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The rise of an MSME specialist lender

UGRO CAPITAL

BUY UGRO Capital

The rise of an MSME specialist lender

BFSI - NBFCs ▸ Initiating Coverage ▸ **October 23, 2023**

TARGET PRICE (Rs) : 425

We initiate coverage on UGRO Capital with a BUY recommendation and target price of Rs425/share (implied FY25E P/BV: 2.1x), offering 47% upside. UGRO's relative obscurity is mainly due to its private equity business model—tech-enabled, talent-intensive and frontloaded cost structure—designed to support scale while minimizing risk. Our conviction about UGRO's strategy rests on 3 pillars: i) MSME-focused lending with large TAM. ii) Business model optimized for sectors, with stress on data homogeneity and underwriting tech models for six sigma events like GST/pandemic. iii) Its unique asset underwriting skills that can be symbiotically exploited to co-lend/co-originate with PSBs/others, which otherwise incur high credit cost on priority lending. UGRO would grow AUM by 3x to ~Rs194bn by FY26E and log 54% EPS CAGR over FY24-26E. With scale, the UGRO stock is set to pole-vault to a core portfolio holding, given its distinctive business model that has a long growth runway.

UGRO Capital: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profits	146	398	1,319	2,683	3,671
AUM growths (%)	125.4	104.8	55.1	50.7	36.8
NII growths (%)	30.2	40.7	85.4	47.6	33.7
NIMs (%)	9.2	12.5	13.6	14.9	14.2
PPOP growth (%)	56.2	183.6	104.7	71.4	34.8
Adj. EPS (Rs)	2.1	5.7	14.4	24.9	34.0
Adj. EPS growth (%)	(49.4)	176.2	153.8	72.3	36.8
Adj. BV (INR)	137.0	142.0	181.4	206.3	240.3
Adj. BVPS growth (%)	1.4	3.6	27.8	13.7	16.5
RoA (%)	0.6	1.1	2.6	4.0	4.0
RoE (%)	1.5	4.1	9.4	12.8	15.2
P/E (x)	140.0	50.7	20.0	11.6	8.5
P/ABV (x)	2.1	2.0	1.6	1.4	1.2

Source: Company, Emkay Research

Business model aligned around evolving eco-system and scale: In our view, UGRO is more tech-loaded than most fintechs. Within MSMEs, UGRO has segregated a few sectors (and within that, tech-based sectors) to homogenize data that can support scale underwriting with low risk. Geographical & product diversity, board structure and even the AoA mandate hard-coding risk aversion and aligning Management incentives with minority shareholders. The underwriting tech model has been stress-tested for severe macro-economic dislocations. Notably, this model simply capitalizes on favorable eco-systems of digitalization and regulatory frame-work – hitherto absent. The model's validity and light human intervention consistently reflect in: i) delinquencies confirming the expected co-relation with GRO Scores across buckets; and ii) delinquencies in the rejected portfolio being persistently higher than in those (i.e. customers) on-boarded.

Co-lending with business partners mutually beneficial; offers a big opportunity: Co-lending/co-origination or off-balance sheet (BS) book are clearly capital-efficient for UGRO — especially for the high-rated secured prime book. This though tucks in very well even with PSU banks/smaller private banks, which run persistently higher delinquencies on their priority book. For AAA NBFCs, which can get explicit FLGD guarantees, co-origination is a secure way of diversifying growth profitably.

Strong AUM growth-led operating leverage to power 5.8ppts expansion in RoE and 54% EPS CAGR over FY24-26E

UGRO's approach of growing with a mix of on-book & off-book (Co-lending/Co-origination) allows it to compete in various yield spectrums in its target sector by offering medium-yield loans under off-book arrangements and high-yielding segments on its own book. With its large data, technology and credit team in place, the company will grow its total AUM by ~3x over FY23-26E to ~Rs194bn, achieving its targeted 50:50 on-book:off-book mix. This strong AUM growth will drive down the cost-to-income and cost-to-total AUM to 44% and 3.2% by FY26E from 63% and 5.4% in FY23, respectively. This will drive RoE expansion of 5.8ppts to 15.2% and EPS CAGR of 54% over FY24-26E.

We initiate coverage on UGRO with a BUY and Sep-24E TP of Rs425/sh

We initiate coverage on UGRO Capital with a BUY recommendation and Sep-24E target price of Rs425/share, implying FY25E P/B of 2.1x. We build-in equity raise of Rs5bn in FY24E, to enable stronger loan-book growth along with maintaining low leverage, for lenders' satisfaction.

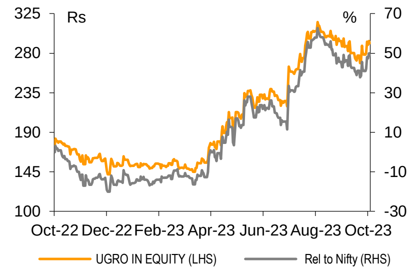
Target Price – 12M	Sep-24
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	47.4
CMP (20-Oct-23) (Rs)	288.4

Stock Data	**Ticker**
52-week High (Rs)	320
52-week Low (Rs)	131
Shares outstanding (mn)	92.5
Market-cap (Rs bn)	27
Market-cap (USD mn)	321
Net-debt, FY24E (Rs mn)	560
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	148.9
ADTV-3M (USD mn)	1.8
Free float (%)	-
Nifty-50	19,543
INR/USD	83.1
Shareholding, Jun-23	
Promoters (%)	2.2
FPIs/MFs (%)	22.0/5.5

Price Performance

(%)	1M	3M	12M
Absolute	(2.8)	10.8	65.5
Rel. to Nifty	(1.0)	13.2	48.8

1-Year share price trend (Rs)



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Investment Thesis

We initiate coverage on UGRO Capital with a BUY recommendation and target price of Rs425/share (implied FY25E P/BV: 2.1x), offering 47% upside. Our conviction about UGRO's business model and investment thesis is underpinned by three key factors that reinforce each other geometrically, thus solidifying the MOAT.

- **Right Approach at the Right Time:** In our view, UGRO is more tech-loaded than most fintechs. Within MSMEs, UGRO has super-focused on sectors/sub-sectors, and within that on tech, to homogenize data that can support scale underwriting with minimum risk and less human intervention. Further, geographical and product diversity, board structure and even the AoA mandate have hard-coded risk aversion. This model simply capitalizes on enabling eco-systems (GST, CIBIL, Banking data, AA access, E KYC), while the tech models are now stress-tested for severe dislocations like demonetization, GST implementation and the pandemic – i.e. at the right time. Finally, regulatory support for financial inclusion and the massive credit gap within MSME are massive tailwinds – i.e. in the right place.

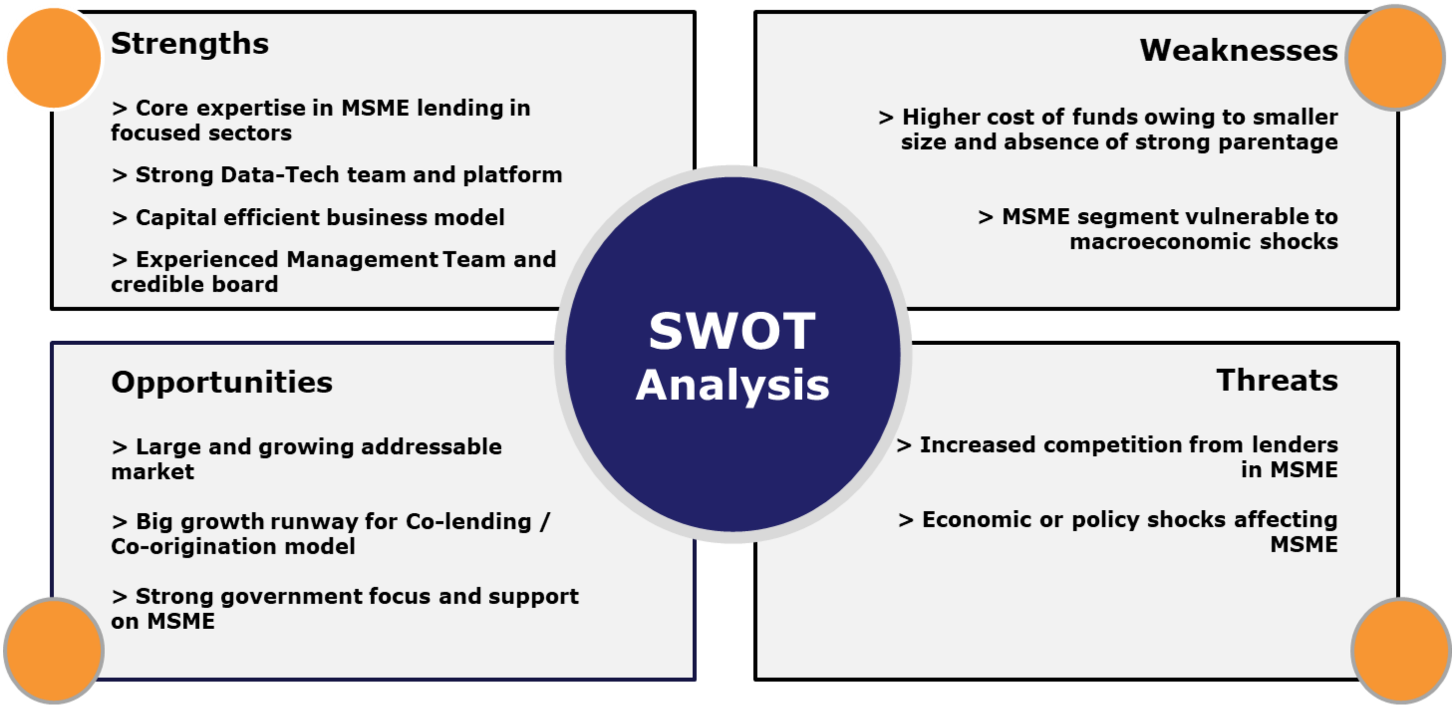
- **Enough system and processes in place that give comfort on asset quality:** UGRO's AUM growth looks optically high and needs to be adjusted for a small base and a fairly small pie of the total addressable market (TAM). Secondly, the kick off in growth FY21 onwards comes after a period of hibernation since FY18, during which focus was on building the team and process, and perfecting the tech model. High growth is thus an outcome of skilled underwriting and not the lack of it. UGRO's target segment (MSME) is at the heart of its business model and, hence, focuses equally on disbursements and collections, data-tech driven underwriting and Early Warning Systems (EWS) capably supported by physical due diligence and collection efforts. This holistic approach is underscored by the fact that delinquencies in the rejected portfolio are higher than in the sanctioned one, and in both categories, delinquencies show good correlation with the GRO Score.

- **Co-lending, a mutually beneficial business model for the originator NBFC and the co-lender bank:** Co-lending and Co-origination as a business model, while evidently capital-efficient for UGRO, is equally attractive for banks. We dwell on long-term credit experience of the cohort of banks in SME financing and argue that partnering will be a more profitable outcome for such priority lending, especially for public sector banks and smaller private banks.

- **Operating leverage on the back of superior AUM growth, coupled with stable credit cost, to drive 54% EPS CAGR over FY24-26E:** UGRO's business model has been built around scale and, as the AUM growth momentum endures on the back of increasing productivity of the existing ~100 branches, addition of ~100 micro branches over the next 2 years and acceleration in the pace of Co-Lending/Co-origination disbursements will result in 47% total AUM CAGR over FY23-26E to Rs194bn. This will lead to cost-to-income enhancing to 44% in FY26E from 63% in FY23. A stable credit cost of ~2% of on-BS AUM along with sharply falling operating cost will drive the RoA improvement to 4% by FY26E from 1.1% in FY23. This will result in EPS CAGR of 54% over FY24-26E.

- **We initiate coverage on UGRO Capital with a BUY recommendation, with Sep-24E TP of Rs425/share (FY25E P/B: 2.1x):** On the back of the structural story in MSME lending and the compelling argument for UGRO's potential success in this space, we initiate coverage on UGRO Capital with a BUY and Sep-24E target price of Rs425/share (FY25E P/B: 2.1x), implying an upside of 47%. The unrelenting successful execution of UGRO's strategy and its sustained earning momentum, coupled with gradual re-rating, should drive strong returns in UGRO shares.

Exhibit 1: SWOT analysis



Source: Company, Emkay Research

Exhibit 2: UGRO's valuation metrics appear attractive versus peers

Companies	CMP (Rs)	Rating	TP (Rs)	Mkt Cap (Rs bn)	P/BV(x)		P/E(x)		RoE (%)		FY24-26E CAGR (%)	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	BVPS	EPS
UGRO Capital	288	BUY	425	26.7	1.6x	1.4x	20.0x	11.6x	9.4	12.8	15.1	53.5
Five-Star Business Finance	755	NR	NA	220.5	4.3x	3.6x	28.5x	22.1x	16.3	17.9	NA	29.3
IIFL Finance	643	NR	NA	244.9	2.3x	1.9x	12.4x	9.5x	19.6	21.8	NA	NA
Capri Global Capital	755	NR	NA	155.6	4.0x	3.6x	44.9x	34.3x	9.3	11.1	NA	NA
Mas Financial Services	919	NR	NA	50.2	3.0x	2.5x	19.5x	15.1x	16.0	17.8	NA	20.3

Source: Bloomberg, Emkay Research; Note: Emkay estimates for UGRO; For 'Not Rated' (NR) companies, estimates are Bloomberg Consensus as on 20-Oct-2023

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What makes UGRO Capital an attractive investment idea?

Our conviction about UGRO Capital's smart strategy is underscored by three key factors: 1) UGRO is using the right approach (sectoral focus within the MSME space, data-tech driven Phygital approach well-diversified geographically and product-wise, and channel-wise sourcing) for capitalizing on being in the right place (presence in the structurally high-growth MSME lending sector) at the right time (with major disruptive events having formalized the sector). 2) UGRO has seen swift growth within a short time-span. We believe the company has a long growth runway, with investors bound to draw comfort from i) the company's teams & processes that have been designed for scale as well as ii) the high growth—though on a smaller base—being only a small share of the MSME lending pie at the absolute level. Also, various related metrics suggest that asset quality continues to hold up well. 3) Co-lending/Co-origination is a mutually-beneficial business model and banks benefit from lending in this priority sector with a relatively better credit experience. Against such a backdrop, we estimate UGRO's AUM CAGR at 47% over FY23-26E which will help to reach Rs 194bn AUM with the targeted 50:50 on-book:off-book mix. The strong AUM growth will lead to cost-to-income improving to 44% in FY26E from 63% in FY23, driving up RoA to 4% from 1.1% over the same period. We initiate coverage on UGRO Capital with a BUY recommendation and Sep-24E target price of Rs425/share (FY25E P/B: 2.1x), implying a 47% upside.

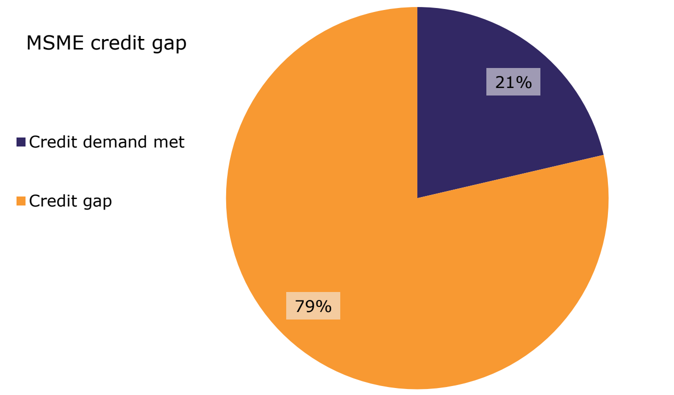
Right approach to capitalize on being in the right place at the right time

MSME lending has witnessed a choppy past due to largely being part of the informal economy, with heterogeneity of the different MSME sectors not making it any easier. However, the stars seem to be aligned for MSME lending. The large credit gap in the sector, the GoI's and regulator's thrust to ensure credit availability for the sector, and the disruptive formalization & digitalization in the sector post recent years seeing disruptions—such as demonetization, GST implementation and Covid-19—mean that the time is ripe for long-distance runners to sprint towards this extended growth opportunity. UGRO is using the right approach to capitalize on this by focusing on a few sectors within MSME, followed by a Phygital approach to reach and source customers, and thereafter applying the data-tech driven underwriting and collection methodology to gain scale. To top this, UGRO's collaborative approach with larger financial institutions via Co-lending and Co-origination allows it to grow as per its underwriting and collection capabilities, without being constrained by its relatively-lower fundraising ability.

Structural growth opportunity in MSME lending amid huge credit gap and policy thrust

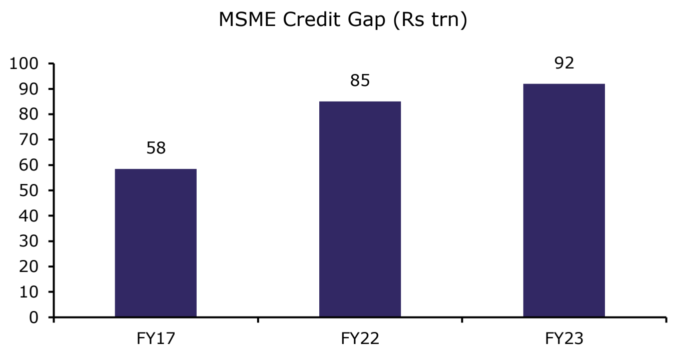
The vast credit gap in the MSME sector (estimated at Rs92trn as of FY23) along with policy thrust to narrow this gap provides a long growth runway for MSME lenders. About 65mn MSME units in India employ over 110mn people and contribute to ~30% of India's GDP. Despite their critical role in driving the economic engine of the country, MSMEs have lacked access to formal credit owing to a host of factors, including dearth of formalization in the sector leading to limited data availability for assessment and underwriting of credit. To address the need for formal credit availability, the GoI, RBI and other government agencies have been working on bringing-in policy-level initiatives for improving credit availability to the MSME sector.

Exhibit 3: The MSME credit gap remains significantly high at 79%



Source: Company, CRISIL, Emkay Research

Exhibit 4: MSME credit gap is estimated to widen to ~Rs92trillion during FY23



Source: Company, CRISIL, Emkay Research

Exhibit 5: Revised classification of enterprises, based on Investment and Annual Turnover criteria

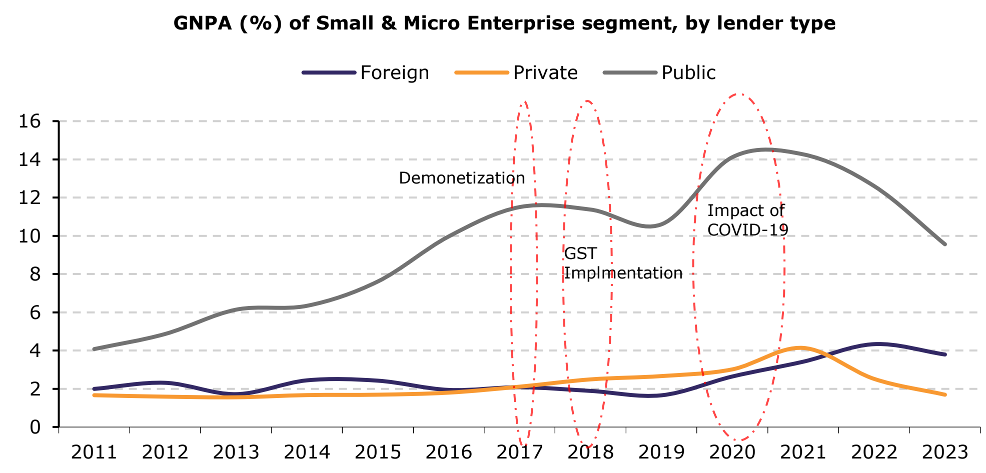
Old MSME classification			
	Investment in Plant and Machinery or Equipment		
Classification	**Micro**	**Small**	**Medium**
Manufacturing Enterprises	Investments <Rs2.5mn	Investments <Rs5mn	Investments <Rs100mn
Services Enterprises	Investments <Rs1mn	Investments <Rs20mn	Investments <Rs50mn
Revised MSME classification			
	Composite criteria on Investment and Annual Turnover		
Classification	**Micro**	**Small**	**Medium**
Manufacturing and Servicing Enterprises	Investments <Rs10mn & Turnover <Rs50mn	Investments <Rs100mn & Turnover <Rs500mn	Investments <Rs500mn & Turnover <Rs2.5bn

Source: Ministry of MSME, Emkay Research

With major disruptive events behind and the Data-tech ecosystem evolving rapidly, the time is ripe for riding the MSME lending growth wave

Over the last decade, MSME businesses were tested on multiple occasions by the external shocks, including 'once in a century' pandemic (Covid-19). Disruptive policy changes, such as demonetization and GST implementation, impacted the sector's ongoing business models and practices. However, once such new practices were adopted by the MSME sector, its formalization saw rapid progress. Post demonetization and GST implementation, data availability for MSME businesses (qualifying for the GST ambit) in the form of a rich, quality bank statement and sell/purchase trail in GST statements made assessments of business income much more transparent and easy. The exceptional Covid-19 incident shook the economy, especially the MSME sector, which saw extreme adversity. However, Covid-19 challenges also radically increased the digitalization in the MSME sector and brought promotion and support to the heart of government policy-making for the sector. Overall, the businesses that successfully transitioned through the policy shocks (demonetization and GST implementation) and survived Covid-19 proved their business case and longevity. Overall, it appears to be the perfect time for building an MSME-focused lending at scale, powered by the trinity of 'Bank Statement-Credit Bureau report-GST Statement' in the era post the extreme policy and the disruptions (demonetization, GST implementation and Covid-19).

Exhibit 6: Delinquency data of the micro & small enterprise (MSE) segment during the three major shock-inducing events



Source: RBI, Emkay Research

Exhibit 7: Impact of economic shocks on the MSME sector

2016 Demonetization

- The MSME sector, used to dealing in cash with workers, vendors and customers, struggled to utilize their capacity, bringing their going concern into question.
- Many MSMEs operate in the informal sector and might not have kept records that satisfied financial institutions' lending criteria. These businesses faced challenges in accessing formal credit.

2017 Introduction of GST

- The advent of GST resulted in increased compliance costs and an added compliance burden for small businesses.
- Further, the reduced tax arbitrage for MSMEs given the introduction of GST resulted in increased competitve pressure.
- The MSMEs faced working capital challanges, as GST required them to pay tax upfront while waiting for ITC to be realized.

