

UGRO Capital Ltd.

January 28, 2025

CMP: 199 | Target Price: INR 254 | Potential Upside: 27.3%

BUY

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✗

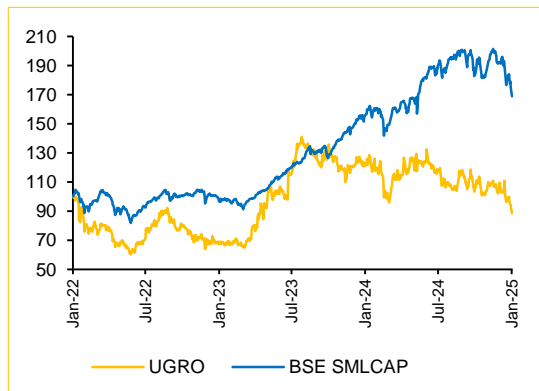
Company Info	
BB Code	UGRO IN EQUITY
Face Value (INR)	10
52 W High/Low (INR)	317/198
Mkt Cap (Bn)	INR 20 / \$0.2
Shares o/s (Mn)	92.99
3M Avg. Daily Volume	1,94,501

Actual vs Consensus			
INR Mn	Q3FY25A	Consensus Est.	Dev.%
Revenue	3,850	2,120	81.6
PPOP	942	992	-5.0
P&C	413	475	-13.1
PBT	530	517	2.4
PAT	375	375	0.0
EPS	4.0	4	15.2

Key Financials				
Metric	FY23	FY24	FY25E	FY26E
AUM	60,810	90,470	1,18,297	1,60,643
Off-book AUM	40.0%	45.0%	43.0%	48.0%
NII	1,896	2,650	3,488	5,816
PPOP	1,406	2,950	3,930	6,393
PBT	840	1,787	2,017	3,765
PAT	400	1,190	1,483	2,768
CI Ratio	62.0%	54.0%	55.3%	51.8%
ROA	1.10%	2.30%	2.01%	2.89%
ROE	4.10%	9.90%	8.24%	11.29%
GNPA	1.60%	2.00%	2.57%	2.58%
NNPA	0.90%	1.10%	1.35%	1.26%
stage 3 PCR	48.6%	48.0%	48.0%	48.0%
P/ABV	1.5	1.4	1.4	1.1

Shareholding Pattern (%)			
	Dec-24	Sep-24	Jun-24
Promoters	2.2	2.2	2.2
FIIIs	24.7	20.4	20.3
DIIIs	2.4	2.8	2.6
Public	70.7	74.6	74.9

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE Small Cap	75.0	81.4	12.9
UGRO	-10.9	32.4	-27.7



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The elusive quest for 4% RoA extends past Q4FY26, with clarity due in 2-3 quarters.

UGRO reported mixed operational performance in Q3FY25. Despite a 23.5% QoQ growth in its focused segment, net yield failed to move up. Cost to income ratio jumped by 399 bps in Q3FY25. The NBFC reported:

- Q3FY25 AUM at INR1,10,670Mn (vs CEBPL est. INR1,13,221Mn), was up 32.3% YoY and up 8.9% QoQ. 74 branches were added in 9MFY25.
- NII reported at INR871Mn, (vs CEBPL est. INR983Mn) was up 31.8% YoY and up 34.3% QoQ. Interest income from off-book AUM was INR 1036Mn, up 35.6% YoY but plunged 5.4% QoQ
- PAT for Q3FY25 reported at INR375Mn (vs CEBPL est. INR457Mn) was up 15.3% YoY and 5.5% QoQ. ROA inched downwards by 10 bps to 1.9% .

Branch addition approach driving calibrated AUM growth: UGRO achieved a calibrated 32.3% AUM growth on a YoY basis in Q3FY25 as the rebranded "Emerging Market LAP" segment grew 88.9% YoY representing 12% of the AUM mix. Management expects it to reach ~34% in next 7-8 quarters. AUM per branch declined from INR 804Mn to INR 494Mn. We expect it to decline further over next 4-5 quarters as UGRO is adding branches aggressively. Post this, AUM will shoot up as branches achieve maturity in 18 months. However, 30% long term growth with 18% ROE is only sustainable if share prices rises in tandem because "if" capital appreciation does not happen we expect that warrants issued of INR 10380Mn will expire worth less than UGRO will have to resort to new capital issue. The current average liquidity is so low that issue price of INR 264 will fail to provide any significant support.

