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The GROWth stage is in place

We initiate coverage on UGRO Capital (UGRO) with a BUY rating and a Target Price of Rs395, premised on 2.0x 1HFY26E P/ABV, offering 49% upside. UGRO Capital is a tech-enabled NBFC with exclusive lending focus on MSME segment. Our positive stance is underpinned by (1) large TAM in MSME lending; (2) strong productivity metrics vis-à-vis peers reflecting scalability of business model; (3) efficient systems and processes backed by data analytics giving comfort on asset quality; (4) capital efficient co-lending/co-origination aiding AUM growth and profitability; and (5) improvement in RoA/RoE profile as mix of high yield book rises and operating leverage plays out. We expect AUM/EPS CAGR at 42%/67% over FY24-26E with RoA and RoE of 3.6% and 14.4%, respectively in FY26E. Sustained growth and profitability to support re-rating in stock, in our view. At CMP, UGRO is trading at 1.4x/1.3x FY25E/FY26E P/ABV.

Scalable business model in evolving MSME eco-system

Credit gap in MSME segment is a well-established fact. UGRO was incorporated with a belief that MSME credit gap could be solved by use of data and technology. It carefully filtered eight sectors based on homogeneity of cash flows. This supported large scale underwriting with low risk. It raised Rs9.2bn+ capital in FY19, however, series of credit events and disruption due to covid led to slow growth from FY19 to 1QFY22. The company embarked on growth phase from 2QFY22 and currently enjoys the best productivity metrics vis-à-vis peers. Its AUM/branch (FY23) stood at Rs644mn, almost 2.2x of peer average of Rs298mn and AUM/Employee was at Rs43.3mn, against peer average of Rs25mn. Technological prowess, data analytics and template based underwriting ensured faster growth without diluting credit filters.

Strong system, policies and data backed underwriting gives comfort on asset quality

UGRO follows Data Tech Approach to underwriting along with traditional methods to maintain the quality of portfolio. With sectoral approach the company identified homogeneity of cash flows and repayment behaviour in the chosen sectors and developed GRO score, tool for scoring customers. GRO score is in its version 3 and is using the trinity of banking, bureau and GST data to score customers across bands. Default rates for disbursals approved by GRO score is one-third of non-disbursed cases, reflecting its analytical prowess. In addition, company also follows traditional 'touch and feel' based checking process to maintain sanctity of the loan portfolio. Notably, 30+ dpd has hovered in the range of 4-5% over the last 9 quarters suggesting controlled forward flows. Stage 3 on 1-yr lag basis is controlled at 3.3% over the last 5 quarters.

Operating leverage at play as scale builds up

We expect RoAs to improve from 2.3% in 2QFY23 to 3.6% in FY26E driven by (1) increase in share of capital efficient co-lending/co-origination to 50%, and (2) improved operating leverage as Opex/Avg. assets reduce from 7.0% to 5.8% by FY26E. We expect UGRO to triple its AUM to Rs193.5bn by FY26E, however, expenses are likely to grow at a slower pace as company frontloaded expenses in its initial years. Further, increase in financial leverage should support RoE expansion from 8.5% in 2QFY23 to 14.4% by FY26E.

Financial and valuation summary

YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
NII	1,348	1,896	3,045	4,945	7,130
PPoP	496	1,406	2,874	4,712	7,151
Provisions	294	568	1,146	1,811	2,451
PAT	146	398	1,201	2,060	3,337
AUM growth (%)	125.4	104.8	58.9	46.0	37.1
NIM on Avg. Assets(%)	5.9	5.3	6.1	7.2	7.6
C / I (%)	71.6	64.0	52.3	48.2	43.0
GNPA (%)	2.3	2.5	3.3	3.5	3.8
RoA (%)	0.6	1.1	2.4	3.0	3.6
RoE (%)	1.5	4.1	9.9	11.5	14.4
P/BV (x)	1.9	1.9	1.7	1.4	1.2

Source: Company, Centrum Broking

Initiating Coverage

India I NBFC

14 December, 2023

BUY

Price: Rs265

Target Price: Rs395

Forecast return: 49%

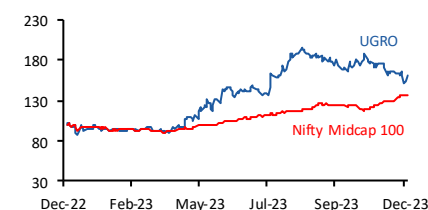
Institutional Research

Market Data

Bloomberg:	UGRO IN
52 week H/L:	320/136
Market cap:	Rs24.5bn
Shares Outstanding:	92.5mn
Free float:	53.4%
Avg. daily vol. 3mth:	3,04,013

Source: Bloomberg

UGRO relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	2.2	2.2	2.9	2.9
FIIs	19.2	22.0	7.0	7.0
DIIIs	5.8	5.5	2.2	2.2
Public/other	72.8	70.4	88.0	88.0

Source: BSE



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Thesis Snapshot

Centrum vs. consensus

YE Mar (Rs bn)	Centrum	Consensus	Variance	Centrum	Consensus	Variance
	FY24E	FY24E	(%)	FY25E	FY25E	(%)
NII	3,045	NA	NA	4,945	NA	NA
PPoP	2,874	NA	NA	4,712	NA	NA
PAT	1,201	NA	NA	2,060	NA	NA

Source: Bloomberg, Centrum Broking

UGRO Capital vs. NIFTY Midcap 100

	1m	6m	1 year
UGRO IN	(6.7)	15.4	60.7
NIFTY Midcap 100	9.6	29.3	37.6

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
AUM growth	58.9	46.0	37.1
NIMs (on Assets)	6.1	7.2	7.6
C/I ratio	52.3	48.2	43.0
Credit costs (on AUM)	1.5	1.5	1.5

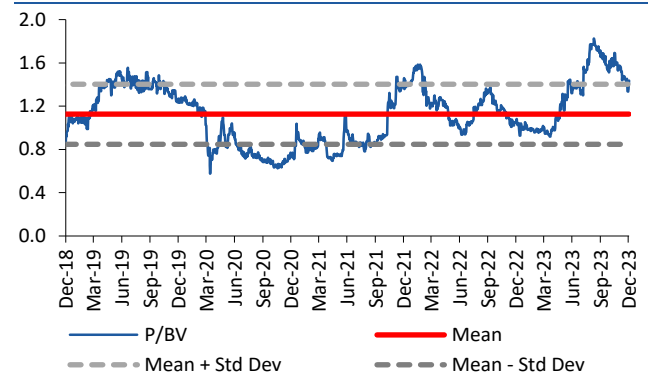
Source: Centrum Broking

Valuations

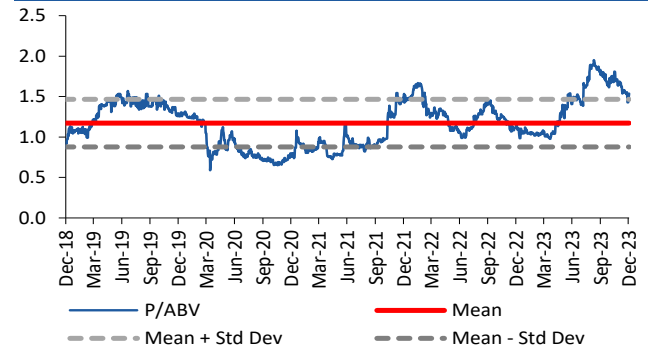
We estimate UGRO's AUM CAGR at 47% over FY23-26E leading to Rs193.5bn AUM with targeted 50:50 on book:off book AUM mix. The strong AUM growth will lead to opex to avg. AUM improving from 5.5% in FY23 to 3.2% by FY26E. The operating leverage should support improvement in RoA from 1.1% in FY23 to 3.6% by FY26E. We initiate coverage on UGRO Capital with a BUY rating and a Target Price of Rs395, premised on 2x 1HFY26E P/ABV, implying 49% upside

Valuations	Rs/share
1HFY26E Adjusted BV	197
Target Multiple	2x
Target Price	395
CMP	265
Upside to CMP	49%

P/BV mean and standard deviation



P/ABV mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Listed Companies	EPS (Rs)				BVPS (Rs)				RoA				RoE			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
UGRO Capital	5.7	13.2	18.8	30.4	142.0	157.5	195.2	225.6	1.1%	2.4%	3.0%	3.6%	4.1%	9.9%	11.5%	14.4%
Five Star	20.7	27.1	33.9	38.6	148.9	174.8	206.2	248.5	8.0%	7.9%	7.8%	7.5%	15.0%	16.6%	18.0%	19.3%
SBFC	1.6	2.1	2.8	3.5	15.9	22.7	25.5	29.0	2.7%	3.3%	3.4%	3.4%	9.9%	10.2%	10.5%	11.7%
MAS	36.8	45.6	57	68.1	267	309.0	361.0	424.0	2.9%	2.8%	2.9%	3.0%	14.6%	15.8%	17.0%	17.3%

Source: Company, Centrum Broking

Listed Companies	CMP (Rs)	Rating	TP (Rs)	Mkt Cap (Rs mn)	P/BV			P/E			RoE			FY24-26E CAGR (%)	
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	BVPS	EPS
UGRO Capital	265	Buy	395	24,330	1.7	1.4	1.2	20.1	14.1	8.7	9.9%	11.5%	14.4%	19.7%	52.0%
Five Star	705	NR	NA	2,05,887	4.0	3.4	2.8	26.0	20.8	18.3	16.6%	18.0%	19.3%	19.2%	19.3%
SBFC	93	NR	NA	99,521	4.1	3.7	3.2	44.3	33.3	26.6	10.2%	10.5%	11.7%	13.0%	29.1%
MAS	866	NR	NA	47,326	2.8	2.4	2.0	19.0	15.2	12.7	15.8%	17.0%	17.3%	17.1%	22.2%

Source: Company, Centrum Broking

Peer Analysis

Exhibit 1: UGRO grew at a faster clip on a low base

AUM (Rs bn)	FY20	FY21	FY22	FY23	FY20-23 CAGR
HDB	588.3	615.6	614.4	700.8	6.0%
Fedbank	38.4	48.6	61.9	90.7	33.2%
Five Star	38.9	44.5	50.7	69.1	21.1%
Vistaar Finance	18.8	20.7	24.2	31.3	18.6%
Veritaas Finance	13.0	15.6	21.9	35.3	39.5%
SBFC	35.2	22.2	31.9	49.4	12.0%
MAS	59.7	53.7	62.5	80.9	10.7%
UGRO	8.6	13.2	29.7	60.8	91.9%

Source: NBFC, Centrum Broking Ltd

Exhibit 3: AUM/Branch at 2.2x of peer average

AUM/Branch (Rs mn)	FY20	FY21	FY22	FY23
HDB FS	417.6	441.8	456.3	489.1
Fedbank	169.8	147.3	141.3	166.3
Five Star	183.2	173.0	180.6	205.8
Vistaar Finance	86.2	101.5	126.0	155.0
Veritaas Finance	74.5	77.0	101.0	137.0
SBFC	374.0	201.0	246.5	344.4
MAS	652.1	526.7	557.8	590.7
UGRO	957.0	612.6	475.1	643.6

Source: NBFC, Centrum Broking Ltd

Exhibit 5: Interest yields (on assets) lower vs. peer avg while...

Interest yields (on Assets)	FY20	FY21	FY22	FY23
HDB FS	14.1%	13.8%	13.4%	13.5%
Fedbank	13.6%	13.8%	13.7%	14.2%
Five Star	22.3%	20.0%	19.8%	19.9%
Vistaar Finance	18.9%	17.0%	15.7%	15.6%
Veritaas Finance	20.9%	17.3%	17.7%	19.4%
SBFC	13.7%	11.0%	10.8%	12.7%
MAS	13.4%	10.1%	10.1%	11.8%
UGRO	7.6%	10.0%	11.8%	13.5%

Source: NBFC, Centrum Broking Ltd

Exhibit 7: ...lower NIMs (on Assets)...

NIMs (on Assets)	FY20	FY21	FY22	FY23
HDB FS	7.1%	7.5%	8.1%	8.2%
Fedbank	7.2%	7.2%	7.9%	8.2%
Five Star	15.8%	13.6%	14.9%	16.4%
Vistaar Finance	12.2%	10.3%	9.5%	9.1%
Veritaas Finance	12.4%	11.3%	12.3%	14.4%
SBFC	5.5%	5.3%	5.8%	7.4%
MAS	6.7%	4.5%	4.3%	4.8%
UGRO	6.3%	7.0%	5.9%	5.3%

Source: NBFC, Centrum Broking Ltd

Exhibit 2: AUM growth across peers

AUM (Rs bn)	FY20	FY21	FY22	FY23
HDB	6.1%	4.6%	-0.2%	14.1%
Fedbank	90.1%	26.7%	27.3%	46.6%
Five Star	84.2%	14.2%	14.0%	36.5%
Vistaar Finance	30.3%	9.9%	17.2%	29.4%
Veritaas Finance	74.5%	20.1%	40.0%	61.6%
SBFC	203.4%	-36.8%	43.7%	54.8%
MAS	11.8%	-10.0%	16.3%	29.5%
UGRO	976.3%	53.0%	125.4%	104.8%

Source: NBFC, Centrum Broking Ltd

Exhibit 4: AUM/Employee at 1.7x of peer average

AUM/Employee (Rs mn)	FY20	FY21	FY22	FY23
HDB FS	5.8	5.7	5.4	5.9
Fedbank	26.9	24.2	24.8	28.2
Five Star	13.6	11.6	10.5	10.6
Veritaas Finance	8.0	7.5	8.6	9.9
SBFC	35.7	16.9	18.1	20.3
MAS	63.4	66.9	75.0	77.1
UGRO	52.0	50.1	40.3	43.3

Source: NBFC, Centrum Broking Ltd

Exhibit 6: ...CoF higher than the peers resulting in...