2018-19 NBFC crisis (ILFS and DHFL)

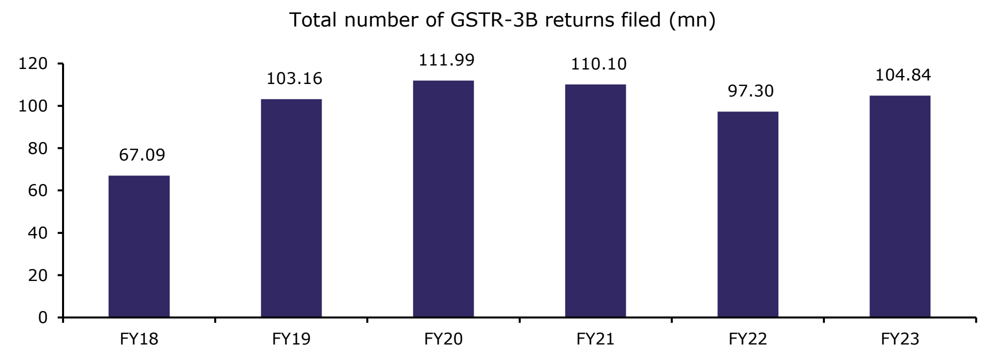
- The IL&FS crisis caused severe liquidity crisis among NBFCs, resulting in reduced access to credit among MSMEs.
- The crisis caused an increase in interest rates resulting in increased financing cost for MSMEs.
- Overall, the crisis resulted in slowdown in business activity and delayed payments across MSMEs.

2020-22 Covid-19 Pandemic

- The lockdowns and restrictions on movement led to significant decline in economic activity, significantly affectiing MSMEs.
- MSMEs faced cashflow challenges, as they struggled to cover the fixed costs, including salaries and rent.
- Given the increased risk and uncertainity, lenders tightened their underwtiting criteria which resulted in reduced access to credit for MSMEs.

Source: Emkay Research

Exhibit 8: The total number of GSTR-3B returns filed have increased over FY18-23

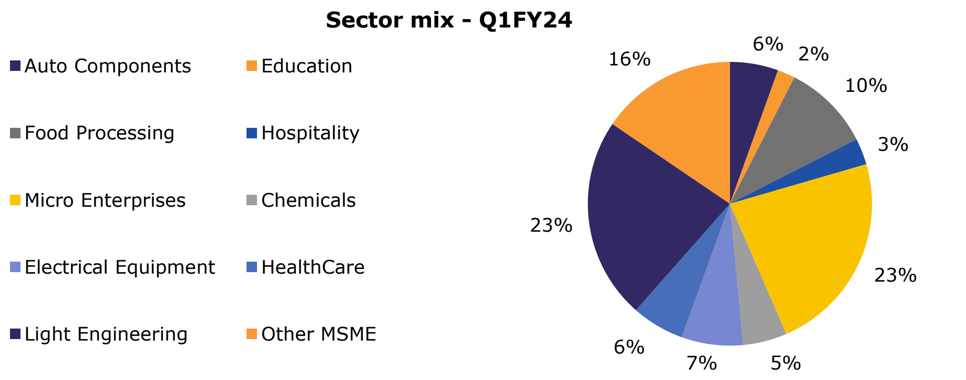


Source: GST Portal, Emkay Research

UGRO capitalizing on the huge MSME lending opportunity the right way

Focused approach towards 8-9 MSME sub-segments: The GoI and regulators define 'MSME' based on investments in plant & machinery and turnover. But from the lending perspective, these similar-size businesses entail considerably different behavior; hence, a focused approach is needed. Against this backdrop, UGRO has identified 8 sectors out of the 180 based on a host of filtering criteria, such as being less prone to government policy changes and lower dependence on exports. The micro segment is sector-agnostic, as at such scale, geographical clustering is more important versus sectoral factors.

Exhibit 9: UGRO's target sector and credit exposure, as of Q1FY24

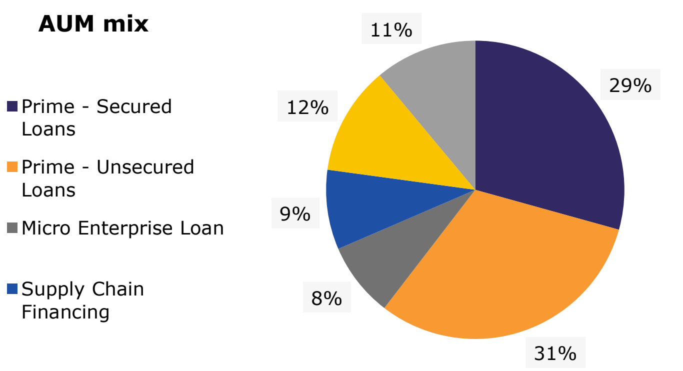


Source: Company, Emkay Research

Focus on the underserved, not on the unserved: UGRO's business model is drawn around meeting credit needs of the underserved, albeit also avoiding the unserved or the new-to-credit (NTC) customers. Here NTC means that both, the MSME business and its promoter/proprietor, do not have any credit bureau footprint. The main purpose here is to avoid taking the risk with an untested promoter for a business loan, which is generally of a higher ticket size than personal or consumer loans.

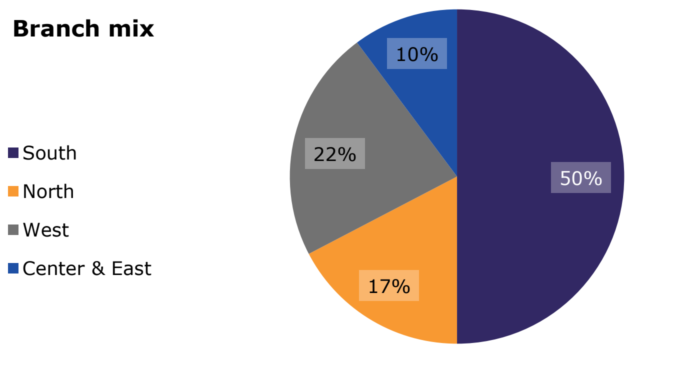
Huge amount of diversification: Notwithstanding its 'MSME only' and focused sub-segment approach, UGRO has built its vast business model diversification, including geographical mix, product mix, sourcing mix and liabilities mix. Such diversification provides considerable protection against volatility in the business model caused by any issue pertaining to a specific geography, product, sourcing channel or funding source.

Exhibit 10: UGRO has maintained a diverse product mix for the diverged MSME businesses



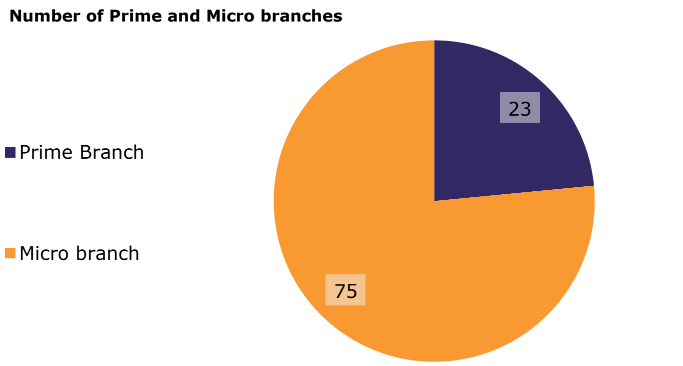
Source: Company, Emkay Research

Exhibit 11: UGRO has a widespread branch presence across India, with dominance in the South



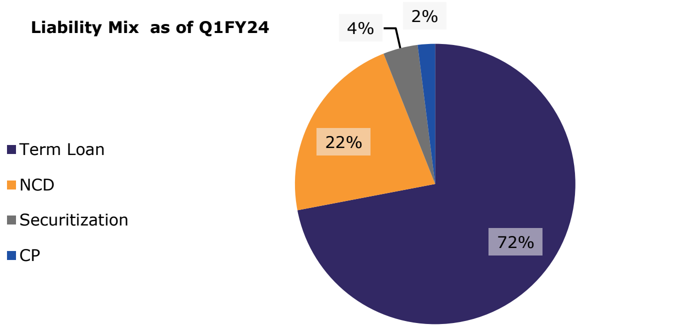
Source: Company, Emkay Research

Exhibit 12: UGRO's prime branches are present in all major cities across India, while micro branches are mainly spread in 5 states



Source: Company, Emkay Research

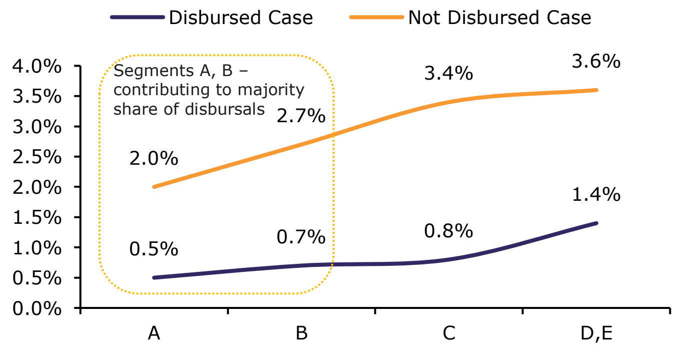
Exhibit 13: Multiple sources of funding available for uninterrupted growth



Source: Company, Emkay Research

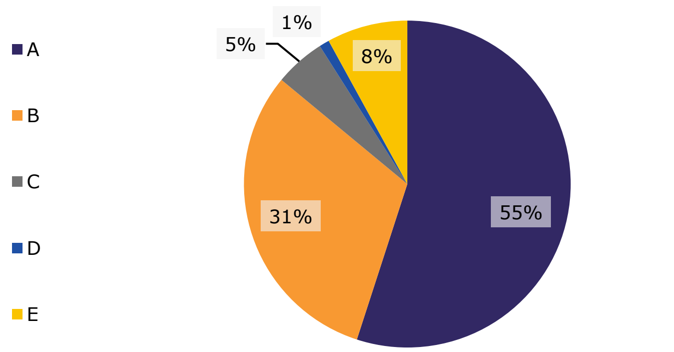
Powered by the data-tech led approach and yet growing the Phygital way is the key characteristic of UGRO's playbook. To build MSME lending at scale, Company first materially invested in building its central team of technology, data, risk and underwriting, even before its AUM or disbursement gained size. This capacity-building-first approach led to higher costs, but also prepared it well for up-scaling and will eventually lend a high degree of operating leverage. Data-tech focus solves the twin problem of risk selection or identification and gives a quicker turnaround. However, physical presence is ultimately the key to becoming the leader in MSME segments due to the on-ground checks while processing a loan application and prompt action on the 'early warning signals', in case of outstanding loans.

Exhibit 14: Analytical default rate using GRO Score across customers since inception



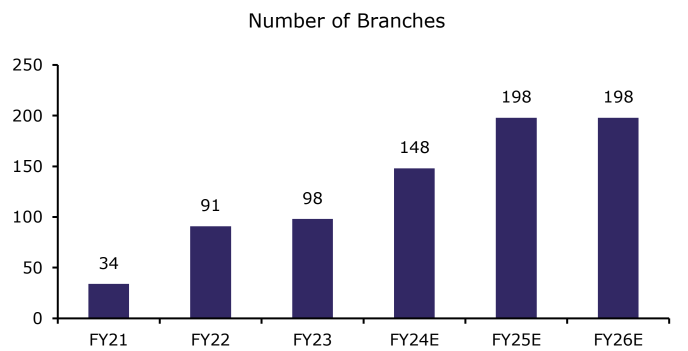
Source: Company, Emkay Research

Exhibit 15: Score bands A & B contribute to ~86% of the total disbursements (Jul '22-Dec '22)



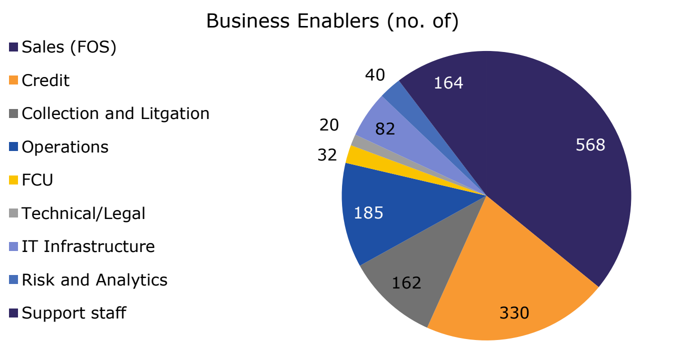
Source: Company, Emkay Research

Exhibit 16: UGRO plans to expand and increase it branch presence



Source: Company, Emkay Research

Exhibit 17: Dedicated team of 40 employees for data analytics

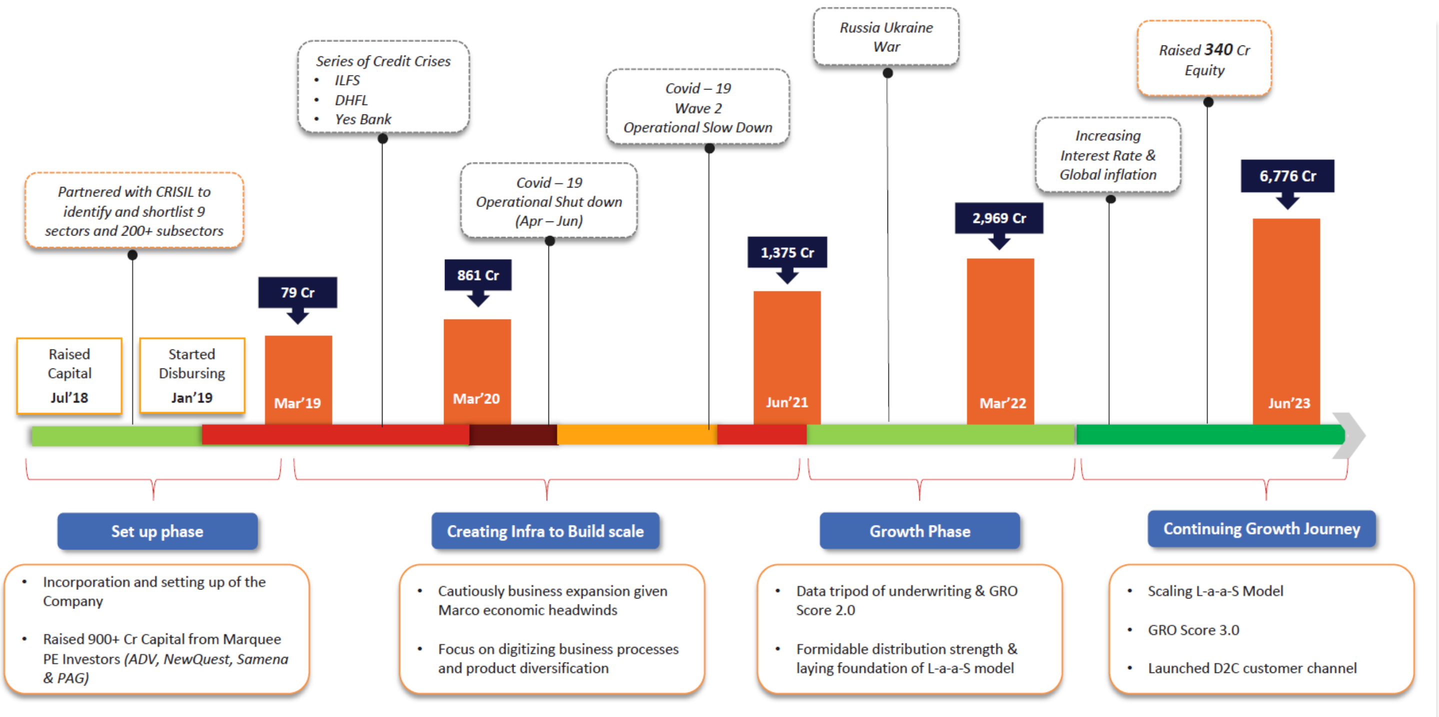


Source: Company, Emkay Research

Business model designed for scale; asset quality focus paramount

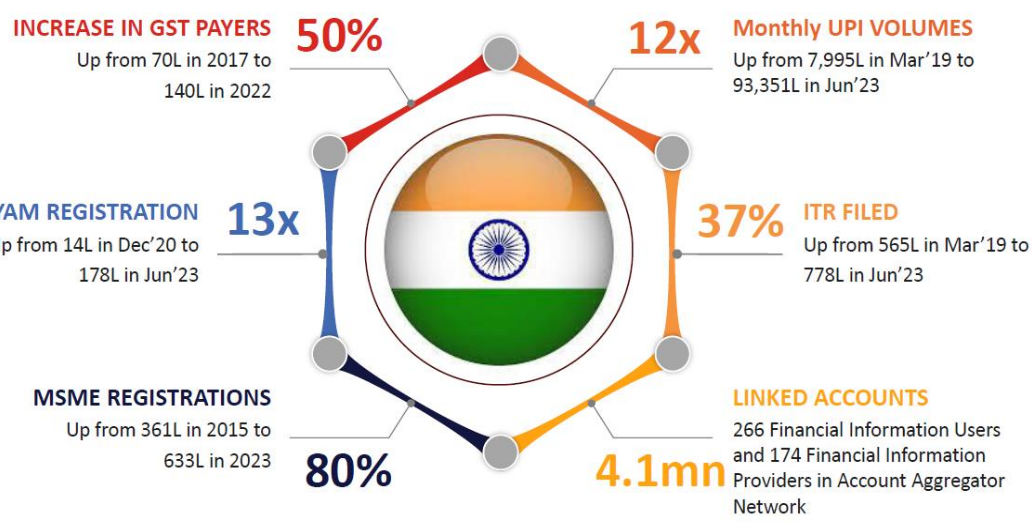
UGRO has grown its AUM at a scorching pace, to Rs76bn as of H1FY24 from Rs13bn as of FY21; such a growth pace is bound to raise some questions/concerns on the asset-quality trajectory in coming years, as there is little seasoning of the current loan-book/AUM. However, this growth has to be seen in the context of the company's business model as well as from the perspective of absolute growth rather than lofty growth on a lower base. The company's core top-management has been in place since Dec-2017, and it had raised ~Rs9.2bn equity by Aug-2018 from a number of reputed private equity firms. It was external events such as the IL&FS/DHFL default-led credit crisis and Covid-19 that caused the company was growing in a guarded fashion till the Covid-19 Delta wave. So by Mar-21, the company had already been functional for more than 3 years, with its core senior management team, data-tech team and underwriting teams & processes in place. Post the Covid-19 Delta wave, the company scaled up by increasing its branch-count, from 34 to 98 within a year. Additionally, a number of Co-origination and Co-lending agreements were put in place and continued to be signed over the quarters. Against this backdrop, the ~Rs63bn AUM addition over 2.5years is not too high, as the company had piloted its business model over the previous 3.5years and had all the ammunition in place to fire. Overall, we draw comfort from the fact that: i) the company did some disbursements during the peak of Covid-19 disruptions and, hence, got first-hand experience; ii) the asset build-up happening post such large-scale shocks has allowed the company to build & train its model for better underwriting; iii) its focused (select 9 of the 180 SME sectors) yet diversified (no state contributing more than 20%, along with diversified product and sourcing channels) approach is likely to ensure that the asset-quality experience will be almost in line with the modelled expectations.

Exhibit 18: Long-term growth strategy well-planned



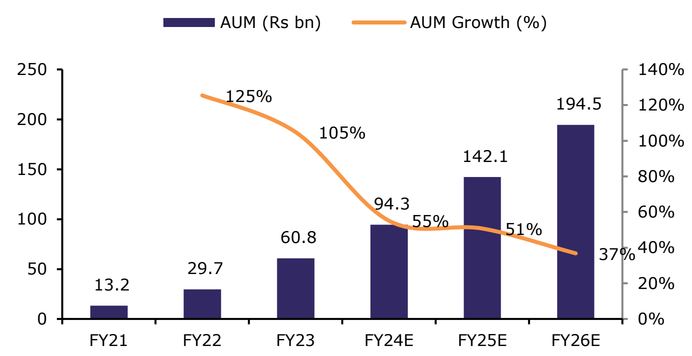
Source: Company

Exhibit 19: Increasing data availability — Revolutionizing the MSME underwriting framework



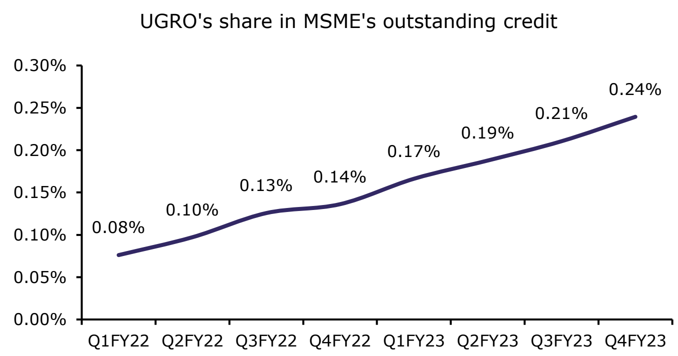
Source: Company

Exhibit 20: High AUM growth is due to the small base; at the absolute level, AUM accretion forecast is ~Rs50bn



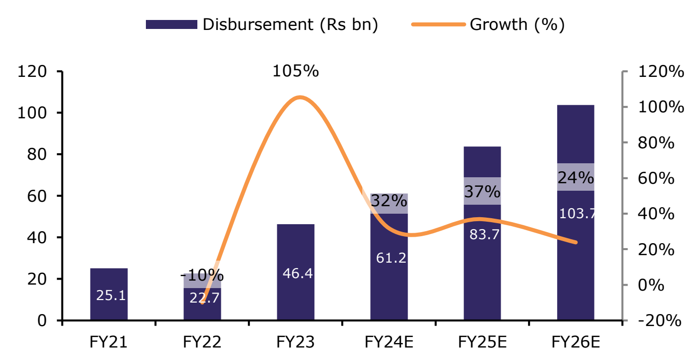
Source: Company, Emkay Research

Exhibit 21: UGRO's AUM is still a very small portion of MSME credit



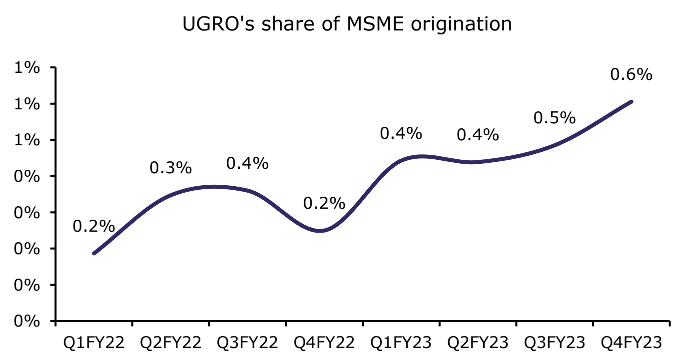
Source: Company, Emkay Research

Exhibit 22: At absolute level, growth in disbursements will hover at ~Rs20bn



Source: Company, Emkay Research

Exhibit 23: UGRO's disbursements are still a tiny part of MSME credit origination



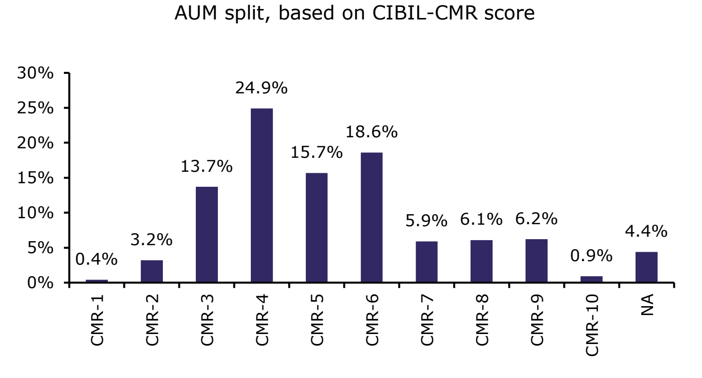
Source: Company, Emkay Research

In addition to the aforementioned argument on UGRO's growth being a natural progression of its business model and not a concern, the incremental data points on collections, credit cost and asset-quality developments suggest that the growth is not at the cost of any compromise on asset quality.

