holds a Master's degree in Economics.
Mr. Chetan Gupta	Non-Executive Director	Managing Director at Samena Capital Investments Limited, previously worked as an equity research analyst, focusing on financial planning and analysis. He is a Chartered Financial Analyst (AIMR), Chartered Alternative Investment Analyst, and holds a Master's in Management (Finance) from the University of Mumbai.
Mr. Rajeev Krishnamuralilal Agarwal	Independent Director	Nearly three decades of experience in the Indian financial services sector, including key roles at SEBI, Forward Markets Commission, and Indian Revenue Service. He holds a Bachelor's degree in Technology from IIT Roorkee.
Ms. Tabassum Abdulla Inamdar	Independent Director	Chartered Accountant with over 25 years of experience in research and analysis in the banking and financial sectors. She is the founder of Tameel, a research initiative specializing in impact strategy research.
Mr. Manoj Sehrawat	Non-Executive Director	Partner at ADV Partners with over 22 years of experience in financial services, specializing in private equity, distress debt acquisition, and corporate restructuring. He is a Chartered Accountant from ICAI and holds a Bachelor's in Commerce from Delhi University.
Mr. Rohit Goyal	Non-Executive Director (Appointed in April 2024)	Vice President at IFU (a Danish DFI), with 20 years of experience in financial services, including 15 years in the sector. He holds a B-Tech in Mechanical Engineering from IIT Delhi and is a CFA charter holder.

Source: Company, CEBPL

Product Portfolio

	GRO Plus (Secured Loans)	GRO Plus (Unsecured Loans)	GRO Line (Machinery Finance)	GRO Chain, GRO Line, GRO X
Channel	Metro & Tier 1/2 Branches	Micro & Tier 3/6 Branches	Ecosystem Channel	(Direct and Digital Loans)
Collateral	Prime Property		Prime Machinery	Receivables, FLDG from partner
Cash flow Assessment	GST, Banking & Liquid Income	GST, Banking & Liquid Income	GST & Banking	GST & Banking
Turnover Range	₹1 Cr – ₹15 Cr	Less than ₹1 Cr	₹1 Cr – ₹10 Cr	Less than ₹50 L
ATS (Rs L)	₹68 L (Sec) / ₹17 L (Biz)	₹8 L	₹36 L	₹4 L
Yield (%)	14%-19%	21%	14%	15%
Tenure (Years)	11/3	7	4	4
AUM Mix (%)	60% (Sec)27, 33% (Biz)	10%	14%	12%

Source: Company, CEBPL

Road Ahead

- **Targeting a 4% RoA:** UGRO Capital aims for a 4% RoA by employing key strategies such as expanding its micro-loan mix through new branches, which will boost portfolio yields by 150 bps. Initial credit cost increases of about 50 bps from portfolio seasoning will stabilize over time. Operational efficiency is expected to improve through scale, capital raises, and a maturing portfolio, aided by an anticipated easing rate cycle. Additionally, reducing borrowing costs via better credit ratings and diversified funding is a focus. Strong AUM growth will drive RoA improvement, with a 2.3% RoA by FY24, progressing towards the ~4% target in the next eight quarters. UGRO's robust data analytics and diversified products ensure sustainable growth and profitability.

- **Attracting Domestic Capital:** To attract domestic capital and family offices, UGRO has implemented a unique structure involving CCDs and warrants, successfully raising a total of 1,265 crores. This includes 258 crores in CCDs and 1,007 crores in warrants, fulfilling capital needs for the next two years and supporting continued growth without capital constraints. This funding also facilitates a focus on obtaining rating upgrades and reducing borrowing costs, allowing public market shareholders to participate in UGRO's growth journey.

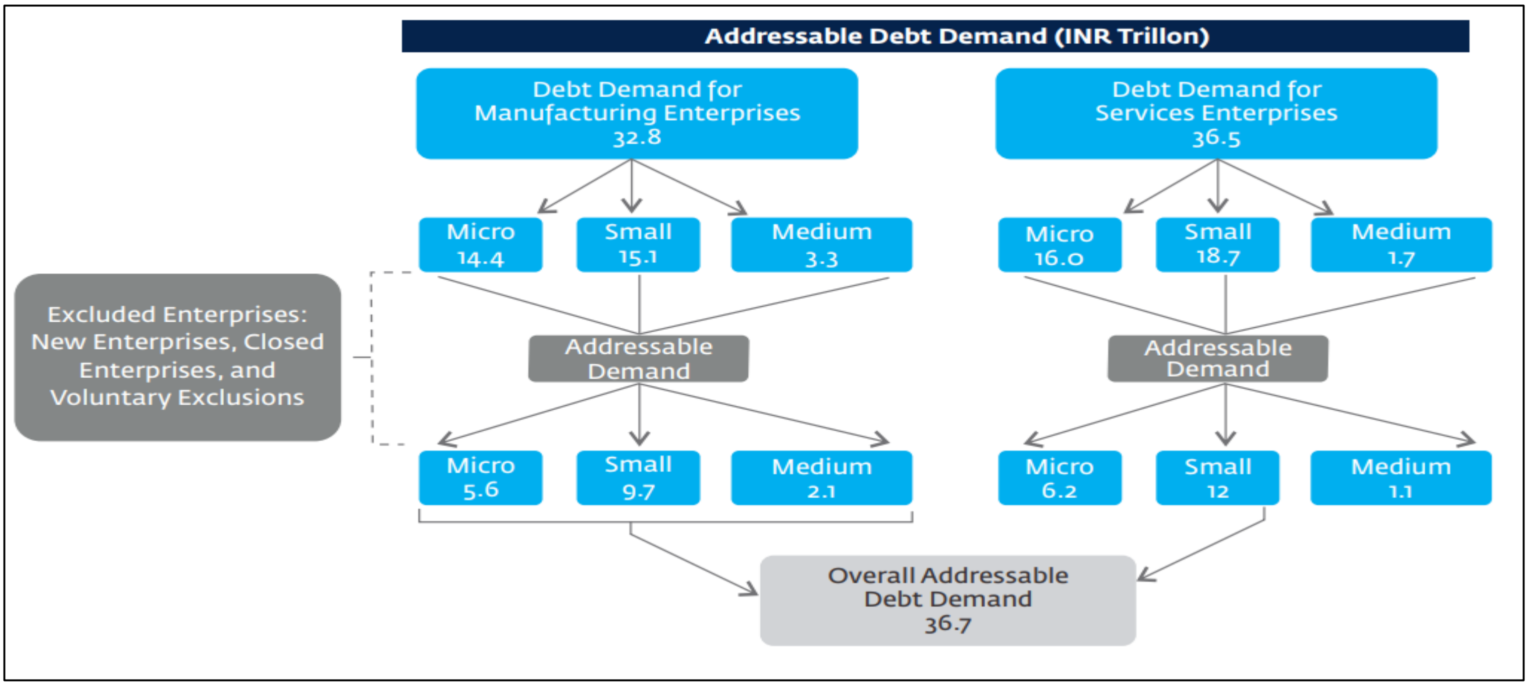
- **Enhancing Embedded Finance Capabilities:** UGRO Capital's acquisition of MyShubhLife (MSL) significantly enhances its embedded finance capabilities, especially within the direct digital lending market for small retailers. MSL's cutting-edge technology stack, powered by data science and machine learning, provides a robust underwriting framework that improves risk management and lending efficiency. The acquisition also opens up substantial customer acquisition potential of new customers (retailers) over the next three years. This strategic move is expected to drive significant growth, with projected incremental assets under management (AUM) of INR 1,500 Cr and a profit after tax (PAT) of INR 100 Cr in three years, thereby enhancing UGRO Capital's market presence and financial performance.

- **Ambitious AUM Growth Targets:** The NBFC aspires to target a 30% AUM growth in the medium to long term. To attain this burgeoning growth, UGRO plans to double its branch network in two years, reaching 280 branches by the end of FY25. Branch expansion, supported by synergies from the MSL acquisition, will foster AUM growth in the significant credit demand and supply gap in the underserved Indian MSME sector.

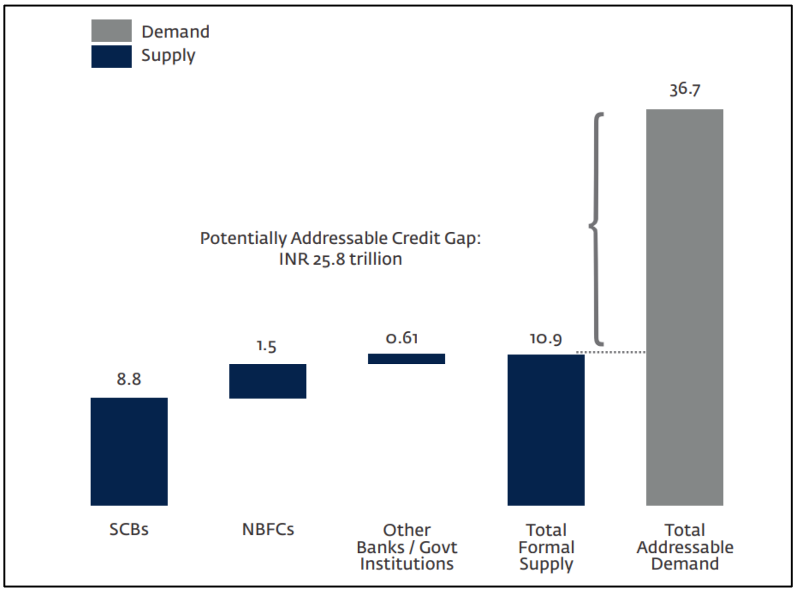
- **Balanced Portfolio Strategy:** UGRO Capital's portfolio strategy maintains a 70:30 secured to unsecured ratio. Over the last 2-3 quarters, they have increasingly covered their unsecured business loans with Central Credit Guarantee Schemes. As a result, the portion of truly unsecured loans has decreased from 32% to 23%. This strategy aims to manage risk effectively by maintaining this ratio while covering potential stress scenarios in GNPA and credit costs. The design ensures resilience against typical sectoral or regional stresses within the MSME ecosystem, although it acknowledges that extreme events like Covid-19 are beyond typical planning

Unlocking the MSME Potential: UGRO Capital's Strategic Approach to Bridging India's Credit Gap

- The MSME sector is crucial to India's economy, contributing significantly to employment, manufacturing output, and exports, yet faces persistent challenges, particularly in accessing credit. According to the latest MSME Pulse report (February 2024), a vast credit gap of 20 to 25 Trillion rupees remains, with only 250 lakh out of 630 lakh MSME entities integrated into the formal credit ecosystem. This gap is most pronounced in semi-urban and rural areas, although technological advancements and targeted lending programs are gradually improving credit penetration.



Source: MSME AR16-17, Primary Research, Intellecap Analysis



Source: MSME AR16-17, Primary Research, Intellecap Analysis

- The sector's growth trajectory is promising, with a 29% YoY increase in credit demand as of September 2023, driven by economic recovery and rising business activity. NBFCs have been instrumental, with a 39% YoY surge in credit demand, reflecting their growing role in the sector. Credit supply also expanded, with a 20% YoY growth in disbursements, particularly in the micro-segment. However, medium-sized loans (above INR 10 crore) saw a decline, indicating cautious lender sentiment towards larger exposures. NBFCs now command a 14% share of MSME credit demand, especially in micro and small segments. Their agility, use of technology and data analytics have enhanced their ability to assess credit risks and serve traditionally underserved markets in semi-urban and rural areas effectively.

- UGRO Capital was established to bridge the credit gap in India's MSME sector using data and technology. The company identified eight key sectors, such as healthcare, education, chemicals, and auto components, from over 180 sectors, focusing on those with uniform cash flows for large-scale, low-risk underwriting. UGRO also targets micro-enterprises as its ninth segment, offering loans to small business owners. Growth was initially slowed due to credit challenges and COVID disruptions until early FY22. Since 2QFY22, UGRO has achieved top productivity metrics, with an AUM per branch of ₹603 million in FY24 and an AUM per employee of ₹34.3 million. Its growth is driven by advanced data analytics, technology-driven underwriting, and multiple customer sourcing channels, including branches, digital platforms, and partnerships with fintechs and OEMs. UGRO currently operates 23 Prime branches in metros and Tier 1-2 locations and 141 micro-loan branches in smaller towns, with plans to reach 400 branches by FY26.

UGRO's Tech Stack: A Comprehensive Examination of Its Data-Driven Growth Strategy

In the rapidly evolving financial landscape, innovation is crucial for survival. UGRO Capital has leveraged a sophisticated, data-driven tech stack to streamline its operations and fuel significant business growth. A NBFC focused on serving micro, small, and medium enterprises (MSMEs) in India. These enterprises often struggle to secure funding through traditional channels due to stringent credit requirements. UGRO's mission is to bridge this gap by offering accessible, tailored financial solutions. The company has developed a robust tech stack that enables accurate credit assessments, enhances customer experience, and ensures operational excellence. By integrating cutting-edge technologies, UGRO has redefined the lending process, making it faster, more transparent, and reliable. This section explores the intricacies of UGRO's tech stack, detailing how each component contributes to its success and examining the broader business implications of this advanced technological infrastructure.