CoF (calc)	FY20	FY21	FY22	FY23
HDB FS	8.6%	7.8%	6.7%	6.8%
Fedbank	8.0%	8.2%	7.4%	7.8%
Five Star	13.1%	11.2%	10.0%	7.8%
Vistaar Finance	10.8%	10.2%	9.2%	9.3%
Veritaas Finance	9.4%	10.7%	10.5%	9.3%
SBFC	12.5%	8.2%	7.7%	8.3%
MAS	11.7%	9.0%	8.5%	9.4%
UGRO	10.3%	8.7%	10.7%	11.8%

Source: NBFC, Centrum Broking Ltd

Exhibit 8: ...however co-lending aids other income....

Other Income (on Assets)	FY20	FY21	FY22	FY23
HDB FS	4.3%	4.0%	4.7%	5.3%
Fedbank	1.3%	0.8%	1.0%	1.3%
Five Star	1.2%	0.7%	0.9%	0.4%
Vistaar Finance	1.1%	0.6%	1.4%	1.9%
Veritaas Finance	1.4%	0.6%	0.7%	0.9%
SBFC	1.2%	1.1%	1.1%	1.7%
MAS	2.7%	2.1%	1.7%	2.1%
UGRO	2.5%	0.4%	1.7%	5.6%

Source: NBFC, Centrum Broking Ltd

Exhibit 9: ... resulting in total income at par with peers

Total Income (on Assets)	FY20	FY21	FY22	FY23
HDB FS	11.5%	11.4%	12.8%	13.5%
Fedbank	8.5%	8.0%	8.9%	9.5%
Five Star	17.0%	14.3%	15.7%	16.8%
Vistaar Finance	13.2%	10.9%	10.9%	11.0%
Veritaas Finance	13.7%	11.9%	13.1%	15.2%
SBFC	6.7%	6.5%	6.8%	9.0%
MAS	9.4%	6.7%	6.0%	6.9%
UGRO	8.8%	7.3%	7.6%	10.9%

Source: NBFC, Centrum Broking Ltd

Exhibit 11: Cost to income ratio across peers

C/I ratio	FY20	FY21	FY22	FY23
HDB FS	56.5%	49.5%	52.2%	55.5%
Fedbank	65.9%	61.5%	58.4%	58.6%
Five Star	30.0%	29.2%	32.0%	34.7%
Vistaar Finance	52.8%	46.8%	50.7%	51.2%
Veritaas Finance	64.9%	49.0%	48.9%	45.5%
SBFC	54.8%	45.9%	59.0%	49.7%
MAS	23.9%	19.1%	28.6%	34.2%
UGRO	85.2%	70.8%	71.6%	64.0%

Source: NBFC, Centrum Broking Ltd

Exhibit 13: Return on Assets

RoA	FY20	FY21	FY22	FY23
HDB FS	1.7%	0.6%	1.6%	3.0%
Fedbank	1.7%	1.3%	1.7%	2.3%
Five Star	7.8%	7.1%	7.5%	8.0%
Vistaar Finance	2.2%	2.1%	2.9%	3.2%
Veritaas Finance	2.8%	3.1%	3.1%	5.2%
SBFC	1.2%	2.0%	1.5%	2.9%
MAS	3.8%	2.8%	2.7%	2.8%
UGRO	1.9%	1.9%	0.6%	1.1%

Source: NBFC, Centrum Broking Ltd

Exhibit 15: Gross Stage 2

Gross Stage 2	FY20	FY21	FY22	FY23
HDB FS	3.3%	5.4%	3.5%	1.9%
Fedbank	3.1%	2.8%	8.7%	4.6%
Five Star	10.6%	11.3%	15.7%	9.1%
Vistaar Finance	97.5%	55.8%	7.1%	1.5%
Veritaas Finance	1.6%	5.1%	5.1%	2.2%
SBFC	0.0%	10.6%	5.5%	3.4%
MAS	2.6%	2.3%	2.2%	2.0%
UGRO	2.1%	2.8%	1.3%	2.7%

Source: NBFC, Centrum Broking Ltd

Exhibit 17: Tier 1 Capital

Tier 1	FY20	FY21	FY22	FY23
Fedbank	17.5%	17.1%	18.4%	15.1%
Five Star	52.9%	58.9%	75.2%	67.2%
Vistaar Finance	40.8%	37.6%	30.7%	26.7%
Veritaas Finance	58.7%	50.4%	64.0%	44.7%
SBFC	21.4%	25.6%	25.9%	31.7%
MAS	29.9%	24.8%	23.1%	20.8%
UGRO	88.1%	65.2%	33.6%	19.6%

Source: NBFC, Centrum Broking Ltd

Exhibit 10: Opex/Avg. Assets higher than peer average

Opex/Assets	FY20	FY21	FY22	FY23
HDB FS	6.5%	5.7%	6.7%	7.5%
Fedbank	5.6%	4.9%	5.2%	5.6%
Five Star	5.1%	4.2%	5.0%	5.8%
Vistaar Finance	7.0%	5.1%	5.5%	5.6%
Veritaas Finance	8.9%	5.8%	6.4%	6.9%
SBFC	3.7%	3.0%	4.0%	4.5%
MAS	2.2%	1.3%	1.7%	2.4%
UGRO	7.5%	5.2%	5.4%	7.0%

Source: NBFC, Centrum Broking Ltd

Exhibit 12: Credit costs (CC) on assets for peers

Credit Costs	FY20	FY21	FY22	FY23
HDB FS	2.5%	5.0%	4.0%	2.0%
Fedbank	0.7%	1.5%	1.4%	0.6%
Five Star	1.5%	0.7%	0.8%	0.3%
Vistaar Finance	3.0%	2.7%	1.4%	1.0%
Veritaas Finance	1.2%	2.0%	2.5%	1.4%
SBFC	1.1%	0.8%	0.8%	0.6%
MAS	1.9%	1.6%	0.6%	0.7%
UGRO*	1.0%	1.3%	1.3%	1.6%

Source: NBFC, Centrum Broking Ltd; Note: *CC on AUM for UGRO is at 1.3% in FY23

Exhibit 14: Return on Equity

RoE	FY20	FY21	FY22	FY23
HDB FS	12.9%	4.6%	11.2%	18.7%
Fedbank	9.0%	8.1%	10.4%	14.4%
Five Star	15.9%	17.0%	15.0%	15.0%
Vistaar Finance	6.3%	6.7%	10.0%	12.0%
Veritaas Finance	5.4%	7.3%	6.6%	11.8%
SBFC	3.7%	7.7%	5.2%	9.9%
MAS	18.0%	13.1%	12.4%	14.2%
UGRO	2.2%	3.1%	1.5%	4.1%

Source: NBFC, Centrum Broking Ltd;

Exhibit 16: Gross Stage 3

Gross Stage 3	FY20	FY21	FY22	FY23
HDB FS	3.9%	4.5%	5.0%	2.7%
Fedbank	1.5%	1.0%	2.2%	2.0%
Five Star	0.1%	1.0%	1.0%	1.4%
Vistaar Finance	2.5%	2.2%	2.6%	3.7%
Veritaas Finance	1.9%	2.7%	3.9%	2.2%
SBFC	0.0%	3.2%	2.7%	2.4%
MAS	1.7%	1.6%	2.2%	2.1%
UGRO*	1.0%	2.3%	2.3%	2.5%

Source: NBFC, Centrum Broking Ltd; Note: *GS3 on AUM is at 1.9% for UGRO in FY23

Exhibit 18: Capital Adequacy ratio

CAR	FY20	FY21	FY22	FY23
Fedbank	17.9%	23.5%	23.0%	17.9%
Five Star	52.9%	58.9%	75.2%	67.2%
Vistaar Finance	37.6%	36.5%	30.0%	26.4%
Veritaas Finance	59.3%	50.7%	64.4%	45.0%
SBFC	21.9%	26.2%	26.2%	31.9%
MAS	32.0%	26.9%	26.4%	25.3%
UGRO	88.3%	65.6%	34.4%	20.2%

Source: NBFC, Centrum Broking Ltd

Company background and details

UGRO Capital is a prominent MSME focused non-deposit taking NBFC regulated by RBI. In December 2017, Poshika Advisory Services LLP and Shachindra Nath took over the management control of 'Chokhani Securities Private Limited'. Post regulatory approvals it was rebranded as 'UGRO Capital Limited' in September 2018. UGRO, under new management, raised Rs9.2bn from Marquee PE investors, HNIs and Family Offices. It started lending in 2019, however growth remained slow until June'21 due to multiple headwinds – (1) series of credit crisis, and (2) Covid (wave 1 & 2). Disbursements and AUM growth picked up materially over the last 2 years.

UGRO offers diverse products of Secured LAP, Affordable LAP, Unsecured Business Loans, Machinery Loans and Supply Chain Financing to MSME. The average interest yields vary from 13% to 24%. It also has Partnership & Alliance Channel where it is joint lending with NBFCs/Fintechs (downstream), where partners originate loans and provide 5-15% FLDG cover to UGRO Capital.

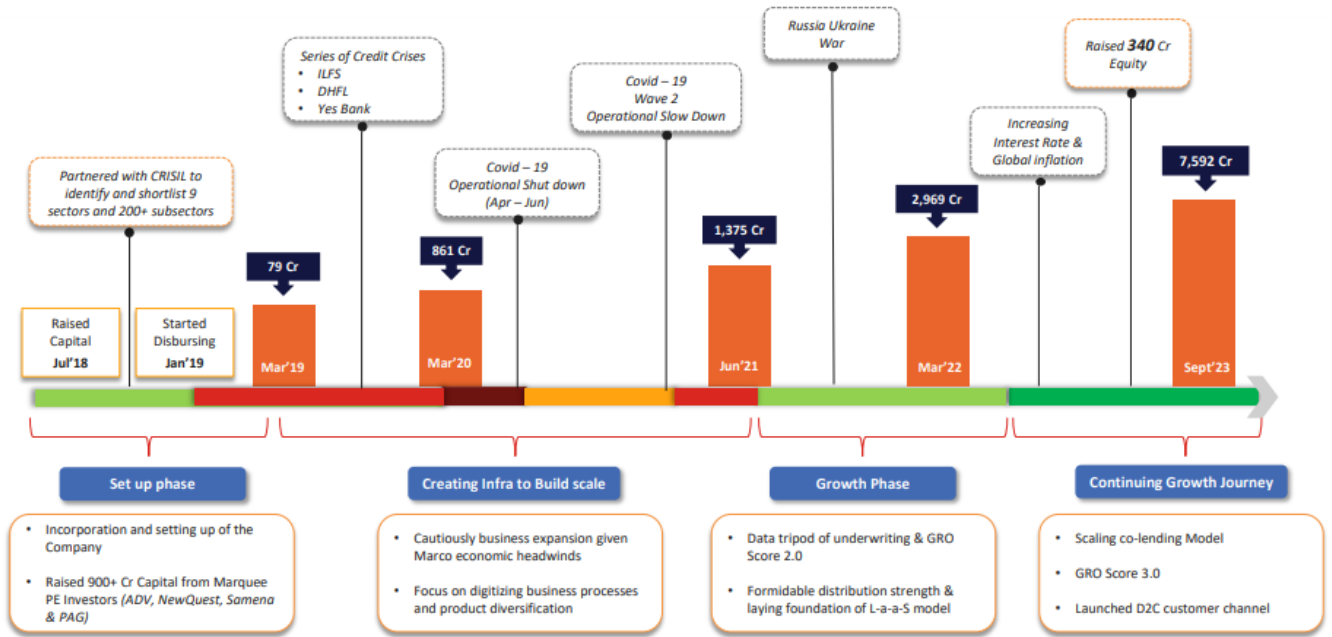
UGRO follows Data Tech Approach to underwriting along with traditional methods to maintain the quality of portfolio. UGRO selected eight domestic sectors for lending after filtration of 180+ MSME sectors. With sectoral approach the company identified homogeneity of cash flows and repayment behaviour in the chosen sectors and developed GRO score, tool for scoring customers. GRO score is in its version 3 and is using the trinity of banking, bureau and GST data to score customers. GRO Score takes into consideration 25,000+ parameters from banking and bureau records to categorize a particular customer across 5 bands of "A" to "E" with "A" being the least risky and "E" being the riskiest. Default rates for disbursements approved by GRO score is one-third of non-disbursed cases, reflecting its analytical prowess. In addition to data analytics-based underwriting, company also follows traditional 'touch and feel' based checking process to maintain sanctity of the loan portfolio. The company has 23 Prime and 81 Micro branches as on Sept'23.

Company is using difference distribution channels for customer sourcing – (1) Branch led for sourcing of secured and unsecured business loans; (2) Eco-System Channel where it is offering Machinery Finance and Supply Chain Finance through Anchors and OEM partners; (3) Partnership & Alliance – catering through Fintech partners and; (4) Direct Digital Channel for on tap merchant financing. It has developed proprietary technology platform for each distribution channel which are customized to support various business needs.

The company's lending process and stages are fully supported by technology right from origination to collections. Company has built a product agnostic and distribution channel agnostic Business Rule Engine (BRE), which solely relies on customer behaviour. All customer data is stored in Data Lake which can be used for any Machine Learning (ML) model which can facilitate automated policy approvals and 60 min in principal approval to the customer.

The company uses data to select locations for opening Micro enterprise branches, based on state wise, pin code wise analysis on the opportunity size of business and portfolio performance. It has developed scorecards to reflect Early Warning Signals on portfolio quality based on macros and micro/customer indicators to drive collection efforts.