New Product Segment launched: Thanks to acquisition of Mysublife, UGRO disbursed INR 3350Mn loans in Q3FY25. These loans are short duration with maturity less than a year and are repaid on daily basis. This is a 16% ROI generating product for the company with ATS of INR 100 thousand.

Headwinds in Co-lending Space: Management highlighted challenges in co-lending, including banks' discomfort with unsecured loans, regulatory scrutiny, and misperceptions of MSME loans. Despite these, management believes co-lending remains viable. Growth of Off-book AUM is of paramount importance in 4% RoA journey.

The ROA squeeze: Higher CI ratio outweighs promised efficiency gains: Higher C/I ratio of 55% is expected in FY25 and similar level in FY26. Earlier management's roadmap to 4% RoA attributed 50bps boost from operating leverage but we estimate that RoA will rather take a 60 bps hit due to increased costs.

View and Valuation: We revise our FY25/26 ABVPS estimates by -3.1%/-6.9% and reiterate the 'BUY' rating with a revised TP of INR 254, valuing it at 1.45x FY26 P/ABVPS. While some medium to short term headwinds persist, the long term growth story remains intact. We strongly believe that UGRO's asset light model and calibrated AUM growth approach will continue to create value for its shareholders in long run.

India NBFC : UGRO IN							
Result Snapshot (INR Mn)	Q3 FY25	Q3 FY24	YoY	Q2 FY25	QoQ	EST.	Dev. (%)
AUM	1,10,670	83,630	32.3	1,01,580	8.9	1,13,221	-2.3
on book	61,650	45,997	34.0	56,650	8.8	59,522	3.6
off book	49,020	37,634	30.3	44,930	9.1	48,700	0.7
Interest income	2,544	1,828	39.2	2,080	22.3	2,651	-4.0
Interest income on off book aum	1,036	764	35.6	1,095	-5.4	1,145	-9.5
NII	871	661	31.8	649	34.3	983	-11.4
NIM on Aum (%)	7.86	8.95	-110 bps	8.59	-74 bps	9.25	-139 bps
C/I ratio (%)	56.7	53.2	349 bps	52.7	399 bps	51.80	490 bps
PPOP	942	761	23.9	945	-0.2	1,146	-17.7
PPOP Margin (%)	24.5	27.2	-276 bps	27.6	-307 bps	28.3	-385 bps
Credit Cost	413	297	38.9	443	-6.9	536	-23.0
PAT	375	325	15.3	355	5.5	457	-18.0
Pat Margin (%)	9.7	11.6	-190 bps	10.4	-62 bps	11.3	-157 bps