UGRO's business model, absolute AUM growth and asset-quality developments (as indicated by several data points) do address the concerns on seasoning of the loan book to a certain extent. Also, we need to acknowledge that Co-lending and Co-origination are key to the company's business model for achieving scale and profitability. And, a material deterioration in asset quality with any of the key Co-lending/Co-originating large banks or NBFC would eventually infuse discomfort for the partners, who would therefore start turning off the capital tap. This is likely to ensure that UGRO remains focused on quality of origination and underwriting, considering it as the paramount factor in its business.

UGRO has always maintained that it is looking at the underserved opportunity and not the unserved opening; this implies that the company does not lend to completely 'New To Credit' customers (i.e. a customer who is neither in the Individual Credit Bureau print nor in the Commercial Credit Bureau print). Almost 88% of UGRO's AUM is to borrowers with a >700 Individual CIBIL score; in the Commercial Bureau Score terms, only ~19% of the AUM is in the CMR-7 band or worse. Such high-standard customer filtering should allay any concerns regarding customer quality.

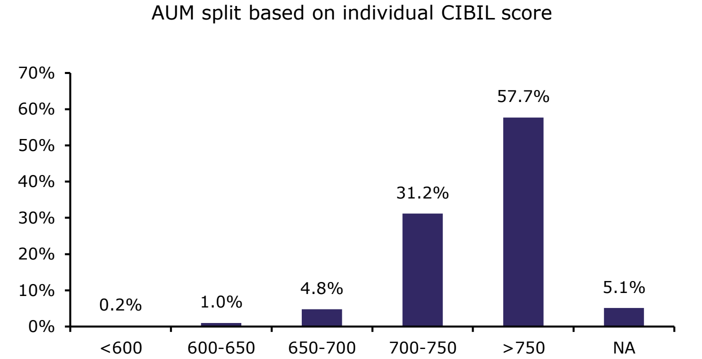
Exhibit 24: As of Sep-23, one-third of the portfolio is in the low PD zone, hence leading to stable asset quality



Source: Company, Emkay Research

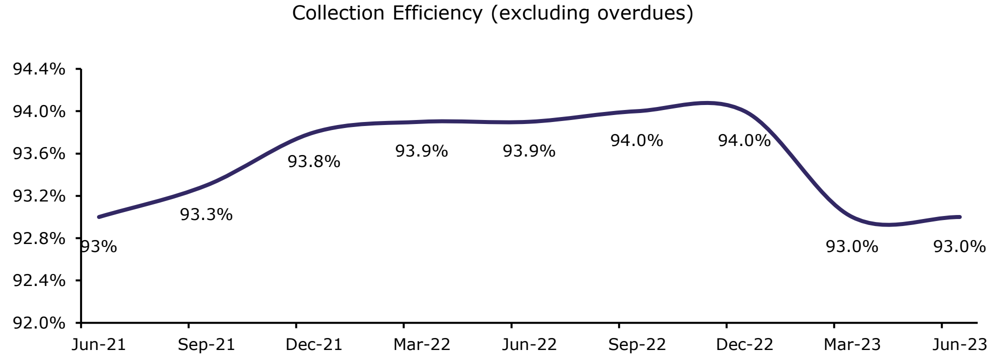
Note: The breakup is for ~88% of the total AUM and excludes partnership AUM (typically having FLDG arrangements) and GeM-SAHAY

Exhibit 25: Almost 88% of UGRO's customers have bureau score of >700, thus granting added confidence on its underwriting standard



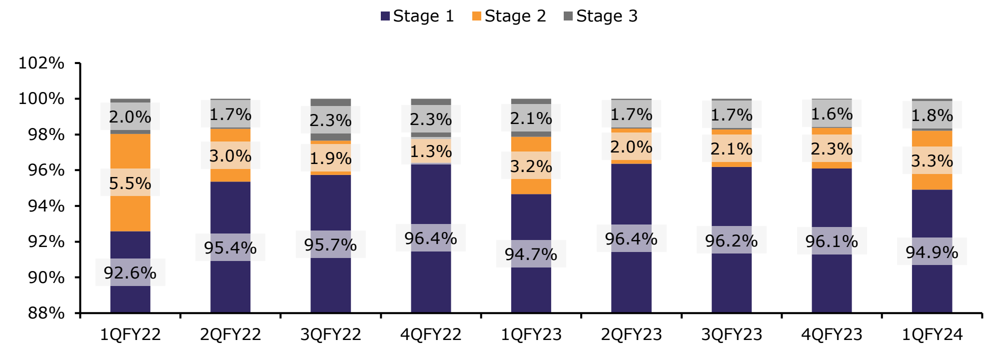
Source: Company, Emkay Research

Exhibit 26: Collection remains the key growth driver — Consistent and impressive collection efficiency, considering where the segment operates



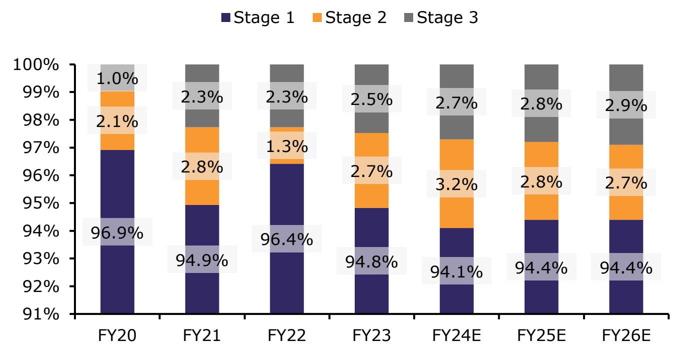
Source: Company, Emkay Research

Exhibit 27: Stage-wise breakup of Total AUM indicating stable asset quality



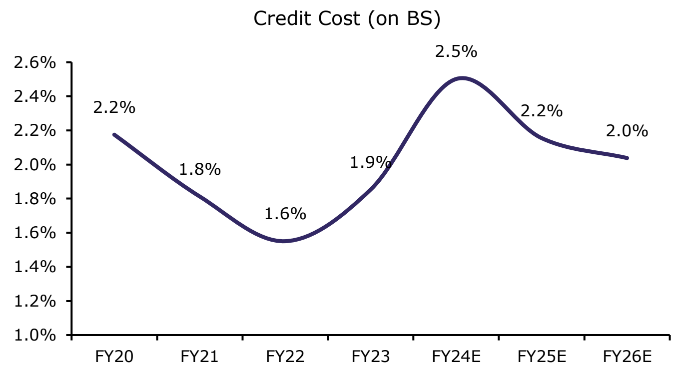
Source: Company, Emkay Research

Exhibit 28: On the books, asset quality remains strong, with Stages 1+2 remaining stable at ~98% as of FY23



Source: Company, Emkay Research

Exhibit 29: Steady asset quality leading to lower credit cost



Source: Company, Emkay Research

A business case for Co-lending/Co-origination

In 2018, the RBI came up with the guidelines "Co-origination of loans by Banks and NBFCs for lending to the priority sector", to address the credit gap in the priority sector by combining the strengths of banks and NBFCs (lower cost of funds of banks and feet-on-street & agility of NBFCs). The RBI further amended and presented new guidelines in 2020, referred to as "Co-Lending by Banks and NBFCs to the Priority Sector". The theme is broadly similar, with increasing flexibility given to the NBFC for sanctioning and disbursing the loan first and transferring the Co-lending share of the bank partner to the bank thereafter, depending on satisfactory assessment by the bank based on their Master Agreement.

In recent years, Co-origination/Co-Lending has started gaining traction after a slow start in the initial years of the RBI guidelines. These are still early days to declare the Co-lending model a success, but the business case for this is getting established. Banks are incrementally partnering with more & more NBFCs for co-lending in the area of priority-sector loans.

Benefits of the Co-lending/Co-origination model for the originator NBFC

- Leveraging on the lower cost of funds of banks, the originating NBFC can compete with other banks and larger NBFCs, in terms of interest rates offered to the customer.
- Customer and product diversification for the originating NBFC by being able to cater a wider set of products to a larger set of customers.
- A stable source of fee income and means to drive operating leverage by better utilizing fixed-cost resources like technology, underwriting and infrastructure expenses.

Benefits of Co-lending/Co-origination to the bank or a larger NBFC

- Benefits of a wider reach and feet-on-street of the NBFC
- One of the most efficient mechanisms for meeting priority-sector lending targets
- Quicker turnaround time, as the initial sourcing for data collection is done by the originator
- Gaining from the knowledge and understanding of the specialist originator, likely leading to a better credit-quality experience
- Overcoming the knowhow barriers in many priority segments, by tying up with the sector and region-specialist smaller NBFCs

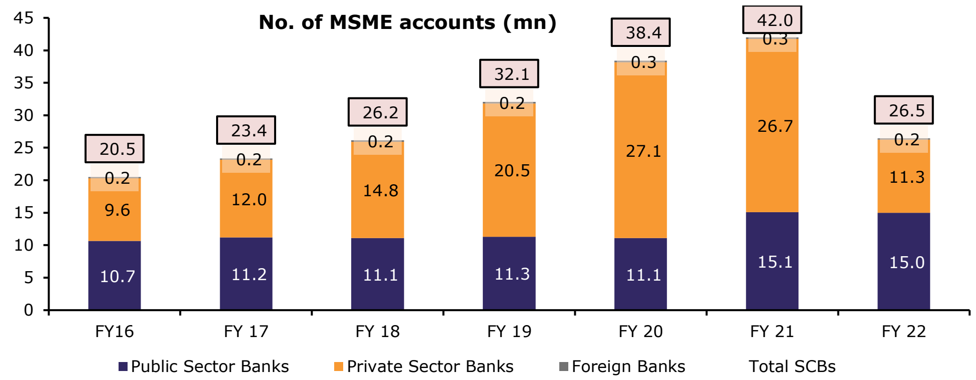
Exhibit 30: UGRO's Co-lending & Co-origination partners

Source: Company, Emkay Research

Co-lending, the best mechanism available to public sector banks for achieving priority-sector MSME lending targets

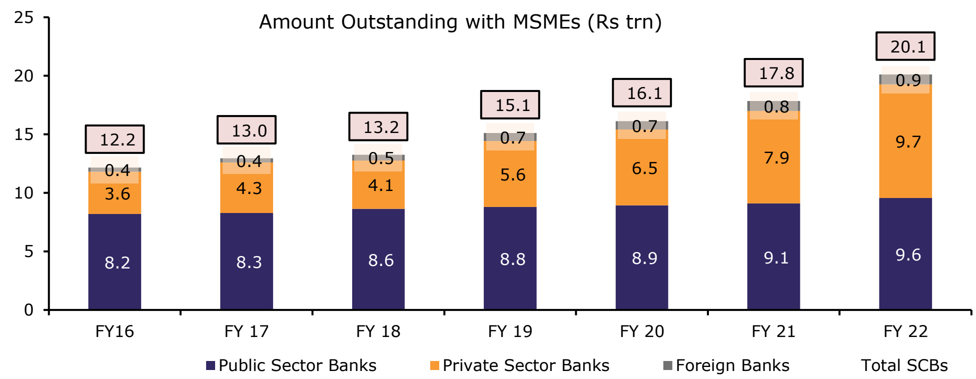
Meeting priority-sector lending targets profitably has been one of the most difficult tasks for banks. MSME lending has been even trickier owing to the peculiarities based on sectors (CRISIL divides MSME into 180 sectors) and regions. MSME lending gets further complicated for public sector banks as, unlike large corporates where a more centralized expertise is workable or retail lending that is more product-specific, MSME expertise is required locally, that too based on sectors. This is where public sector banks are too thinly spread which results in lack of expertise. Additionally, public sector banks lack feet-on-street owing to higher wages at the entry level. This twin problem of lack of expertise and lack of feet-on-street can be resolved through partnerships with a number of MSME-focused NBFCs who can provide expertise in their focus sector and regions, along with agility in service powered by their feet-on-street and Data-& Technology-focused business models.

Exhibit 31: Number of MSME accounts with PSBs saw a 50% growth over FY16-22



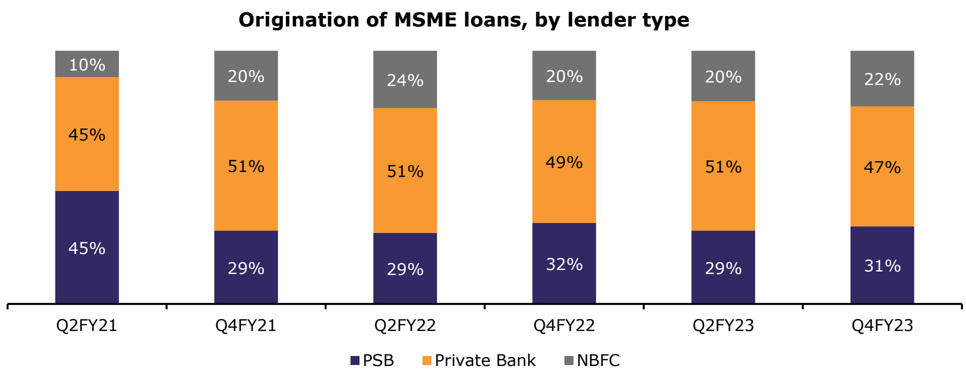
Source: RBI, Emkay Research; Note: FY22 saw reduction in the number of accounts due to mandatory registration requirement on the UDYAM platform

Exhibit 32: PSBs struggled to grow MSME loans over FY16-22, reflecting the challenges they face in MSME lending



Source: RBI, Emkay Research

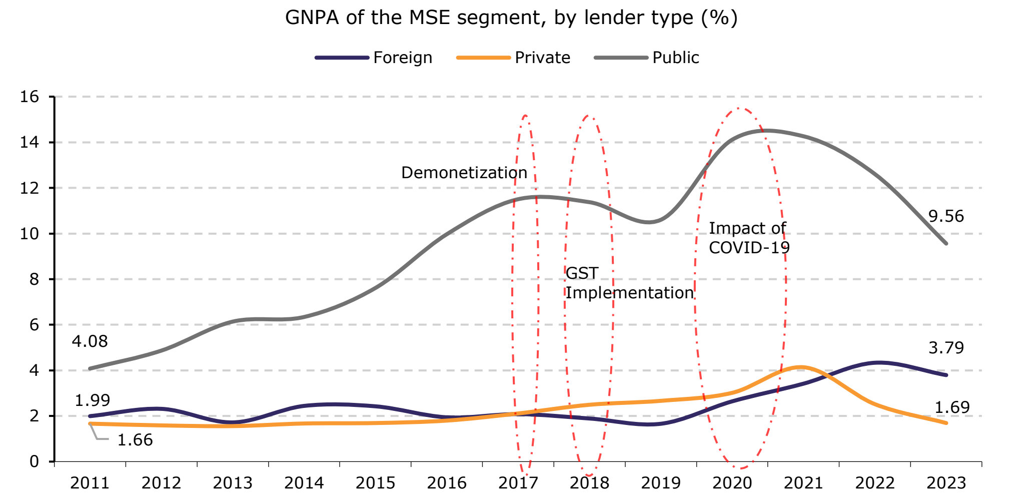
Exhibit 33: NBFC's share in origination of MSME loans has been increasing over Q2FY21



Source: RBI, Emkay Research

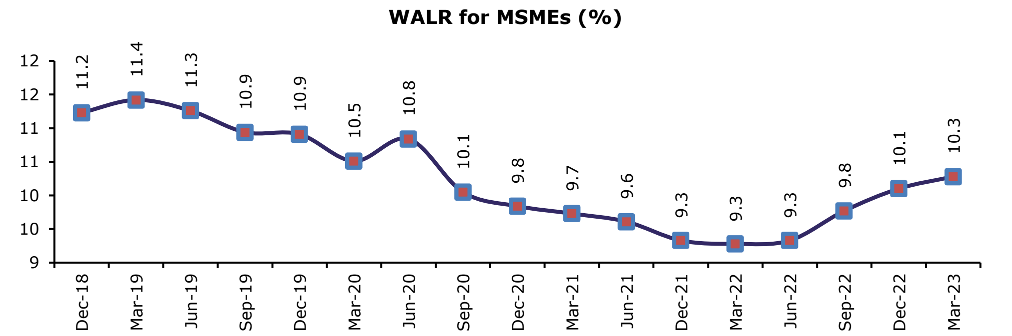
The twin problem of lack of deeper understanding of the wide spectrum of MSME sectors and lesser feet-on-street has not just led to slower growth in MSME lending of PSBs in the last decade, but also to fairly poor-quality underwriting, resulting in considerably high NPA levels. The below-mentioned data on yield and asset quality also clears any doubt about the differential interest rate arrangement between the originating NBFC and the co-lending bank, as public sector banks have earned yields (much lower than the typical yields earned by NBFCs) and held a poor asset-quality track record, as reflected in their GNPAs, thus resulting in higher credit costs. Additionally, the lower yield and higher credit costs would have come at much higher operating expenditure. Co-lending will certainly lead to a considerably lower operating expenditure (as initial data collection, assessment, credit filtering and other work will be taken care of by the NBFC) and most likely lower credit cost; hence, a yield similar to the typical yield for PSBs in MSMEs would be a much better proposition in co-lending.

Exhibit 34: GNPA in MSE (micro & small enterprises) — PSU banks witness the highest delinquency rates among peers



Source: RBI, Emkay Research

Exhibit 35: Trend of weighted average lending rate (WALR) of banks for MSMEs on outstanding loans



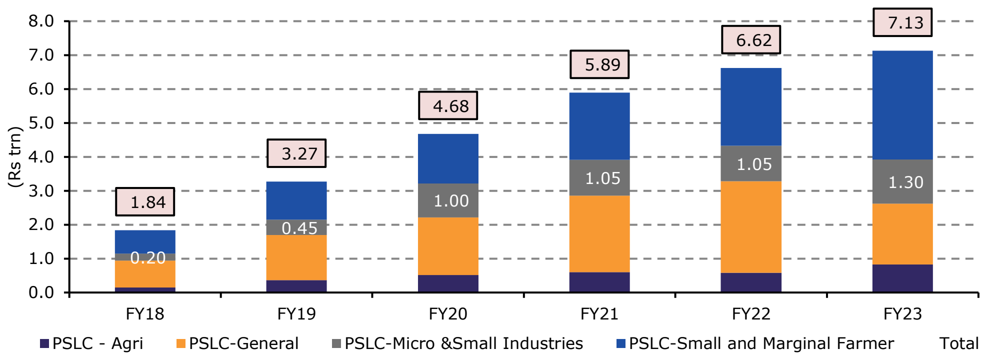
Source: RBI, Emkay Research

In the Co-lending space, UGRO plays out as a perfect partner and the NBFC of choice for banks. What works in its favor:

- A completely priority sector-focused NBFC
- Focused sub-sector approach gives increased confidence to the co-Lending banks regarding UGRO's deep understanding of the borrower's business
- An 'A' rated NBFC makes a better case for becoming a co-lending partner for banks, as the relatively higher cost of borrowing makes them serious about co-lending model and, at the same time Banks practically don't want to go below 'A' rating when it comes to co-lending partnerships
- Technological capabilities for undertaking system integration with partner banks
- UGRO's established track record of co-origination/co-lending with multiple banks and NBFC partners

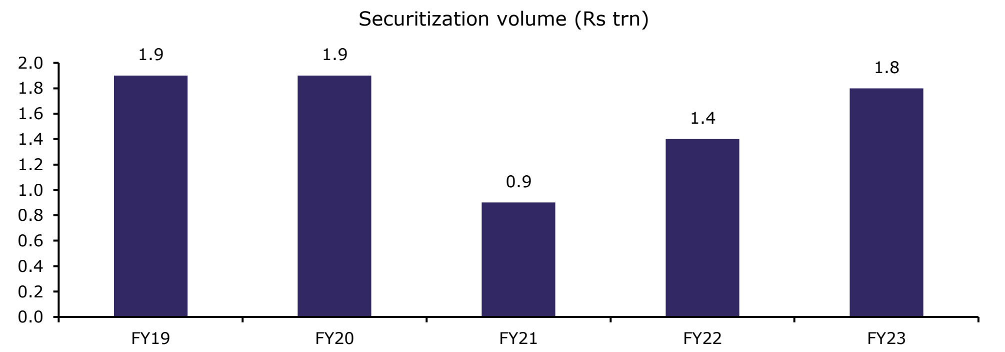
As regards meeting priority-sector lending (PSL) targets, different banks have challenges of varying nature to meet the overall and sub-segment targets. Generally, private banks struggle to meet small & marginal farmers' lending targets, whereas PSBs struggle to meet MSME targets even after traditionally ending up with poor underwriting. A number of tools are available for achieving PSL targets if the bank is unable to do so via organic lending. Some such tools are: i) Co-lending/ co-origination with NBFCs. ii) Lending to NBFCs for on-lending. iii) Securitization and Direct Assignment. iv) Investment in Priority Sector Lending Certificates. v) Specified Deposits with institutions. vi) Inter Bank Participation Certificates (IBPCs). Per this approach, on-lending faces a limitation—in that, the ticket size of loans by NBFCs should be less than Rs2mn in non-agri loans to qualify under the priority sector, whereas in Co-lending, the bank can claim PSL for its share, as long as the entire loan meets the PSL criteria (up to Rs500mn in MSMEs). Regarding Direct Assignment, though the bank gets the loan on its book and meets the PSL criteria, it does not underwrite the loan, neither acquires any customer insights, as it deals with a portfolio approach. Against this backdrop, Co-lending/Co-origination is certainly a more optimal way for banks for achieving PSL targets.