Data Collection and Integration

At the heart of UGRO's tech stack is a sophisticated data collection and integration system. In the financial industry, data is invaluable for driving decisions related to credit risk assessments and personalized customer interactions. UGRO's approach to data can be understood through three key aspects:

1. **Diverse Data Sources**: UGRO integrates traditional financial data with alternative data streams, including customer demographics, transaction history, social media behaviour, and psychometric assessments. This holistic approach enables UGRO to create a comprehensive profile for each customer, leading to more accurate credit assessments.
2. **Real-Time Data Processing**: UGRO's tech stack includes advanced tools for real-time data processing. These tools handle vast amounts of information swiftly, ensuring that decisions are based on the most current data, thereby reducing the risk of outdated or incorrect information influencing outcomes.
3. **Data Integration Platforms**: UGRO employs data integration platforms to consolidate information from various sources into a unified system. This allows for seamless data flow across departments, ensuring that everyone in the organization has access to up-to-date information.

Data Source	Description	Benefits
Traditional Financial Data	Includes income statements, credit scores, and bank records	Provides baseline for credit assessments
Customer Demographics	Age, occupation, location, etc.	Helps in segmenting customers and personalizing offers
Transaction History	Historical spending and payment behaviour	Indicates financial stability and spending patterns
Psychometric Assessments	Psychological and behavioural evaluations	Enhances understanding of customer risk profiles

Artificial Intelligence and Machine Learning

AI and ML are the core components driving UGRO's decision-making processes and operational efficiency. These technologies are utilized in several ways:

- **Credit Scoring Models**: Traditional credit scoring models often fail to accurately assess the creditworthiness of MSMEs, particularly in emerging markets like India. To overcome these challenges, UGRO has developed the GRO Score, a sophisticated customer evaluation tool currently in its third iteration. The GRO Score uses a comprehensive mix of banking, bureau, and GST data to categorize customers into different risk bands. By analysing a wide range of data points, these AI-driven models can predict a borrower's likelihood of default with high accuracy. This reduces the risk of bad loans and enables UGRO to extend credit to a broader range of customers. The effectiveness of the GRO Score is evident, as loans approved through this system have significantly lower credit costs—approximately one-third—compared to those rejected by it.
- **Predictive Analytics**: UGRO uses predictive analytics to forecast customer behaviour and market trends. AI models predict which customers are likely to repay loans early, allowing UGRO to proactively offer new financial products. Additionally, predictive analytics helps UGRO identify emerging sectors with high growth potential, guiding strategic decisions.

- **Automated Underwriting**: UGRO has automated the traditionally labour-intensive underwriting process using ML algorithms. These algorithms assess loan applications in minutes, analysing the applicant's financial data, credit history, and other relevant factors. This automation speeds up the approval process and ensures greater consistency and fairness in lending decisions.

Application	Description	Benefits
Credit Scoring Models	AI-driven models that predict a borrower's likelihood of default	Reduces risk of bad loans, expands customer base
Predictive Analytics	Forecasts customer behaviour and market trends	Proactively offers products, identifies growth sectors
Automated Underwriting	ML algorithms assess loan applications quickly	Speeds up approval process, ensures consistency
Fraud Detection	Real-time monitoring and analysis of transactions for suspicious activities	Prevents fraud, enhances security
Personalization at Scale	Automated adjustment of questionnaire required at later stage of loan approval	Improves underwriting and finally affects Asset Quality

Automated Decision-Making Systems

Automation is crucial in UGRO's operations, particularly in decision-making. The company's automated decision-making systems handle tasks that were once performed manually, reducing human error and increasing efficiency. Key features include:

- **Real-Time Decision Engines**: UGRO's decision engines operate in real-time, instantly analysing data and making decisions on loan applications, interest rates, and other critical aspects. These engines are powered by predefined algorithms that ensure decisions are consistent and aligned with the company's risk appetite.
- **AI-Driven Questionnaire Personalization (Under Development)**: UGRO is developing AI technology to build tailored questionnaires for different industries, focusing on homogeneous sub-industries within heterogeneous sectors. This approach aims to enhance the precision of industry-specific risk assessments. Once implemented, these personalized questionnaires will assist credit officers in the later stages of the loan approval process, ensuring a more targeted and relevant evaluation for each borrower.
- **Fraud Detection and Prevention (Gro Protect)**: Automated systems also detect and prevent fraud. By continuously monitoring transactions and analysing patterns, these systems can flag suspicious activities in real-time, allowing UGRO to take immediate action. This is particularly important in the financial sector, where fraud can have significant financial and reputational consequences.

Customer Relationship Management (CRM) Tools

UGRO's CRM tools are essential for ensuring high levels of customer satisfaction and engagement. Integrated deeply into the company's tech stack, these tools facilitate seamless interaction with customers across various touchpoints:

1. **Data-Driven Insights**: Powered by AI, UGRO's CRM tools generate data-driven insights into customer behaviour. These insights are used to tailor communications, offer personalized financial products, and anticipate customer needs. For example, if a customer shows interest in a particular loan product, the CRM system can automatically send them relevant information and offers.
2. **Omni channel Communication**: The CRM system integrates multiple communication channels, including email, SMS, social media, and mobile apps. This Omni channel approach ensures that customers can interact with UGRO in the most convenient way, while also maintaining a consistent brand voice across all platforms.
3. **Customer Lifecycle Management**: UGRO's CRM tools manage the entire customer lifecycle, from initial loan application to repayment and beyond. This comprehensive approach ensures that customers receive the support they need at every stage, enhancing their overall experience with the company.

Digital Lending Platforms

UGRO's digital lending platforms are the most visible aspect of its tech stack, serving as the primary interface between the company and its customers. These platforms are designed to be user-friendly, efficient, and accessible:

- **Mobile and Web Applications**: UGRO's digital platforms are available as both mobile apps and web-based applications, ensuring that customers can access their accounts and apply for loans anytime, anywhere. The platforms feature a streamlined application process with intuitive interfaces that guide users through each step.
- **Instant Loan Processing**: A standout feature of UGRO's digital platforms is the ability to process loans instantly. Thanks to the integration of AI, ML, and automated decision-making systems, customers can receive loan approvals in minutes, with funds disbursed shortly thereafter. This speed and convenience are major selling points in a market where time is often of the essence.
- **Self-Service Options**: The platforms offer a range of self-service options, allowing customers to manage their accounts, make payments, and track their loan status without needing to contact customer support. This empowers customers and reduces the workload on UGRO's support staff, allowing them to focus on more complex inquiries.

Feature	Description	Benefits
Mobile and Web Applications	Platforms available on mobile and web for accessing accounts and applying for loans	Accessibility anytime, anywhere
Instant Loan Processing	AI and ML integration for quick loan approvals and disbursement	Saves time, improves customer satisfaction
Self-Service Options	Allows customers to manage accounts, make payments, and track loan status	Empowers customers, reduces support workload

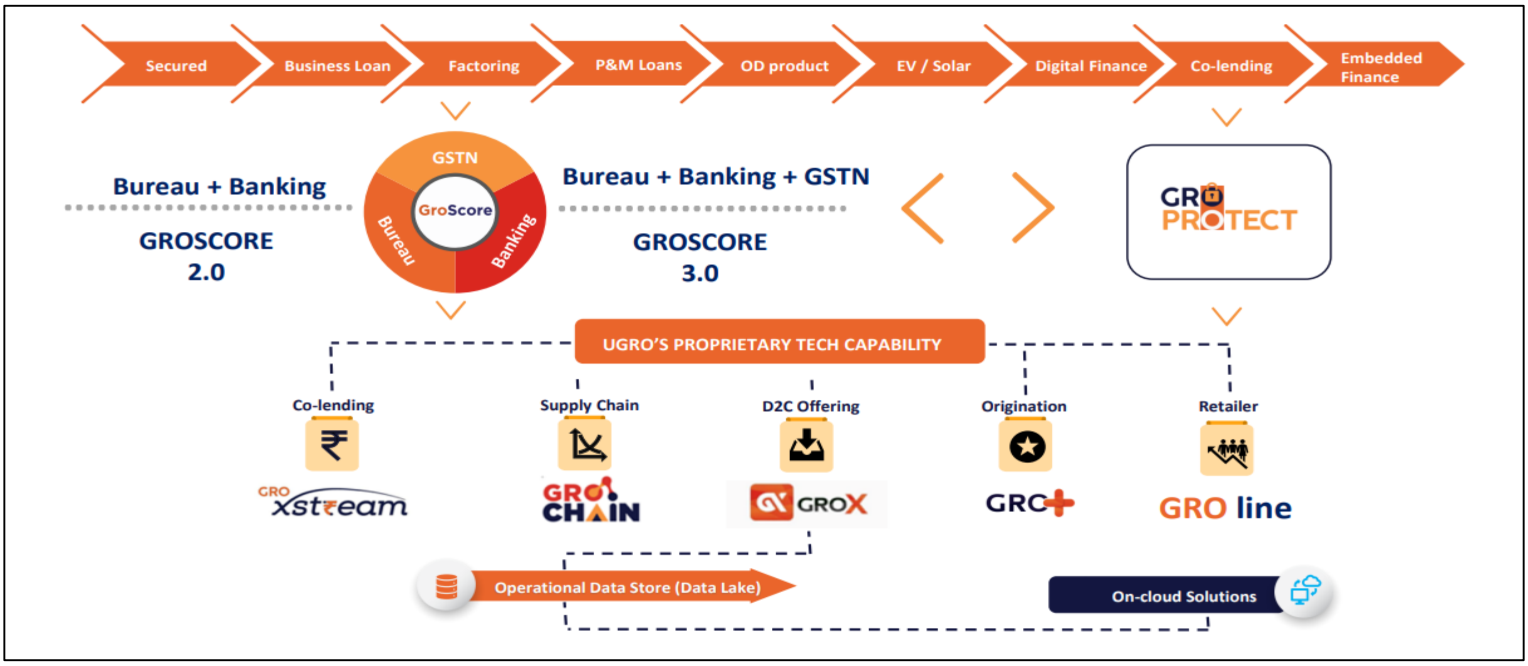
- UGRO Capital utilizes a multi-layered technology stack to enhance operational efficiency, risk management, and customer experience. Their platform integrates various financial products, data sources, and proprietary tools to streamline lending processes and improve credit assessment.

UGRO's Proprietary Tech Capabilities	Platform Name	Function
Co-lending	**GRO xStream**	Platform enabling joint lending with partner institutions.
Supply Chain Financing	**GRO Chain**	Manages supply chain financing, facilitating transactions between suppliers and buyers.
Direct-to-Consumer Offering	**GRO x**	Platform delivering tailored financial products directly to consumers.
Loan Origination	**GRO C+**	Streamlines the loan application and disbursement process.
Retailer Financing	**GRO Line**	Customized financial solutions for retailers.

- **Combining Data-Tech with Traditional Methods**

UGRO Capital's approach is not solely reliant on technology; the company also combines its data-driven methods with traditional practices to ensure the quality of its loan portfolio. Through its sectoral strategy, UGRO has identified patterns in cash flow and repayment behaviours within target industries, which led to the development of the GRO Score. This tool, which is in its third iteration, integrates a mix of banking, bureau, and GST data to classify customers into various risk bands.

- The effectiveness of this hybrid approach is evident in UGRO's portfolio performance. Loans approved through the GRO Score system have a default rate that is about half of those not evaluated by this tool, demonstrating the strength of UGRO's analytical capabilities. Additionally, UGRO complements this data-driven strategy with traditional 'touch and feel' inspections, further safeguarding the integrity of its loan portfolio. As a result, the company has maintained a stable 30+ days past due (dpd) rate between 4-5% over the past nine quarters, and Stage 3 assets on a one-year lag basis have been consistently controlled at 3.3% over the last five quarters.



Source: Company, CEBPL

Impact on Business Growth

UGRO's tech stack is a strategic asset that drives significant business growth. The technology has contributed to the company's success in several ways:

- **Scalability**: One of the most significant benefits of UGRO's tech stack is its scalability. As UGRO grows, its technology infrastructure can easily scale to accommodate increased volumes of data, transactions, and customers. This scalability is crucial for UGRO's long-term growth strategy, enabling the company to expand operations without compromising on efficiency or service quality.

- **Cost Efficiency**: Automating many aspects of its operations has enabled UGRO to achieve substantial cost savings. For example, automated underwriting reduces the need for manual intervention, lowering labour costs and minimizing the risk of human error. Similarly, AI-driven credit scoring reduces the cost of assessing credit risk, allowing UGRO to offer competitive interest rates while maintaining healthy profit margins.

- **Risk Management**: Effective risk management is essential for any successful lending business, and UGRO's tech stack excels in this area. AI and ML models allow UGRO to assess and manage risk with high accuracy, reducing the likelihood of defaults and bad loans. This directly impacts UGRO's bottom line by ensuring a healthy loan portfolio. The integration of the GRO Score further enhances UGRO's risk management by categorizing customers accurately and maintaining low default rates.

- **Customer Retention and Loyalty**: The personalized experience offered by UGRO's tech stack plays a significant role in customer retention and loyalty. By understanding and anticipating customer needs, UGRO can offer tailored financial products that meet those needs, leading to higher customer satisfaction and repeat business. Additionally, the convenience of digital platforms and efficient service further enhance loyalty.