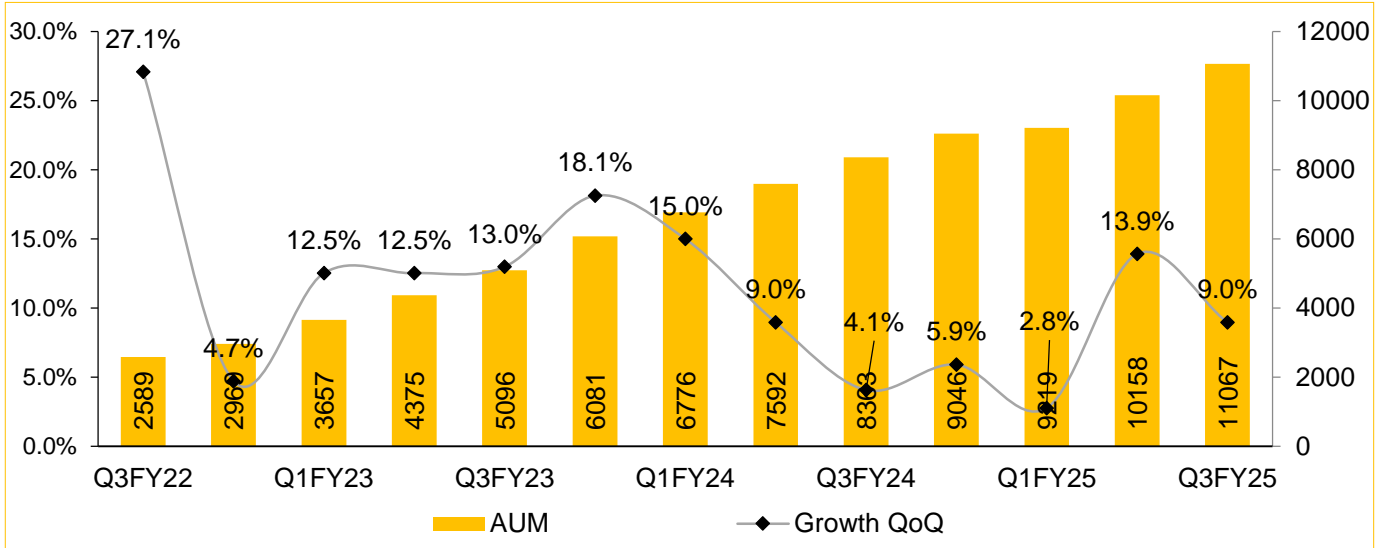
Change in CEBPL Estimates

INR Mn	FY25E			FY26E		
	Old	New	Dev (%)	Old	New	Dev (%)
NII	3,802	3,488	-8.3%	6,313	5,816	-7.9%
Other Income	802	941	17.2%	1,169	1,289	10.3%
OPEX	4,606	4,865	5.6%	6,164	6,864	11.4%
P&C	1,835	1,913	4.2%	2,585	2,628	1.7%
PAT	1,979	1,483	-25.1%	4,024	2,768	-31.2%
GNPA (%)	2.3%	2.6%	0.2%	2.2%	2.6%	0.4%
AUM	1,19,363	1,18,297	-0.9%	1,76,824	1,60,643	-9.2%
EPS	17	13	-25.1%	28	20	-31.2%
Adj. BVPS (Rs)	150	145	-3.1%	188	175	-6.9%