Exhibit 19: Company history

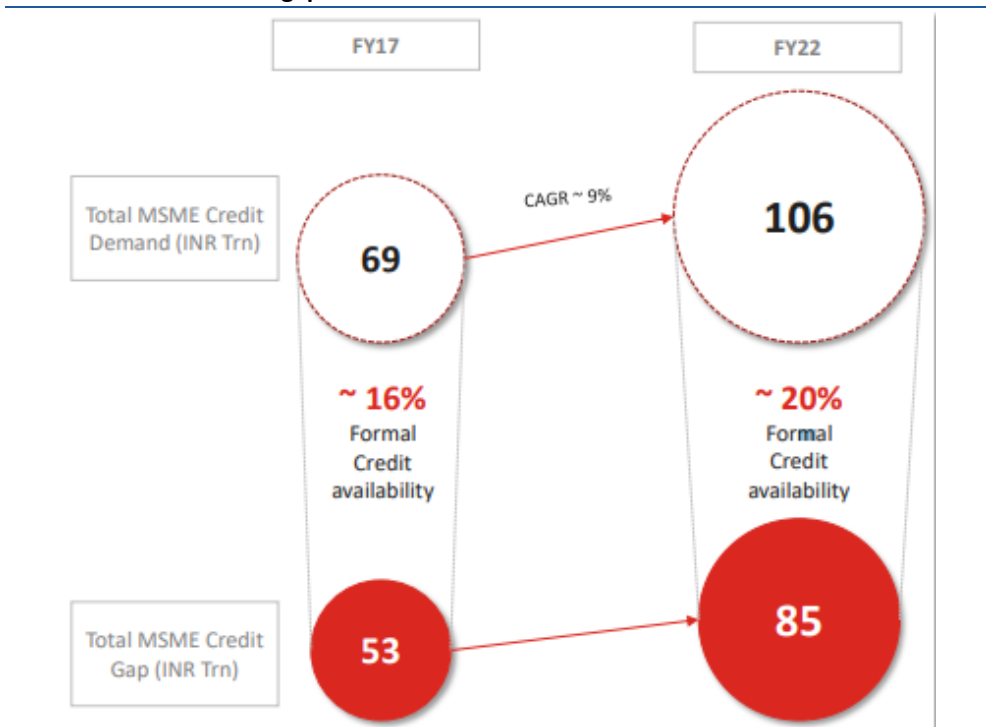


Source: NBFC, Centrum Broking Ltd

Scalable business model in evolving MSME eco-system

Credit gap in MSME segment is a well-established fact. UGRO was incorporated with a belief that MSME credit gap could be solved by the use of data and technology. Thus, it carefully filtered 8 sectors from 180+ sectors based on homogeneity of cash flows supporting it to do large scale underwriting with low risk. It added small business/ Micro Enterprise as the ninth sector wherein it is lending to small business owners. It raised Rs9.2bn+ capital in FY19, however, series of credit events and disruption due to covid led to slow growth from FY19 to 1QFY22. It embarked on growth phase from 2QFY22 and currently enjoys the best productivity metrics vis-à-vis peers. Its AUM/branch (FY23) stood at Rs644mn, almost 2.2x of peer average and AUM/Employee at Rs43.3mn, 1.7x of peer average. Technological prowess, data analytics and template based underwriting ensured faster growth without diluting credit filters.

Exhibit 20: MSME credit gap at Rs85tn



Source: NBFC, Centrum Broking Ltd

UGRO is focused on Micro and Small Enterprises (MSME) with credit history but remain underserved from Banks and larger NBFCs. It is not targeting bottom of the pyramid, unserved customer segment. Within MSME, the company is focused on lending to healthcare, education, chemicals, food processing/FMCG, hospitality, electrical equipment and components, auto components and light engineering segment. Apart from this, it is also giving small business loans to Micro Enterprises. UGRO has developed multiple channels for customer sourcing including branches, app/web-based sourcing, partnerships with downstream NBFCs/Fintechs and tie-up with Anchors and OEMs.

The NBFC has 23 Prime branches in metros and Tier 1-2 locations through which it offers secured and unsecured business loans. It operates 81 Micro loan branches in Tier 3-6 locations and plans to add another 75 branches in FY24E.

Exhibit 21: Products, sourcing, underwriting method and other details

Channel	Product	Sourcing	ATS (Rs mn)	Yield	Tenor	Turnover (Rs mn)	Underwriting	AUM Mix
Branch - Prime	Secured - LAP	Intermediated	7.0	13.8%	11 yr	Rs10mn to Rs150mn	Branch led - GST, Banking & Liquid Income assessment	29%
Branch - Prime	Unsecured	Intermediated	1.6	19.6%	3 yr	Rs10mn to Rs150mn	Branch led - GST, Banking & Liquid Income assessment	31%
Branch - Micro Loans	Secured - LAP	Internal Sourcing	0.9	20.6%	8 yr	Up to Rs10mn	Branch led – Liquid Income Assessment	8%
Branch - Micro Loans	Unsecured	Internal Sourcing	0.3	25.3%	3 yr	Up to Rs10mn	Branch led – Liquid Income Assessment	
Eco-system channel	Machinery Finance	Anchor & OEMs, DSA & Internal sourcing	3.6	13.40%	4 yr	Rs10mn to Rs100mn	Centralised	12%
Eco-system channel	Supply chain Finance	Anchor & OEMs, DSA & Internal sourcing	4.9	13.3% (Net)	0.24 yr	Rs10mn to Rs100mn	Centralised	9%
Partnership & Alliance	Secured/Unsecured	Head Office led	0.5	14.8% (Net)	4 yr	Up to Rs5mn	Centralised - Banking & LIP get 5% to 15% FLDG from downstream NBFCs and Fintechs	11%
Direct Digital Channel	Unsecured	Digital Sourcing	0.07	24%	1 yr		Centralised - Digital sourcing, Banking assessment	

Source: NBFC, Centrum Broking Ltd;

Prime-secured have an avg. LTV of ~50% while Micro-secured carry an avg. LTV of ~35%; machinery loans have an avg. LTV of ~71%. Supply Chain Finance are quasi secured through anchors and OEMs while originations through Partnership & Alliance have FLDG from partner Fintech & NBFCs making them quasi secured in nature too.

UGRO has built different tech for different platforms for ease of customer onboarding and underwriting.

GRO Plus: Supports branch based business for customer onboarded in metro cities through intermediaries.

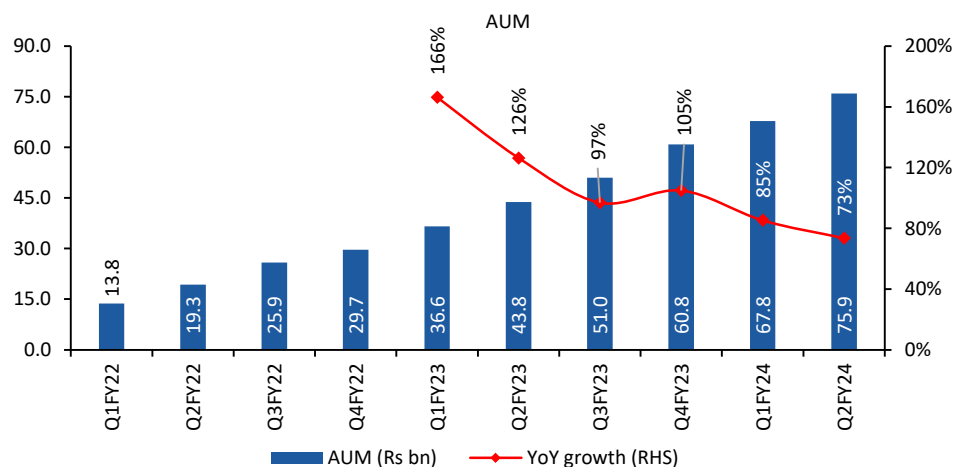
GRO Chain: Caters to supply chain business where the supplier can upload invoice on this module which in turn can be approved by the anchor itself.

GRO Direct: Platform built to allow non-intermediated loan applications from eligible SMEs.

GRO Xstream: Sourcing module for partnership and alliances channel. It will eventually evolve into a marketplace connecting asset originators with liability partners.

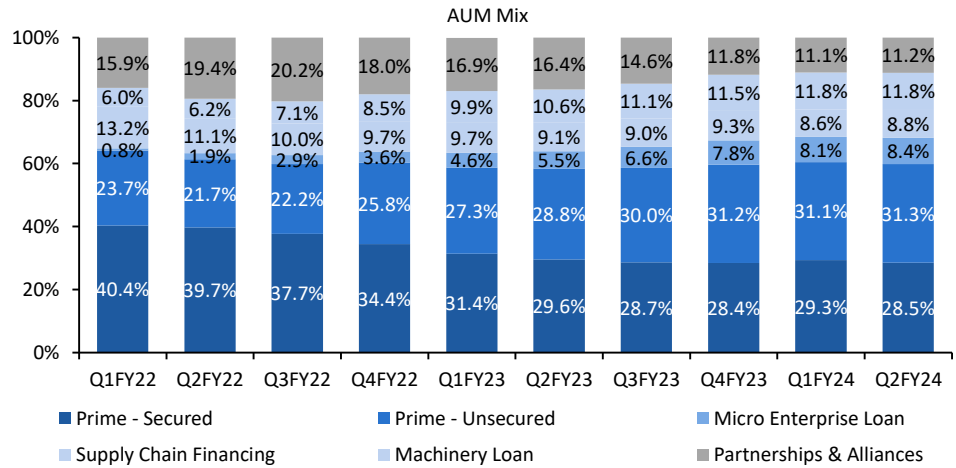
Multi products and multi-channel sourcing supported UGRO to grow its AUM at a 115% CAGR over FY21-23, on a low base.

Exhibit 22: Strong AUM growth



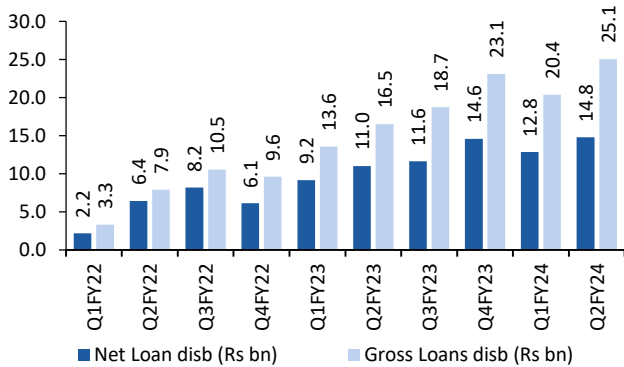
Source: NBFC, Centrum Broking Ltd

Exhibit 23: Share of Prime-unsecured, MEL & machinery loan increased in AUM mix



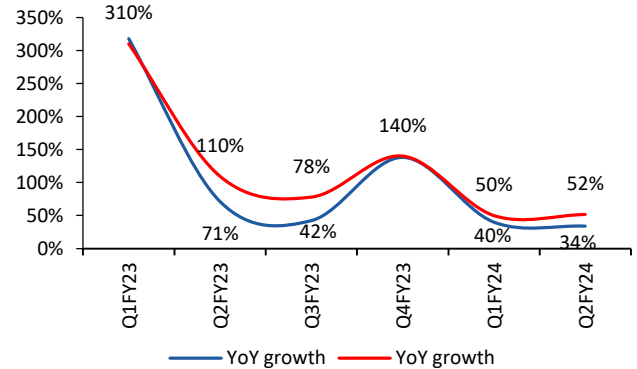
Source: NBFC, Centrum Broking Ltd; Note: 4% of unsecured loan is covered under CGTMSE

Exhibit 24: Gross & net disbursements



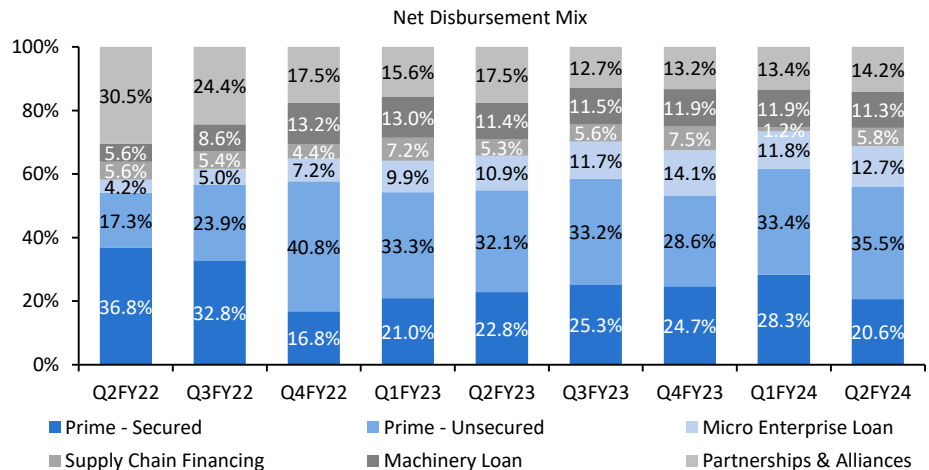
Source: NBFC, Centrum Broking Ltd

Exhibit 25: Disbursement growth (YoY) remain impressive



Source: NBFC, Centrum Broking Ltd

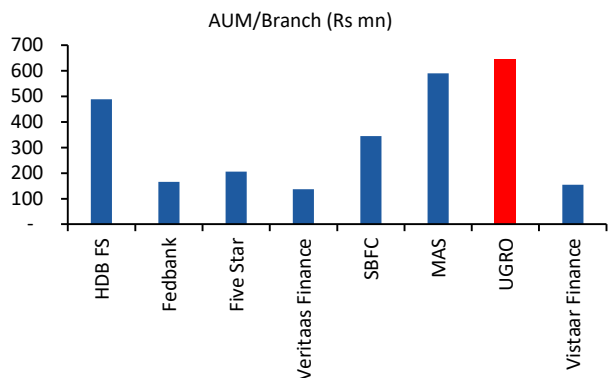
Exhibit 26: Share of Prime-unsecured and micro enterprise loan up in net disbursement mix



Source: NBFC, Centrum Broking Ltd

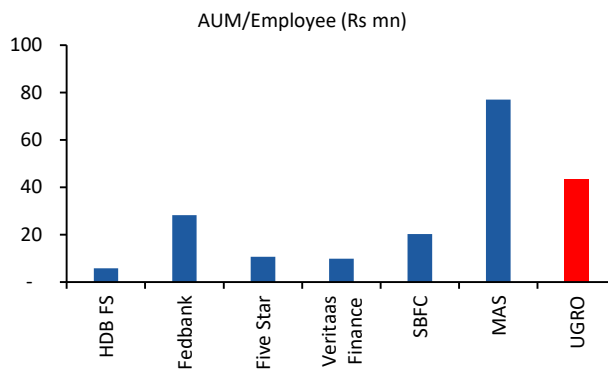
UGRO's data backed approach in sector and customer selection and multiple distribution channels led to faster growth resulting in better productivity metrics as compared to peers.