- **Market Expansion**: UGRO's tech stack has also been instrumental in the company's market expansion efforts. The digital lending platforms allow UGRO to reach customers in remote and underserved areas where traditional banks may have limited presence. Moreover, the scalability of the tech stack enables UGRO to enter new markets and offer a broader range of financial products, driving further growth.

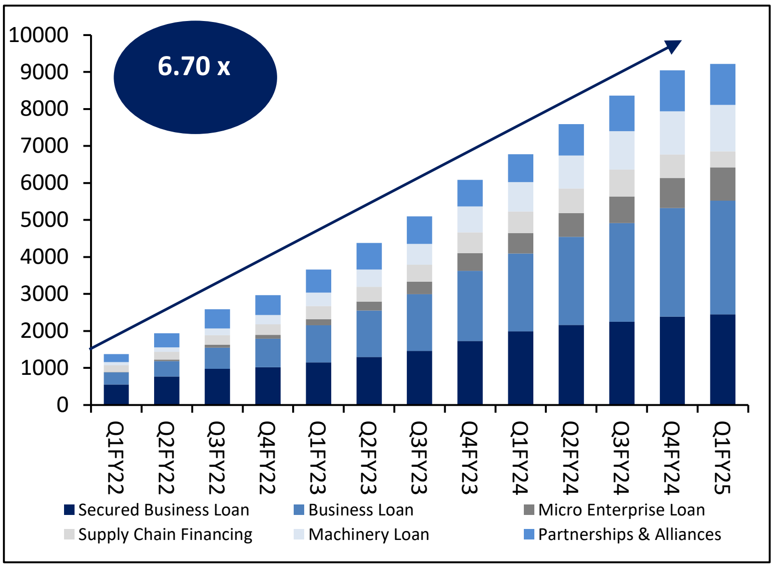
Superior Productivity Metrics Showcase Business Model Scalability

- In the rapidly evolving financial services sector, UGRO Capital stands out as a prime example of how superior productivity metrics can effectively showcase the scalability of a business model. The company's strategic initiatives and tech-driven approach have resulted in exponential growth in key performance metrics such as Asset Under Management (AUM), employee productivity, and asset quality, all of which point to the inherent scalability and efficiency of its business operations.

Asset Under Management (AUM) Growth

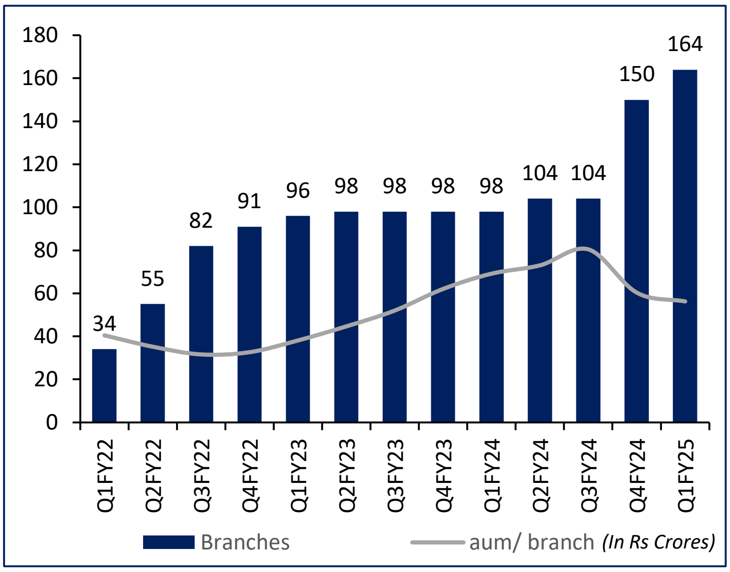
UGRO Capital's AUM growth is a central indicator of its business model's scalability. UGRO has experienced a remarkable 6.7x growth in AUM over a span of 13 quarters, reflecting its ability to scale its operations rapidly and effectively

Asset Under Management *(In Rs Crores)*



Source: Company, CEBPL

AUM per Branch



Source: Company, CEBPL

Key Drivers of AUM Growth

- **Diverse Loan Offerings:** UGRO Capital's AUM growth can be attributed to its diverse range of financial products. The company offers a variety of loan products, including secured business loans, factoring, P&M loans, overdraft products, and more recently, loans for EV/solar projects. This broad portfolio has enabled UGRO to attract a wide range of clients, thereby driving AUM growth.
- **Branch Network Expansion:** The data shows a clear correlation between the expansion of UGRO's branch network and its AUM growth. As seen in the "AUM per Branch" chart, the company has consistently increased its AUM per branch as it expands its footprint across metros and Tier 1-2 cities. By FY24, UGRO achieved an impressive AUM per branch of ₹603 million, showcasing the effectiveness of its geographical expansion strategy.
- **Focus on Underpenetrated Markets:** UGRO's strategic focus on underpenetrated markets, particularly in semi-urban and rural areas, has played a pivotal role in its AUM growth. The company's penetration into these markets has allowed it to tap into previously underserved customer segments, further contributing to the overall increase in AUM.

AUM and Number of borrowers:

- **Active Number of borrowers Growth:** The "AUM and Number of borrowers" chart illustrates a steady rise in the number of borrowers alongside the growth in AUM. This trend indicates that UGRO is not only increasing the size of its loan book but also expanding its customer base, which is crucial for sustaining long-term growth.
- **Diverse Customer Segments:** By targeting various customer segments, including micro, small, and medium enterprises (MSMEs), UGRO has been able to grow its active borrower base significantly. This diverse borrower base further strengthens the company's AUM growth potential.

Employee Productivity

Employee productivity is a critical metric that reflects UGRO's operational efficiency and its ability to scale without proportionally increasing its workforce. The charts provide a clear picture of how UGRO has managed to enhance productivity as it expands its operations.

AUM per Employee:

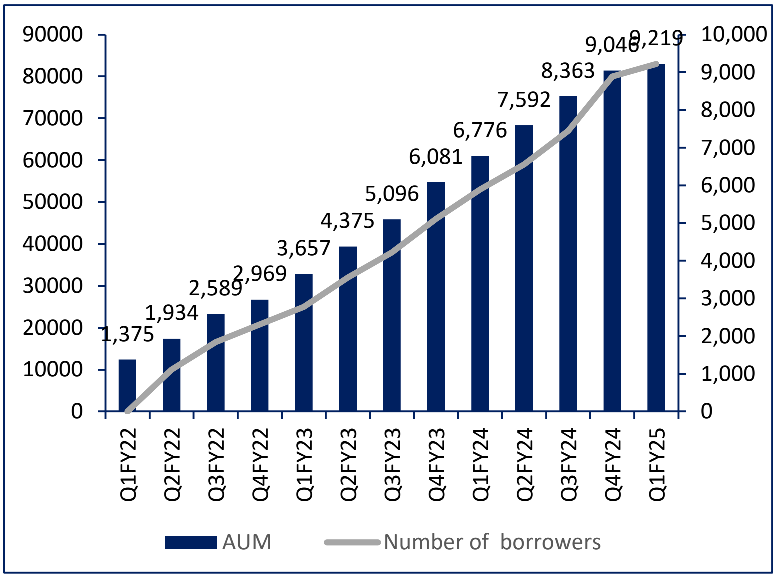
- **AUM per Employee Increase:** As shown in the "Employees per Branch" chart, UGRO has seen a consistent increase in AUM per employee, which underscores the efficiency of its operations. By FY24, the company achieved an AUM per employee of ₹34.3 million, indicating that it has been able to handle larger volumes of business without needing to proportionally increase its headcount. This is a testament to UGRO's ability to leverage technology and streamline processes.

- **Tech-Driven Productivity:** UGRO's use of technology is a key factor driving this increase in employee productivity. The company's proprietary tech platforms, such as GroScore and GroChain, enable employees to process and underwrite loans more efficiently, thereby allowing them to manage a larger portfolio without additional staffing.

Employees per Branch:

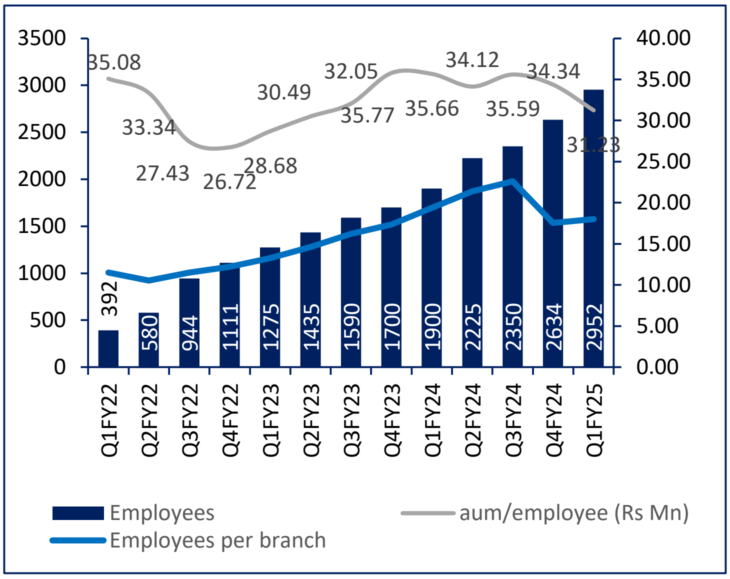
- **Optimal Staffing Levels:** The "Employees per Branch" data indicates that UGRO has maintained an optimal employee-to-branch ratio, which is crucial for scalability. By efficiently deploying staff across its growing branch network, UGRO ensures that each branch operates at maximum efficiency. The data shows that the company has successfully scaled its operations with a relatively flat growth in employee numbers, indicating high productivity and effective resource allocation.

AUM and Number of borrowers



Source: Company, CEBPL

Per Employees Metrics



Source: Company, CEBPL

AUM Mix and Operational Efficiency

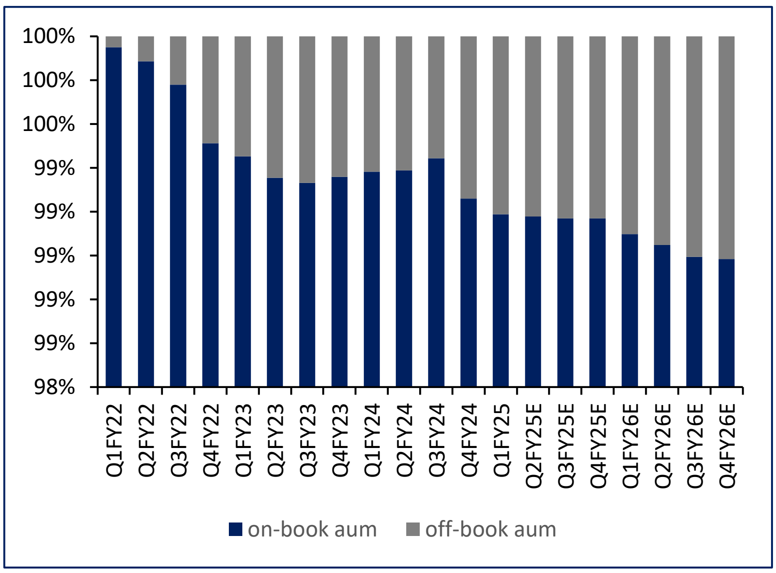
UGRO's AUM mix and operational efficiency metrics further illustrate the scalability of its business model. The company's ability to balance on-book and off-book AUM, along with its efficient cost management, are key drivers of its scalable growth.

AUM Mix:

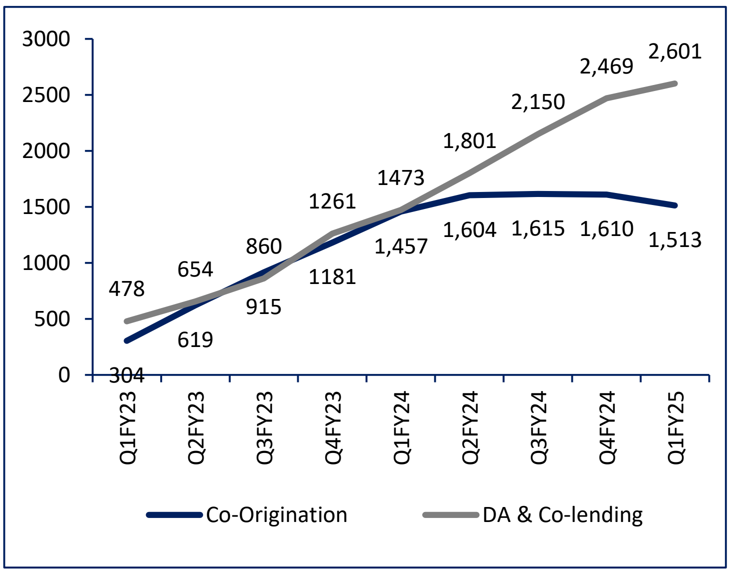
On-Book vs. Off-Book AUM: The "AUM Mix" chart highlights UGRO's strategic shift towards off-book AUM, which reduces balance sheet risk while allowing for continued AUM growth. As of the latest data, off-book AUM represents 45% of the total AUM, indicating UGRO's ability to leverage partnerships and co-lending arrangements to scale its operations without taking on excessive risk.