Management Call - Highlights

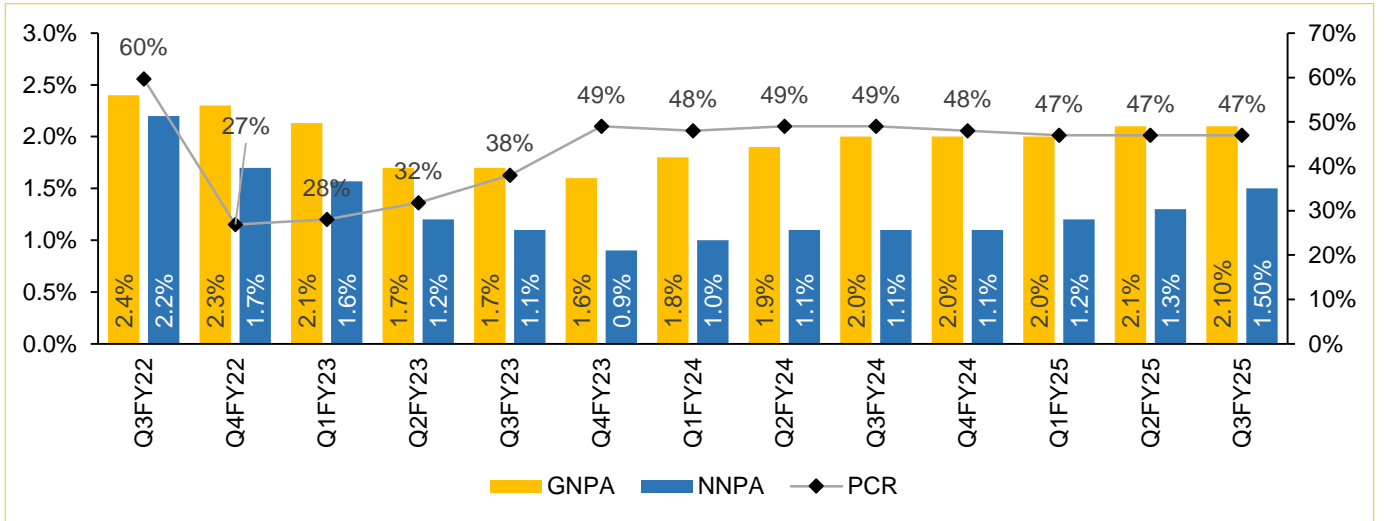
- *UGRO launched a new product , “Embedded Finance “ and achieved INR 3550Mn disbursals in Q3FY25 . The product generates 16% ROI. The maturity is less than 1 year and ATS is INR 100,000*
- *Rebranding of Micro Enterprise Loans to Emerging Market Lap in order to avoid confusion among stake holders.*
- **ROA Target:** The company's target of achieving a 4% Return on Assets (ROA) has been delayed by two to three quarters. This delay is primarily due to a slower liquidity environment, not a lack of capacity to originate loans. The company is actively expanding to transition to higher yielding portfolios more quickly, which they expect will strengthen their profitability trajectory.
- **ROE Target:** The company is aiming for a sustainable Return on Equity (ROE) of 16-18%.
- **AUM Growth Rate:** UGRO is aiming for a 30% annual growth rate year-on-year. However, the company has said that if the market's feedback on the share price is not commensurate with the ROE and ROA, they will consider only growing at the return on equity rate.
- **Emerging Market Channel:** The company will continue to focus on high-yield emerging market loans, which target under-served semi-urban and rural markets. This segment is a key driver of future growth. The company intends to expand this segment to deliver both impact and return. The company plans to increase its branch network in this channel.
- **Cost to Income Ratio:** The cost to income ratio is expected to remain around 55% for the current year but is expected to decrease in the next year. This is due to the company's continued investment in branch infrastructure.
- **Secured vs Unsecured Mix:** The company intends to maintain a 30:70 mix between secured and unsecured loans. The company tries to cover as many unsecured loans as possible under the central guarantee scheme.
- **Machinery Loans:** The company plans to expand its machinery loan segment, maintaining an average ticket size of ₹35 lakh and an average yield of 14%. The company aims to increase the monthly volume from an average of ₹75 crore to ₹150-175 crore, by the end of the next quarter.
- **Funding Costs:** The company expects its cost of borrowing to gradually decrease as its credit rating improves and financial position strengthens. They are taking active measures to optimize it further to improve the interest margin.
- **Branch Expansion:** The company plans to continue its expansion of branches in the emerging market channel. The company is working to ensure that all branches become profitable.
- **Other Expenses:** The company expects the current run rate of other expenses of around ₹59 crores per quarter to continue for the next few quarters.
- **Profitability:** The company believes that a branch with a gross disbursement of ₹1 crore per month and an AUM of ₹5 crore becomes fairly positively rated.
- **Co-lending:** The company expects that banks will restart their business loan segments which will increase their co-lending volumes.
- **Technology:** The company will continue to invest in its data analytics, IT and technology infrastructure to support its data-driven lending.
- **Market Outlook:** The company believes that the current negative perception of NBFCs will normalize and allow it to raise more capital at better pricing