Exhibit 36: PSLC transactions have rapidly increased



Source: RBI, Emkay Research

Exhibit 37: Securitization volumes stood at Rs1.8trn during FY23



Source: CRISIL, Emkay Research

Exhibit 38: A comparison of various loan transfer mechanisms

Particular	PTC	DA	CLM1 – Co-origination	CLM2 – Co-lending
Forms part of the balance sheet	No	Yes	Yes	Yes
Minimum Holding Period (MHP) requirement	Three months for loans with original tenure less than 24 months Six months for all other loans Applicable from the date of Full disbursement/or registration of security interest with CERSAI (whichever is later)		Not Applicable	Not Applicable
Minimum Retention Requirement (MRR)	5% of book value of the loan, with original maturity less than 24 months 10% of book value of the loan, with original maturity more than 24 months 5% of book value for Residential MBS, irrespective of maturity Can be waived off in case of full due diligence		If the co-lender originating the loan is an NBFC, an MRR of 20% is required	
KYC requirement	Investor/buyer requires to do due diligence			
Due Diligence	Conducting due diligence is essential at the portfolio level and can extend up to 100%, in accordance with the investor's policy		Due diligence to be done for each contract, involving KYC verification, policy compliance, and examination of underlying securities documents, is necessary	
Funding	Initial funding done by the originator; post completion of MHP, the buyer of PTC funds the agreed portion to the originator	Similar to PTC	Funding is done simultaneously by the originator and the co-originator through an escrow account on a *pari passu* basis	The initial originator provides customer funding, and the buyer of PTC funds the agreed portion of the loan to the originator without the need for MHP requirements (PTC can even be done the very next day)
Risk	Risk remains with the originator, who provides credit enhancement	It is *pari passu*	It is *pari passu* with banks, while FLDG can be provided with NBFCs	It is *pari passu*
Clean-up call option	The originator may retain a call option to repurchase high-performing assets when their residual value falls below 10% of the original pool near the end of the securitization transaction	No such option available	No such option available	No such option available
Income recognition	Happens throughout the life cycle of the loan Illustration: If customer rate is 15% and buyer rate is 10%, with an MRR of 10%, then interest will accrue normally on the MRR portion, whereas a 5% differential margin throughout the lifecycle of the loan will accrue on the balance portion	The lifetime income of the buyer's portion has to be recognized by the originator at the time of DA	Income recognition is akin to PTC	Income recognition is akin to DA

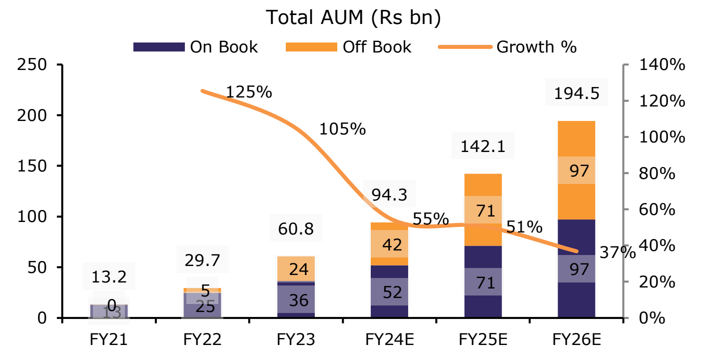
Source: Company, RBI, Emkay Research

Operating leverage powered by strong AUM growth; stable credit cost to drive EPS CAGR of 54% over FY24-26E

Increasing productivity of UGRO's current ~100 branches, accelerating disbursements under existing Co-Lending/Co-origination, addition of about 100 micro SME branches over the next 2 years, and incremental Co-Lending/Co-origination partnerships will drive a strong AUM growth of ~47% over FY23-26E to Rs194bn, with targeted on-book and off-book mix of 50:50. This strong growth in AUM will drive up utilization of its fixed-cost absorption, leading to improvement in Cost-to-Income, from 63% in FY23 to under 45% by FY26E. With focus on achieving higher-yielding Micro Loans on own book to carry on prime lending under its Co-Lending/Co-Origination model, the spread for the on-book loan will improve. Also, increased revenue contribution from Co-Lending, Co-Origination and Insurance cross-selling commissions will help the operating revenue to total assets ratio to improve to ~13%. With operating leverage playing out and driving down cost-to-income to ~44% by FY26E or ~6% on-BS AUM by FY26E, a ~2% stable credit cost will lead to ~4% RoA by then.

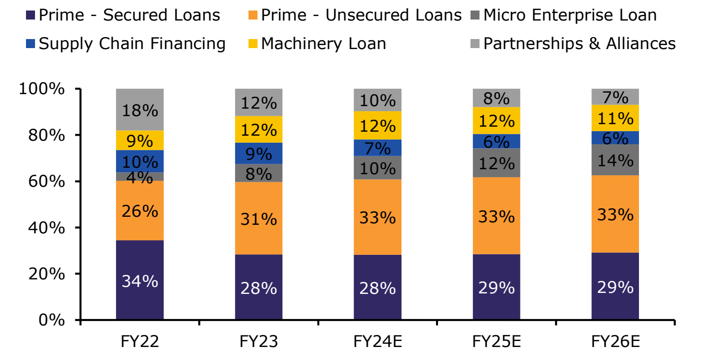
UGRO's AUM growth over coming years will be driven by a combination of factors, including: i) improving productivity of existing branches and employees, as the vintage increases; ii) increased disbursals under Co-Lending/Co-origination arrangements, as partners' comfort increases with the progress in the co-lending book; iii) addition of ~100 micro branches over the next 2 years; and iv) newer Co-lending/Co-origination agreements to fuel growth as well as to offset any slowdown in existing partnerships. All these combined will drive substantially strong growth over FY23-26E, from Rs61bn to Rs194bn. Post such a high growth phase, we expect growth to taper to ~25-30%.

Exhibit 39: AUM expected to growth >50% in the next two years



Source: Company, Emkay Research

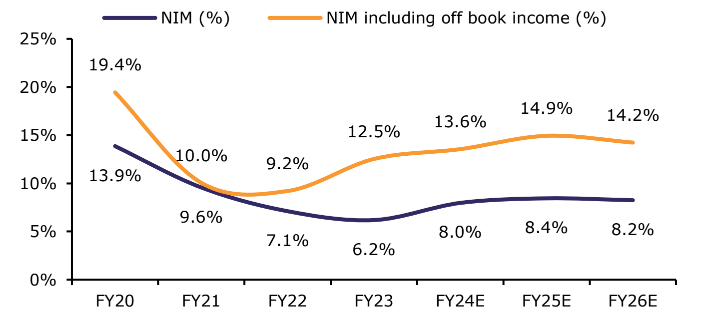
Exhibit 40: Diverse product mix customised to meet MSME needs



Source: Company, Emkay Research

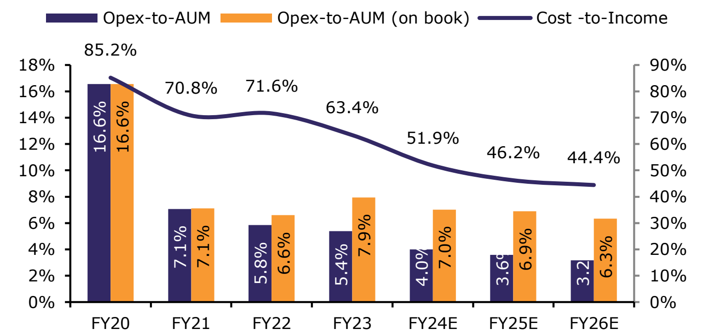
On the NIM and spread fronts, UGRO will see improvement in the next few years, on the back of: i) addition of more micro branches that will enhance the share of high-yielding micro loans in the on-book loan; ii) the improving Co-lending/Co-origination book that will lead to growth in the related fee income; iii) the corporate agent for insurance being in place resulting in the cross-selling fee income to increase.

Exhibit 41: Co-lending model leading to improved margins



Source: Company, Emkay Research

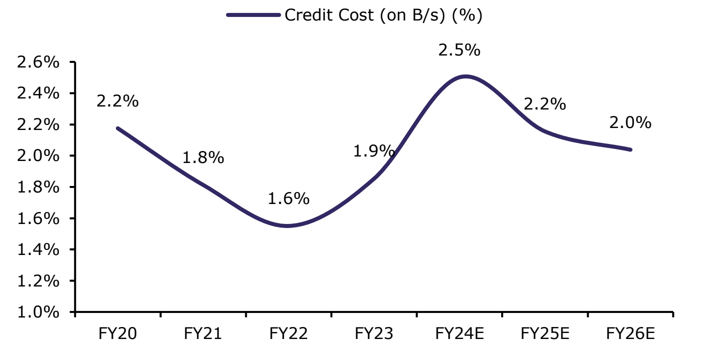
Exhibit 42: Opex to normalize, as operating leverage kicks in



Source: Company, Emkay Research

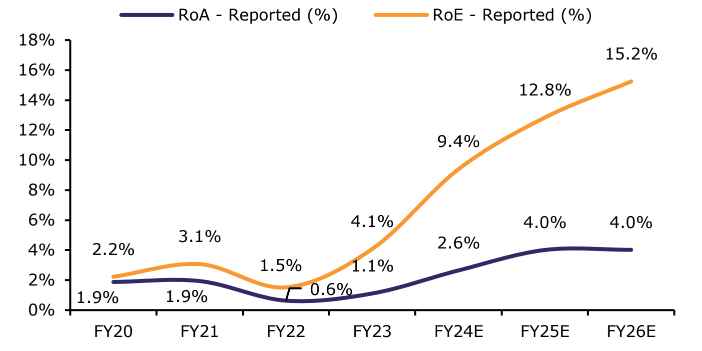
UGRO's profitability improvement will be largely driven by the operating leverage playing out and credit cost remaining stable. The operating leverage will be driven by slower growth of employee expenses in comparison to the AUM or revenue growth. UGRO's employee expenses are two-pronged: i) compensation for the top- & mid-level employees being highly competitive from the industry perspective, for building and growing the franchise; ii) compensation for branch- & lower-level employees being at parity with peers. The first part is a fixed cost that has largely existed since the building phase of the franchise and will see quite moderate absolute growth going forward, thus driving a huge amount of operating leverage. The branch & lower-level employee expenses are variable in nature and should not have any material negative impact even in the next 2 years, when the company is likely to add ~100 branches, as the running cost of micro branches is lower and breakeven usually happens within ~18 months. On the credit-cost front, the company takes 1% standard provisioning on the on-book assets and on co-origination loans with NBFC partners and, hence, in the current phase, when disbursements are material in comparison to the loan book, the standard asset provisioning is driving credit costs. The actual credit-cost experience, so far, turns out to be in-line with/better-than the company's ECL model. So as the loan book grows and the disbursement growth tapers, the standard asset provisioning cost will moderate and, hence, the overall stable credit cost at ~2% should sustain.

Exhibit 43: Credit cost to remain stable on account of prudent underwriting norms



Source: Company, Emkay Research

Exhibit 44: Improved NIMs, normalizing cost leading to improved profitability



Source: Company, Emkay Research

Overall, the RoA should stabilize at ~4% by FY26E, driving RoE to ~15.2%. Thereafter, the improvement in RoE will be boosted by gradual increase in financial leverage (assets/equity) moving towards ~4.5x from ~3.8x in FY26E. Such increase in leverage will be contingent on establishing the business model and giving confidence to banks and investors who have lent to the company or have invested in its debt. This RoA/RoE trajectory will drive the company's EPS CAGR of 54% over FY24-26E, to reach 4%/15.2% respectively, and BVPS growth to Rs240 in FY26E from Rs181 in FY24E.

Valuation & Risk

We initiate coverage on UGRO Capital with a BUY recommendation. Our residual income method-led Sep-24E target price of Rs425/share (FY25E P/BV: 2.1x) implies a ~47% upside. We build-in Rs5bn of equity raise towards the end of FY24, to support the current strong pace of loan growth and keep cost of borrowing under control; Company will be required to keep its financial leverage to a suboptimal level, until it achieves scale and the business model is established to satisfy its lenders.

Exhibit 45: Valuation at CMP and TP

	CMP/TP (Rs/sh)	Upside	Mkt Cap (Rs bn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)			Book Value (Rs/sh)			EPS (Rs)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
At current market price	288	47%	26.7	1.6x	1.4x	1.2x	20.0x	11.6x	8.5x	2.6	4.0	4.0	9.4	12.8	15.2	181	206	240	14	25	34
AT target price	425		26.7	2.3x	2.1x	1.8x	29.4x	17.1x	12.5x	2.6	4.0	4.0	9.4	12.8	15.2	181	206	240	14	25	34

Source: Company, Emkay Research

Key risks

1) Any regulatory changes or external factors that can affect the Co-Lending/Co-origination model. 2) External economic shocks leading to slower growth and rise in credit cost. 3) Any major change in availability and cost of capital to fund the growth.

Exhibit 46: Key Financial Snapshot

Financials (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit & Loss						
Net Interest Income	1,036	1,348	1,896	3,516	5,191	6,940
Other Income	52	399	1,944	2,464	3,990	5,038
Total Income	**1,088**	**1,747**	**3,841**	**5,980**	**9,181**	**11,977**
Operating Expenses	770	1,251	2,435	3,101	4,245	5,322
Pre-Provisioning Operating Profit	**317**	**496**	**1,406**	**2,879**	**4,936**	**6,655**
Provisions	196	294	568	1,104	1,325	1,715
Other non-Operating Income	35	58	273	360	493	610
PBT	157	260	1,111	2,135	4,104	5,551
PAT	**287**	**146**	**398**	**1,319**	**2,683**	**3,671**
Balance Sheet						
Net Worth	9,524	9,666	9,840	19,564	22,248	25,918
Paid Up Capital	705	706	693	1,078	1,078	1,078
Reserves	8,819	8,960	9,147	18,486	21,169	24,840
Others Capital Instruments						
Borrowings	**7,657**	**18,022**	**31,489**	**35,273**	**53,304**	**77,787**
Total Liabilities & Net Worth	**17,548**	**28,549**	**43,056**	**56,563**	**77,277**	**1,05,430**
Advances	**12,827**	**24,511**	**38,064**	**49,888**	**68,536**	**93,590**
Fixed Assets	156	297	374	374	374	374
Total Assets	**17,548**	**28,549**	**43,056**	**56,563**	**77,277**	**1,05,430**
On-BS Loan book	13,038	24,910	36,390	51,872	71,073	97,233
Off Balance Sheet AUM	132	4,780	24,420	42,441	71,073	97,233
Total AUM	**13,170**	**29,690**	**60,810**	**94,314**	**1,42,145**	**1,94,467**
Shares outstanding (mn)	70.5	70.6	69.3	107.8	107.8	107.8
Market capitalization	13,170	20,349	19,992	31,100	31,100	31,100
Earnings per share (Rs)	4.1	2.1	5.7	14.4	24.9	34.0
BV	135.0	137.0	142.0	181.4	206.3	240.3
Growth ratios						
ABV	3.4%	1.4%	3.6%	27.8%	13.7%	16.5%
AUM	53.0%	125.4%	104.8%	55.1%	50.7%	36.8%
On Book AUM	99.0%	83.9%	59.8%	55.0%	50.0%	50.0%
Off Book AUM	1.0%	16.1%	40.2%	45.0%	50.0%	50.0%
Loans	54.1%	91.1%	55.3%	31.1%	37.4%	36.6%
Borrowings	200.8%	135.4%	74.7%	12.0%	51.1%	45.9%
NII	58.8%	30.2%	40.7%	85.4%	47.6%	33.7%
PAT	47.2%	-49.3%	173.4%	231.6%	103.5%	36.8%
EPS	38.0%	-49.4%	176.2%	153.8%	72.3%	36.8%
Capital ratio						
Leverage (x)	1.6	2.4	3.7	3.5	3.2	3.8
CRAR	66%	34%	20%	35%	31%	26%
Tier 1 Capital	65.2%	33.6%	19.6%	34.3%	29.9%	25.7%
Profitability and Efficiency						
GNPA	2.7%	1.9%	1.6%	2.0%	2.0%	2.0%
Net Interest Margin+fees	10.0%	8.2%	8.5%	7.7%	7.8%	7.1%
Net Interest Margin+fees (on-book AUM)	10.0%	9.2%	12.5%	13.6%	14.9%	14.2%
ROA	1.9%	0.6%	1.1%	2.6%	4.0%	4.0%
ROE	3.1%	1.5%	4.1%	9.4%	12.8%	15.2%
Cost/Income	70.8%	71.6%	63.4%	51.9%	46.2%	44.4%
DuPont Analysis (as a % of avg on-book assets)						
NII/Total Assets	7.0%	5.8%	5.3%	7.0%	7.7%	7.6%
Rev/Total Assets	7.3%	7.6%	10.7%	12.0%	13.7%	13.1%
Opex/Total Assets	5.2%	5.4%	6.8%	6.2%	6.3%	5.8%
PPOP/Total Assets	2.1%	2.2%	3.9%	5.8%	7.3%	7.3%
Provisions/Total Assets	1.3%	1.3%	1.6%	2.2%	2.0%	1.9%
PAT/Total Assets	1.9%	0.6%	1.1%	2.6%	4.0%	4.0%
Valuation						
Book Value per share (Rs)	135.0	137.0	142.0	181.4	206.3	240.3
P/ABV (x)	2.1	2.1	2.0	1.6	1.4	1.2
P/E (x)	70.9	140.0	50.7	20.0	11.6	8.5

Source: Company, Emkay Research

MSME in Bharat

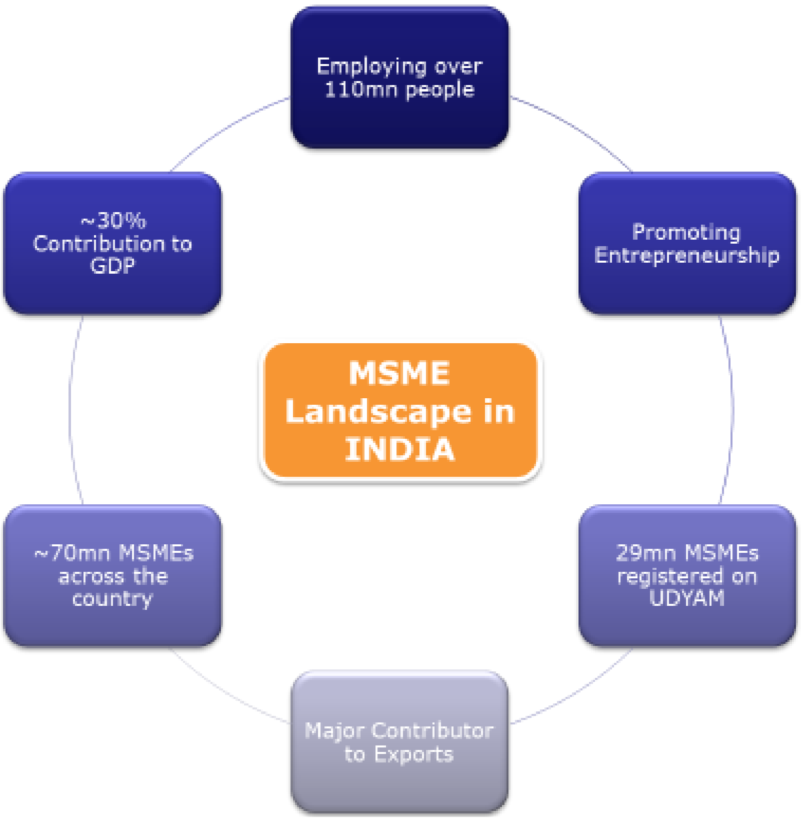
Micro, Small, and Medium Enterprises (MSMEs) form the backbone of India's economy and contribute significantly to its various aspects:

- GDP contribution: MSMEs contribute around 30% to India's GDP, making them vital drivers for economic growth.
- Employment generation: Employing over 110 million people in India, MSMEs play a crucial role in reducing unemployment and fostering inclusive growth.
- Promoting entrepreneurship: MSMEs encourage entrepreneurship by providing opportunities for individuals to start and run their businesses. They are often the first stepping stones for budding entrepreneurs.
- Industrial output: MSMEs are involved in the manufacture of a diverse range of products, contributing substantially to industrial production in the country.

With the Indian Economy inching towards USD5trn, MSMEs are poised to provide a large number of employment opportunities at a relatively lower cost of capital and, through the industrialization in rural/backward areas, aid in equitable distribution of income. Favorable government policies aimed at bolstering agriculture, small-scale industries, and consumer spending are expected to be enduring drivers, enhancing the demand for MSME and agricultural credit. Initiatives such as *Make in India*, *Aatmanirbhar Bharat* and *Start-up India* are set to bolster industrial activity, increasing the need for credit from non-banking financial companies (NBFCs).

As of 20-Oct-2023, the Udyam portal has seen registrations from ~29.4mn MSMEs. Among these, ~28.7mn are micro enterprises, 0.57mn small enterprises, and 53k are medium enterprises. Micro & small enterprises constitute ~99.6% of the total registered MSMEs, as of 20-Oct-2023. Despite this big number, formal banking system penetration in MSMEs remains limited, presenting a significant opportunity for NBFCs to expand their outreach.

Exhibit 47: MSME landscape in India



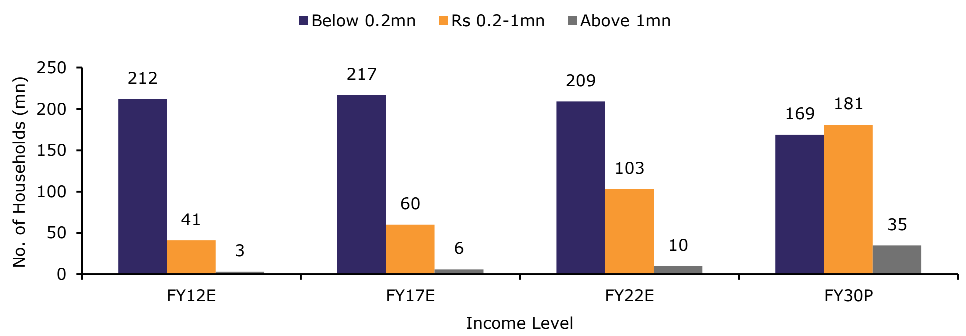
Source: Udyam Portal, Emkay Research

Credit Growth driven by retail and growing rural credit.

The positive trajectory of India's long-term credit-to-GDP ratio is supported by rapid economic growth, strides in digitization, increased banking accessibility, and government-driven structural reforms. Additionally, the rising participation of individuals in formal banking has notably heightened the demand for financial products in smaller cities, of recent.

India's middle-income segment's household earnings, between Rs0.2mnpa and Rs1mnpa, have been steadily increasing and are expected to sustain growth, owing to rising GDP and household income. CRISIL MI&A, forecasts a significant rise in households to 181million by Fiscal 2030 from 41million in Fiscal 2012, indicating a 9% CAGR. This surge in middle-income households presents lucrative opportunities for retail, MSME financiers, and consumer goods marketers.

Exhibit 48: Middle-income households contributing to the credit expansion

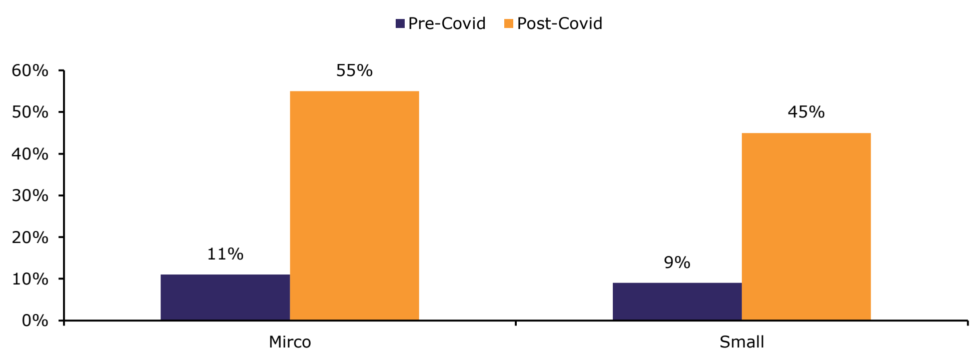


Source: CRISIL, Emkay Research

Digitalization helping MSMEs grow and avail credit

Digital technologies have the capacity to enhance the productivity of MSMEs, expand their global presence, mitigate supply-chain risks, and provide immediate benefits such as streamlined transactions, efficient deliveries, and improved access to financial services. The post-pandemic era has seen a notable surge in the adoption of digital platforms and payment methods within the MSME sector. According to a recent report by IBEF, online payments, including card transactions, UPI, and net banking, now account for 72% of MSME payments. This technological advancement enables businesses to collect and analyze extensive customer data, which serves as a valuable source of insights for understanding customer behavior, preferences, and pain points.