AUM Mix

(In Rs Crores)



Source: Company, CEBPL

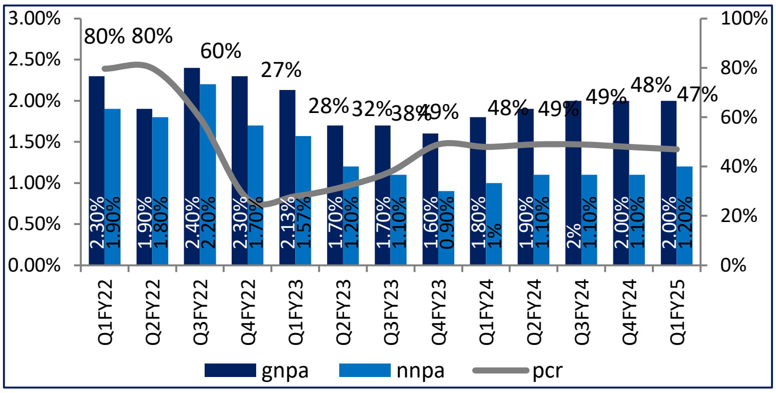


Source: Company, CEBPL

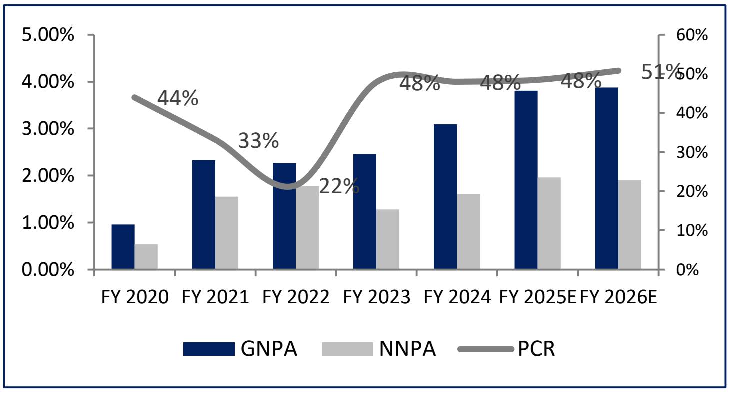
Asset Quality

- Maintaining superior asset quality is essential for sustainable growth, especially as a company scales its operations. The charts provide insights into UGRO's asset quality metrics, including GNPA, NNPA, and PCR.

GNPA, NNPA and PCR



Source: Company, CEBPL



Source: Company, CEBPL

Falling MSME Delinquencies: A Growth Catalyst for UGRO Capital

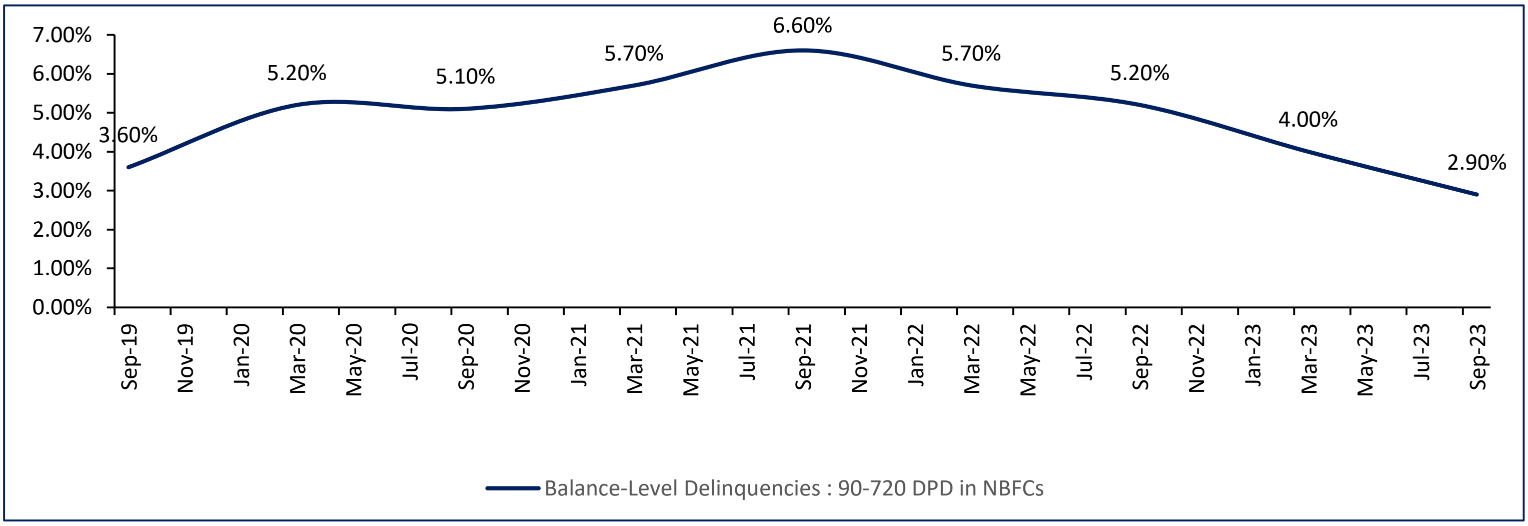
The recent decline in MSME delinquency rates is a significant boon for UGRO Capital, a leading NBFC focused on the MSME sector. Industry-wide delinquencies for MSMEs in NBFCs have dropped notably, from 5.30% in FY22 to 2.20% by Q1 FY24. This substantial improvement in MSME financial health reduces credit risk for lenders like UGRO, supporting their growth strategy in this critical segment. As MSMEs stabilize, UGRO is positioned to expand its loan book with confidence, knowing that the sector's repayment capacity is strengthening.

Asset Quality Strengths

UGRO Capital has consistently maintained strong asset quality metrics, even as it rapidly scales its operations. The company's GNPA (Gross Non-Performing Assets) ratio has remained stable, ranging from 2.3% to 1.6% throughout FY24 and into Q1 FY25. Similarly, the NNPA (Net Non-Performing Assets) ratio has been kept at a low level, at 1.2% in Q1 FY25. These figures are impressive given the challenges faced by the MSME sector, reflecting UGRO's robust risk management framework and effective credit assessment processes.

Moreover, UGRO's Provision Coverage Ratio (PCR), a measure of how well it is prepared to absorb potential losses, has improved significantly. The PCR rose from around 40% in FY20 to a stable 47% in FY24, ensuring that UGRO is well-buffered against possible defaults. This proactive provisioning not only strengthens the company's balance sheet but also enhances investor confidence.

Industry wide Delinquencies For MSME sector in NBFCs



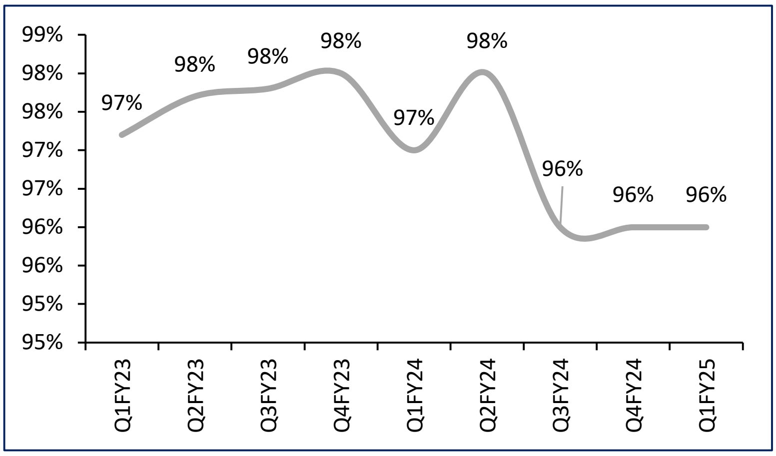
Source: Transunion Cibil MSME Pulse Report

Effective Collections and the UGRO Score Model

UGRO's strong asset quality is further supported by its excellent collection efficiency, which has consistently hovered around 96% across recent quarters. This high collection rate is a direct result of UGRO's disciplined follow-up mechanisms and strong relationships with its MSME borrowers. Such efficiency is critical in maintaining a healthy cash flow and preventing loans from turning non-performing.

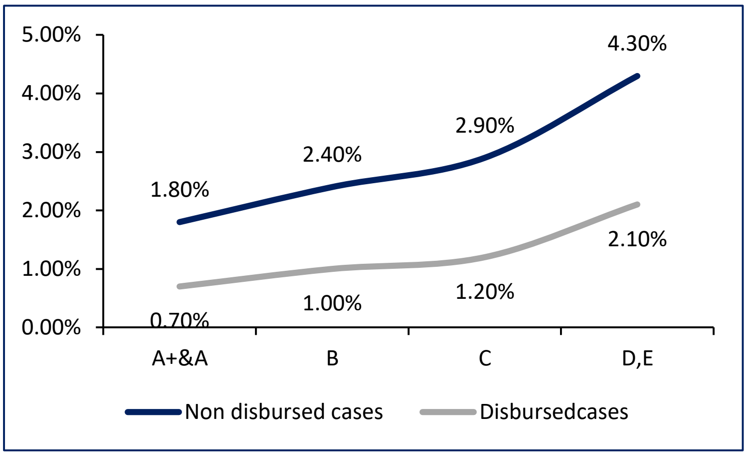
Central to UGRO's success in maintaining low delinquency rates is its proprietary UGRO Score model. This advanced credit assessment tool leverages big data analytics and machine learning to evaluate borrower risk with a high degree of precision. By incorporating a wide range of variables—including financial history, behavioral patterns, and transactional data—the UGRO Score allows for more accurate borrower profiling. As a result, UGRO can approve loans with greater confidence, reducing the likelihood of defaults and contributing to a lower GNPA compared to the industry average.

Total Collections



Source: Company, CEBPL

Credit Costs across score bands



Source: Company, CEBPL

All** customers **assessed Since Inception

In summary, the combination of declining MSME delinquencies, stable and low GNPA/NNPA ratios, a strong and improving PCR, along with effective collections and a sophisticated scoring model, places UGRO Capital in a strong position to continue its growth in the MSME lending space. These metrics not only underscore UGRO's ability to manage risk effectively but also highlight the scalability of its business model. With the MSME sector showing signs of resilience, UGRO is well-equipped to expand its operations while maintaining superior asset quality, setting the stage for sustained success.

Strategic Implications for Scalability

Operational Efficiency:

- **Cost Management:** The "Employees per Branch" and "AUM per Employee" charts combined with the "Opex/Avg. Assets" ratio suggest that UGRO has been successful in reducing its operating expenses as a percentage of average assets. This decline in operational costs, even as the company expands, indicates that UGRO is achieving economies of scale, which is crucial for enhancing profitability.
- **Automation and Process Efficiency:** UGRO's investment in automation and process efficiency, as demonstrated by its tech platforms, has played a significant role in reducing operational costs. Automated processes not only improve turnaround times for loan approvals and disbursements but also reduce the need for manual intervention, further lowering operational expenses.

Sustainable Growth:

- **Long-Term Viability:** UGRO's ability to sustain high AUM growth while maintaining stable asset quality and improving operational efficiency positions the company for sustainable, long-term growth. The scalability of its business model is evident in its ability to expand its AUM and borrower base without compromising on key financial metrics.

Competitive Advantage:

- **Technological Edge:** UGRO's integration of advanced technology into its operations, from data analytics in underwriting to automated loan processing, provides a competitive edge in the market. This tech-driven approach not only enhances productivity but also enables UGRO to serve a broader customer base, particularly in underpenetrated regions.

Market Expansion:

- **Regional and Product Diversification:** The scalability of UGRO's business model opens up opportunities for further market expansion. By continuing to diversify its product offerings and expand into new geographic regions, particularly rural and semi-urban areas, UGRO can capture additional market share and further enhance its growth prospects.

Unlocking Value: Co-Lending as a Performance Accelerator

UGRO Capital has strategically positioned itself as a leader in the financial sector by leveraging innovative co-lending and co-origination models. These models allow the company to maintain capital efficiency while expanding its loan book, thereby contributing to the growth of Assets Under Management (AUM) and enhancing profitability. This approach is integral to UGRO's financial strategy, with significant implications for key financial metrics such as Return on Equity (RoE) and Return on Assets (RoA).

Co-Lending

The co-lending model involves UGRO Capital partnering with Public Sector Banks (PSBs) and large Non-Banking Financial Companies (NBFCs) to jointly fund loans. In this arrangement, UGRO initially funds 100% of the loan amount, retaining at least 20% on its balance sheet. The remaining 80% is subsequently transferred to the co-lending partner, provided the loan meets the partner's risk criteria.

This model is mutually beneficial:

- **For Banks**: It helps meet Priority Sector Lending (PSL) targets while mitigating risk through shared responsibility with an experienced originator like UGRO.
- **For NBFCs**: The model is appealing due to the First Loss Default Guarantee (FLDG) provided by UGRO, which ensures that the NBFC partner is protected against initial losses.

The co-lending model enables UGRO to expand its AUM without the need for proportional increases in equity capital. The originator's spread income, calculated as the difference between the yield on loans and the cost of borrowing, is recognized upfront on a net present value (NPV) basis, which enhances immediate profitability.

Co-Origination Model: Shared Risk and Reward

In the co-origination model, UGRO Capital collaborates with banks or NBFCs to jointly originate loans, sharing both the underwriting and the funding responsibilities. Unlike the co-lending model, where the loan is initially funded entirely by UGRO, the co-origination model requires that at least 20% of the loan amount be retained on UGRO's balance sheet from the outset. The funding is managed through an escrow account on a pari passu basis, ensuring that both the originator and the partner have equal exposure to the loan.