Exhibit 27: UGRO's AUM/Branch at 2.2x of peer avg.



Source: NBFC, Centrum Broking Ltd

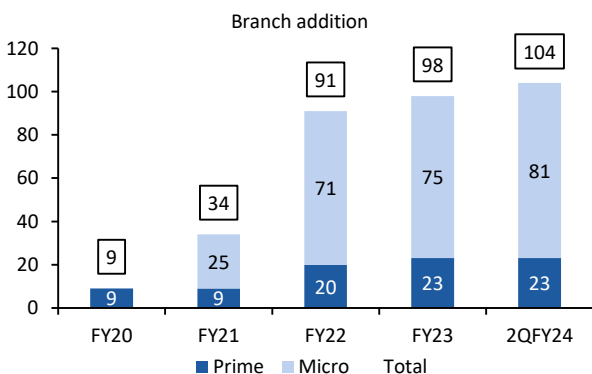
Exhibit 28: UGRO's AUM/Employee at 1.7x of peer avg.



Source: NBFC, Centrum Broking Ltd

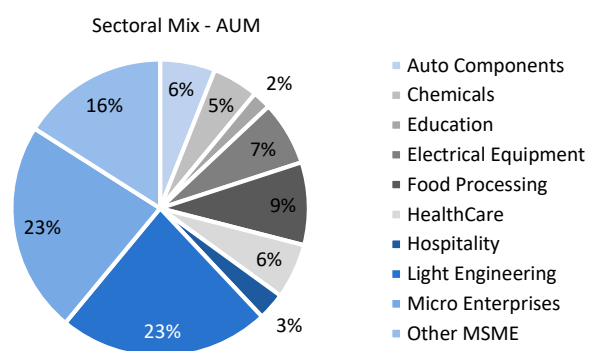
UGRO has presence in 15 states either through Prime branches or Micro branches. Company achieves Micro branch breakeven in 12-15 months and Prime branch breakeven by 7 months. It has partnership with 45+ Fintech partners, 65+ Anchors and 50+ OEMs.

Exhibit 29: Branch addition



Source: NBFC, Centrum Broking Ltd

Exhibit 30: No sector contributes >1/4th of AUM



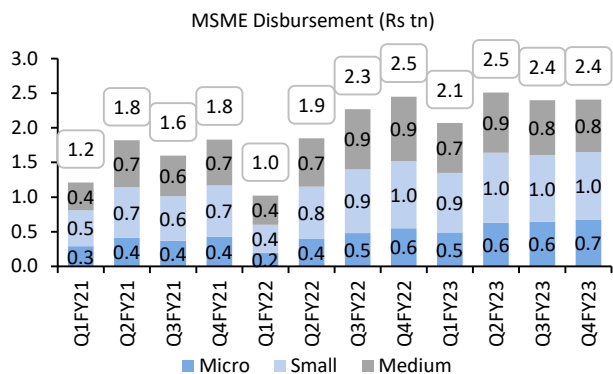
Source: NBFC, Centrum Broking Ltd

Exhibit 31: State wise AUM and branch count

State wise details	AUM contribution	Branches	
		Micro	Prime
Rajasthan	9.0%	15	2
Gujarat	12.0%	15	1
Maharashtra	15.0%	0	6
Karnataka	9.0%	15	1
AP & Telangana	12.0%	12	3
Tamil Nadu	15.0%	20	1
West Bengal	6.0%	0	4
Delhi	17.0%		
Other states	5.0%	4	5
Total	100.0%	81	23

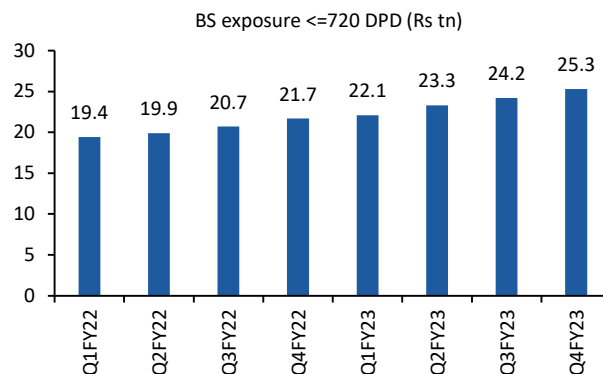
Source: NBFC, Centrum Broking Ltd

Exhibit 32: MSME disbursements - Industry



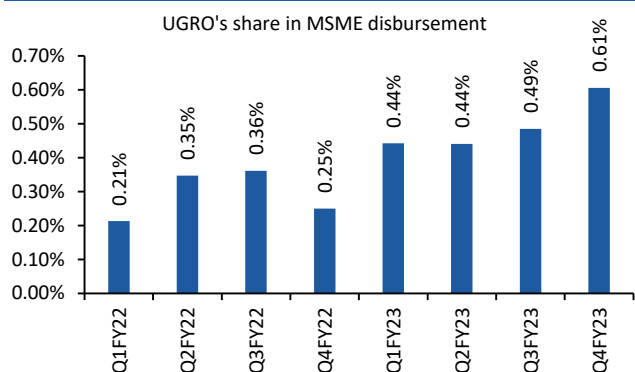
Source: NBFC, Transunion CIBIL, SIDBI, Centrum Broking Ltd

Exhibit 33: MSME credit exposure - Industry



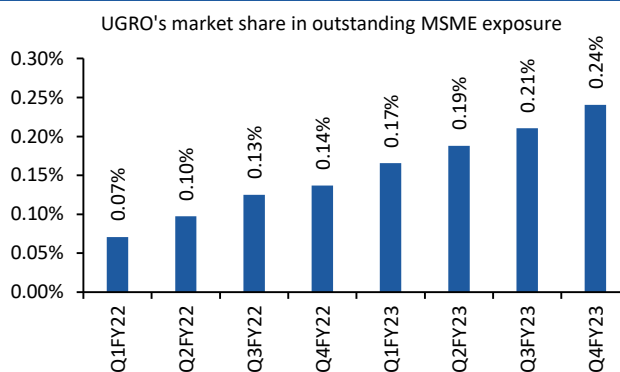
Source: NBFC, Transunion CIBIL, SIDBI, Centrum Broking Ltd; Note: MSME sector BS exposure is for <=720 dpd

Exhibit 34: UGRO's share in MSME disbursement



Source: NBFC, Transunion CIBIL, SIDBI, Centrum Broking Ltd; Note: We have considered net disbursements for UGRO

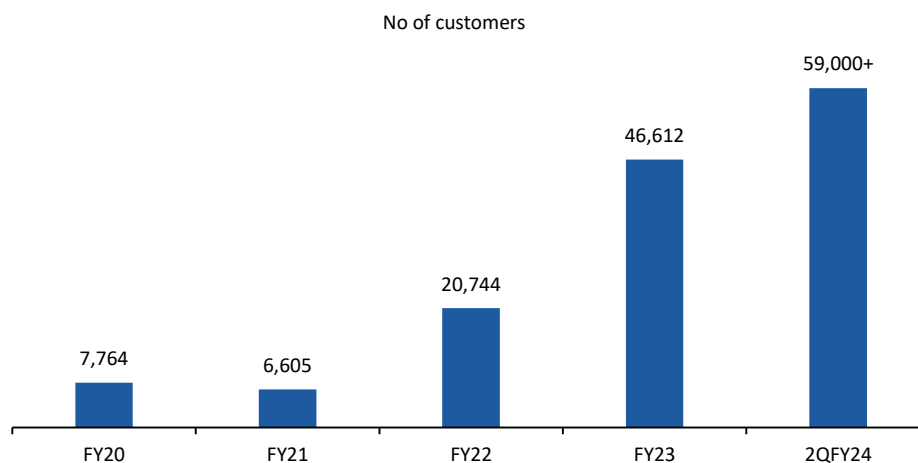
Exhibit 35: UGRO's share in MSME outstanding exposure



Source: NBFC, Transunion CIBIL, SIDBI, Centrum Broking Ltd; Note: MSME sector BS exposure is for <=720 dpd

While UGRO has seen strong growth in AUM in last 2 years on a low base, it still remains a very small player in credit exposure to MSME segment. Further, credit gap in this segment provides large opportunity for growth.

Exhibit 36: UGRO has over 59,000+ active borrowers



Source: NBFC, Centrum Broking Ltd

UGRO has partnered with 10+ Public Sector Banks (PSBs) and large NBFCs for co-lending/co-origination of loans. Co-lending/Co-origination is a capital efficient model and allows UGRO to offer competitive interest rates and grow AUM profitably. Co-lending is mutually beneficial as it allows banks to meet their PSL targets while large NBFCs gain from the First Loss Default Guarantee (FLDG) arrangement. PSBs have historically witnessed higher delinquencies (see exhibit 57), and thus, likely to benefit from co-lending arrangement with MSME focused lender. UGRO also does Direct Assignment (DA) of loans, however, share of Direct Assignment has come down.

Below we have listed down the features and accounting in co-lending, co-origination and DA.

Co-origination model: In co-origination model, the originator has to retain minimum 20% of the loan amount on its Balance Sheet. The underwriting and funding of loan is done simultaneously by the originator and the partner. The funding is done through an escrow account pari passu, hence, there is no minimum holding period requirement. In co-origination, if the partner is bank, risk stands pari passu while the originator can provide FLDG to NBFC partner. The spread income is recognized through the lifecycle of loan.

Exhibit 37: Illustration on co-origination accounting

		Assuming no other loan							
		Income Statement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Yield	14.5%	Interest income on BS Loans	2.9	2.6	2.3	2.0	1.6	1.1	0.6
Cost of borrowing	10.5%	Spread on co-origination	3.2	2.9	2.6	2.2	1.7	1.2	0.7
Spread on on-book lending	4.0%	Total Income	6.1	5.5	4.9	4.2	3.3	2.4	1.3
Spread on co- origination	4.0%	Interest expense	1.7	1.5	1.3	1.1	0.9	0.6	0.3
Co-origination on-book share	20.0%	Net Total income	4.4	4.0	3.6	3.1	2.5	1.8	0.9
D/E	4								
Tenure	7								
Loan amount	100								
On-book loan	20								
Equity amount deployed	4								
Debt amount	16								
Off-book loan	80								
EMI	18.9								

Source: NBFC, Centrum Broking Ltd

Co-lending Model: In co-lending arrangement, the originator has to retain minimum 20% of the loan amount on its Balance Sheet. The 100% of funding of loan is done by originator (here UGRO) at the time of disbursement. If the loan fits into the risk criteria of the co-lending partner, then it transfers 80% to the originator. There is no Minimum Holding Period requirement for the originator as is in case of PTC or DA. The risk is shared pari passu by originator and the co-lending partner. The spread that the originator makes at the time of co-lending is recognized by the originator upfront on the NPV basis.

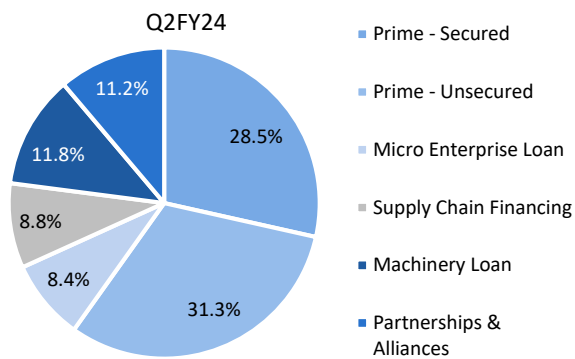
Exhibit 38: Illustration on co-lending accounting

		Assuming no other loan							
		Income Statement	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Yield	14.5%	Interest income	2.9	2.6	2.3	2.0	1.6	1.1	0.6
Cost of borrowing	10.5%	Income on co-lending	10.7	0	0	0	0	0	0
Spread on on-book lending	4.0%	Total Income	13.6	2.6	2.3	2.0	1.6	1.1	0.6
Spread on co- lending	4.0%	Interest expense	1.7	1.5	1.3	1.1	0.9	0.6	0.3
Co-lending on-book share	20.0%	Net Total income	11.9	1.1	1.0	0.9	0.7	0.5	0.3
D/E	4								
Tenure	7								
Loan amount	100								
On-book loan	20								
Equity amount deployed	4								
Debt amount	16								
Off-book loan	80								
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Source: NBFC, Centrum Broking Ltd

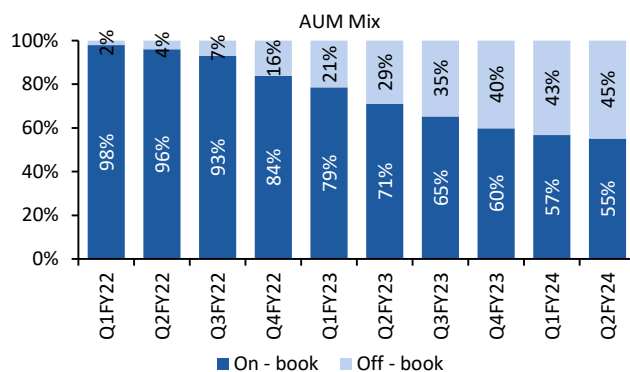
Direct Assignment: In DA, originator can sell the portfolio after retaining it for Minimum Holding Period of 3 months (tenure < 2 years) or 6 months on its books. The originator has to retain 5% of book value of loan (tenure <2 years) or 10% as Minimum Retention Requirement. In case of full due diligence by the buying partner, 5% of book value for Residual MBS can be waived off. Risk is passed to the buying partner pari passu. Income is recorded upfront as in the case of co-lending arrangement.