Exhibit 49: Accelerated digitalization seen in Micro and Small enterprises



Source: ASSOCHAM, CIBIL, Emkay Research; Note: (data till Dec-22)

New UDYAM platform to boost MSME registrations

In Jun-2020, the GoI widened its definition of MSMEs and revised the investment limits across each category, removing the difference between the definition of manufacturing-based and services-based MSMEs. Such reforms resulted in an incremental registration of ~4mn MSMEs during FY21.

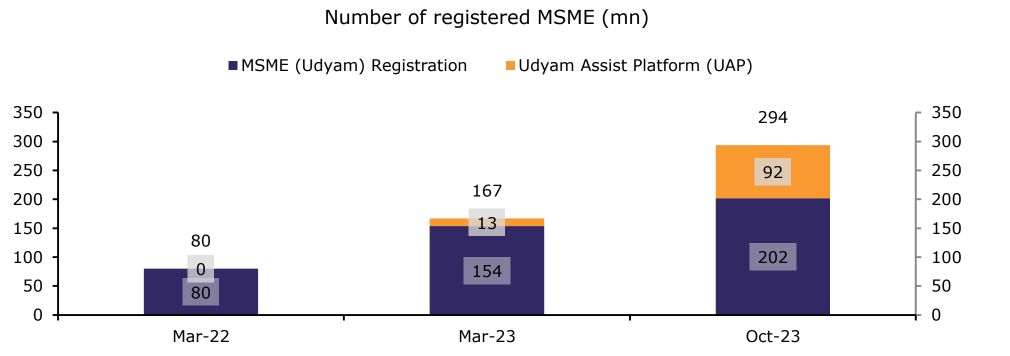
Till Mar-2021, companies were required to provide their GSTIN for registration of MSMEs under UDAYM; however, many entities were not required to get registered under GST, due to turnover limit of below Rs4mn, resulting in lesser registrations under UDYAM. During Mar-2021, the Ministry of MSME expected the requirement of GST registration under UDAYM to lead to the number of UDAYM registrations jumping, from ~13mn in Mar-2021 to ~29mn in Oct-2023.

Further in Jun-2021, the Ministry included retailers and wholesalers under the definition of MSME, to extend the benefits of priority sector lending to traders as well, resulting in the total number of registered traders reaching ~3.2mn (1.9mn Retailers and 1.2mn Wholesalers) as of Feb-23. As a result, traders are likely to attain easy access to credit in order to modernize and expand their business, thus bolstering their contribution to GDP and overall economic growth.

As against an estimated 70mn total number of MSMEs across the country, only ~29mn are registered under UDYAM (including ~9mn registered on the UAP). This is mainly due to: a) mandatory requirement of GST registration (up to Mar-21); b) limited awareness about various schemes, programs and their eligibility criteria.

The below-stated reforms/measures by the GoI are expected to increase the number of MSME registrations under UDYAM and enable entities to participate in government tenders, avail financing options and other benefits available to MSMEs.

Exhibit 50: Increasing number of MSMEs to boost credit demand



Source: Udyam registration, Emkay Research

Exhibit 51: Various Government schemes / initiatives for giving a boost to the MSME sector

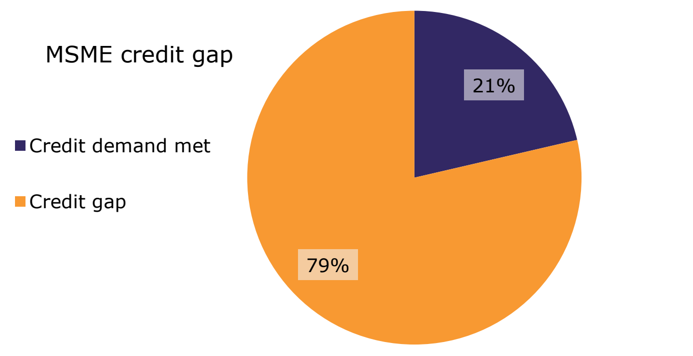
Scheme / Initiative	Description
Prime Minister's Employee Generation Program	The aim is to generate employment opportunities in rural and urban areas by setting up new self-employment enterprises.
Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE)	The scheme provides collateral-free debt to the micro and small enterprises. Guarantee cover available from 75-85% of the credit facility.
Emergency Line Credit Guarantee Scheme (ECLGS)	This scheme was introduced as part of the GoI's Covid-19 relief package. The financial institutions provide emergency loan facilities to various MSMEs that have suffered during the pandemic.
Pradhan Mantri Mudra Yojana	The scheme provides loans up to Rs10lakh (Rs1mn) to non-corporate and non-farm small or micro-enterprises
Credit Linked Capital Subsidy Scheme	The scheme facilitates a 15% capital subsidy on institutional finance availed for additional investment up to Rs10mn for technology upgradation by MSMEs.
SIDBI Make in India Loan for Enterprises (SMILE)	The scheme provides term loans to MSMEs on relatively softer terms to meet the required debt-equity ratio and also facilitates soft loans in the nature of quasi-equity.
MSME Business Loan for Start Ups in 59 minutes	A fully automated web portal provides loans to MSMEs in 59 minutes. Once the approval is done, the loan is disbursed in the next 7-8 working days.
Priority Sector Guidelines	All bank loans to MSMEs conforming to specified conditions prescribed therein qualify for classification under Priority Sector Lending
Aatmanirbhar Bharat	The government has launched a Self-Reliant India Fund to infuse equity in MSMEs which have the potential viability to grow.
Udyam Assist Platform (UAP)	Launch of UAP to bring Informal Micro Enterprises under the formal ambit for availing the benefits under Priority Sector lending.
MSME Champions Scheme	The scheme has 3 components: MSME - Sustainable (ZED), MSME -Competitive (Lean) and MSME - Innovative (for incubation, IPR, Design, etc), to promote competitiveness among MSMEs.
Open Credit Enablement Network (OCEN)	OCEN has created a standard protocol for an interface between registered financers and MSMEs for digital lending. OCEN's first pilot is GeM Sahay – an e-marketplace for PSU (public sector undertaking) buyers & MSME sellers

Source: Ministry of MSME; RBI

Increasing credit gap; demanding non-traditional & curated credit framework

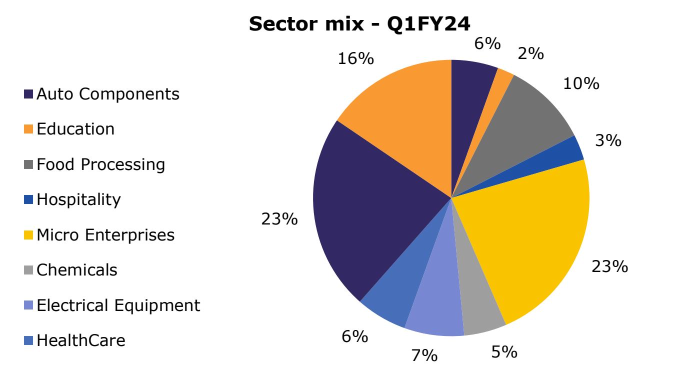
The MSME sector is the key driver of India's economic growth. According to a CRISIL report, the MSME credit gap in FY23 was estimated at ~Rs92trillion. UGRO Capital was incorporated on the bedrock that the MSME credit gap in India could be resolved by use of data and technology. UGRO views data being more powerful than presumed and, within the lending universe, use of data is fairly low. Given MSMEs' heterogeneous business model, UGRO has, with the help of CRISIL, experienced experts, extensive study and research shortlisted ~9 sectors and >200 sub-sectors for its lending business, while maintaining a diversified portfolio across geographies, sectors and products.

Exhibit 52: SME credit demand at Rs117trn



Source: CRISIL, Emkay Research

Exhibit 53: Target sectors of UGRO



Source: CRISIL, Emkay Research

One of the key challenges impacting growth of MSMEs is difficulty in accessing formal and timely credit. Traditional lenders rely heavily on collateral-based lending, making it difficult for small businesses to secure funds that are much needed for growth and expansion. To address the issue faced by MSMEs, UGRO has transformed its approach and now provides financial assistance to MSMEs by leveraging advanced data analytics, machine learning, and artificial intelligence techniques.

Deciphering UGRO's business model

UGRO Capital operates as a data-tech lending platform, utilizing its extensive distribution network and data-tech methodology to bridge the credit gap for small businesses in India. Its mission, encapsulated in 'Solve the Unsolved', revolves around the belief that addressing the challenges faced by small businesses requires in-depth expertise in India's key SME sectors, coupled with a data-centric, technology-driven approach.

Company leverages its robust Data Analytics capabilities and advanced Technology architecture to create tailored sourcing platforms for various channels. These include GRO Plus, an intermediated sourcing module; GRO Chain, a supply chain financing platform with automated end-to-end invoice approval and flow; GRO Xstream platform for co-lending, facilitating seamless integration with fintechs and liability providers; and GRO X application, offering embedded financing solutions to MSMEs.

UGRO's term-loan programs cater to the diverse needs of MSMEs, providing dedicated offerings for secured and unsecured loans. The company has collaborated with major OEMs to offer comprehensive end-to-end solutions. Additionally, UGRO Capital's supply chain program delivers both, demand- and supply-side solutions, along with customized programs tailored for Micro companies.

UGRO's growth path

Exhibit 54: Growth to continue

Set-up phase
(2018-19)

- Incorporated and raised >Rs9bn capital from marquee PE investors (ADV, NewQuest, Samena & PAG).
- Partnered with CRISIL to identify and shortlist target sectors (shortlisted 9).
- In FY19, disbursed ~Rs790mn (Jan-Mar a '19).

Investing for Growth
(2019-21)

- Despite a series of crisis like ILFS, DHFL, Yes Bank and Covid shutdowns, growth and business expansion continue for UGRO, with focus on digitizing business processes along with product diversification.
- Achieved AUM of ~Rs8.61bn despite macro-economic headwinds.

Igniting the growth engine
(2021-22)

- Built strong distribution capabilities and establishing the groundwork for the L-a-a-S model.
- Developed Gro Score 2.0, combining two different models - the banking-based model with a bureau-based model.
- Despite the continued impact of Covid and the Russia-Ukraine war, Company was able to clock AUM of ~Rs29.7bn, growing 125% YoY.

Accelerating faster growth
(2022...)

- Successfully raised ~Rs3.4bn equity.
- Upgradation of Gro Score 2.0 to Gro Score 3.0, an enhanced version, which leverages data from GST in conjunction with credit bureau and banking.
- Launched the D2C customer channel, while scaling the L-a-a-S Model.
- UGRO demonstrated strong growth focus, doubling its AUM to ~Rs60.8bn in a rising-rate environment.

Source: Company, Emkay Research

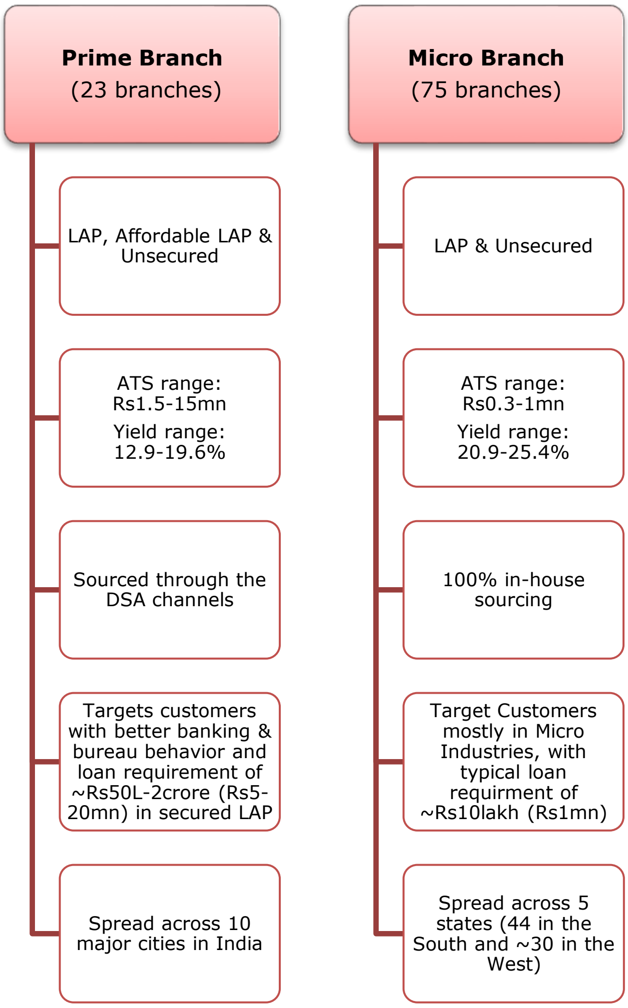
Customized non-traditional product offering

MSMEs form the core of India's economy, offering a variety of products and services. Addressing the MSME credit gap demands tailored solutions, involving a profound understanding of their cash-flows and business intricacies. Conventional uniform approaches have fallen short of driving the desired impact on their businesses. UGRO Capital has embraced this challenge, employing technology to effectively meet its capital needs.

Branch Led – Catering through ~98 branches

UGRO's branch-led channel combines both, Prime and Micro branches. Among these, 23 are Prime, acquiring high-value customers through DSAs, while the 75 Micro branches are mainly spread across 5 states, sourcing customers through an in-house sales team (FOS).

Exhibit 55: Branch-led channel

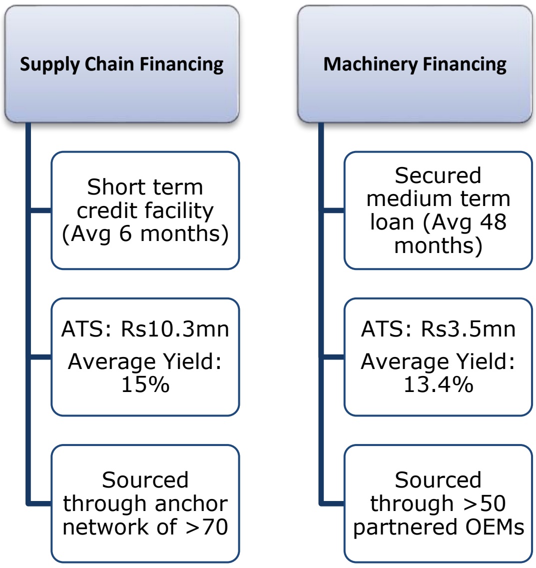


Source: Company, Emkay Research

Eco-System Channel

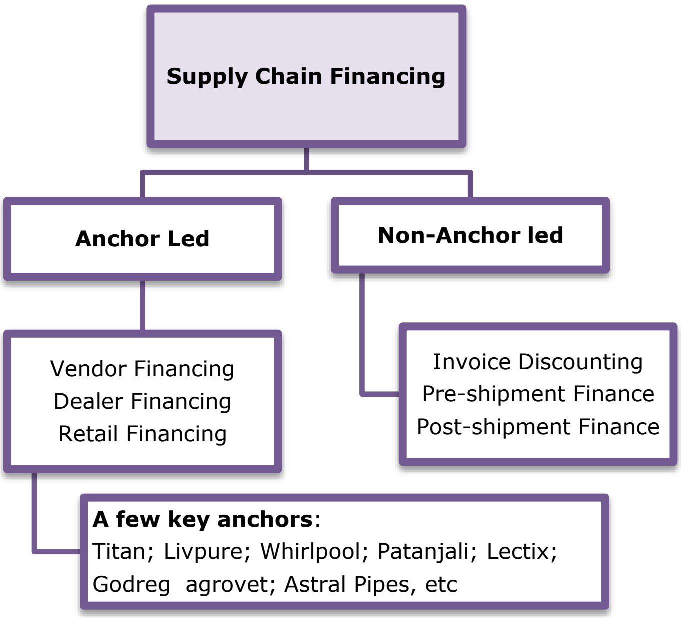
In the ecosystem channel, UGRO operates in two main categories: Supply-chain financing and machinery financing. It has partnered with >70 anchors for supply-chain financing and with >50 OEMs for machinery financing.

Exhibit 56: Catering through Anchors and OEM partners



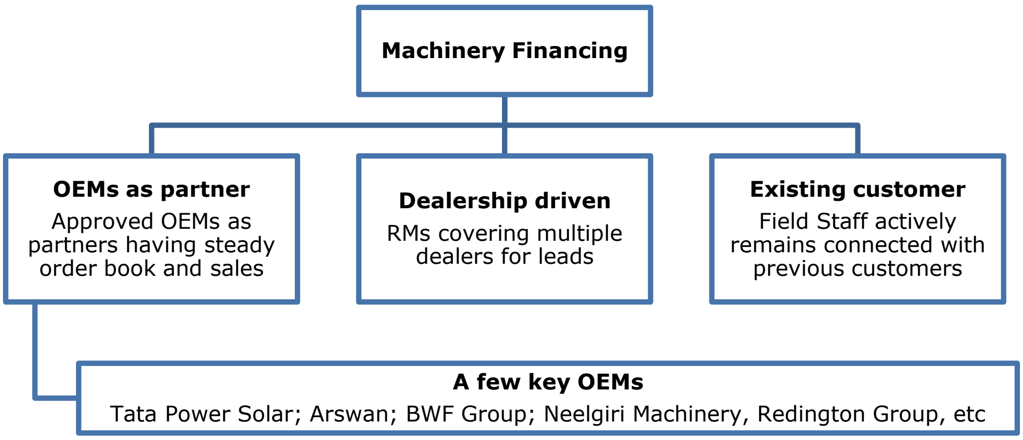
Source: Company, Emkay Research

Exhibit 57: Supply chain finance



Source: Company, Emkay Research

Exhibit 58: Machinery Finance

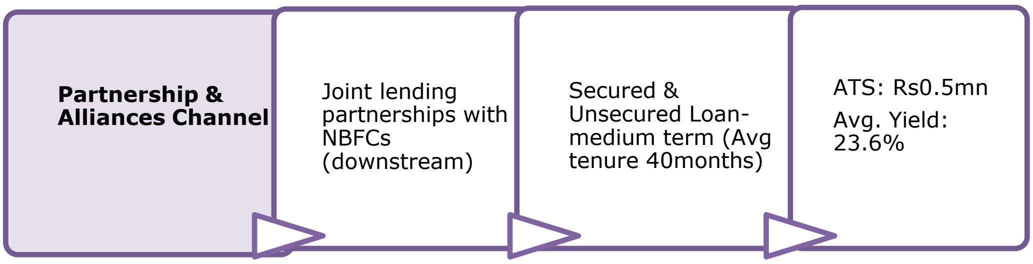


Source: Company, Emkay Research

Partnership and Alliances Channel

UGRO operationalized partnerships with multiple new partners across small-ticket secured and unsecured loans, receivable financing and green energy financing, pulling up the total partner-count to >40. This channel not only entails low operating cost, but also comes with a First-loss default guarantee (FLDG) cover. Through this channel, Company is able to build a quasi-secured portfolio.

Exhibit 59: Catering through fintech partners

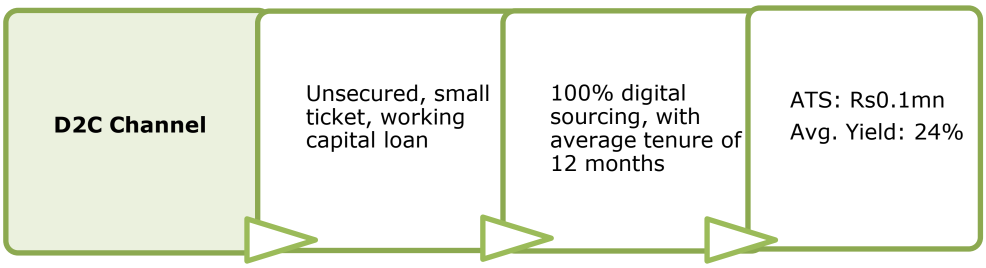


Source: Company, Emkay Research

Direct Digital Channel

In FY23, the company introduced the GRO X App, which provides instant, collateral-free credit for Indian MSMEs' working capital and financial needs. Using advanced data analytics and cashflow-based risk assessment, businesses can access short-term credit limits as needed, paying interest only for the duration of fund usage, ensuring affordability and transparency.

Exhibit 60: Digital small ticket instant loan



Source: Company, Emkay Research

What is unique about UGRO?

Diverse Sourcing

Since UGRO's inception, its leadership has held conviction that technology represents the future of lending in India. Their belief was firm, on technology playing a central role in effectively distributing credit to the MSME segment and leading to a complete transformation in MSME lending. UGRO has designed its sourcing & distribution channels to seamlessly blend technology with conventional & innovative business methods, aiming to achieve financial inclusion.

UGRO acquires customers through four specific channels: the Branch-Led Channel, Eco-system Channel, Direct Digital Channel, and Partnerships & Alliances Channel. Each channel is powered by unique technology modules developed in-house by UGRO Capital.

Exhibit 61: Diverse sourcing

Branch-Led Channel	Eco-system Channel	Direct Digital Channel	Partnerships & Alliances Channel
• UGRO Capital has a network of 98 branches, consisting of 23 Prime branches and 75 Micro branches. Through this branch network, UGRO serves the complete spectrum of MSME borrowers	• UGRO's Ecosystem channel maximizes the potential borrower base through specialized partnerships with 'Anchor' and 'OEM' partners within the industry. Additionally, UGRO Capital has successfully accomplished full-scale integration with the Government e-Marketplace (GeM) Sahay Portal	• UGRO's in-house Digital Lending Platform, the GRO X App, streamlines the borrowing process, allowing direct credit applications and reducing turnaround times. Utilizing advanced technology, the platform enhances credit accessibility for Indian SMEs, promoting financial inclusion	• UGRO Capital has formed key alliances with multiple FinTech firms and NBFCs in a collaborative lending setup. Working alongside more than 35 partners, these organizations initiate loan applications, with UGRO sharing a portion of the loan risk on its balance sheets. This expands UGRO's reach, enabling diverse financial solutions for MSMEs across India

Source: Company, Emkay Research

Exhibit 62: In-house tech platforms giving fillip to sourcing channels

Gro Plus	• Crafted for branch-led disbursements, this platform seamlessly integrates every aspect of digital underwriting, encompassing all traditional parameters. The system empowers GRO Partners (DSA network) to secure in-principle approvals within only 60 minutes.
GRO Chain	• GRO Chain serves as a comprehensive end-to-end platform designed for supply chain financing, addressing the needs of ecosystem anchors, vendor borrowers, and dealer/distributor borrowers.
GRO Xstream	• An advanced FinTech Platform, enabling seamless API integrations with partner systems, ensuring rapid processing times. It supports diverse transactions such as co-lending, onward lending, direct assignments, portfolio buyout, and securitization among BFSI partners.
GRO X	• GRO X App is a Direct Digital channel built to allow non intermediated loan applications from eligible SMEs.

Source: Company, Emkay Research

Data driven underwriting framework

The significance of data in lending is oft undervalued. UGRO recognizes data as pivotal for informed decisions and future strategies, and expects the digital revolution, involving India's OCEN and Account Aggregation Network (AA), to democratize data.