- **For UGRO**: It allows the company to scale its loan book without disproportionately increasing its exposure to credit risk, as the partner shares both the funding and the risk.
- **For Partners**: Banks and NBFCs benefit from UGRO's expertise in MSME lending, gaining access to a diversified loan portfolio with reduced risk.

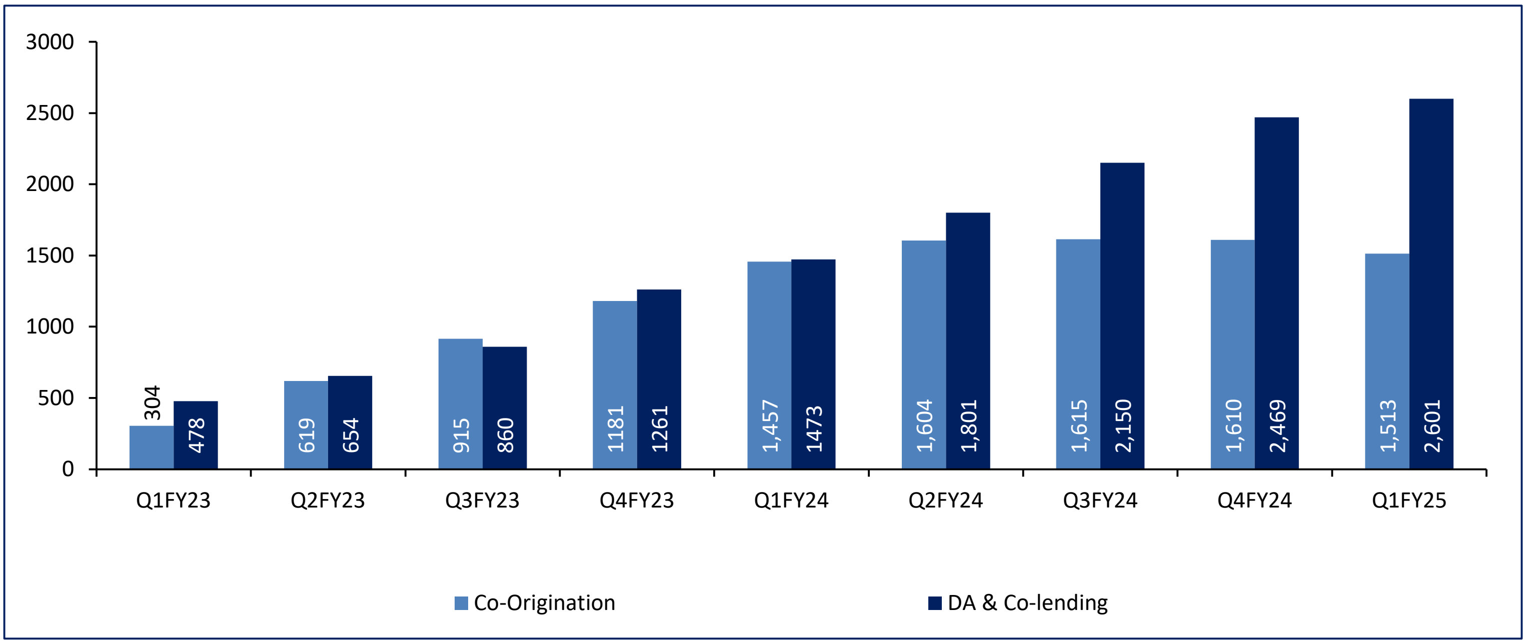
This model provides a more equitable risk distribution:

The income generated from co-origination is recognized over the life of the loan, rather than upfront, which aligns revenue recognition with cash flow and enhances the stability of earnings.

Direct Assignment (DA) Model :
Under the DA model, UGRO may sell the loan portfolio to a partner after retaining it for a minimum holding period of three to six months, depending on the loan tenure. The originator must retain 5% to 10% of the book value, depending on the tenure of the loans. This model allows UGRO to transfer the risk to the buying partner while recognizing income upfront, further boosting RoE.

UGRO's off-book AUM Mix

(In Rs Crores)



Source: Company, CEBPL

Impact on RoE and RoA

The co-lending and co-origination models are highly beneficial for UGRO Capital in terms of improving both RoE and RoA. Here's how:

1. Enhanced RoE: By leveraging the capital of PSBs and large NBFCs, UGRO Capital can generate higher returns on its equity. The capital-efficient nature of co-lending allows UGRO to expand its AUM without proportionally increasing its equity base. Additionally, by transferring 80% of the loan to the co-lending partner, UGRO can reinvest the proceeds into new loans, further enhancing its RoE.

2. Improved RoA: Since UGRO retains only 20% of the loan on its balance sheet, the assets under management (AUM) grow significantly with relatively lower capital deployment. This model allows UGRO to achieve a higher asset turnover, which directly translates into a higher RoA. Furthermore, the spread income from both co-lending and co-origination is recognized over the life of the loan, ensuring a steady income stream that boosts RoA.

3. Risk Mitigation: The sharing of risk between UGRO and its partners reduces the overall risk exposure on UGRO's balance sheet. The co-lending model, in particular, transfers a significant portion of the credit risk to the partner, while UGRO retains a manageable level of risk. This risk-sharing mechanism not only stabilizes earnings but also contributes to higher RoE and RoA by reducing the likelihood of significant loan losses.

4. Spread Income Recognition: In both co-lending and co-origination models, UGRO earns spread income, which is recognized either upfront (in the case of co-lending) or over the loan's lifecycle (in co-origination). This income boosts UGRO's profitability metrics, contributing positively to both RoE and RoA.

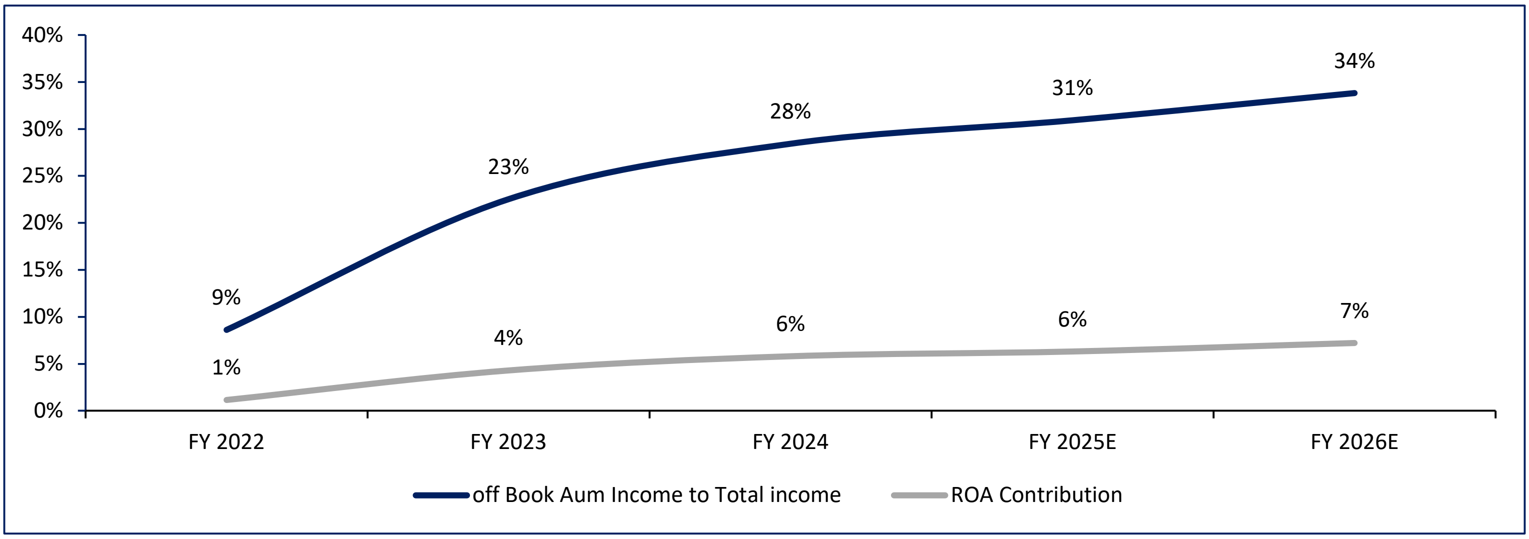
5. Flexibility in Loan Structuring: The flexibility provided by these models allows UGRO to structure loans in a way that maximizes returns while minimizing risk. For instance, in the co-origination model, the pari passu funding arrangement allows for equal risk-sharing, while in the co-lending model, the upfront recognition of spread income enhances profitability in the short term. This flexibility is crucial in maintaining a balance between growth, profitability, and risk management.

Illustration of Co-Origination

Particulars (INR Cr)	Normal Scenario	Co-Lending Model	On Book (20%)	Off Book (80%)	Total
Loan Amount	1,00,000	1,00,000	20,000	80,000	1,00,000
Equity Capital Deployed	20,000	4,000	-	4,000	
Interest Income	14,500	2,900	-	2,900	
Co-lending Spread Income	-	-	3,200	3,200	
Interest Expense	8,400	1,680	-	1,680	
Net Interest Income (NII)	6,100	1,220	3,200	4,420	
Other Income	1,500	300	1,200	1,500	
Net Total Income	7,600	1,520	4,400	5,920	
Operating Expenses	3,420	684	2,736	3,420	
Credit Cost	1,500	300	-	300	
Profit Before Tax (PBT)	2,680	536	1,664	2,200	
Tax	804	161	499	660	
Profit After Tax (PAT)	1,876	375	1,165	1,540	
Return on Assets (RoA)	1.88%	7.70%			
Return on Equity (RoE)	9.38%	38.50%			

Key Assumptions

Particulars	Ratios
Yield	14.50%
Cost of Borrowing	10.50%
Spread - On Book Lending	4.00%
Spread - Co-lending	4.00%
Fee Income	1.50%
Co-lending - On Book Share	20%
Debt-to-Equity Ratio (D/E)	4.0x
Cost to Income Ratio	45%
Credit Cost	1.50%
Tax Rate	30%



Source: Company, CEBPL

- The chart illustrates the growing contribution of off-book AUM income to UGRO's total income and its impact on the company's Return on Assets (RoA) from FY 2022 to FY 2026E. The blue line represents the share of off-book AUM income relative to total income, while the gray line indicates the contribution to RoA.
- Starting from FY 2022, where off-book AUM income had almost no contribution, there is a marked increase in its significance over the years. By FY 2023, off-book AUM income contributes 9% to total income, and this trend continues, reaching 23% in FY 2024. The contribution steadily climbs, projecting to 34% by FY 2026E. This increase signifies the growing importance of co-lending and co-origination models in UGRO's revenue generation strategy.
- Simultaneously, the RoA contribution, though modest in comparison, shows a steady rise from FY 2023 onwards. Initially at 1%, it gradually increases to 7% by FY 2026E. This indicates that as off-book AUM income becomes a larger part of UGRO's total income, it positively impacts RoA, reflecting improved capital efficiency and profitability through the co-lending and co-origination models.

Overall, the chart underscores how integrating co-lending and co-origination strategies effectively **amplifies UGRO Capital's financial performance**, ensuring robust returns through strategic partnerships and efficient asset management.

Enhanced Profitability: The Synergy of High-Yield Loans and Operating Leverage

- An NBFC's profitability is driven by a combination of strategic choices, particularly in product mix and operational efficiency. For UGRO Capital, enhancing profitability hinges on two primary levers: high-yield loans and operating leverage. As the company continues to scale, it is imperative to assess how these factors contribute to superior financial outcomes, specifically in terms of Net Interest Margin (NIM), Return on Assets (RoA), and Return on Equity (RoE). This section delves into how UGRO's strategic focus on high-yield loans, coupled with optimized operating leverage, has led to enhanced profitability, supported by key financial metrics and product portfolio data.

High-Yield Loans: A Catalyst for Profitability

Yield on Loans: Driving Interest Income

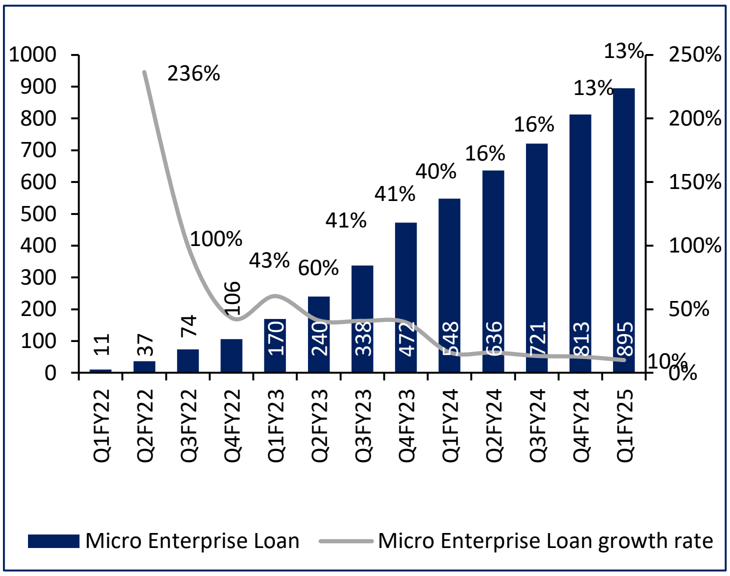
The product portfolio of UGRO Capital is diverse, catering to various segments with varying yield profiles. High-yield loans, by their very nature, offer significant potential for enhancing interest income, a crucial component of profitability. As of the latest data, UGRO's portfolio includes products like **Micro Enterprise Loans** with a yield of **21.00%** and **Business Loans** yielding **19.30%**. These products, while carrying higher risk, also contribute substantially to the company's income.