Exhibit 39: AUM mix as on 2QFY24



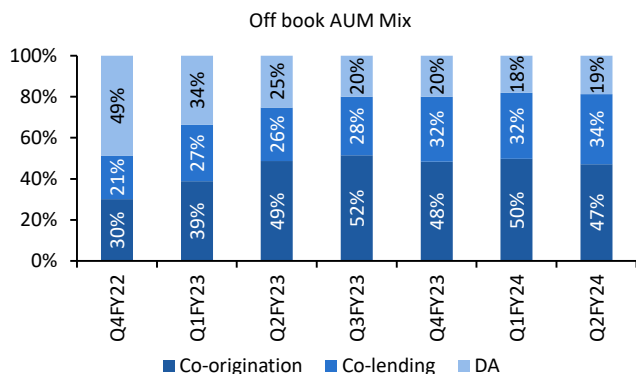
Source: NBFC, Centrum Broking Ltd

Exhibit 40: Off-book AUM mix has increased consistently



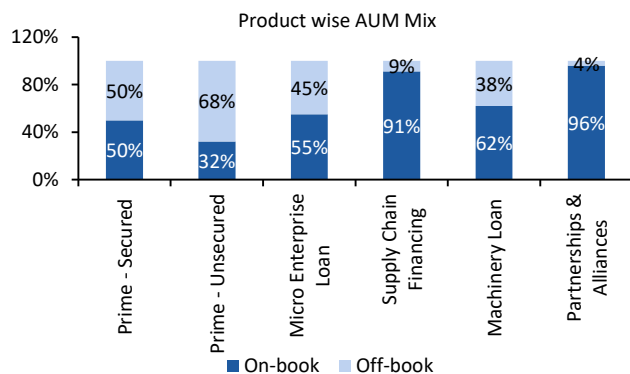
Source: NBFC, Centrum Broking Ltd

Exhibit 41: Off-book AUM is dominated by co-origination



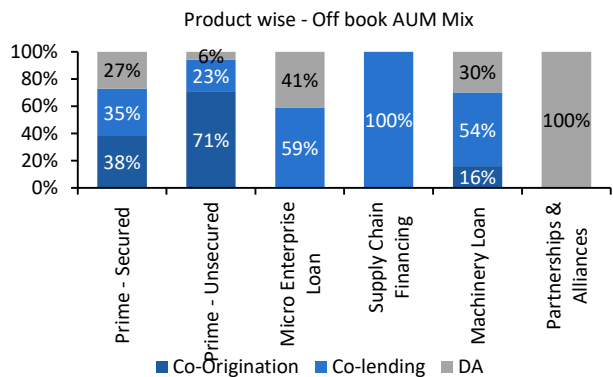
Source: NBFC, Centrum Broking Ltd

Exhibit 42: Product wise AUM mix



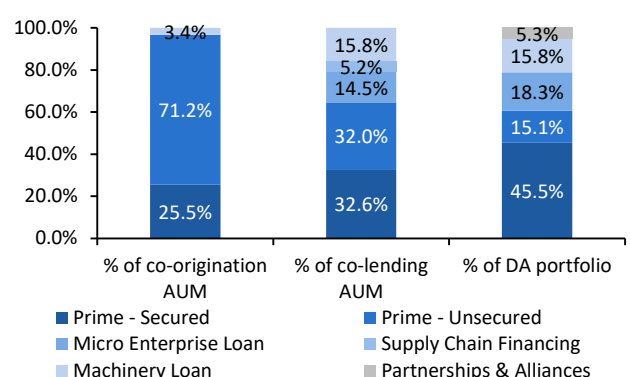
Source: NBFC, Centrum Broking Ltd

Exhibit 43: Product wise – Off-book AUM mix



Source: NBFC, Centrum Broking Ltd

Exhibit 44: Prime-unsecured dominates co-origination



Source: NBFC, Centrum Broking Ltd

We expect on-book and off-book AUM to reach at 50% each by 4QFY24E, in line with management guidance. Spread income on off balance sheet book should support higher income and profitability.

Strong system, policies and data backed underwriting gives comfort on asset quality

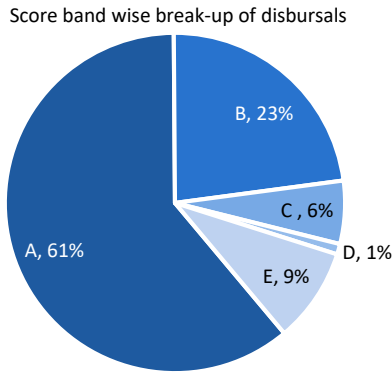
UGRO follows Data Tech Approach for underwriting along with traditional 'touch and feel' methods to maintain the quality of portfolio. With sectoral approach to underwriting, the company identified homogeneity of cash flows and repayment behaviour in the chosen sectors and developed GRO score, tool for scoring customers. GRO score is in its version 3 and is using the trinity of banking, bureau and GST data to score customers across bands. Default rates for disbursements approved by GRO score is one-third of non-disbursed cases, reflecting its analytical prowess. In addition, company also follows traditional 'touch and feel' based checking process to maintain sanctity of the loan portfolio.

UGRO spent about 18 months analyzing MSME business models and selected eight sectors after careful filtration of 180+ sectors which are domestic economy driven and less impacted by change in government policies and regulations. The company further narrowed down on selected sub-sectors based on contribution to overall sector credit demand and risk profiling. It added small business loans where the customer behaviour was influenced by geographical clustering and cash flow availability rather than broad sector trends and thus micro enterprise loans was added as the ninth sector.

To build a scalable business model with strong risk management, UGRO, at its inception led tremendous focus on data analytics and built a template led model for right borrower selection. Its proprietary data analytics model GRO score is in its third version and gives an output on the customer after combining the banking statement, bureau-based records and GST transactions. The data allows for the stratification of the prospective customer pool into ten bands by probability of default while incorporating the effects of geography, sector and customer size. API integration facilitates data flow directly from the source. System analyses 36 months of repayment behaviour from bureau records, twelve month transaction data from bank statements and monthly sales and purchase data from GST records of two financial years and triangulates debt to banking turnover and banking turnover to GST sales for effective underwriting. GRO score takes into consideration 25,000+ parameters from banking and bureau records to categorize a particular customer across 5 bands of "A" to "E" with "A" being the least risky and "E" being the riskiest. Around 84% of disbursements from Jan'22 to Jun'23 have been to A & B category customers. Cases disbursed by GRO score have shown lower default than the cases that were rejected by GRO score across bands.

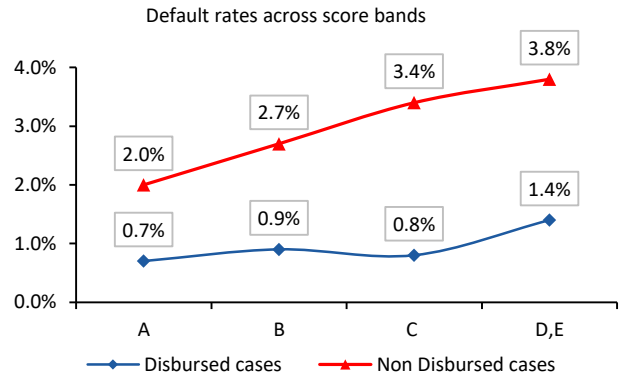
UGRO has analysed large volumes of data for its AUM size with 63,000+ GRO Scores processed, 93,000+ bank statement analysed, 194k bureau records analysed and 34,000+ GST records analysed by FY23.

Exhibit 45: Score band wise disbursal mix (Jan22 – Jun 23)



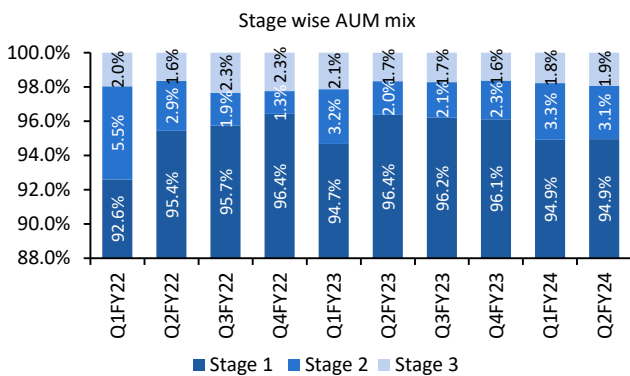
Source: NBFC, Centrum Broking Ltd

Exhibit 46: Default rates across score bands



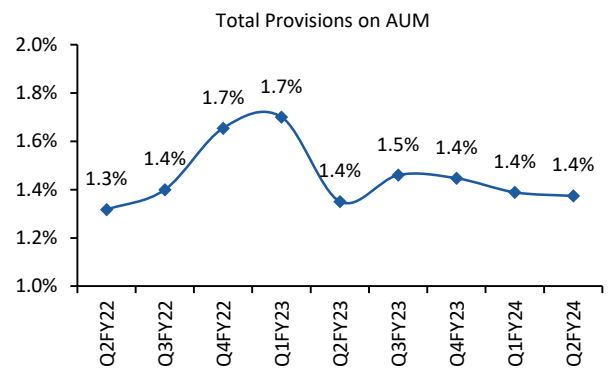
Source: NBFC, Centrum Broking Ltd; Note: default represents 90dpd in any business purpose credit facility reported in bureau during a period of six months from of assessment at UGRO

Exhibit 47: 30+ dpd between 4-5% over last 9 quarters



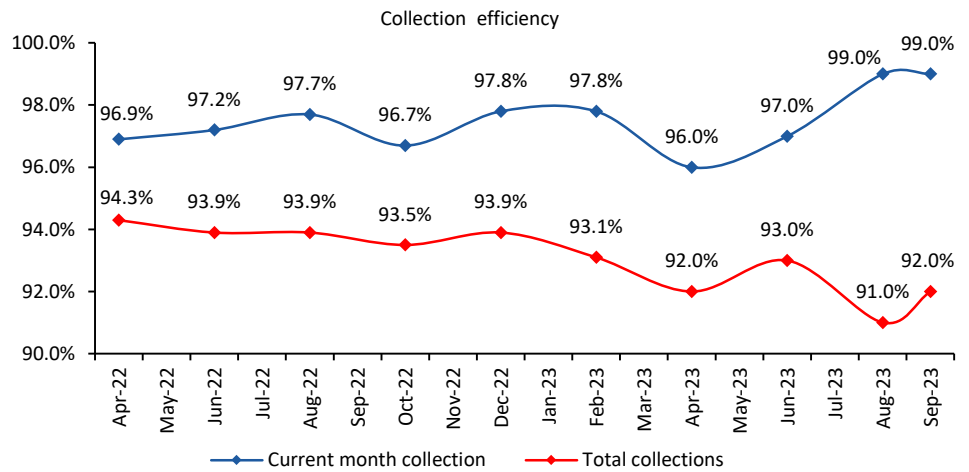
Source: NBFC, Centrum Broking Ltd; Note: Q2FY23 onwards data is on total AUM

Exhibit 48: Total provisions on AUM



Source: NBFC, Centrum Broking Ltd

Exhibit 49: Current month collection efficiency remains robust



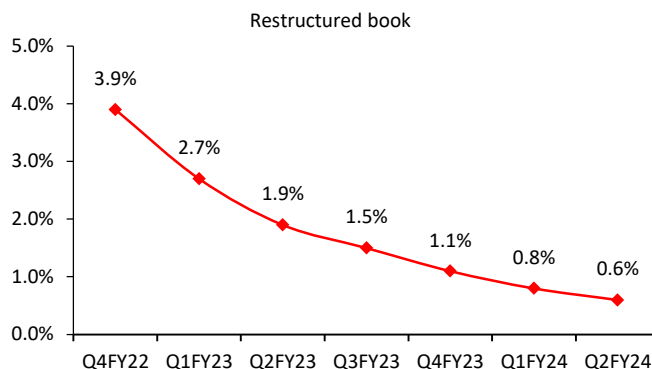
Source: NBFC, Centrum Broking Ltd; Note: Current month collection (excluding overdue)/Current month demand, Total collections (include overdue but excludes foreclosure)/ Current month demand

Exhibit 50: Product wise GNPA

Product wise GNPA (on AUM)	4QFY23	1QFY24	2QFY24
Prime - Secured	0.8%	1.2%	1.2%
Prime - Unsecured	2.9%	3.0%	3.5%
Micro Enterprise Loan	0.7%	1.1%	1.7%
Supply Chain Financing	2.8%	2.6%	2.6%
Machinery Loan	0.2%	0.6%	0.5%
Partnerships & Alliances	0.0%	0.0%	0.0%