UGRO chose to specialize in MSME lending by focusing on specific sectors. After rigorous evaluation of >180 sectors over 18 months, involving a comprehensive analysis of macro and microeconomic factors with the assistance of market experts like CRISIL, UGRO narrowed down its focus to 9 sectors and >200 sub-sectors.

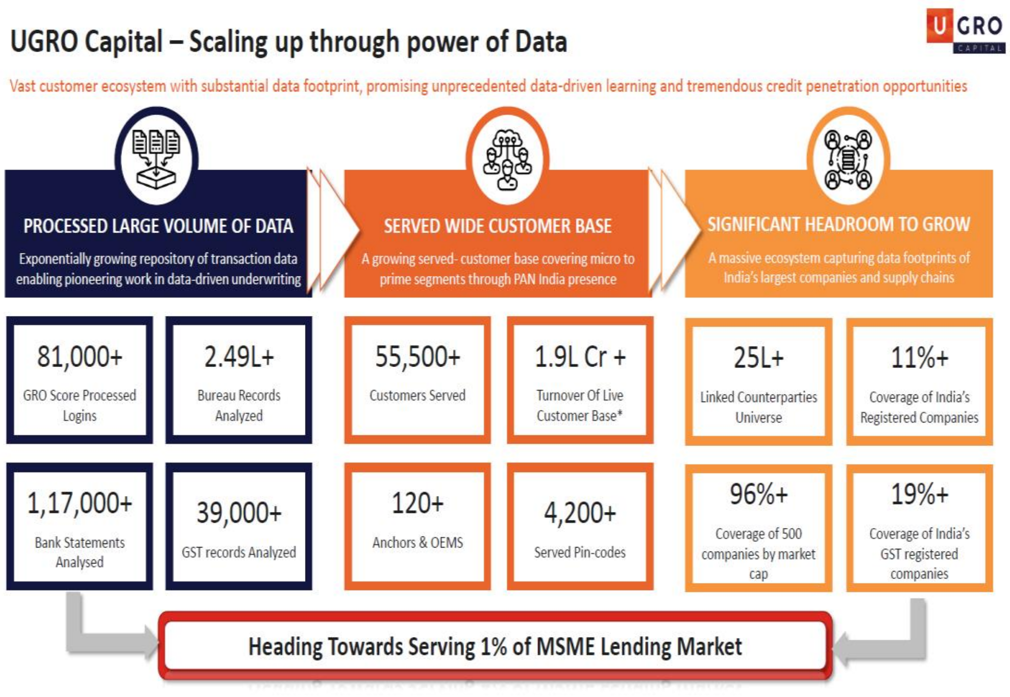
Exhibit 63: Analytically chosen sectors

Sector AUM mix	Q1FY24
Auto Comp.	6%
Chemicals	5%
Education	2%
Electrical Equip.	7%
Food Processing	10%
HealthCare	6%
Hospitality	3%
Light Engineering	23%
Micro Enterprises	23%
Other MSME	16%

Source: Company, Emkay Research

The digital transformation in the financial sector has increased the number of opportunities for meeting the demand for funds. The perfect balance between digitization and digitalization has paved the path for creative lending models. UGRO has adopted strong and comprehensive risk management ability, supported by sector-specific knowledge, expertise in data analytics, and advanced technology infrastructure.

Exhibit 64: Data to drive business growth



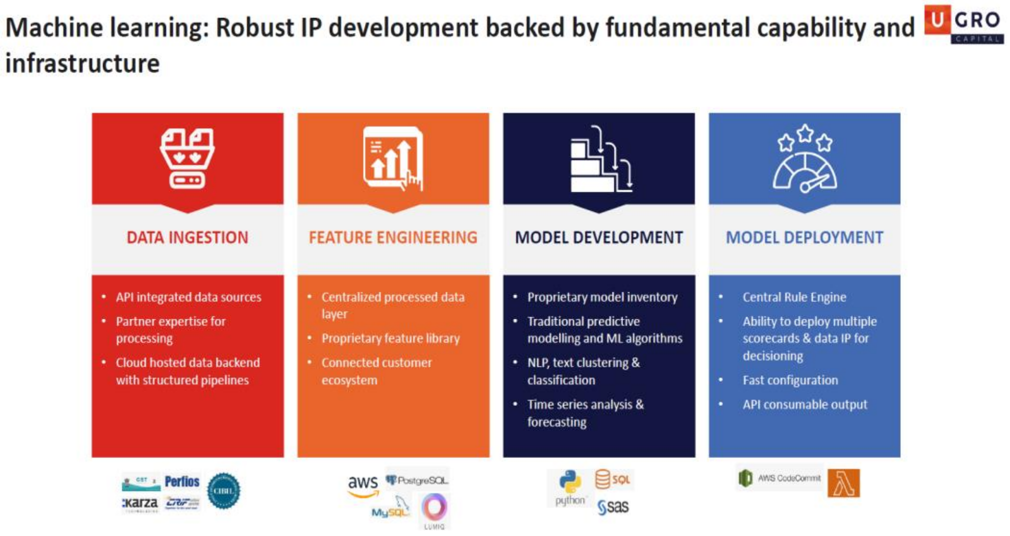
Source: Company

The introduction of GST (Goods & Services Tax) has proven beneficial for smaller entities, as it simplifies top-line reporting and enhances compliance. GST records, when combined with other financial factors like bank statements and bureau reports, provide valuable insights into an entity's repayment capabilities.

AI/ML reducing TAT

As more financial institutions gain access to this data and adhere to standard protocols, **cash-flow-based lending** models for MSMEs are gaining popularity. This development bodes well for India's MSME sector, ensuring easier and more convenient access to credit. UGRO's credit evaluation framework and data-driven solutions enable it to swiftly assess creditworthiness, customize financial products tailored to specific needs, and streamline loan processing for faster approvals.

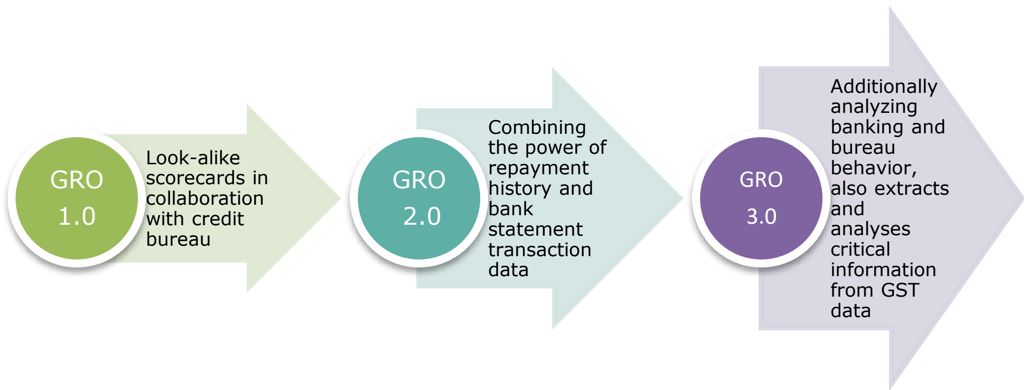
Exhibit 65: Leveraging tech to improve bandwidth



Source: Company

GRO Score: The company has introduced its exclusive scoring model, the GRO Score 3.0, an enhanced version of its proprietary scoring model, GRO Score 2.0 which assesses borrower creditworthiness by triangulating repayment history, banking behavior and GST. In addition to scrutinizing banking and bureau behavior, the company also extracts and analyzes crucial data from GST, which includes details such as sales momentum, purchasing patterns, profit margins, business scale, relationships with counterparts, product variety, and filing consistency. This comprehensive analysis enables the company to calculate and predict the probability of the company repaying the loan.

Exhibit 66: Evolving GRO Score



Source: Company, Emkay Research

Additionally, the company has integrated a predictive modeling-driven EWS framework to generate alerts for portfolio stage collections activities. UGRO has also established a robust supervisory risk evaluation and capital adequacy framework that comprehensively covers enterprise-level risks. This includes a detailed Internal Capital Adequacy Assessment Process (ICAAP) evaluation, which involves identifying and reviewing significant risks, assessing the forward-looking business model, and operationalization strategy.

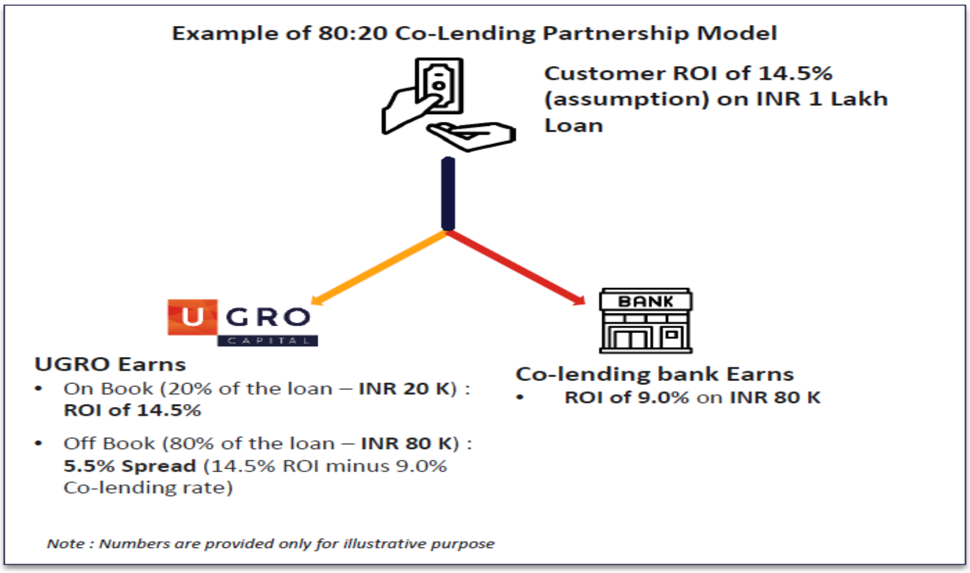
Partnering in growth by leveraging balance sheet of partners

In 2018, the Reserve Bank of India (RBI) introduced the co-origination framework, enabling collaboration between banks and NBFCs for loan origination. Later in 2020, these guidelines were revised and renamed 'co-lending models' (CLMs). The CLM aims to enhance credit accessibility for underserved sectors by leveraging the lower funding costs of banks and the extensive reach of NBFC/HFCs. This collaboration ensures that affordable funds are available to the end-beneficiaries, addressing the needs of previously overlooked economic segments.

Under the CLM, banks can partner with registered NBFCs (including HFCs) through prior agreements. The co-lending bank will take its share of individual loans on its books, while NBFCs are required to retain a minimum of 20% share of the loans. In terms of risk, both banks and NBFCs proportionally share credit risks in a back-to-back arrangement, as per their agreed-upon ratio. If a borrower defaults, both parties bear losses in accordance with their respective contributions.

In FY23, UGRO implemented several co-lending and co-origination agreements, establishing its leadership in the 'Lending as a Service' business model. As of Mar-23, UGRO has tied up with over 10 co-lending/co-origination partners (being large NBFCs and banks) for most of its product offerings.

Exhibit 67: Co-Lending is a value accretive model



Source: Company

Exhibit 68: UGRO and Co-Lending partner benefitting mutually

Benefits to UGRO

- High growth with lower equity capital
- Improved ROA and ROE due to enhanced leverage and higher spreads compared to on-balance sheet lending
- *Pari passu* risk sharing with the partner

Benefits to Partner Institution

- Lower risk weight and more granular portfolio
- Increased returns on a risk-adjusted basis due to no operating cost
- Build-out of the PSL portfolio

Source: Company, Emkay Research

Fortifying the defense line with strong collections and EWS framework

As its business requirements have increased, UGRO has fortified essential areas within various defense lines. This involved refining its team structures and increasing its staffing levels in analytics, credit, fraud control, and collections strategy. UGRO has built a strong dedicated collection team and Write-off policy, wherein assets are written off either partially or in their entirety only when the company has stopped pursuing the recovery. The write-off decisions will be taken by Management which would be based on suitable justification notes presented by the responsible business/collections team.

Also, UGRO has developed the 'Early Warning System' (EWS), which harnesses macro (industry consumption, regulatory changes) and micro indicators as well as consumer behavior (Credit score movement, loan defaults, and customer inquiries) for efficient collections. UGRO has recruited industry veterans for effectually resolving any issues, thus establishing its strength. UGRO is a highly professionalized entity, and is independently managed by the CXO team.

UGRO's Profile & Performance

UGRO Capital, a prominent non-deposit taking NBFC regulated by the RBI, transformed from 'Chokhani Securities Private Limited' to 'UGRO Capital Limited' in September 2018. In December 2017, Poshika Advisory Services LLP and Shachindra Nath took over management control.

Specializing in MSME lending, UGRO offers diverse financial solutions, including Secured LAP, Affordable LAP, Micro Enterprises Loans, Machinery Loans, Unsecured Business Loans, and Supply Chain Financing. Its clientele spans prime segment customers with ~12% interest rates to micro-enterprises with rates at ~19-25%. UGRO collaborates with banks, fintechs, and NBFC partners for co-lending, thus expanding its outreach across India.

UGRO's unique underwriting approach focuses on specific sectors. Initially selecting 8 sectors after an extensive 18-month evaluation of >180 sectors, the company refined its focus on sub-sectors, emphasizing those with significant credit demand and distinct risk profiles. Recognizing the influence of cash flow on very small businesses, Micro Enterprises became a key sector. These sectors represented over 50% of SME credit demand, offering UGRO substantial opportunities in the MSME lending arena.

Employing a sectoral lending strategy, UGRO identifies commonalities within the diverse MSME sector. By analyzing cash flow and repayment patterns within sectors, UGRO developed the innovative AI/ML-based scoring model: GRO Score. This model integrates data from banking, bureaus, and GST, assessing over 20,000 data points to make credit decisions within 60 minutes.

UGRO has crafted proprietary technology platforms tailored for each distribution channel, centering on its versatile Business Rule Engine (BRE). This BRE, devoid of product and distribution biases, relies solely on customer behavior. UGRO's data-driven approach permeates not only underwriting, but all aspects of the business, thus optimizing operations. Data analytics guides pivotal decisions; for instance, when selecting locations for micro enterprise branches, UGRO conducts detailed analyses by state and PIN code, focusing on business size and portfolio performance.

UGRO has also developed the EWS, which harnesses macro (industry consumption, regulatory changes) and micro indicators as well as consumer behavior (Credit score movement, loan defaults, customer inquiries) for efficient collections. To effectively navigate challenges, UGRO has on-boarded seasoned industry leaders, ensuring the organization's resilience. Independently managed by the CXO team, UGRO operates as a highly professionalized entity.

Exhibit 69: Performance (overall)

Key financial (Rs mn)	AUM	YoY	On Book AUM	Disbursement	Avg. Net Worth	PAT	YoY	PPoP	YoY	EPS (Rs)	YoY	BVPS (Rs)	PER (x)	PBR (x)	NIM (on BS)	Opex -to-AUM	Credit Cost-to-AUM	ROA	ROE	GS3	NS3
2021	13,170	53%	99%	25,140	9,370	287	47%	317	134%	4.1	38%	135.0	70.9	2.1	10%	7.1%	1.8%	1.9%	3.1%	2.7%	1.7%
2022	29,690	125%	84%	22,650	9,595	146	-49%	496	56%	2.1	-49%	137.0	140.0	2.1	9%	5.8%	1.6%	0.6%	1.5%	1.9%	1.4%
2023	60,810	105%	60%	46,410	9,753	398	173%	1,406	184%	5.7	176%	142.0	50.7	2.0	13%	5.4%	1.9%	1.1%	4.1%	1.6%	0.9%
2024E	94,314	55%	55%	61,174	14,033	1,319	232%	2,879	105%	14.4	154%	181.4	20.0	1.6	14%	4.0%	2.5%	2.6%	9.4%	2.0%	1.1%
2025E	1,42,145	51%	50%	83,739	20,906	2,683	103%	4,936	71%	24.9	72%	206.3	11.6	1.4	15%	3.6%	2.2%	4.0%	12.8%	2.0%	1.1%
2026E	1,94,467	37%	50%	1,03,736	24,083	3,671	37%	6,655	35%	34.0	37%	240.3	8.5	1.2	14%	3.2%	2.0%	4.0%	15.2%	2.0%	1.0%

Source: Company, Emkay Research

Secured property backed MSME Loan

Leveraging its expertise, UGRO has established a robust lending framework tailored for the MSME sector. UGRO categorizes its secured products into Prime Secure and Micro Enterprise Loans. Prime loans are facilitated through its prime branches in major cities, whereas Micro Loans are managed through its micro branches situated across five states (TN, Rajasthan, Gujarat, Karnataka, and Telangana).

Exhibit 70: AUM trend

AUM mix (Rs bn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total AUM	36,570	43,750	50,960	60,810	67,770	75,900
Prime - Secured Loans	11,500	12,940	14,620	17,270	19,860	21,600
QoQ growth	13%	13%	13%	18%	15%	9%
as % of total AUM	31%	30%	29%	28%	29%	28%
Micro Enterprise Loan	1,700	2,400	3,380	4,720	5,480	6,600
QoQ growth	60%	41%	41%	40%	16%	20%
as % of total AUM	5%	5%	7%	8%	8%	9%

Source: Company, Emkay Research

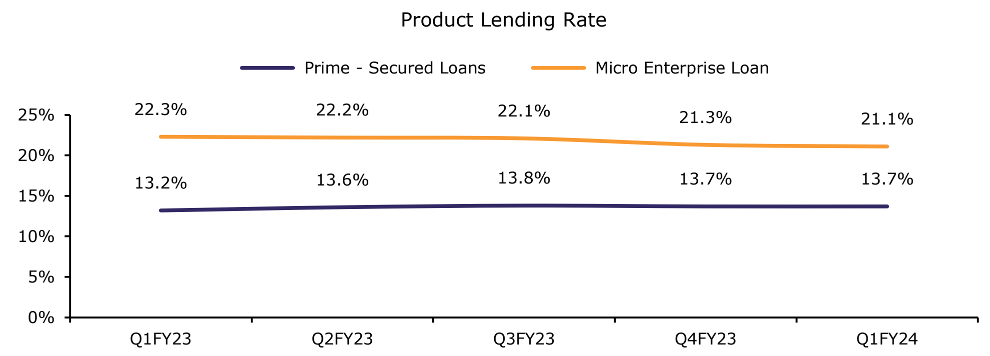
The prime secured product can be subdivided into Prime LAP and Prime Affordable LAP. The average ticket size for Prime LAP is approximately Rs15.1million, in contrast to around Rs0.35million for Affordable LAP. On the other hand, Micro Enterprise Loans constitute a distinct segment with an average ticket size of roughly Rs0.09million. Micro loans are fully secured against property, with a preference for self-occupied residential properties as collateral, and they carry a higher interest rate due to the customer profile.

Exhibit 71: Branch-led disbursement

Disbursement (Rs bn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total Disbursement (Net)	9,160	11,010	11,640	14,590	12,790	14,700
Prime - Secured Loans	1,920	2,510	2,940	3,600	3,630	3,000
QoQ growth		31%	17%	22%	1%	-17%
as % of total AUM	21%	23%	25%	25%	28%	20%
Micro Enterprise Loan	910	1,200	1,360	2,060	1,510	1,900
QoQ growth		32%	13%	51%	-27%	26%
as % of total AUM	10%	11%	12%	14%	12%	13%

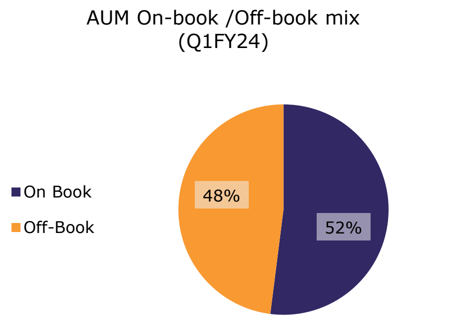
Source: Company, Emkay Research

Exhibit 72: UGRO maintains a balanced mix of prime and micro products, leading to stable margins



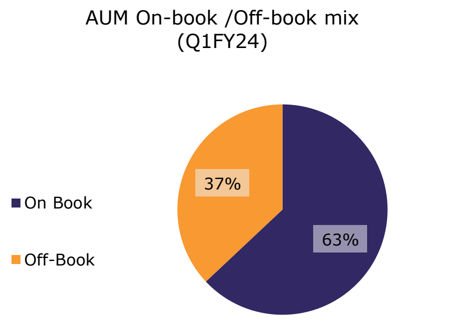
Source: Company, Emkay Research

Exhibit 73: AUM – Prime secured



Source: Company, Emkay Research

Exhibit 74: AUM Mix – Micro Enterprise Loan



Source: Company, Emkay Research

Unsecured/Quasi-secured Loans:

Unsecured loans can be sub-divided into:

Prime unsecured (Business Loans): Loan of up to Rs0.2mn through its prime branches located in major cities across India. The ATS for unsecured loan is ~Rs0.17mn, with average yield of ~19.6%

Machinery Financing: UGRO builds this business vertical by partnering with OEMs (~45 OEM partners) across Light engineering, Printing and Packaging, and has recently commenced renewable energy as part of its Machinery finance. ATS in Machinery finance is ~Rs0.35mn with average yield of ~13.4%. Keeping in mind the re-salability of assets financed, UGRO lends only against new machines (no part/spare funding).

Supply chain: In this business segment, UGRO has collaborated with approximately 63 anchors, extending loans to dealers and retailers associated with these anchors, to fulfill their short-term working capital needs. The supply-chain financing operates as a revolving credit facility, wherein customers are granted a specific credit limit based on their profile. They can withdraw funds from this limit for a period of 90 days. Financing in this product is done at an average rate of ~15%, with an ATS of ~Rs0.1mn.

Partnerships & Alliances: UGRO has partnered with multiple large PSU banks like Union Bank, Central Bank, BOB, Indian Overseas Bank, etc and leading technology companies like Poonawalla, Hinduja, Ambit, etc, to leverage its experience and resources.

Exhibit 75: Diverse product mix to serve the heterogeneous MSME segment

AUM mix (Rs bn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total AUM	36,570	43,750	50,960	60,810	67,770	75,900
Prime - Unsecured Loans	10,000	12,610	15,280	18,990	21,090	23,600
QoQ Growth	31%	26%	21%	24%	11%	12%
as % of total AUM	27%	29%	30%	31%	31%	31%
Supply Chain Financing	3,560	3,970	4,580	5,670	5,850	6,700
QoQ growth	24%	12%	15%	24%	3%	15%
as % of total AUM	10%	9%	9%	9%	9%	9%
Machinery Loan	3,610	4,650	5,640	7,010	7,980	8,900
QoQ growth	43%	29%	21%	24%	14%	12%
as % of total AUM	10%	11%	11%	12%	12%	12%
Partnerships & Alliances	6,200	7,180	7,460	7,150	7,500	8,500
QoQ growth	16%	16%	4%	-4%	5%	13%
as % of total AUM	17%	16%	15%	12%	11%	11%

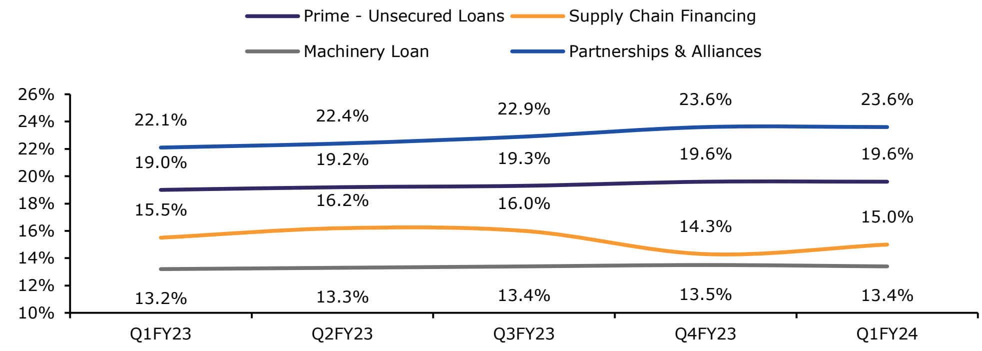
Source: Company, Emkay Research

Exhibit 76: Strong disbursement growth.