The impact of these high-yield loans is evident in the **Interest Income** component of the RoE tree, which has seen a steady increase from **6.2% in FY 2019 to 14.2% by FY 2026E**. This growth is reflective of UGRO's strategy to focus on products that offer higher returns. For instance, the **Micro Enterprise Loan** segment, despite being smaller in terms of portfolio size (AUM of 895 crs), has seen an astonishing **CAGR of 333%**, underscoring its role as a high-growth, high-yield segment.

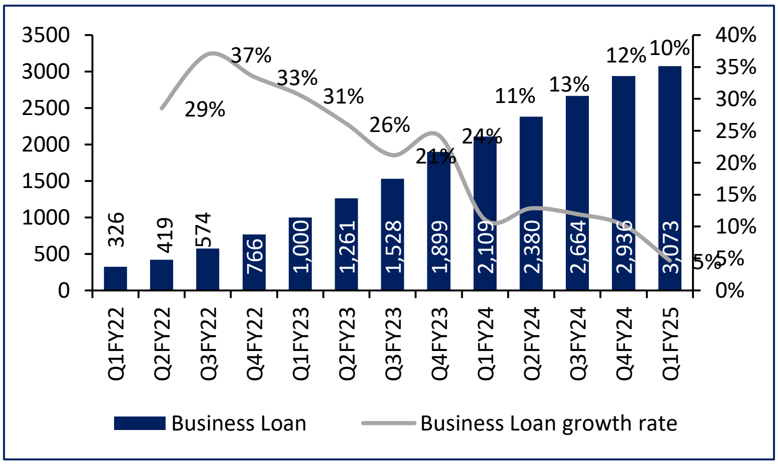
Average Yield across Different Product and Growth rates

	Yield	ATS	3years CAGR
Secured Business Loans	14.20%	68	64%
Business Loans	19.30%	17	111%
Micro Enterprise Loan	21.00%	8	333%
Supply Chain Financing	14.70%	20	34%
Machinery Loan	14.00%	36	147%
Partnerships & Alliances	14.90%	4	72%

Micro Enterprise loans: AUM 835 crs, Fastest growing product in the mix with highest yield at 21%

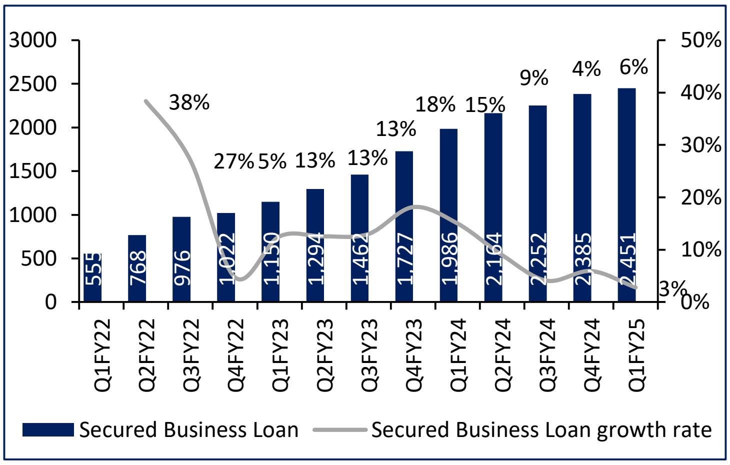


Secured Business Loan AUM 3073 Crs: largest contribution in AUM, Fastest growing after Micro Enterprise loans, Yield 19.3%



Source: Company, CEBPL

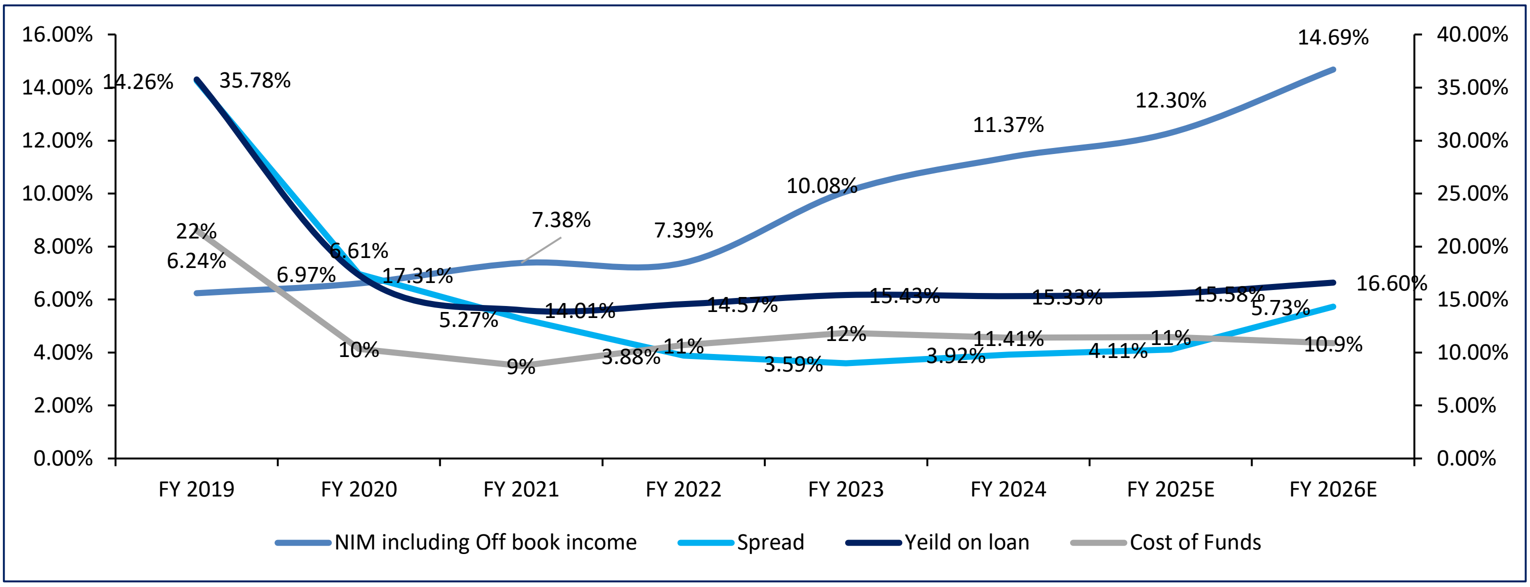
Secured Business Loan AUM 2451 Crs: Second largest contribution in AUM



Source: Company, CEBPL

Net Interest Margin (NIM): Reflecting Profitability

- The Net Interest Margin (NIM) is a key indicator of how well a financial institution manages the spread between interest income and interest expenses. UGRO's focus on high-yield loans is directly linked to its NIM performance. From a historical perspective, UGRO’s **NIM including off book AUM** has improved from **6.61% in FY 2020 to 11.37%in FY24** and is expected at **14.69% in FY 2026E**.
- This improvement in NIM is crucial for profitability, as it demonstrates the effectiveness of UGRO's strategy to lend at higher rates while controlling the cost of funds. High-yield products like the **Business Loans** and **Micro Enterprise Loans** not only boost interest income but also enhance the overall NIM, making them vital to UGRO's profitability model.



Source: Company, CEBPL

Cost of Funds and Spread Management

While high-yield loans contribute to increased interest income, managing the cost of funds is equally important. UGRO has successfully maintained a balance between the two, as evidenced by its **Cost of Funds**, which is projected to stabilize around **10.9% by FY 2026E**. The **Spread**—the difference between the yield on loans and the cost of funds—has shown resilience, projected to grow from **3.88% in FY 2022 to 5.73% by FY 2026E**.

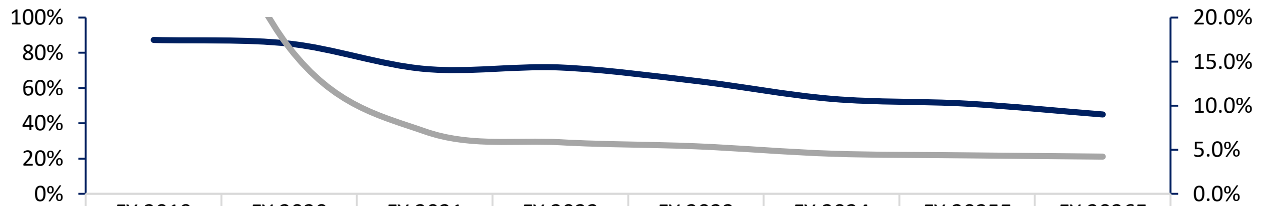
This effective spread management, particularly in high-yield segments, ensures that UGRO continues to generate healthy margins, even as it expands its loan book. The synergy between managing high yields and controlling funding costs is a cornerstone of UGRO's profitability strategy.

Operating Leverage: Maximizing Efficiency

Cost to Income Ratio: Enhancing Operational Efficiency

Operating leverage plays a critical role in enhancing profitability by ensuring that revenue growth outpaces the growth in operating expenses. UGRO has made significant strides in this area, as reflected in the **Cost to Income Ratio**, which is projected to improve from **87% in FY 2019 to 45% by FY 2026E**. This dramatic reduction underscores the company's efforts to streamline operations and leverage technology to enhance efficiency.

The company’s operating expenses, particularly **OPEX to Average AUM**, have also seen a decline, from **46.8% in FY 2019 to an expected 4.2% by FY 2026E**. This reduction is indicative of UGRO's ability to scale its operations without a proportionate increase in costs, thereby improving its operating leverage.



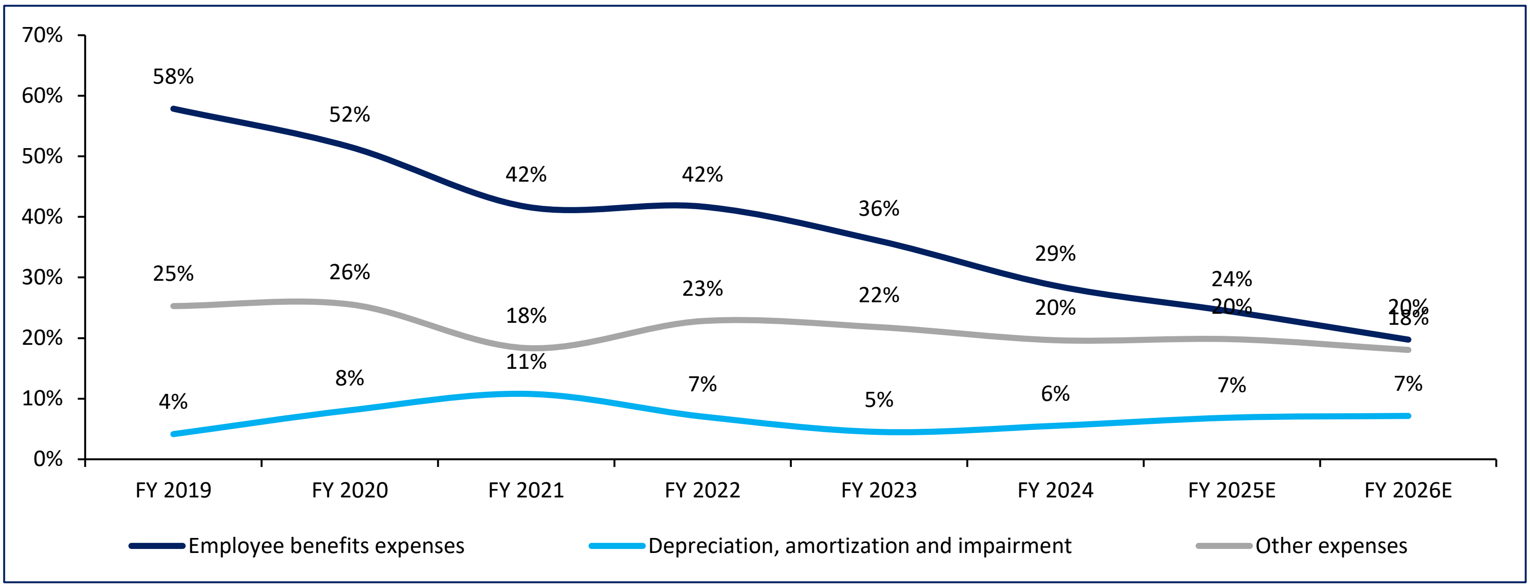
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Cost To Income Ratio	87%	85%	71%	72%	64%	54%	51%	45%
OPEX to Average AUM	46.8%	16.6%	7.1%	5.8%	5.4%	4.5%	4.4%	4.2%

Cost To Income Ratio   OPEX to Average AUM

Source: Company, CEBPL

Employee and Operating Costs: Streamlining for Profitability

- A significant component of operating leverage is managing employee and other operating costs effectively. UGRO has made concerted efforts to reduce these expenses as a percentage of total income. **Employee benefits expenses**, which were **58% of Income in FY 2019**, are expected to drop to **18% by FY 2026E**. This reduction is largely due to UGRO's strategic investments in technology and process automation, which have enabled it to scale its operations with a leaner workforce. This is also evident by increasing AUM per employee as discussed earlier.
- Other operating expenses, such as **Depreciation** and **other expenses**, have also been optimized. For instance, **Depreciation** as a percentage of total income is projected to stabilize around **7% by FY 2026E**, down from **11% in FY 2021**. These optimizations are crucial for enhancing operating leverage, allowing UGRO to improve its cost efficiency as it grows.