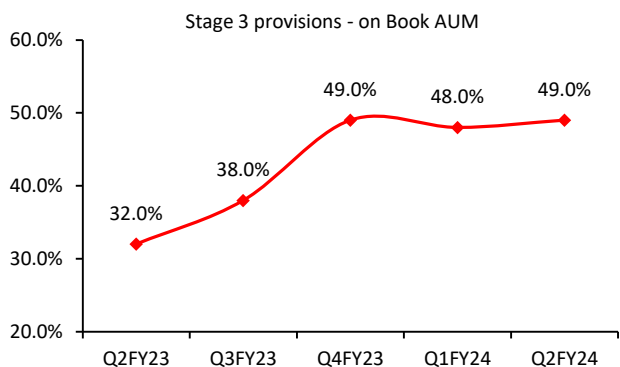
Source: NBFC, Centrum Broking Ltd

Exhibit 51: Standard Restructured book is down to 0.6%



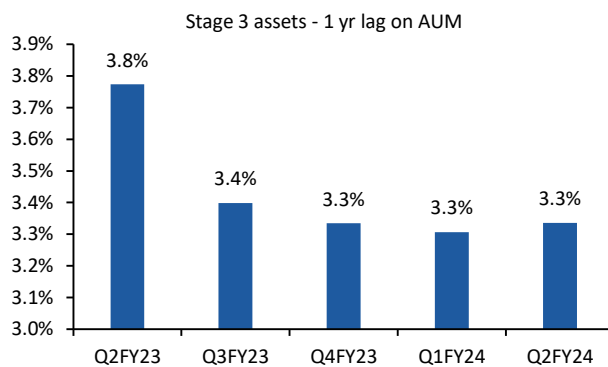
Source: NBFC, Centrum Broking Ltd

Exhibit 52: Stage 3 provisions (on book) AUM improved



Source: NBFC, Centrum Broking Ltd

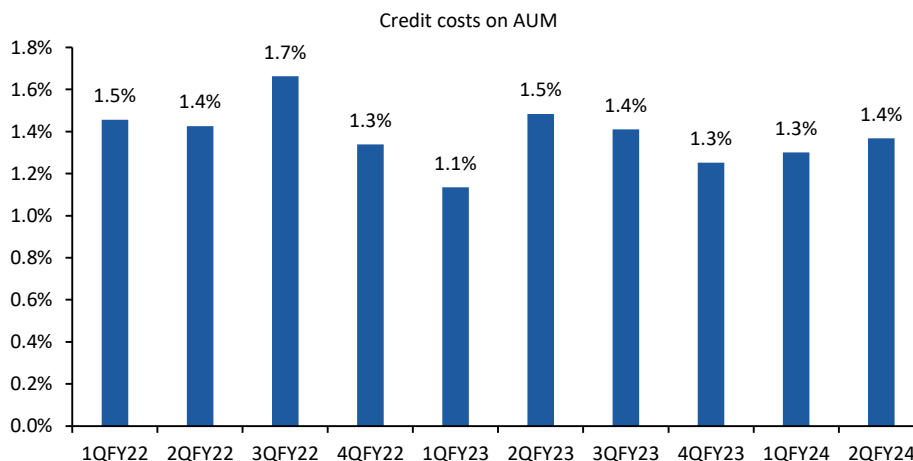
Exhibit 53: Stage 3 assets – one year lag for UGRO



Source: NBFC, Centrum Broking Ltd

One year lag Stage 3 assets have largely remained at 3.3% over the last four quarters. Credit costs (on avg. AUM) has remained in the range of 1.3% to 1.5% over the last 10 quarters.

Exhibit 54: Credit costs on avg. AUM in the range of 1.3% to 1.5%



Source: NBFC, Centrum Broking Ltd

All processes in the underwriting process until in-principle decisioning are fully automated. In addition to the scorecards and the policy statements, the underwriting process also follows the traditional ‘touch and feel’ based checking processes including legal verification, fraud control unit check, field investigation and valuation, which is done by a combination of internal teams and outsourced agencies to ensure that the sanctity of the loan portfolio is maintained.

Company has 2,225+ employees as on Sept’23 and ~14% of employees are in credit function suggesting underwriting focus by the company.

CIBIL TransUnion data suggests an improvement in delinquencies in MSME segment for MSME industry.

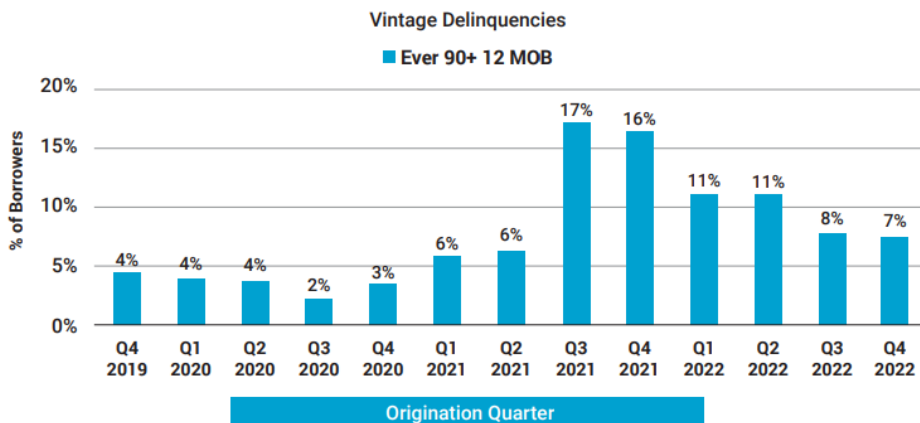
Exhibit 55: Delinquency rate across lenders

Delinquency rate	Q4FY20	Q4FY21	Q4FY22	Q4FY23
PSBs	5.3%	4.6%	3.7%	3.0%
PVT	2.1%	2.4%	1.6%	1.4%
NBFC	4.6%	5.0%	5.0%	3.6%

Source: Transunion CIBIL, SIDBI, Centrum Broking Ltd

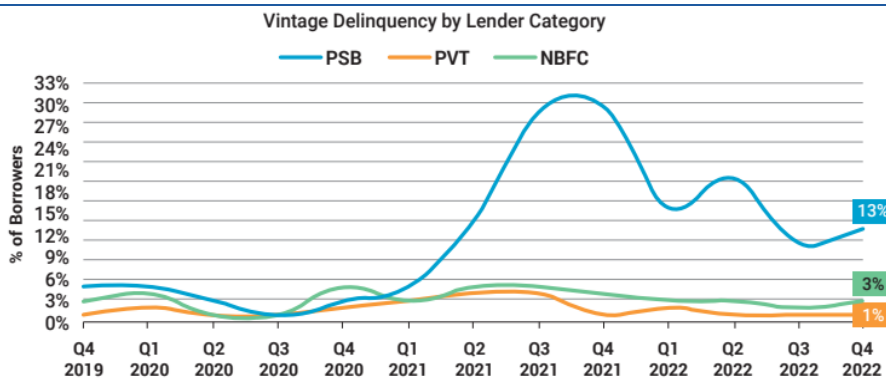
While the vintage delinquency increased for originations between 3QFY21 to 2QFY22, it has largely zoomed for PSBs. Vintage delinquency for NBFC has remained in the broad range of ~3% for originations in FY22.

Exhibit 56: Vintage delinquency for MSME origination by borrowers



Source: Transunion CIBIL, SIDBI, Centrum Broking Ltd; Note: Vintage delinquency is 90+ dpd in 12 MOB

Exhibit 57: Vintage delinquency higher for PSB origination



Source: Transunion CIBIL, SIDBI, Centrum Broking Ltd; Note: Vintage delinquency is 90+ in 12 MOB

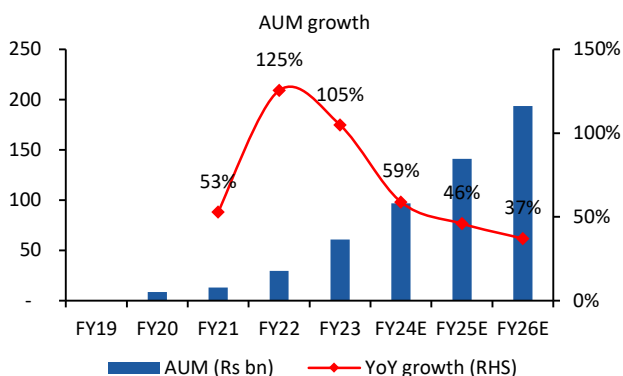
Operating leverage at play as scale builds

We expect RoAs to improve from 2.3% in 2QFY24 to 3.6% in FY26E driven by (1) increase in share of capital efficient co-lending/co-origination to 50% and (2) improved operating leverage as Opex/avg. assets reduce from 7.0% to 5.8% by FY26E. We expect UGRO to triple its AUM to Rs193.5bn by FY26E, however, expenses are likely to grow at a slower pace as company has frontloaded expenses in its initial years. Further, increase in financial leverage should support RoE expansion from 8.5% in 2QFY23 to 14.4% by FY26E.

We expect 47% AUM CAGR over FY23-26E owing to (1) the company adding new branches for growth; (2) improvement in efficiency of existing and new branches; and (3) ability to add new partners on co-lending side as book seasons and; (4) cross-sell engine picks up as company keeps adding customers. We expect off-book AUM at 50% in forecast period, in line with management guidance. The share of high yield Micro Enterprise Loans and retail finance (supply chain) is likely to increase while company may opt for co-lending in low yield products viz. Prime-secured loans.

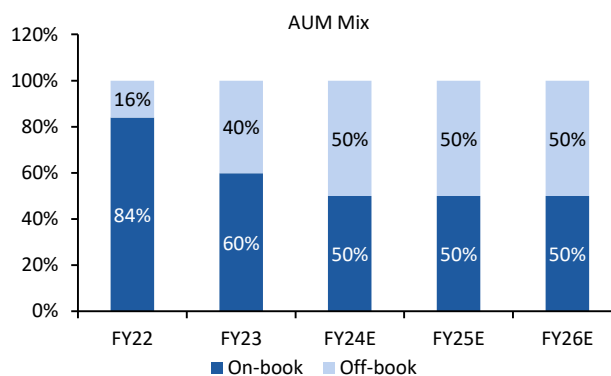
Increase in share of high yielding products is yields accretive and will improve NIMs.

Exhibit 58: We expect 47% AUM CAGR over FY23-26E



Source: NBFC, Centrum Broking Ltd

Exhibit 59: AUM mix



Source: NBFC, Centrum Broking Ltd

Exhibit 60: We expect share of high yield products to increase

AUM Mix - product wise	FY21	FY22	FY23	FY24E	FY25E	FY26E
Prime - Secured	40%	34%	28%	27%	24%	21%
Prime - Unsecured	26%	26%	31%	31%	31%	32%
Micro Enterprise Loan	0%	4%	8%	10%	13%	16%
Supply Chain Financing	16%	10%	9%	9%	10%	10%
Machinery Loan	5%	9%	12%	12%	13%	14%
Partnerships & Alliances	13%	18%	12%	10%	8%	7%

Source: NBFC, Centrum Broking Ltd

Exhibit 61: Product wise Return on Investment

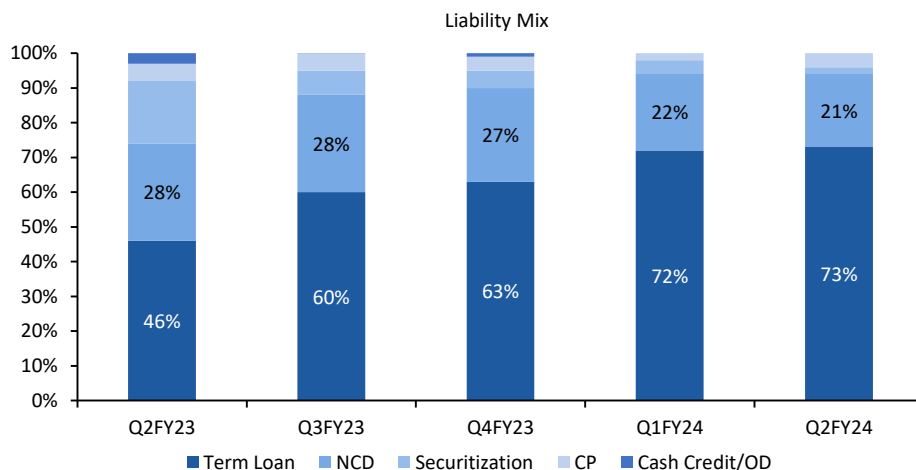
Product wise RoI	Q2FY23	Q4FY23	Q2FY24
Prime - Secured	13.6%	13.7%	13.8%
Prime - Unsecured	19.2%	19.6%	19.6%
Micro Enterprise Loan	22.2%	21.3%	20.9%
Supply Chain Financing*	16.2%	14.3%	13.3%
Machinery Loan	13.3%	13.5%	13.4%
Partnerships & Alliances*	22.4%	23.6%	14.8%

Source: NBFC, Centrum Broking Ltd; *Net ROI in Q2FY24

UGRO tapped co-lending and DA mode to grow its AUM in a capital efficient manner. Demand for DA remains high due to 100% PSL loan book.

For on Balance Sheet funding, the company has diversified lender base (60 lenders) across Banks, large NBFCs and DFIs. However, CoF is higher than the peers as the company’s long term debt is rated A-/Positive by CRISIL, ACUITE A/Stable by Acuite and IND A/Stable by India Ratings and Research Pvt Ltd.

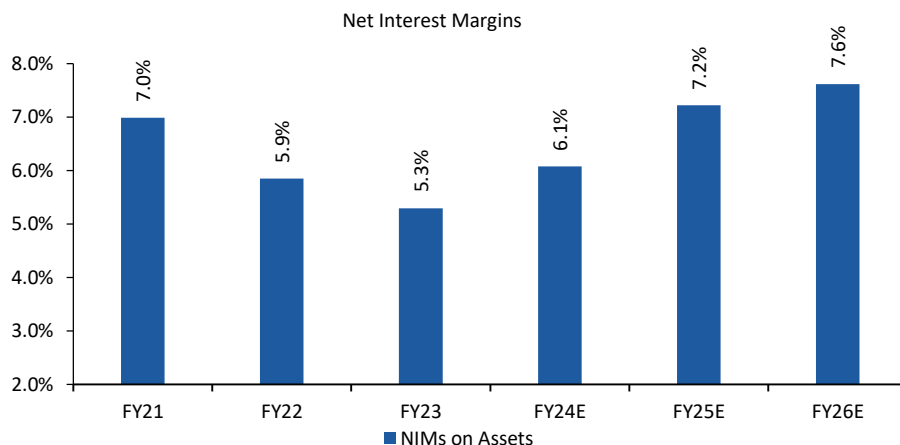
Exhibit 62: Liability mix is skewed towards term loans



Source: NBFC, Centrum Broking Ltd

Term loans are from banks, NBFCs and DFIs. Share of banks in term loans is at ~43%. NIMs in FY24E is likely to be lower due to higher CoF. However, we expect NIMs (on Assets) to improve as the CoF reduces and the share of high yield portfolio increases in the AUM mix.