Disbursement mix (Rs bn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total Disbursement (Net)	9,160	11,010	11,640	14,590	12,790	14,700
Prime - Unsecured Loans	3,050	3,530	3,870	4,180	4,290	5,200
QoQ growth		16%	10%	8%	3%	21%
as % of total AUM	33%	32%	33%	29%	34%	35%
Supply Chain Financing (Net)	660	580	650	1,090	110	850
QoQ growth		-12%	12%	68%	-90%	673%
as % of total AUM	7%	5%	6%	7%	1%	6%
Machinery Loan	1,190	1,260	1,340	1,730	1,530	1,650
QoQ growth		6%	6%	29%	-12%	8%
as % of total AUM	13%	11%	12%	12%	12%	11%
Partnerships & Alliances	1,430	1,930	1,480	1,930	1,720	2,100
QoQ growth		35%	-23%	30%	-11%	22%
as % of total AUM	16%	18%	13%	13%	13%	14%

Source: Company, Emkay Research

Exhibit 77: High-yielding product mix



Source: Company, Emkay Research

DuPont Analysis

Exhibit 78: RoA/RoE expansion led by strong CLM, leading to higher ROE with moderate leverage

RoE decomposition (%;on average assets)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income/Avg assets	10.0	11.8	13.5	15.1	15.2	15.3
Interest expended/Avg assets	3.0	6.0	8.2	8.1	7.5	7.7
Net Interest Income / Avg. Assets	7.0	5.8	5.3	7.0	7.7	7.6
Income from Off B/s assets / Avg. Assets	0.0	1.2	4.3	4.1	5.1	4.8
Other Income / Avg. Assets	0.4	0.6	1.1	0.9	0.9	0.7
Income Yield / Avg. Assets	7.3	7.6	10.7	12.0	13.7	13.1
Op. Cost (Staff cost) / Avg Assets	3.1	3.2	3.9	3.5	3.7	3.4
Op. Cost (Other costs) / Avg Assets	2.1	2.3	2.9	2.7	2.6	2.4
Operating profit / Avg Assets	2.1	2.2	3.9	5.8	7.3	7.3
Total provisions / Avg. assets	1.3	1.3	1.6	2.2	2.0	1.9
Extraordinary items / Avg. assets	0.0	0.0	0.0	0.0	0.0	0.0
Other non-operating income	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Tax ROA	0.8	0.9	2.3	3.6	5.4	5.4
Tax Retention Rate	236.8	72.1	47.4	74.3	74.3	74.3
Post Tax ROA	1.9	0.6	1.1	2.6	4.0	4.0
Leverage = Avg. Assets / Avg. Equity	1.6	2.4	3.7	3.5	3.2	3.8
ROE (Leverage x ROA)	3.1	1.5	4.1	9.4	12.8	15.2

Source: Company, Emkay Research

Comparable Analysis

Exhibit 79: Comparable companies addressing the diverse MSME industry

Company	Product suit	Target Customer	ATS product wise	Average Yield	Branches/Location	Mix of Secured Portfolio
UGRO Capital	LAP Affordable LAP USL Machinery finance Supply chain finance	MSM,E including small business owners, retailers, traders, professionals, small manufacturers	LAP: ~Rs7.5mn USL: ~Rs1.7mn Affordable/Micro Secured: Rs0.9mn Supply Chain: ~Rs10.3mn Machinery Loan: ~Rs3.5mn Partnership: ~Rs0.5mn	Rate of interest ranges at 13-24%	98 branches: 23 Prime and 75 Micro Dominance in the South with 50% branches, followed by the West and the North, with 22% and 17% Micro branch presence in TN, Rajasthan, Gujarat, Karnataka, and Telangana	69% secured portfolio
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	Average computed yield of ~12%	155 branches, with strong dominance in the West at ~57%, followed by northern and Central India at ~38%. Major states being Gujarat, MP, Rajasthan and Maharashtra	75.6% secured portfolio
Five-Star Business Finance	Small ticket secured loan	Small business owners, Micro entrepreneurs, self-employed individuals	Average ticket size for loan is ~Rs0.35mn	Rate of interest ranges at 22-25%	Dominance in the South with ~386 branches in 9 states. Top states being TN and AP with more than 100 branches each, followed by Telangana and Karnataka	100% secured portfolio, with 99% of the mortgage collateral being residential property
HDB Financial Services	Consumer Loan Personal Loan Auto Loan TW Loan Gold Loan Unsecured BL LAP LRD CV & CE loan Tractor Financing Micro Loans	Individuals (Salaried & Self Employed) Small Business (Manufacturing & Services) Fleet owners	Ranges from small ticket consumer loans like PL, consumer durables and higher loan for mortgage LAP & LRD	Average computed yield of ~14%	Branch network spread across all regions, with marginally higher concentration in the North. Top 5 states being TN, MP, UP, Rajasthan and Gujarat	75.8% of the portfolio is secured
Vistaar Financial	Vistaar Business Loan (working capital need) Mortgage Loan Vistaar Property Loan (for purchase & Construction)	Small business with prime focus on Rural and Semi Urban	Vistaar Business Loan - Loan ranging at Rs1-5mn Mortgage Loan: up to Rs5mn Vistaar Property Loan: up to Rs5mn	Average computed yield of ~17.5%	Operates through its 205 branches, with presence in 12 states (Karnataka, UP, Gujarat, Maharashtra, Rajasthan, TN, MP, Odisha, AP, Haryana, Delhi and Telangana)	100% secured
Veritas Finance	MSME Secured & Unsecured Working capital TL LAP - construction loan	MSME customers in semi urban and rural locations	MSME Secured Rural: Rs0.1-1.5mn MSME Secured Semi Urban: -Rs1-3mn LAP – Construction: Rs0.5-1.5mn Working Cap. Secured: Rs0.2-1mn Working Cap unsecured: Rs0.05-0.2mn	For secured Product, ranges at 16-27% For unsecured product, ranges at 28-31%	Operates through its 287 branches, with presence in 8 states and 1 UT (TN, West Bengal, Karnataka, Odisha, MP, Telangana, AP, Jharkhand and Puducherry)	90.3% of the portfolio is secured
Capri Global	MSME loans Gold Loan Affordable housing Construction finance Indirect lending Car loan distribution	MSME, including small business owners, retailers, traders, Private schools, restaurants, Self Employed non-professionals	MSME: ~Rs1.4mn Affordable HL: ~Rs1.1mn Construction Finance: ~Rs93mn Gold Loan: ~Rs93.6k CAR Loan: ~Rs1.17mn	Average yield ranges at 12-17%	Total 171 non gold branches spread across Southeast and the North Gold loan branch network of 680 across India, with top-5 locations being Rajasthan, Haryana, MP, Gujarat and Maharashtra, contributing ~85%	~95% of the portfolio is secured against tangible property and ~4.5% is secured against book debt
SBFC Finance	Secured MSME Gold Loan	MSMEs, entrepreneurs and individual customers	MSME: ~Rs98.4mn Gold Loan: ~Rs85k	Average yield on loan is ~16.2%	Operates from 162 branches spread across 16 states, with presence in 120 cities and 2 UTs	97% of the portfolio is secured against property and gold
Paisalo Digital	Small Income generation loan Mobility Loan Entrepreneurial Loan	Entrepreneurs, small business owners and individuals	Ticket size ranges between Rs10k to Rs0.5mn	Average computed yield of ~15%	Business is operated from 220 branches and 1,052 touch points, spread across 18 states	97.3% of the portfolio is secured

Source: Company, Emkay Research

Exhibit 80: AUM growth remained strong for all comparable companies, with UGRO leading the pack, led by product mix and strategic partnership

AUM (Rs bn)	FY22	FY23	YoY growth
UGRO Capital	29,690	60,810	105%
HDB Financial Services	6,14,440	7,00,840	14%
SBFC Finance	31,922	49,428	55%
MAS Financial Services	62,468	80,926	30%
Capri Global	66,329	1,03,204	56%
Five-Star Business Finance	50,671	69,148	36%
Vistaar Financial	24,200	31,320	29%
Veritas Finance	21,874	35,337	62%
Paisalo Digital	26,973	34,928	29%

Source: Company, Emkay Research

Exhibit 81: Disbursement for UGRO was accelerated on account of the company's diverse business sourcing channel – In-house/Channel/Partnerships

Disbursement (Rs bn)	FY22	FY23	YoY Growth
UGRO Capital	22,650	46,410	105%
HDB Financial Services	NA	NA	NA
SBFC Finance	13,328	22,768	71%
MAS Financial Services	NA	NA	NA
Capri Global	NA	NA	NA
Five-Star Business Finance	17,562	33,914	93%
Vistaar Financial	8,995	13,835	54%
Veritas Finance	11,883	22,447	89%
Paisalo Digital	16,343	25,996	59%

Source: Company, Emkay Research

Exhibit 82: Despite high CoFs, UGRO Capital is able to maintain NIM at ~8%, on account of ~4% excess spread earned on its off-book lending portfolio

	Yield	CoFs	Spread	NIM +Fees	Opex-to-AUM	Credit Cost	GS3	NS3
UGRO Capital	15.8%	11.8%	3.9%	8%	5.4%	1.3%	1.6%	0.9%
HDB Financial Services	13.6%	7.8%	5.8%	21%	7.3%	0.3%	1.4%	0.7%
SBFC Finance	16.1%	6.8%	9.3%	14%	7.5%	2.0%	2.7%	1.0%
MAS Financial Services	11.8%	9.3%	2.4%	12%	6.2%	1.1%	3.8%	2.4%
Capri Global	13.8%	9.3%	4.4%	18%	8.2%	1.6%	2.2%	1.3%
Five-Star Business Finance	25.0%	9.3%	15.7%	11%	7.1%	0.8%	2.7%	1.4%
Vistaar Financial	17.3%	8.3%	9.1%	11%	5.7%	0.8%	2.4%	1.4%
Veritas Finance	22.8%	9.5%	13.3%	7%	2.4%	0.7%	2.2%	1.5%
Paisalo Digital	15.2%	11.5%	3.6%	9%	2.6%	1.8%	0.3%	0.02%

Source: Company, Emkay Research

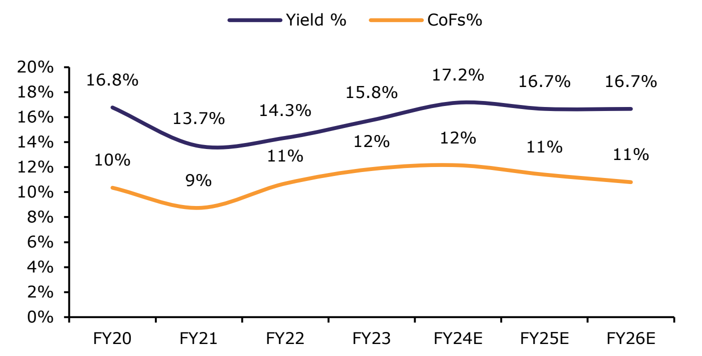
Exhibit 83: DuPont analysis

DuPont (FY23)	UGRO Capital	Five-Star Business Finance	HDB Financial Services	Vistaar Financial	Veritas Finance	Capri Global	SBFC Finance	MAS Financial Services	Paisalo Digital
Interest income/Avg Assets	13.5%	19.9%	13.5%	15.6%	19.4%	12.3%	12.7%	11.8%	15.4%
Interest expended/Avg Assets	8.2%	3.5%	5.3%	6.5%	5.0%	5.6%	5.4%	6.9%	6.8%
Net Interest Income / Avg. Assets	5.3%	16.4%	8.2%	9.1%	14.4%	6.7%	7.4%	4.8%	8.6%
Other Income / Avg. Assets	5.4%	0.4%	5.3%	1.9%	0.8%	3.1%	1.5%	2.0%	0.1%
Income Yield / Avg. Assets	10.7%	16.8%	13.5%	10.9%	15.2%	9.8%	8.9%	6.9%	8.7%
Op. Cost (Staff cost) / Avg Assets	3.9%	4.6%	6.1%	4.3%	5.0%	4.3%	3.1%	1.0%	1.1%
Op. Cost (Other costs) / Avg Assets	2.9%	1.2%	1.3%	1.3%	2.0%	2.1%	1.4%	1.4%	1.5%
Operating profit / Avg Assets	3.9%	11.0%	6.0%	5.3%	8.2%	3.5%	4.4%	4.5%	6.1%
Total provisions / Avg. Assets	1.6%	0.3%	2.0%	1.0%	1.4%	0.7%	0.6%	0.7%	1.8%
(Extraordinary + Non-operating income) / Avg. Assets	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.0%	-0.1%
Pre-Tax ROA	2.3%	10.7%	4.0%	4.4%	6.9%	2.8%	3.9%	3.8%	4.1%
Tax Retention Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Post Tax ROA	1.1%	8.0%	3.0%	3.2%	5.2%	2.2%	2.9%	2.9%	3.1%
Leverage = Avg. Assets / Avg. Equity	3.7	1.9	6.3	3.7	2.2	3.5	3.4	5.0	2.8
ROE (Leverage x ROA)	4.1%	15.0%	18.7%	12.0%	11.8%	7.5%	9.9%	14.5%	8.6%

Source: Company, Emkay Research

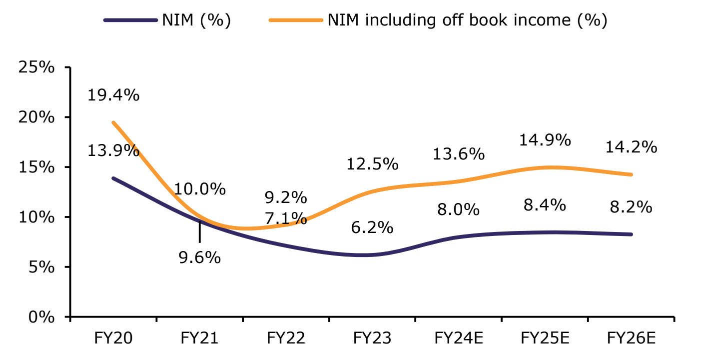
Story in Charts:

Exhibit 84: Declining CoFs to support profitability



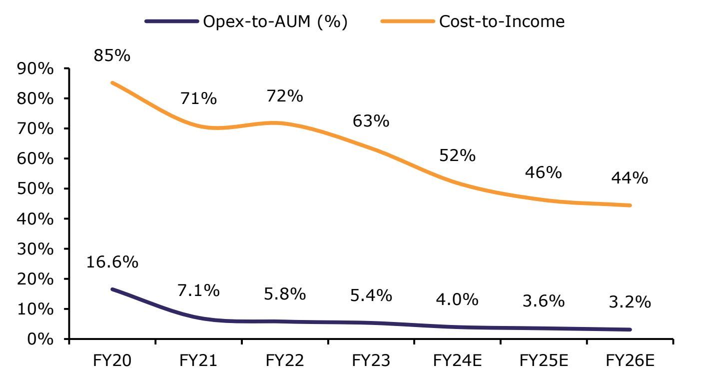
Source: Company, Emkay Research

Exhibit 85: Higher NIMs on off-book lending



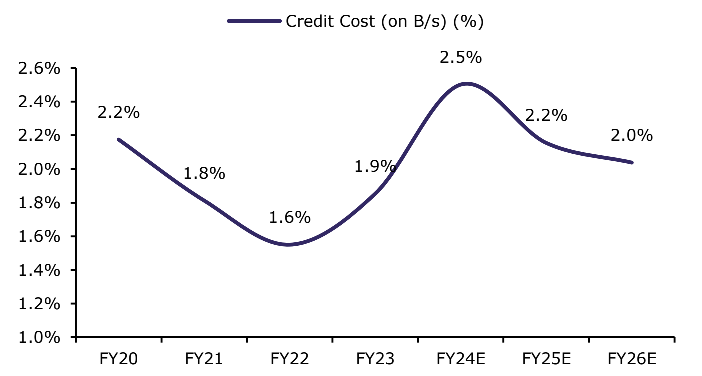
Source: Company, Emkay Research

Exhibit 86: Opex-to-AUM normalizes, as operating leverage kicks in



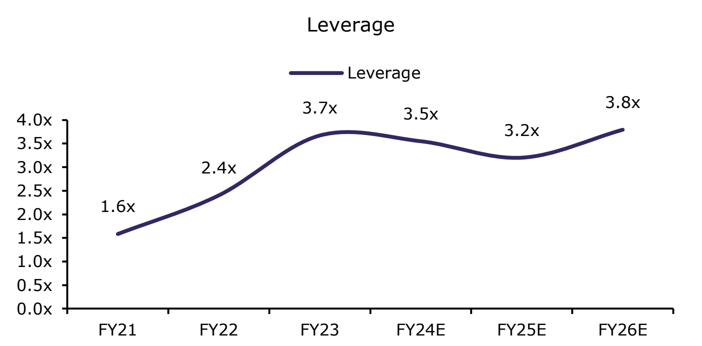
Source: Company, Emkay Research

Exhibit 87: Superior underwriting to keep credit cost in control



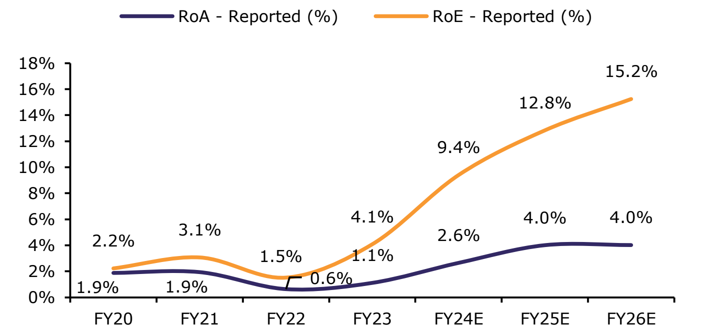
Source: Company, Emkay Research

Exhibit 88: Leveraging partnerships with banks and NBFCs to improve margins



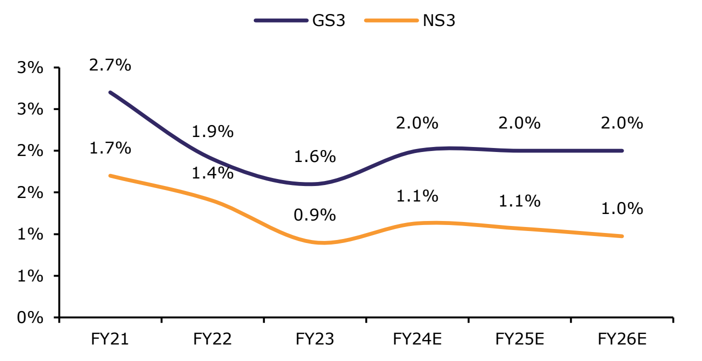
Source: Company, Emkay Research

Exhibit 89: ROA/ROE expected to expand with business growth



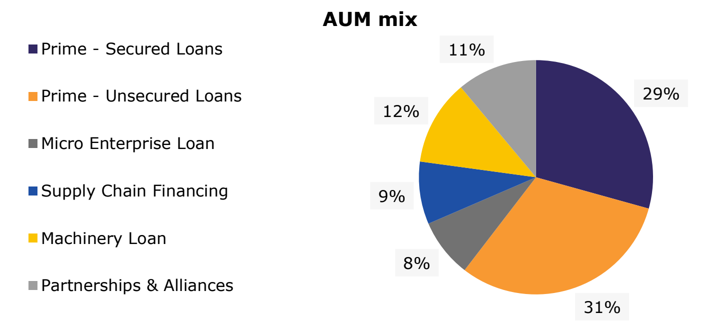
Source: Company, Emkay Research

Exhibit 90: Superior underwriting and strong collection & EWS leading to stable asset quality



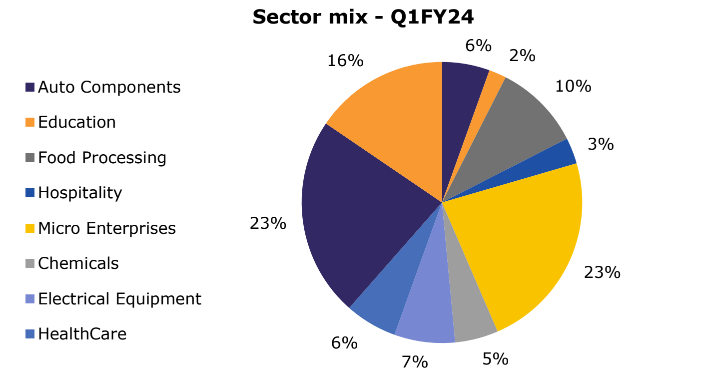
Source: Company, Emkay Research

Exhibit 91: Diverse product offering for every need



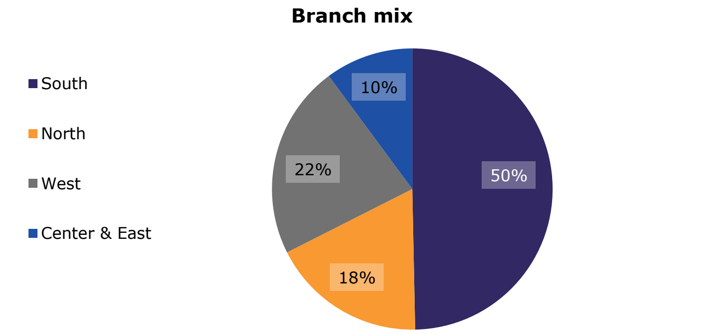
Source: Company, Emkay Research

Exhibit 92: Lending based on expertise



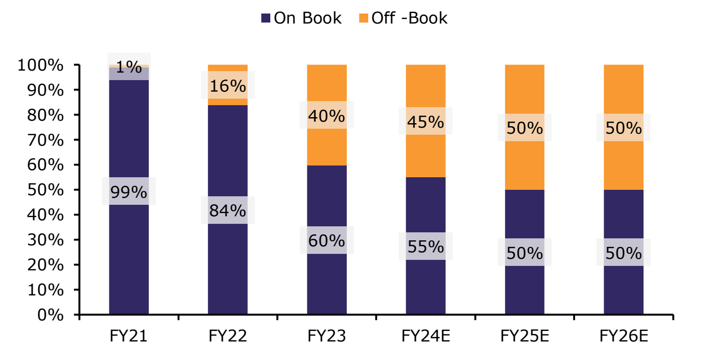
Source: Company, Emkay Research

Exhibit 93: Expanding reach to cater to the underserved



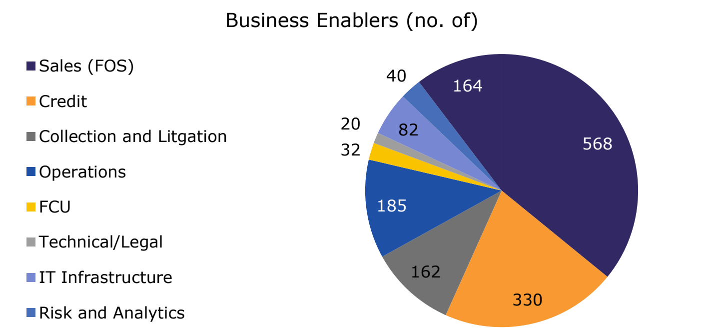
Source: Company, Emkay Research

Exhibit 94: Partnership business model to reach 50% by FY26E



Source: Company, Emkay Research

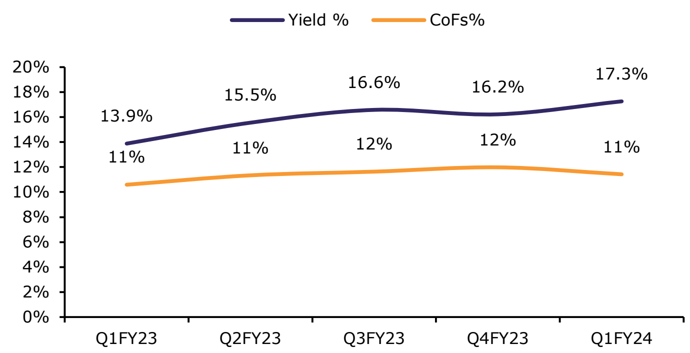
Exhibit 95: Dedicated team of analytics supported by 'others', leading to improved productivity of the business team