Source: Company, CEBPL

- **Pre-Provision Operating Profit (PPOP): Leveraging Synergy**

The synergy between high-yield loans and operating leverage is most apparent in the company's Pre-Provision Operating Profit (PPOP), a key indicator of core profitability before accounting for credit costs. UGRO's PPOP has shown consistent improvement, from **1.2% (ROA Contribution) in FY 2019 to an expected 8.4% by FY 2026E**. This growth reflects the combined impact of higher interest income from high-yield loans and improved cost efficiency.

- **Credit Cost Management: Balancing Growth with Risk**

As UGRO expands its loan book, particularly in high-yield segments, managing credit costs becomes increasingly important. Despite the inherent risks associated with high-yield lending, UGRO has maintained a disciplined approach to credit cost management. Credit costs, while rising slightly to **2.65% by FY 2026E**, remain under control, reflecting the company's robust risk management framework.

UGRO's focus on secured lending products like **Secured Business Loans** (yielding **14.20%** with a **CAGR of 64%**) and **Supply Chain Financing** (yielding **14.70%** with a **CAGR of 34%**) helps mitigate credit risk while maintaining profitability. This balance between growth and risk is essential for sustaining long-term profitability.

- **Return on Assets (RoA) and Return on Equity (RoE): Measuring Success**

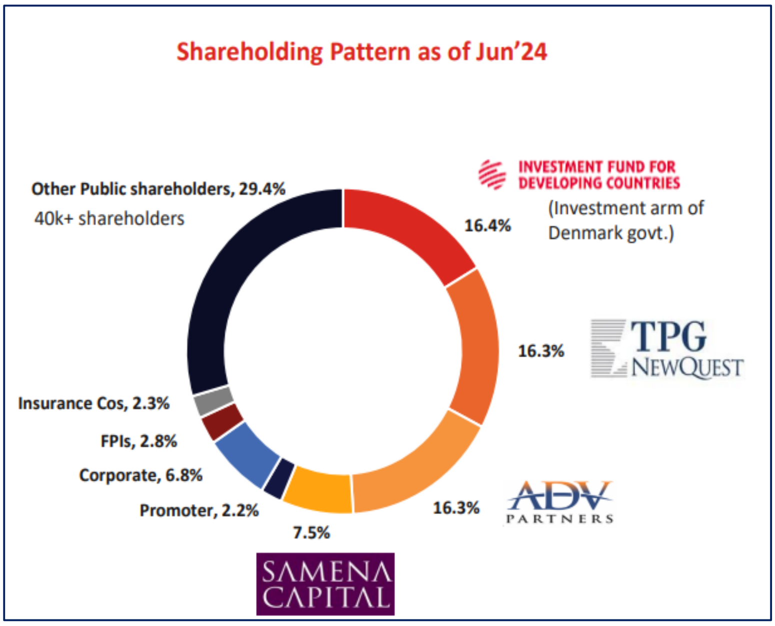
The ultimate measure of UGRO's profitability is reflected in its Return on Assets (RoA) and Return on Equity (RoE). The synergy between high-yield loans and operating leverage has led to significant improvements in these metrics. **RoA** is projected to increase from **1.7% in FY 2019 to 4.2% by FY 2026E**, while **RoE** is expected to rise from **1.7% in FY 2019 to 15.8% by FY 2026E**.

These improvements are driven by the combination of higher NIM, controlled operating expenses, and effective credit cost management. The increase in leverage, from **1.04x in FY 2019 to 3.73x by FY 2026E**, further amplifies the impact of these factors on RoE, making it a key driver of shareholder value.

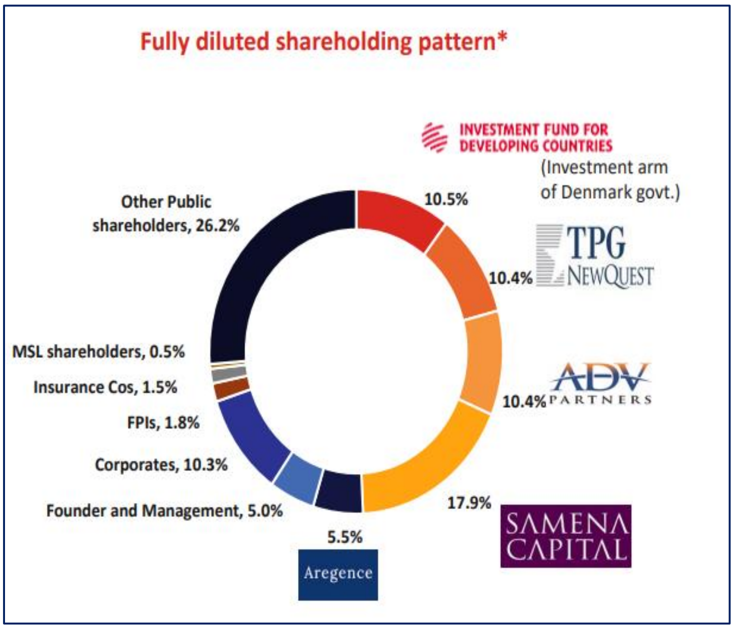
Du-Pont Analysis

Particulars	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Interest Income	6.2%	7.6%	10.0%	11.8%	13.5%	13.4%	13.4%	14.2%
Income From Colending	0.0%	0.0%	0.0%	1.2%	4.3%	5.8%	6.5%	7.3%
Fees And Commission Income	0.0%	0.1%	0.1%	0.3%	0.5%	0.6%	0.5%	0.6%
Other Income	3.4%	2.4%	0.3%	0.3%	0.8%	0.7%	0.6%	0.6%
Total Income	**9.6%**	**10.1%**	**10.3%**	**13.5%**	**19.1%**	**20.4%**	**21.0%**	**22.7%**
Interest Cost	0.2%	1.3%	3.0%	6.0%	8.2%	8.4%	8.2%	7.5%
Operating Expense	8.2%	7.5%	5.2%	5.4%	6.8%	6.5%	6.5%	6.8%
PPOP	**1.2%**	**1.3%**	**2.1%**	**2.2%**	**4.1%**	**5.6%**	**6.3%**	**8.4%**
Credit Cost	0.1%	1.0%	1.3%	1.3%	1.6%	2.2%	2.5%	2.6%
PBT	1.1%	0.3%	0.8%	0.9%	2.5%	3.4%	3.8%	5.8%
Tax	-1%	-2%	-1%	0%	1%	1%	1%	1.5%
ROA	**1.7%**	**1.9%**	**1.9%**	**0.6%**	**1.3%**	**2.3%**	**2.8%**	**4.2%**
Leverage	1.04 x	1.04 x	1.32 x	1.84 x	2.95 x	4.38 x	4.37 x	3.73 x
ROE	**1.7%**	**1.9%**	**2.6%**	**1.2%**	**3.8%**	**9.9%**	**12.1%**	**15.8%**

Shareholding Pattern



Source: Company, CEBPL



Source: Company, CEBPL

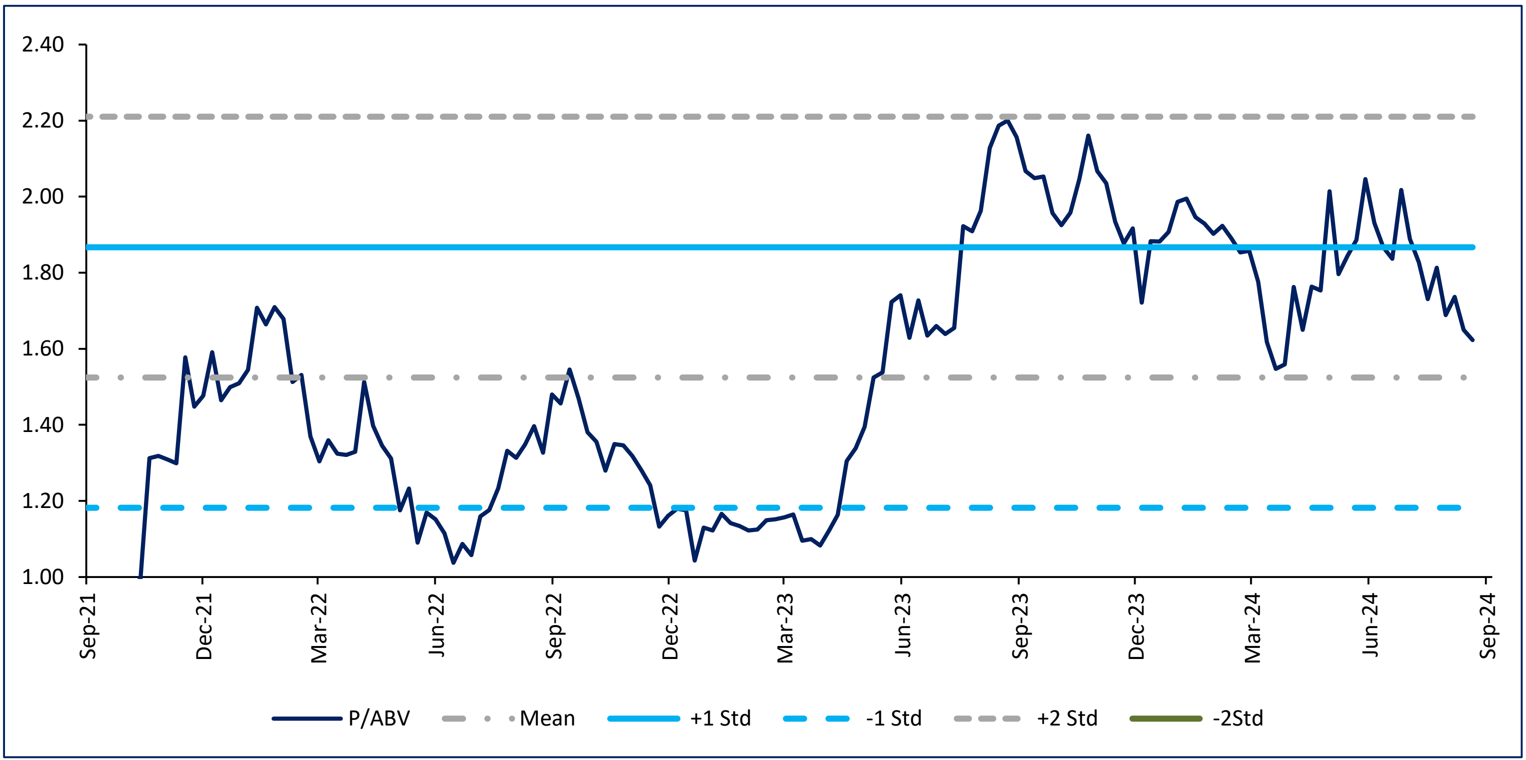
View and Valuation

- UGRO is a niche tech-based MSME-focused lender with an extensive distribution franchise. The company follows a superior underwriting framework, aided by a strong technology platform. It has delivered superior growth in its business (61.8% CAGR in AUM over FY21-FY24) while maintaining asset quality (GS3 currently at 2.0%). UGRO's unique multi-pronged distribution channels, viz., 1) traditional branch led, 2) ecosystem led, 3) partnership led, and 4) direct-to-customer models cater to MSMEs across geographies and ticket sizes. It has also partnered with over 45+ Fintechs / smaller NBFCs under co-lending / sourcing arrangements. We believe UGRO is well placed to capture the untapped growth potential in the MSME space. Increasing proportion of its off-book AUM should aid its other income and NIMs. Moreover, branch additions in new states should also support AUM growth, underpinning our robust estimate of 41% CAGR. This should translate into 55%/83% CAGR in NII/ PAT over FY24-FY26E, respectively, with RoA/RoE of ~4.2%/~15.6% by FY26E. Currently, the stock trades at **1.28x** FY26E P/BV and 1.37x FY26 P/Adjusted BV. We recommend a **OUTPERFORM** rating and target price of Rs 345, valuing UGRO at ~1.83x FY26E P/ABV.

Key Risks

- **Credit Risk:** UGRO Capital is exposed to the risk of non-repayment by borrowers. Any significant defaults could adversely impact the company's financial position and result in higher provisioning for bad debts, thereby affecting profitability.
- **Interest Rate Risk:** Changes in interest rates could affect the company's cost of funds and net interest margins. If UGRO Capital cannot pass on the increased costs to borrowers, its margins could be compressed.
- **Regulatory Risk:** As an NBFC, UGRO Capital is subject to extensive regulation by the Reserve Bank of India (RBI). Any changes in regulatory policies, including capital adequacy requirements, asset classification norms, or lending guidelines, could have a significant impact on the company's operations.
- **Risks in Co-Lending Partnerships:** UGRO Capital's co-lending arrangements with financial partners carry operational and compliance risks. Misalignment in systems, credit policies, or regulatory adherence could lead to inefficiencies, credit losses, or regulatory issues, negatively impacting the company's financial performance and reputation.