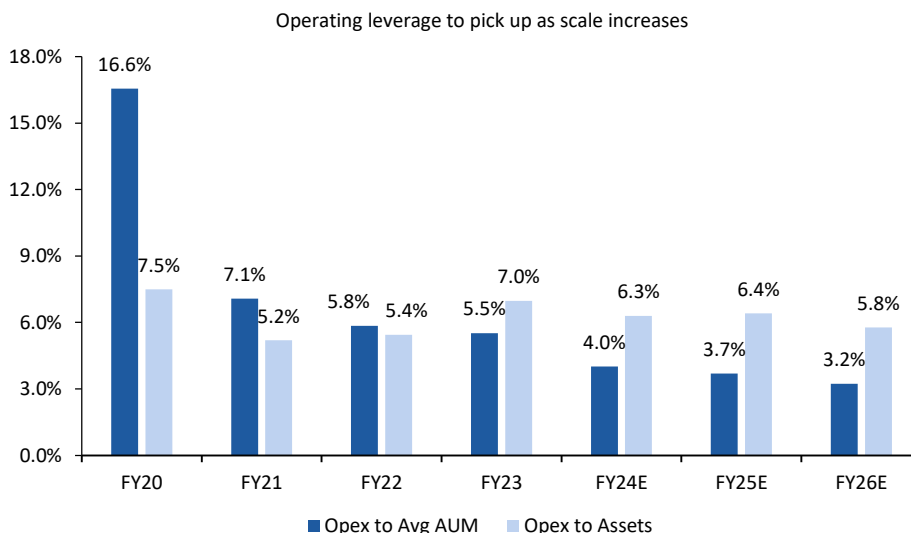
Exhibit 63: NIMs set to improve as share of high yielding book increases in AUM



Source: NBFC, Centrum Broking Ltd

We expect operating leverage to play out as the AUM growth picks up. This should result in opex/AAUM to reduce 230bps from 5.5% in FY23 to 3.2% by FY26E. The NBFC plans to add 75 Micro branches in FY24E and we expect another 75 branches addition in FY24-26E.

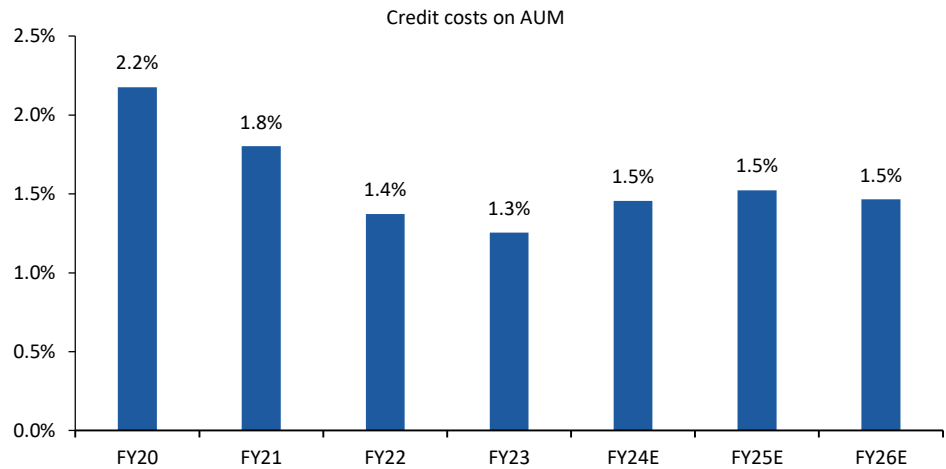
Exhibit 64: Opex to avg. AUM expected to improve by 210bps over FY23-26E



Source: NBFC, Centrum Broking Ltd

We build in 21bps increase in credit costs on AUM from FY23 to FY26E to 1.5% as the book seasons. This will lead to 63% CAGR in loan loss provisions over the same period.

Exhibit 65: Credit costs on AUM



Source: NBFC, Centrum Broking Ltd

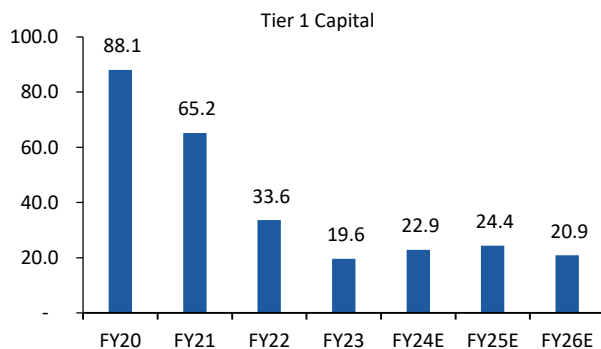
We expect UGRO to raise capital to meet its growth requirements. We build in capital raise of Rs5bn in 1HFY25E into our estimates. We expect RoA to reach 3.6% by FY26E, up 250bps over FY23-26E as operating leverage plays out modestly compensated by higher credit costs.

Exhibit 66: Du Pont Analysis

Du Pont Analysis	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	7.6%	10.0%	11.8%	13.5%	14.6%	15.2%	15.7%
Interest expense	1.3%	3.0%	6.0%	8.2%	8.5%	8.0%	8.0%
NII	6.3%	7.0%	5.9%	5.3%	6.1%	7.2%	7.6%
Net gain on derecog of FI	0.0%	0.0%	1.2%	4.3%	4.6%	4.8%	4.7%
Other income	2.5%	0.4%	0.6%	1.3%	1.3%	1.3%	1.1%
Total other income	2.5%	0.4%	1.7%	5.6%	6.0%	6.1%	5.8%
Total Income	8.8%	7.3%	7.6%	10.9%	12.0%	13.3%	13.4%
Employee costs	4.5%	3.1%	3.2%	3.9%	3.5%	3.2%	2.9%
Other opex	3.0%	2.1%	2.3%	3.0%	2.8%	3.2%	2.8%
Total opex	7.5%	5.2%	5.4%	7.0%	6.3%	6.4%	5.8%
PPOP	1.3%	2.1%	2.2%	3.9%	5.7%	6.9%	7.6%
Provisions & cont	1.0%	1.3%	1.3%	1.6%	2.3%	2.6%	2.6%
PBT	0.3%	0.8%	0.9%	2.3%	3.4%	4.2%	5.0%
Tax	-1.6%	-1.1%	0.2%	1.2%	1.1%	1.2%	1.5%
PAT	1.9%	1.9%	0.6%	1.1%	2.4%	3.0%	3.6%
Leverage	1.2	1.6	2.4	3.7	4.1	3.8	4.1
RoE	2.2%	3.1%	1.5%	4.1%	9.9%	11.5%	14.4%

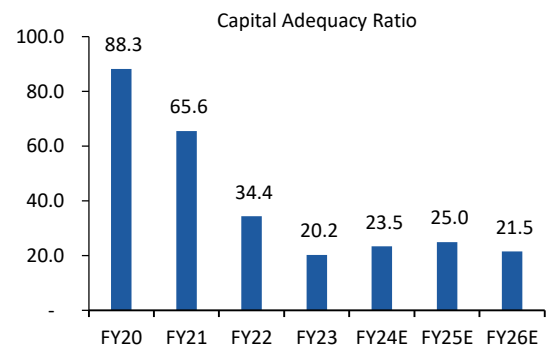
Source: NBFC, Centrum Broking Ltd

Exhibit 67: Tier 1 Capital



Source: NBFC, Centrum Broking Ltd

Exhibit 68: Capital Adequacy Ratio



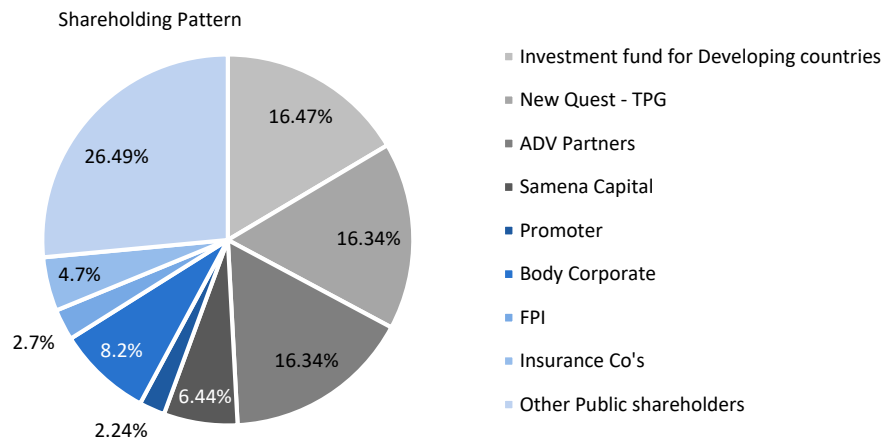
Source: NBFC, Centrum Broking Ltd

UGRO capital raised Rs9bn+ capital in 2018 from Marquee PE Investors (ADV, NewQuest, Samena & PAG). It raised Rs3.4bn in April/May'23 through preferential allotment of Rs2.4bn to IFU (Investeringsfonden for Udviklingslande) through Danish Sustainable Development Goals Investment Fund which is an arm of Denmark Government and Rs1bn through QIP to institutional investors.

Notably, 55.6% of shareholding in the company is held by Private Equity players and DFI while share of domestic insurance companies is at 4.7% and FPI at 2.7%. Promoter shareholding (Mr. Shachindra Nath) is low at 2.24%.

Within Domestic Insurance Companies – Go Digit General Insurance, SBI Life Insurance, PNB Metlife and SBI General Insurance are the investors.

Exhibit 69: Shareholding pattern – 2QFY24

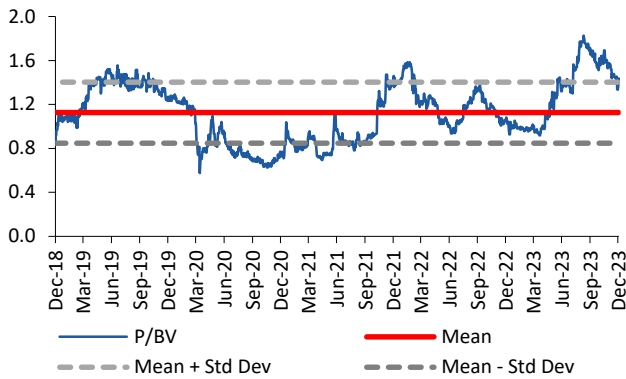


Source: NBFC, Centrum Broking Ltd

Valuation:

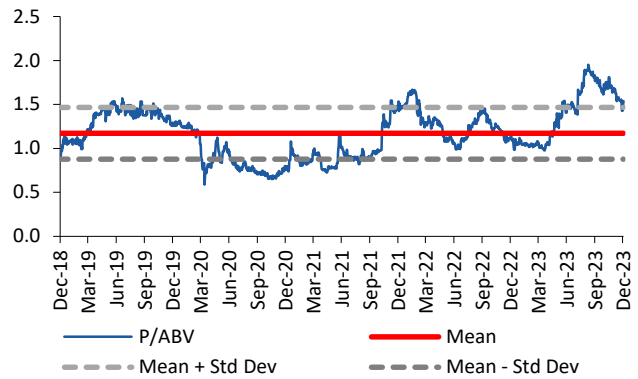
We estimate UGRO’s AUM CAGR at 47% over FY23-26E leading to Rs193.5bn AUM with targeted 50:50 on book:off book AUM mix. The strong AUM growth will lead to opex to avg. AUM improving from 5.5% in FY23 to 3.2% by FY26E. The operating leverage should support improvement in RoA from 1.1% in FY23 to 3.6% by FY26E. We initiate coverage on UGRO Capital with a BUY rating and a Target Price of Rs395, premised on 2x 1HFY26E P/ABV, implying 49% upside

Exhibit 70: One year forward P/BV



Source: NBFC, Bloomberg, Centrum Broking Ltd

Exhibit 71: One year forward P/ABV



Source: NBFC, Bloomberg, Centrum Broking Ltd

Peer comparison

Listed Companies	EPS (Rs)				BVPS (Rs)				RoA				RoE			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
UGRO Capital	5.7	13.2	18.8	30.4	142.0	157.5	195.2	225.6	1.1%	2.4%	3.0%	3.6%	4.1%	9.9%	11.5%	14.4%
Five Star	20.7	27.1	33.9	38.6	148.9	174.8	206.2	248.5	8.0%	7.9%	7.8%	7.5%	15.0%	16.6%	18.0%	19.3%
SBFC	1.6	2.1	2.8	3.5	15.9	22.7	25.5	29.0	2.7%	3.3%	3.4%	3.4%	9.9%	10.2%	10.5%	11.7%
MAS	36.8	45.6	57	68.1	267	309.0	361.0	424.0	2.9%	2.8%	2.9%	3.0%	14.6%	15.8%	17.0%	17.3%

Source: Company, Bloomberg, Centrum Broking Ltd

Listed Companies	CMP (Rs)	Rating	TP (Rs)	Mkt Cap (Rs mn)	P/BV			P/E			RoE			FY24-26E CAGR (%)	
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	BVPS	EPS
UGRO Capital	265	Buy	395	24,330	1.7	1.4	1.2	20.1	14.1	8.7	9.9%	11.5%	14.4%	19.7%	52.0%
Five Star	705	NR	NA	2,05,887	4.0	3.4	2.8	26.0	20.8	18.3	16.6%	18.0%	19.3%	19.2%	19.3%
SBFC	93	NR	NA	99,521	4.1	3.7	3.2	44.3	33.3	26.6	10.2%	10.5%	11.7%	13.0%	29.1%
MAS	866	NR	NA	47,326	2.8	2.4	2.0	19.0	15.2	12.7	15.8%	17.0%	17.3%	17.1%	22.2%

Source: Company, Bloomberg, Centrum Broking Ltd

Key Risks to our Target Price:

- MSME segment has historically witnessed higher delinquencies. UGRO’s high growth and profitability hinges on its co-lending model. Any deterioration in asset quality may lead to pull out of co-lending partners, which will impact its growth and profitability.
- Any regulatory changes in co-lending arrangement can impact growth.
- Increase in risk weights for bank lending to NBFC may result in higher CoF for UGRO. We have built modest growth in CoF in FY24E, while we expect a decline in CoF from FY25E as the regulator starts cutting repo rate. Delay in cut of Repo rates may impact NIMs and profitability.
- External events which may lead to deterioration in profitability.
- Inability to raise capital to fund the growth.