Source: Company, Emkay Research

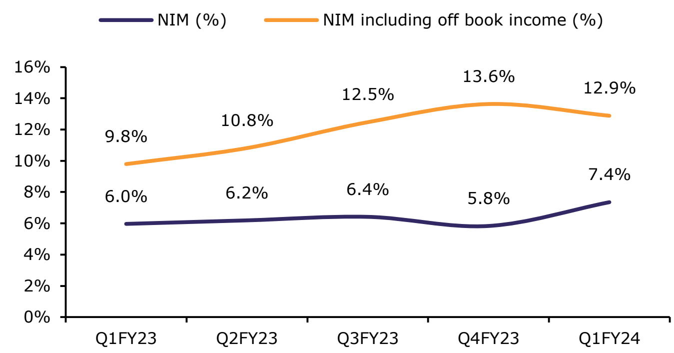
Quarterly Performance

Exhibit 96: Growing yield led by increasing mix of high-yielding product



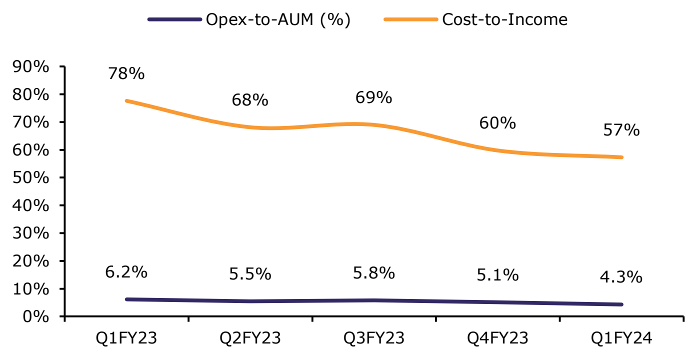
Source: Company, Emkay Research

Exhibit 97: Spread on off-book portfolio improving overall NIMs



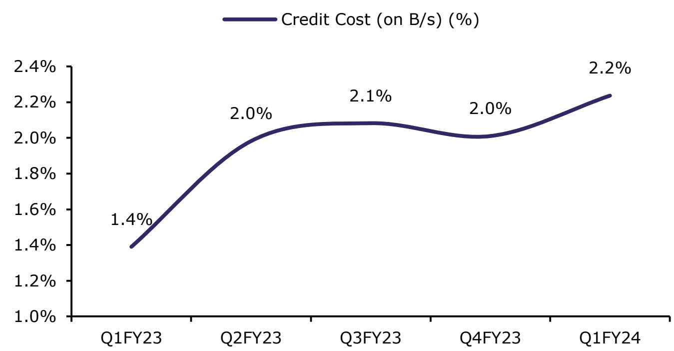
Source: Company, Emkay Research

Exhibit 98: Cost-to-Income expected to improve with increasing scale



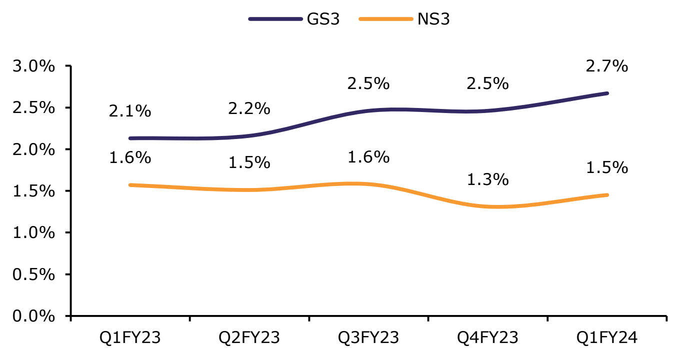
Source: Company, Emkay Research

Exhibit 99: Credit cost to remain stable at 2% over the longer term



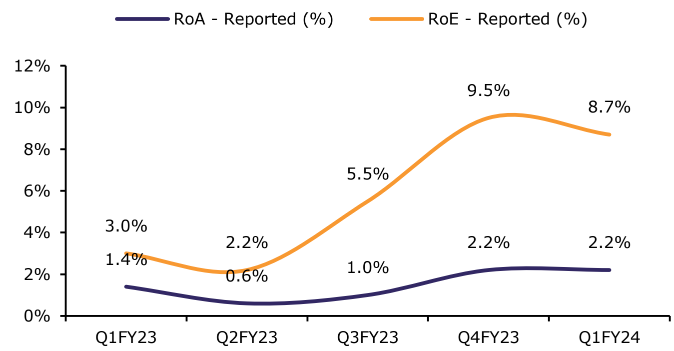
Source: Company, Emkay Research

Exhibit 100: Prudent underwriting leading to better asset quality.



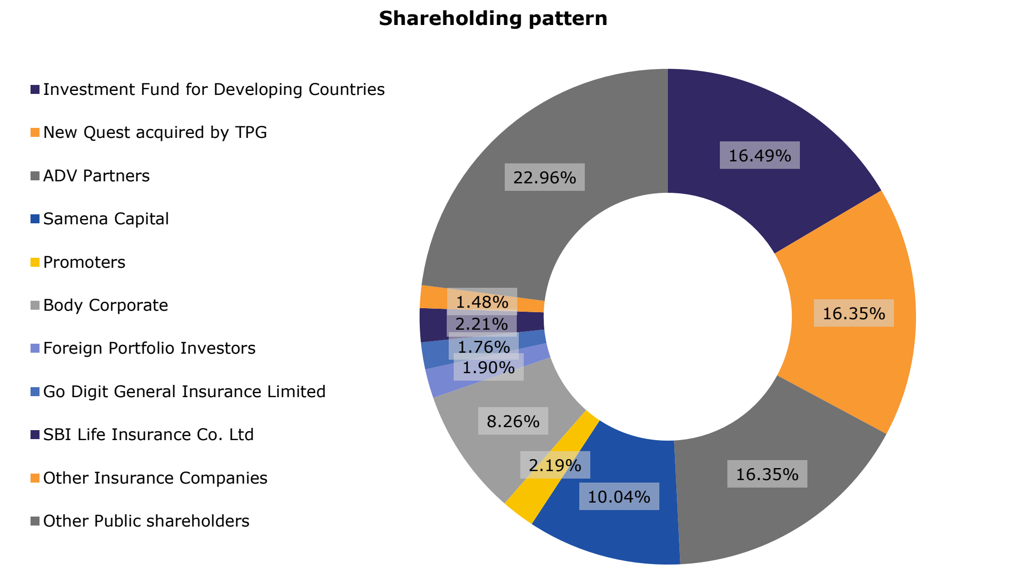
Source: Company, Emkay Research

Exhibit 101: Co-lending results in improving margin, leading to RoA/RoE expansion



Source: Company, Emkay Research

Exhibit 102: Distribution of shareholding



Source: Company, Emkay Research

Exhibit 103: Experienced management in place, set to deliver growth

Managing Team	Designation	Details
Amit Mande	Chief Revenue Officer	Mr. Mande, drawing from his extensive experience in profitable asset businesses and technology, aims to establish a diverse MSME lending franchise using digitization and data analytics. Amit oversees business scaling and manages teams across various product verticals. With a career spanning 22 years at institutions like Standard Chartered Bank, ABN AMRO Bank, and Barclays Bank, he brings invaluable expertise to the role.
Anuj Pandey	Chief Risk Officer	Mr. Pandey, a founding member of UGRO Capital, specializes in creating practical risk models using analytics and technology. With over 20 years of experience from renowned companies like Barclays Bank, ABN AMRO Bank, GSK Consumer, and Religare Finvest, he focuses on developing innovative products and programs to streamline credit access for SMEs.
Kishore Lodha	Chief Financial Officer	Mr. Lodha, brings with him >20 years of experience and, has been associated with organizations like Future Group and SREI Infrastructure. In his previous role he worked as the CFO of Hinduja Leyland Finance. He has held various offices in the finance domain ranging from managing accounting, taxation, financial controller, RBI Compliances and Treasury function.
Sunil Lotke	Chief Legal and Compliance Officer	Mr. Lotke, UGRO Capital's Chief Officer – Legal, Compliance & Secretarial, possesses 20 years of experience in Legal, Compliance, and Corporate Secretarial matters. He specializes in Financial Services Legislations, Capital Market transactions, Corporate Restructuring, and Securities Regulations. Formerly with InCred Financial Services, he led the Legal & Compliance function and has worked with notable organizations such as Reliance Group, Future Capital Holdings, IIFL Group, and StarAgri Finance.
J. Sathiayan	Chief Business Officer	Mr. Sathiayan, a finance and banking expert, brings over two decades of experience in SME & Business Finance, Retail Liabilities and Assets, Third Party Products Distribution, and financial services. In his role as Chief Business Officer at UGRO, he is instrumental in expanding the company's presence across India. Previously, he held significant positions such as Vice President at ABN Amro Bank N.V. and Director at Religare Finvest Limited.
Pia Shome	Chief People Officer	Mrs. Shome, UGRO Capital's Chief People's Officer, brings over 19 years of expertise in HR, Change Management, Organization Transformation, and Culture Building. With leadership roles at SMEcorner, IDFC First Bank, RBL, DBS Bank, Barclays, and TCS eServe International, she has gained recognition for her result-oriented approach, being named an HR 40 under Forty by Jombay and ET Now.
Rishabh Garg	Chief Technology Officer	Mr. Garg, UGRO Capital's Chief Technology Officer, brings over 20 years of diverse technology experience, including senior leadership and entrepreneurship. He co-founded GramCover, a rural insurtech firm, and served as VP Technology at Biz2Credit, specializing in SME Financing. His expertise extends from roles at Agnity, SAP Labs, and Infosys.
Subrata Das	Chief Innovation Officer	Mr. Das, UGRO Capital's Chief Innovation Officer, is dedicated to data-driven decision-making and creating innovative customer solutions. With over 17 years of experience in financial services, he has worked at Standard Chartered Bank, India Infoline Finance, and Fractal. His expertise lies in setting up and scaling analytics teams, developing solutions for various business aspects including credit scoring, risk assessment, portfolio management, and more, covering both consumer and commercial sides of retail lending.

Source: Company, Emkay Research

Exhibit 104: Board members

Name	Position	Details
Satyananda Mishra	Non-Executive Chairman and Independent Director	Mr. Mishra, former Chief Information Commissioner of India (December 2010 to September 2013), boasts of over 40 years of distinguished service in the Indian Administrative Services (batch of 1973). He held significant roles, including Chairman and Non-Executive Independent Director at the Multi Commodity Exchange of India Limited (November 2013 to November 2016) and Director at the SIDBI until 2018. He also served as Secretary for key government departments, such as the Department of Personnel & Training, Public Works Department, and Department of Culture (MP Government).
Shachindra Nath	Vice Chairman and Managing Director	Mr. Nath took on the role of an entrepreneur by acquiring control of a listed NBFC called Chokhani Securities. Currently, he serves as the Vice Chairman & Managing Director of UGRO Capital. Prior to his entrepreneurial venture at UGRO Capital, Mr. Nath played a significant role in establishing insurance companies, global asset management businesses, capital markets, and lending institutions. He has notably built two insurance firms, a large asset management company, and an NBFC. Among his achievements are the creation of new business verticals, successful joint ventures, and partnerships for the group.
Karuppasamy Singam	Independent Director	Mr. Singam, with a strong background in economics and banking, held the position of Executive Director at the Reserve Bank of India (RBI) and served as the RBI Nominee Director at Indian Bank. He played key roles in prominent working groups related to areas like urban cooperative banks, cross-border supervision, and integrated alert systems.
Abhijit Sen	Independent Director	Mr. Sen acts as an External Advisor for E&Y in Banking and Financial Services. He serves on various boards, including Kalyani Forge Ltd, Manappuram Finance Ltd, and Tata Investment Corporation Ltd. Additionally, he chairs the Audit Committees at Kalyani Forge and participates in several other Board Committees. Previously, he served as the CFO at Citi India for over 18 years and was on the Board of National Securities Depository Ltd, also advising General Atlantic.
Karnam Sekar	Independent Director	Mr. Sekar is a seasoned banker with extensive experience in various aspects of Indian Banking, having served at a senior level. He started his career as a Probationary Officer with SBI and advanced to the position of Deputy Managing Director. He was also appointed as the Managing Director of a Public Sector Bank, where he led two public sector banks during crucial periods in their history.
Hemant Bhargava	Independent Director	Mr. Bhargava, who served LIC for 38 years, retiring as Managing Director in July 2019, demonstrated diverse expertise in roles both in India and abroad, building multi-dimensional experience in different capacities, especially in Marketing, Internal Operations, and new ventures.
Rajeev Krishnamuralilal Agarwal	Independent Director	Mr. Agarwal, with nearly three decades of experience in the Indian financial services sector, held prominent positions at organizations including the SEBI and the Forward Markets Commission, his term as Whole Time Member at SEBI ended in Nov-16. He has a strong ability to build and maintain relationships within the community. He played a key role in framing regulations for the liberalized Commodities Markets during his tenure as a Member of the Forward Markets Commission.
Smita Aggarwal	Independent Director	Mrs. Aggarwal, a renowned fintech investor, is regarded highly in the industry. She possesses extensive expertise in venture capital, financial inclusion, digital banking, and micro-insurance. Currently serving as the Global Investments Advisor for Flourish Ventures, she spearheads investments in innovative fintech startups that enhance financial health and inclusion in Asia. With three decades of finance experience, she has played pivotal roles at organizations such as Omidyar Network, Fullerton India Credit, Reserve Bank of India, and ICICI Bank, demonstrating a track record of building businesses and driving growth through innovation.
Amit Gupta	Non-Executive Director	Mr. Gupta, a Partner at TPG NewQuest in Singapore, supervises TPG NewQuest's businesses in India and Southeast Asia, along with investments in the financial services and power sectors across the Asia Pacific. With over 18 years of industry experience, he previously directed Bank of America Merrill Lynch's Asia Private Equity Group, focusing on India and investments in energy and financial services across the region.
Chetan Kulbhushan Gupta	Vice Chairman and Managing Director	Mr. Gupta, Senior Executive Officer at Samena Capital Investments Limited in Dubai, focuses on sustainable and profitable long-term growth by balancing the interests of the company, shareholders, and stakeholders. His background includes roles as an Equity Research Analyst at Tricolor India Fund and participation in the General Electric Financial Management Leadership Program, specializing in financial planning and analysis.
Manoj Sehrawat	Non-Executive Director	Mr. Sehrawat, Partner at ADV Partners, has 22 years of experience in financial services, specializing in private equity, distress debt acquisition, and corporate restructuring in India. He excels in building new business relationships and adapting to diverse environments. Previously, he was MD at ADV and VP at JP Morgan's Asia Special Situations Group. He also played a key role in acquiring Non-Performing Loans at ARCIL from banks and financial institutions.

Source: Company, Emkay Research

UGRO Capital : Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	2,721	4,829	7,571	10,239	14,016
Interest Expense	1,373	2,933	4,055	5,047	7,077
Net interest income	**1,348**	**1,896**	**3,516**	**5,191**	**6,940**
NII growth (%)	30.2	40.7	85.4	47.6	33.7
Non interest income	399	1,944	2,464	3,990	5,038
Total income	**1,747**	**3,841**	**5,980**	**9,181**	**11,977**
Operating expenses	1,251	2,435	3,101	4,245	5,322
PPOP	**496**	**1,406**	**2,879**	**4,936**	**6,655**
PPOP growth (%)	56.2	183.6	104.7	71.4	34.8
Provisions & contingencies	294	568	1,104	1,325	1,715
PBT	**202**	**838**	**1,775**	**3,612**	**4,940**
Extraordinary items	0	0	0	0	0
Tax expense	56	441	456	928	1,270
Reported PAT	**146**	**398**	**1,319**	**2,683**	**3,671**
PAT growth (%)	(49.3)	173.4	231.6	103.5	36.8
Adjusted PAT	**146**	**398**	**1,319**	**2,683**	**3,671**
Diluted EPS (Rs)	**2.1**	**5.7**	**14.4**	**24.9**	**34.0**
Diluted EPS growth (%)	(49.4)	176.2	153.8	72.3	36.8
DPS (Rs)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Dividend payout (%)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Effective tax rate (%)	27.9	52.6	25.7	25.7	25.7
Net interest margins (%)	9.2	12.5	13.6	14.9	14.2
Cost-income ratio (%)	71.6	63.4	51.9	46.2	44.4
PAT/PPOP (%)	29.3	28.3	45.8	54.4	55.2
Shares outstanding (mn)	70.6	69.3	107.8	107.8	107.8

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	706	693	1,078	1,078	1,078
Reserves & surplus	8,960	9,147	18,486	21,169	24,840
Net worth	**9,666**	**9,840**	**19,564**	**22,248**	**25,918**
Borrowings	**18,022**	**31,489**	**35,273**	**53,304**	**77,787**
Other liabilities & prov.	**861**	**1,726**	**1,725**	**1,725**	**1,725**
Total liabilities & equity	**28,549**	**43,056**	**56,563**	**77,277**	**1,05,430**
Net loans	24,511	38,064	49,888	68,536	93,590
Investments	694	601	848	1,159	1,581
Cash, other balances	1,884	2,118	3,434	5,056	7,582
Interest earning assets	**27,089**	**40,783**	**54,171**	**74,752**	**1,02,754**
Fixed assets	43	38	38	38	38
Other assets	1,417	2,235	2,354	2,487	2,639
Total assets	**28,549**	**43,056**	**56,563**	**77,277**	**1,05,430**
BVPS (Rs)	137.0	142.0	181.4	206.3	240.3
Adj. BVPS (INR)	137.0	142.0	181.4	206.3	240.3
Gross loans	24,880	38,677	51,872	71,073	97,233
Total AUM	**29,690**	**60,810**	**94,314**	**1,42,145**	**1,94,467**
On balance sheet	24,910	36,390	51,872	71,073	97,233
Off balance sheet	4,780	24,420	42,441	71,073	97,233
Disbursements	22,650	46,410	61,174	83,739	1,03,736
Disbursements growth (%)	(9.9)	104.9	31.8	36.9	23.9
Loan growth (%)	91.1	55.3	31.1	37.4	36.6
AUM growth (%)	125.4	104.8	55.1	50.7	36.8
Borrowings growth (%)	135.4	74.7	12.0	51.1	45.9
Book value growth (%)	1.4	3.6	27.8	13.7	16.5

Source: Company, Emkay Research

Asset quality and other metrics

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
GNPL - Stage 3	564	957	1,401	1,990	2,820
NNPL - Stage 3	415	499	560	637	790
GNPL ratio - Stage 3 (%)	2.3	2.5	2.7	2.8	2.9
NNPL ratio - Stage 3 (%)	1.7	1.3	1.1	0.9	0.8
ECL coverage - Stage 3 (%)	27.0	49.0	60.0	68.0	72.0
ECL coverage - 1 & 2 (%)	0.0	0.0	0.0	0.0	0.0
Write-off ratio (%)	0.8	0.3	0.8	0.8	0.8
Total credit costs (%)	1.6	1.9	2.5	2.2	2.0
NNPA to networth (%)	4.3	5.1	2.9	2.9	3.0
Capital adequacy					
Total CAR (%)	34.5	20.2	34.8	30.3	26.0
Tier-1 (%)	33.6	19.6	34.3	29.9	25.7
Miscellaneous					
Total income growth (%)	60.6	119.9	55.7	53.5	30.5
Opex growth (%)	62.4	94.6	27.4	36.9	25.4
PPOP margin (%)	2.6	4.6	6.5	8.0	7.9
Credit costs-to-PPOP (%)	59.3	40.4	38.3	26.8	25.8
Loan-to-Assets (%)	85.9	88.4	88.2	88.7	88.8
Yield on loans (%)	14.3	15.8	17.2	16.7	16.7
Cost of funds (%)	10.7	11.8	12.1	11.4	10.8
Spread (%)	3.6	3.9	5.0	5.3	5.9

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	140.0	50.7	20.0	11.6	8.5
P/B (x)	2.1	2.0	1.6	1.4	1.2
P/ABV (x)	2.1	2.1	1.8	1.5	1.3
P/PPOP (x)	41.1	14.3	9.1	6.3	4.7
Dupont-RoE split (%)					
NII/avg AUM	7.1	6.2	8.0	8.4	8.2
Other income	2.1	6.3	5.6	6.5	6.0
Securitization income	0.0	0.0	0.0	0.0	0.0
Opex	2.8	3.4	3.0	2.9	2.6
Employee expense	3.8	4.6	4.0	4.0	3.7
PPOP	**2.6**	**4.6**	**6.5**	**8.0**	**7.9**
Provisions	1.6	1.9	2.5	2.2	2.0
Tax expense	0.3	1.4	1.0	1.5	1.5
RoAUM (%)	**0.8**	**1.3**	**3.0**	**4.4**	**4.4**
Leverage ratio (x)	2.0	3.1	3.1	2.9	3.5
RoE (%)	**1.5**	**4.1**	**9.4**	**12.8**	**15.2**

Quarterly data

Rs mn, Y/E Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	400	463	515	507	688
NIM(%)	9.8	10.8	12.5	13.6	12.9
PPOP	197	324	389	511	566
PAT	73	53	131	140	252
EPS (Rs)	1.04	0.75	1.89	2.03	3.06

Source: Company, Emkay Research

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