12MF P/Adjusted Book Value



Source: Company, CEBPL

UGRO Capital Ltd- Standalone Financials

Profit And Loss A/c

(In Rs Millions)

Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Interest Earned	1,481	2,721	4,829	7,079	9,719
Growth	88%	84%	77%	47%	37%
Income on Off Book AUM	0	269	1,541	3,075	4,706
Growth	N.A	N.A	472%	100%	53%
Other Income	49	126	468	648	829
Fee Based Income	13	68	195	311	398
Other Income	35	58	273	337	431
Total Income	**1,530**	**3,116**	**6,838**	**10,802**	**15,254**
Growth	73%	104%	119%	58%	41%
Interest Expended	446	1,373	2,933	4,429	5,925
NII	1,036	1,348	1,896	2,650	3,795
Growth	59%	30%	41%	40%	43%
OPEX	770	1,251	2,435	3,437	4,759
Employees Expense	453	729	1,407	1,829	2,270
Other Operating Expense	200	399	851	1,255	1,848
Depreciation And Amortization	117	123	176	353	641
PPOP	314	493	1,470	2,936	4,571
Growth	-1028%	57%	198%	100%	56%
PPOP Margin	21%	16%	22%	27%	30%
Credit Cost	196	294	568	1,163	1,810
PBT	118	198	902	1,773	2,761
Growth	-187%	68%	355%	96%	56%
PBT Margin	8%	6%	13%	16%	18%
Tax Expense	-166	56	441	594	732
Tax Rate (Annualised)	-141%	28%	49%	34%	27%
PAT	**284**	**142**	**462**	**1,179**	**2,029**
Growth	999%	-50%	225%	155%	72%
PAT Margin	19%	5%	7%	11%	13%

Source: Company, CEBPL

UGRO Capital Ltd- Standalone Financials

Profit And Loss A/c

(In Rs Millions)

Particulars	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Interest Earned	1,481	2,721	4,829	7,079	9,719	13,441
Growth	88%	84%	77%	47%	37%	38%
Income on Off Book AUM	0	269	1,541	3,075	4,706	6,882
Growth	N.A	N.A	472%	100%	53%	46%
Other Income	52	131	468	663	829	1,163
Fee Based Income	13	68	195	311	398	556
Other Income	39	63	273	352	431	607
Total Income	1,533	3,121	6,838	10,817	15,254	21,486
Growth	46%	104%	119%	58%	41%	41%
Interest Expended	446	1,373	2,933	4,429	5,925	7,090
NII	1,036	1,348	1,896	2,650	3,795	6,352
Growth	59%	30%	41%	40%	43%	67%
OPEX	770	1,253	2,499	3,437	4,759	6,466
Employees Expense	453	729	1,407	1,829	2,270	2,839
Other Operating Expense	200	400	915	1,255	1,848	2,598
Depreciation And Amortization	117	123	176	353	641	1,030
PPOP	317	496	1,406	2,950	4,571	7,930
Growth	134%	56%	184%	110%	55%	73%
PPOP Margin	21%	16%	21%	27%	30%	37%
Credit Cost	196	294	568	1,163	1,810	2,474
PBT	121	202	838	1,788	2,761	5,457
Growth	266%	66%	315%	113%	54%	98%
PBT Margin	8%	6%	12%	17%	18%	25%
Tax Expense	-166	56	441	594	732	1,446
Tax Rate (Annualised)	-137%	28%	53%	33%	27%	27%
PAT	287	146	398	1,193	2,029	4,011
Growth	47%	-49%	173%	200%	70%	98%
PAT Margin	19%	5%	6%	11%	13%	19%

Balance Sheet

(In Rs Millions)

Particulars	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Share Capital	705	706	693	916	1,381	1,449
Reserves and Surplus	8,819	8,960	9,147	13,468	20,774	27,760
Net Worth	9,524	9,666	9,840	14,384	22,155	29,209
Debt	3,156	7,044	11,443	14,300	17,443	22,527
Borrowings	4,501	10,978	20,046	32,232	40,077	51,082
Other Liabilities And Provisions	367	861	1,726	1,878	2,908	3,916
Total Equity And Liabilities	**17,548**	**28,549**	**43,056**	**62,794**	**82,583**	**1,06,733**
Cash And Bank Balances	3,160	1,884	2,118	4,543	6,905	8,826
Loans And Advances	12,827	24,511	38,064	54,322	70,474	91,435
Investments	552	694	601	592	683	935
Fixed Assets	401	616	1,211	2,313	2,872	3,738
Other Assets	607	844	1,062	1,024	1,649	1,800
Total Assets	**17,548**	**28,549**	**43,056**	**62,794**	**82,583**	**1,06,733**

Source: Company, CEBPL

UGRO Capital Ltd- Standalone Financials

Ratios

Particulars	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Return and profitability ratios (%)						
Net interest margin (NIM)	7.38	6.16	5.56	5.26	5.50	7.05
Yield on AUM	13.76	14.29	14.51	13.85	13.56	13.59
Yield on loans	14.01	14.57	15.43	15.33	15.58	16.60
Yield On Off book AUM	0.00	11.03	10.60	9.46	9.73	9.73
EPS (Diluted) (Rs)	4.09	2.10	5.71	14.15	17.67	28.34
RoA	1.93	0.63	1.11	2.25	2.79	4.24
RoE	3.07	1.52	4.08	9.85	11.11	15.62
Cost of Funds	8.74	10.69	11.85	11.41	11.47	10.87
Operating Ratios (%)						
Loan to Borrowing Ratio	285	223	190	169	176	179
Cost to Income (C/I)	70.82	71.64	63.99	53.81	51.01	44.92
Non Interest Income / Total Income	3.40	4.20	6.84	6.13	5.44	5.41
Employee expense/OPEX	58.84	58.26	57.80	53.20	47.70	43.91
OPEX to AUM	7.07	5.85	5.52	4.54	4.35	4.21
Asset Quality Ratios						
GNPA	2.33	2.26	2.46	3.09	3.88	3.99
NNPA	1.55	1.78	1.28	1.61	2.00	1.96
PCR	33.21	21.54	47.86	47.98	48.47	50.88
Per share Data						
EPS (Diluted) (Rs)	4.09	2.10	5.71	14.15	17.67	28.34
Book Value	135.04	136.99	141.95	157.04	160.41	201.58
Adjusted Book Value	132.16	130.71	134.76	147.30	149.95	188.92
Valuation Ratio (x)						
P/E	63.08	123.05	45.62	15.72	11.65	8.89
P/B	1.91	1.88	1.82	1.64	1.61	1.28
P/ABPS	1.95	1.97	1.92	1.75	1.72	1.37

Source: Company, CEBPL

Institutional Research Team			
CA Vatsal Vinchhi	Analyst - Information Technology	vatsal.vinchhi@choiceindia.com	+91 22 6707 9224
Deepika Murarka	Analyst - Pharmaceuticals	deepika.murarka@choiceindia.com	+91 22 6707 9513
Ashutosh Murarka	Associate – Cement / Building Material	ashutosh.murarka@choiceindia.com	+91 22 6707 9442
Putta Ravi Kumar	Associate - Goods & Defence	ravi.putta@choiceindia.com	+91 22 6707 9908
Aayush saboo	Associate – Real Estate	aayush.saboo@choiceindia.com	+91 22 6707 9811
Maitri Sheth	Associate – Pharmaceuticals	maitri.sheth@choiceindia.com	+91 22 6707 9811
Bharat Kumar Kudikyala	Associate – Cement / Building Material	bharat.kudikyala@choiceindia.com	+91 22 6707 9798
Heet Chheda	Associate – Automobile	heet.chheda@choiceindia.com	+91 22 6707 9422
Rushil Katiyar	Associate - Information Technology	Rushil.katiyar@choiceindia.com	+91 22 6707 9811
CA Sheetal Murarka	Vice President - Institutional Sales	sheetal.murarka@choiceindia.com	+91 22 6707 9857
Nitesh Jalan	AVP – Institutional Sales	nitesh.jalan@choiceindia.com	+91 22 6707 9877 /878 /879

CHOICE RATING DISTRIBUTION & METHODOLOGY

OUTPERFORM	The security is expected to generate more than 25% returns over the next 12 months
BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

Disclaimer

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Choice Equity Broking Private Limited-Research Analyst - INH000000222. (CIN. NO.: U65999MH2010PTC198714). Reg. Add.: Sunil Patodia Tower, J B Nagar, Andheri(East), Mumbai 400099. Tel. No. 022-6707 9999

Compliance Officer--Prashant Salian, Email Id – Prashant.salain@choiceindia.com Contact no. 022- 67079999- Ext-2310

Grievance officer-Deepika Singhvi Tel.022-67079999- Ext-834. Email- ig@choiceindia.com

Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors

This Research Report (hereinafter referred as "Report") has been prepared by Choice Equity Broking Private Limited as a Research Entity (hereinafter referred as "CEBPL RE" Limited. The Research Analysts, strategists are principally responsible for the preparation of "CEBPL RE" research. The research analysts have received compensation based upon various factors, which may include quality of research, investor client feedback, stock picking, competitive factors and firm revenues etc.

Whilst CEBPL has taken all reasonable steps to ensure that this information is correct, CEBPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and CEBPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily an indication of future performance.

General Disclaimer: This 'Report' is strictly meant for use by the recipient and is not for circulation. This Report does not take into account particular investment objectives, financial
situations or specific needs of individual clients nor does it constitute a personal recommendation. The recommendations, if any, made herein are expression of views and/or opinions and
should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through CEBPL nor any solicitation or offering of any investment / trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this "Report" should rely on information/data arising out of their own Study/investigations. It is advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This 'Report' has been prepared on the basis of publicly available information, internally developed data and other sources believed by CEBPL to be reliable. CEBPL or its directors, employees, affiliates or representatives shall not be responsible for, or warrant for the accuracy, completeness, adequacy and reliability of such information / opinions / views. Though due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of CEBPL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

The price and value of the investments referred to in this Report and the income from them may tend to go down as well as up, and investors may incur losses on any investments. Yester performance shall not be a guide for future performance. CEBPL does not provide tax advice to its clients, and all investors are strongly advised to take advice of their tax advisers regarding taxation aspects of any potential investment. Opinions are based on the current scenario as of the date appearing on this 'Report' only. CEBPL does not undertake to
advise you as to any change of our views expressed in this "Report" may differ on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold CEBPL, its employees and associates responsible for any losses, damages of any type whatsoever.

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject “CEBPL RE” to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by “CEBPL RE” in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this ‘Report’ shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. “CEBPL” requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to “CEBPL”. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in Mumbai (India).
Statements on ownership and material conflicts of interest, compensation - CEBPL and Associates reciprocates to the best of the knowledge and belief of CEBPL/ its Associates/ research Analyst who is preparing this report.

Disclosures of Interest (Additional):
1. “CEBPL”, its research Analyst(s), or its associates or relatives of the Research Analyst does not have any financial interest in the company(ies) covered in this report.
2. “CEBPL” its research Analyst, or its associates or relatives of the research analyst
3. affiliates collectively do not hold more than 1 of the securities of the company(ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
4. “CEBPL”, its research analyst, his/her associate, his/her relative, do not have any other material conflict of interest at the time of publication of this research report.
5. “CEBPL”, its research analyst, and its associates have not received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in this report, in the past twelve months.
6. “CEBPL”, its research analyst, or its associates have not managed or co-managed in the previous twelve months, a private or public offering of securities for the company (ies) covered in
this report.
7. “CEBPL, or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party, in connection with the research report.
8. CEBPL research analyst has not served as an Officer, Director, or employee of the company (ies) covered in the Research report.
9. “CEBPL”, its research analyst has not been engaged in market making activity for the company(ies) covered in the Research report.

Details of Associates of CEBPL and Brief History of Disciplinary action by regulatory authorities are available on our website i.e. www. https://choiceindia.com/research-listing

The details of CEBPL, its research analyst and its associates pertaining to the companies covered in the Research report are given below

Sr. No.	Particulars	Yes / No
1.	Whether compensation has been received from the company(ies) covered in the Research report in the past 12 months for investment banking transaction by CEBPL	No
2	Whether Research Analyst, CEBPL or its associates or relatives of the Research Analyst affiliates collectively hold more than 1 of the company(ies) covered in the Research report	No
3.	Whether compensation has been received by CEBPL or its associates from the company(ies) covered in the Research report	No
4.	CEBPL or its affiliates have managed or co-managed in the previous twelve months a private or public offering of securities for the company(ies) covered in the Research report	No
5.	CEBPL, its research analyst, his associate, or its associates have received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in the Research report, in the last twelve months	No

This “Report” is for distribution only under such circumstances as may be permitted by applicable law. This “Report” has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This “Report” is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither CEBPL nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this “report” or lack of care in this report’s preparation or publication, or any losses or damages which may arise from the use of this research report.
Information barriers may be relied upon by CEBPL, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of CEBPL.
Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.
Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by CEBPL with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.
No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior written consent of CEBPL and CEBPL accepts no liability whatsoever for the actions of third parties in this respect.
The details of CEBPL, its research analyst and its associates pertaining to the companies covered in the Research report are given below

ARSHAY AGARWAL Digitally signed by ARSHAY AGARWAL Date: 2024.09.21 14:58:22 +05'30'