Exhibit 72: Key Management Details

Team	Designation	Details
Anuj Pandey	Chief Risk Officer	Mr. Anuj Pandey, is a founding member of UGRO Capital. He has 2 decades of experience with renowned companies like Barclays Bank, ABN AMRO Bank, GSK Consumer, and Religare Finvest. Anuj holds a Bachelor's degree in Engineering (Mechanical) from Thapar University & PGDM from IIM Lucknow.
Amit Mande	Chief Revenue Officer	Mr. Amit Mande brings a rich career experience spanning over 22 years with organizations like Standard Chartered Bank, ABN Amro Bank, Barclays Bank, Capital First, Rattan India Finance, Mswipe Technologies. Amit is an alumnus of Jamnalal Bajaj Institute of Management Studies and a Mechanical engineer from V.J.T.I., Mumbai. Leveraging his prior experience of building profitable businesses across asset products, diverse distribution models, and his passion for technology and speed, he endeavours to build a multi-product and omnichannel MSME lending franchise on the back of digitization and data analytics.
Kishore Lodha	Chief Financial Officer	Mr. Lodha, brings with him 2 decades 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. Sunil Lotke, is the Chief Officer – Legal, Compliance & Secretarial at UGRO. He possesses two decades of experience in Legal, Compliance, and Corporate Secretarial matters. He was formerly with InCred Financial Services, where he led the Legal & Compliance function. He has worked with notable organizations such as Reliance Group, Future Capital Holdings, IIFL Group, and StarAgri Finance. Sunil is a member of the Institute of Company Secretaries of India, and a law graduate from Mumbai University.
J. Sathiayan	Chief Business Officer	Mr. J 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. He is responsible for expanding the company's presence across India. He has held position of Vice President at ABN Amro Bank N.V. and Director at Religare Finvest Limited.
Om Prakash Sharma	Chief Operating Officer	Mr. Om Sharma has experience of over 20 years with a rich blend of expertise and passion for harnessing technology to foster business growth. He joined from AU Small Finance Bank, where he served as the Chief Digital Officer, and aims to leverage his capabilities as an accomplished Strategy and Digital Transformation Leader to enhance UGRO's standing in the MSME industry. Before his stint at AU Bank, he held technology and transformation positions at Digiflynt and Emirates NBD.
Pia Shome	Chief People Officer	Ms. Pia Shome, UGRO Capital's Chief People's Officer, brings ~2 decades of expertise in HR, Change Management, Organization Transformation, and Culture Building. With leadership roles at SME Corner, 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.

Source: NBFC, Centrum Broking Ltd

Exhibit 73: Board of Directors

Name	Position	Details
Satyananda Mishra	Non-Executive Chairman and Independent Director	Mr. Mishra, former Chief Information Commissioner of India (December 2010 to September 2013), has over 40 years of 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 been instrumental in building two insurance firms, a large asset management company, and an NBFC.
Karuppusamy 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 important roles in prominent working groups related to areas like urban cooperative banks, cross-border supervision, and integrated alert systems.
Karnam Sekar	Independent Director	Mr. Sekar is a seasoned banker with rich experience in various aspects of Indian Banking, having served at a senior level. He started his career as a Probationary Officer with SBI (1983) and rose 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. Presently he is on the board of Incred Financial Services and NARCL.
Hemant Bhargava	Independent Director	Mr. Bhargava is the Founder Chairman In charge & Managing Director of LIC. During his tenure of 38 years, he worked across diverse set of roles both in India and abroad, building multi-dimensional experience in different capacities, especially in Marketing, Internal Operations, and new ventures. Presently he is on the Board of Larsen and Toubro and Tata Power Company Limited and ITC.
Rajeev Agarwal	Independent Director	Mr. Agarwal has nearly three decades of experience in the Indian financial services sector. He has worked with some highly reputed organizations such as the Securities and Exchange Board of India, Forward Markets Commission, and Indian Revenue Service.
Tabassum Inamdar	Independent Director	Ms. Tabassum Inamdar is a Chartered Accountant, with over 25 years of extensive experience in research and analysis in the banking, insurance, and financial sector in India and Asia. She is a pioneer in the impact sector, she founded Tameel, a research initiative specialising in impact strategy research in 2019. As a member of a committee set up by the Insurance Regulatory and Development Authority of India, Ms. Inamdar played a key role in developing a concept paper on standalone micro-insurance companies. She has also held key positions in various organizations, as the Head of State Reform Team at Central Square Foundation, Managing Director and Co-head of the India Research team and Asia Financials team at Goldman Sachs Securities India Private Ltd, and other influential roles at UBS Securities and Kotak Securities etc.
Amit Gupta	Non-Executive Director	Mr. Gupta is the founding Partner of New Quest Capital Partners and oversees the firm's India and Southeast Asia business as well as investments in the power and financial services sectors. He has a highly varied experience of 20 years in leading teams and producing projects aligned with business goals. Prior to co-founding New Quest, he was a Director at Bank of America Merrill Lynch (BAML) Asia Private Equity group where he led the India business and oversaw investments in the energy and financial services sectors across the Asia Pacific region.
Chetan Gupta	Non-Executive Director	Mr. Gupta is the Managing Director of Samena Capital Investments Limited in Dubai, focusing on investments within the Special Situations Funds. He is a member of the Board of Directors and Executive Committee at RAK Logistics as well as an Investment Committee member of the Samena Special Situations Funds. Prior to Samena Capital, he was an Equity Research Analyst at Tricolour India Fund and a part of the General Electric Financial Management Leadership Program, focusing on financial planning and analysis.
Manoj Sehrawat	Non-Executive Director	Mr. Sehrawat currently serves as a Partner at ADV Partners, after moving on from the role of Managing Director at the firm. With 22 years of experience in financial services across private equity, distress debt acquisition & resolution, corporate and financial restructurings in India. Prior to ADV, Manoj Sehrawat was the Vice President with JPMorgan's Asia Special Situations Group. He has also worked at ARCIL where he was responsible for acquisition of NPLs from banks & FIs.
Deepa Hingorani	Non-Executive Director	Mrs. Hingorani is Senior Vice President at IFU, The Danish Investment Fund for developing countries. She is the global head for Financial services and also the Head of Asia at IFU, based in Singapore. IFU is a Danish Government owned investment fund that invests equity and debt for impact in emerging markets. She has 25+ years of investment experience in Asia and has led several transactions within Climate, Financial Services, Agri business and infrastructure, Manufacturing and Healthcare.

Source: NBFC, Centrum Broking Ltd

UGRO capital has 6 Independent Directors, 4 Non-Executive Directors apart from Managing Director on its board. As part of processes and policies, any proposed loan > 1% of net worth or to a related party requires unanimous approval of ALCO and the Board. Removal of key management (including CRO, CFO requires 3/4th board approval. Any shareholder holding > 10% is qualified for a board seat.

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	2,721	4,829	7,318	10,431	14,667
Interest expense	1,373	2,933	4,273	5,486	7,536
NII	1,348	1,896	3,045	4,945	7,130
Other income	400	2,008	2,985	4,157	5,424
Total income	1,749	3,905	6,030	9,102	12,554
Operating expenses	1,253	2,499	3,155	4,389	5,403
Employee	729	1,407	1,742	2,191	2,736
Others	524	1,091	1,413	2,199	2,668
PPOP	496	1,406	2,874	4,712	7,151
Provisions	294	568	1,146	1,811	2,451
PBT	202	838	1,728	2,902	4,700
Tax	56	441	527	841	1,363
PAT	146	398	1,201	2,060	3,337

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
AUM	125.4	104.8	58.9	46.0	37.1
Borrowings	135.4	74.7	30.5	37.4	42.3
NII	30.2	40.7	60.6	62.4	44.2
Other income	668.5	401.7	48.6	39.3	30.5
Opex	62.6	99.5	26.3	39.1	23.1
PPoP	56.2	183.6	104.4	63.9	51.8
Provisions	49.9	93.1	101.8	58.0	35.3
PAT	(49.3)	173.4	202.0	71.5	62.0
Profitability (%)					
Interest yield on Assets	11.8	13.5	14.6	15.2	15.7
Cost of borrowing	10.7	11.8	11.8	11.2	11.0
NIM (on Avg. Assets)	5.9	5.3	6.1	7.2	7.6
Other Income/ Total Income	22.9	51.4	49.5	45.7	43.2
Other Income / Total Assets	5.4	7.0	6.3	6.4	5.8
Cost/Income					
Employee	41.7	36.0	28.9	24.1	21.8
Others	30.0	28.0	23.4	24.2	21.2
Opex/ Avg AuM	5.8	5.5	4.0	3.7	3.2
Provisions	1.4	1.3	1.5	1.5	1.5
Tax Rate	27.9	52.6	30.5	29.0	29.0
RoA	0.6	1.1	2.4	3.0	3.6
RoE	1.5	4.1	9.9	11.5	14.4

DuPont (% of avg assets)					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	11.8	13.5	14.6	15.2	15.7
Interest expense	6.0	8.2	8.5	8.0	8.0
NII	5.9	5.3	6.1	7.2	7.6
Other income	1.7	5.6	6.0	6.1	5.8
Total income	7.6	10.9	12.0	13.3	13.4
Operating expenses	5.4	7.0	6.3	6.4	5.8
Employee	3.2	3.9	3.5	3.2	2.9
Others	2.3	3.0	2.8	3.2	2.8
PPOP	2.2	3.9	5.7	6.9	7.6
Provisions	1.3	1.6	2.3	2.6	2.6
PBT	0.9	2.3	3.4	4.2	5.0
Tax	0.2	1.2	1.1	1.2	1.5
PAT	0.6	1.1	2.4	3.0	3.6

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Financial assets					
Cash	1,884	2,118	4,387	4,837	5,285
Loans	24,511	38,064	49,384	71,934	98,475
Investment	694	601	629	747	904
Non-financial assets	1,460	2,273	2,747	2,374	2,850
Deferred tax assets	455	275	220	220	220
Fixed Assets	362	656	731	806	806
Other Non-fin. assets	643	1,342	1,795	1,347	1,823
Total Assets	28,549	43,056	57,148	79,892	1,07,514
Financial liabilities					
Borrowings	18,022	31,489	41,082	56,453	80,316
Non-financial liabilities	861	1,725	1,695	2,009	2,431
Other Non-fin liabilities	861	1,725	1,695	2,009	2,431
Total equity	9,666	9,840	14,370	21,430	24,768
Share capital	706	693	913	1,098	1,098
Other equity	8,960	9,147	13,458	20,333	23,670
Total Liabilities	28,549	43,056	57,148	79,892	1,07,514

Balance Sheet ratios (%)					
Debt / Equity	1.9	3.2	2.9	2.6	3.2
Assets / Equity	32.6	51.2	62.4	68.2	85.4
Cash / Borrowings	10.5	6.7	10.7	8.6	6.6
Details on loans					
AUM	29,691	60,820	96,664	1,41,132	1,93,532
Disbursements	22,900	46,400	63,369	86,146	1,12,268
Capital Adequacy (%)					
CRAR	34.4	20.2	23.5	25.0	21.5
Tier-1	33.6	19.6	22.9	24.4	20.9
Tier-2	0.8	0.6	0.6	0.6	0.6
Asset quality (%)					
GNPA (Rs mn)	564	957	1,697	2,560	3,819
Growth (%)	54.6	69.6	77.3	50.8	49.2
NNPA (Rs mn)	415	499	848	1,408	2,101
Growth (%)	80.7	20.1	70.1	65.9	49.2
GNPA (on Book)	2.3	2.5	3.3	3.5	3.8
NNPA (on Book)	1.7	1.3	1.8	1.6	1.8
PCR	26.4	47.9	50.0	55.0	55.0
NNPA / Equity	4.3	5.1	5.9	6.6	8.5
Per share (Rs)					
EPS	2.1	5.7	13.2	18.8	30.4
BVPS	137.0	142.0	157.5	195.2	225.6
ABVPS	134.9	135.3	148.2	184.7	210.0
DPS	0.0	0.0	0.0	0.0	0.0
Valuation (x)					
P/E	128.5	46.2	20.1	14.1	8.7
P/BV	1.9	1.9	1.7	1.4	1.2
P/ABV	2.0	2.0	1.8	1.4	1.3
Dividend yield	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

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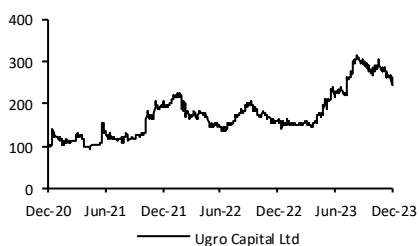
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Ugro Capital



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