AUM reported INR 11067 cr in Q3FY25



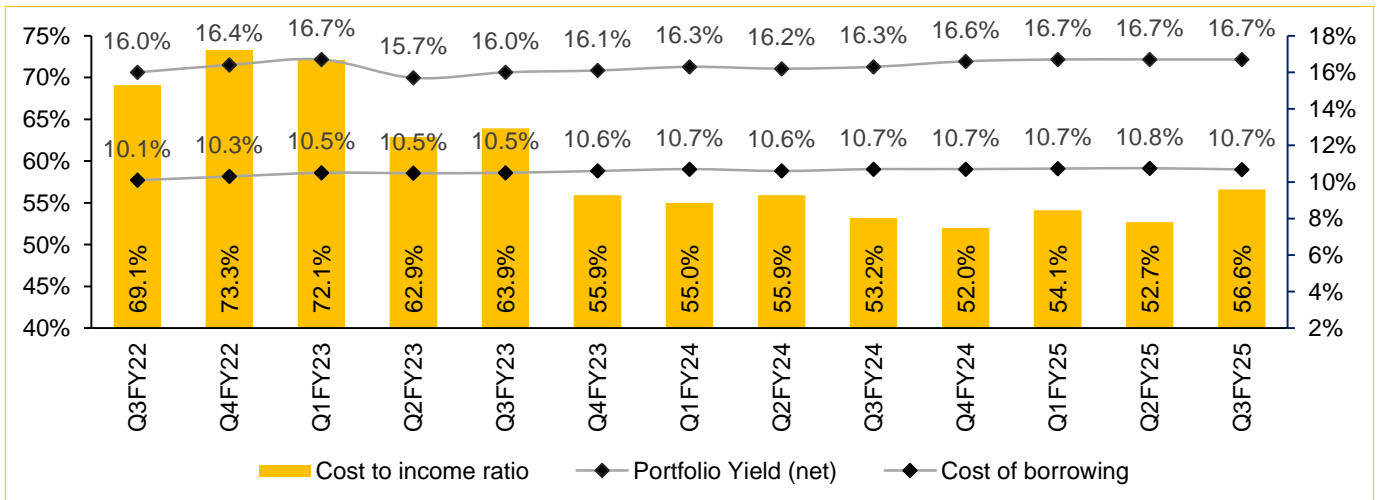
Source: Company, CEBPL

Asset Quality remains healthy and stable. NNPA rises 20 bps on QoQ basis in Q3FY25



Source: Company, CEBPL

Yield remains flat, COB eases and Cost to Income ratio jumps up significantly on basis QoQ in Q3FY25



Source: Company, CEBPL

*All figures are in INR Million

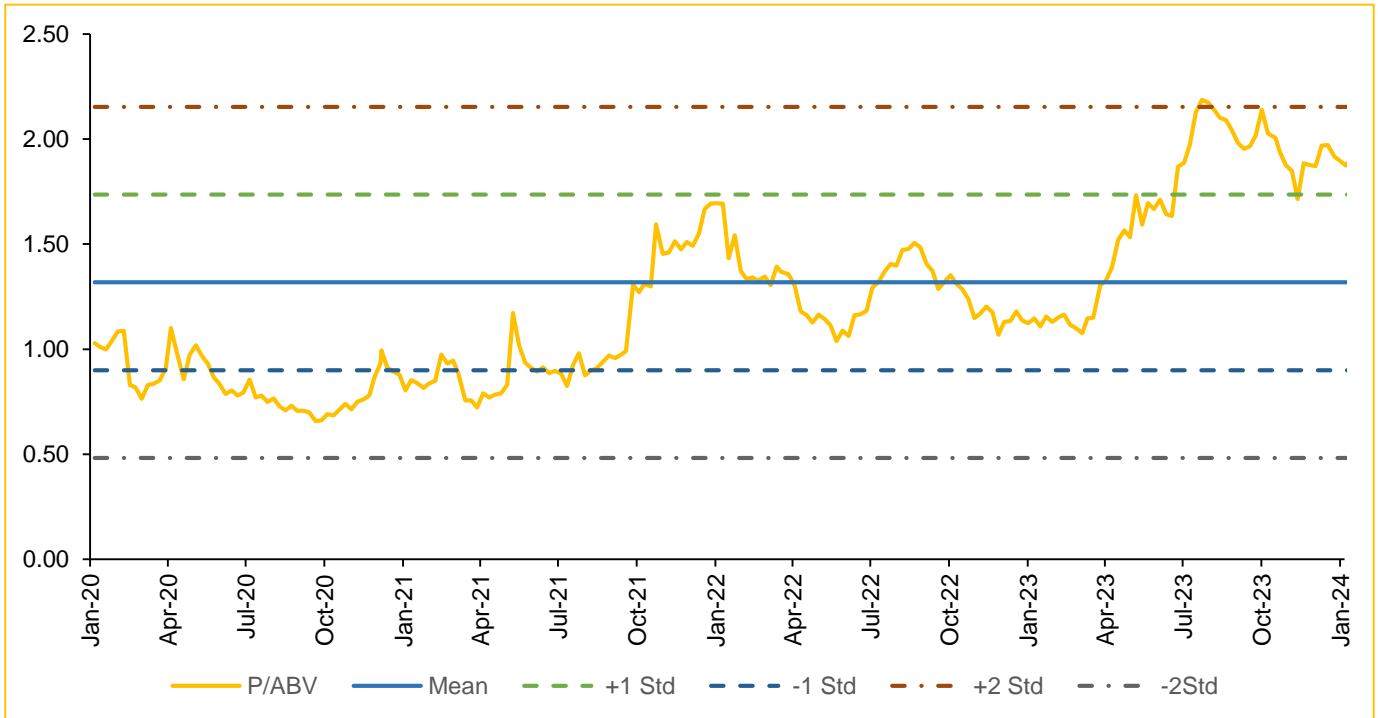
Sequential Operating Performance

Particulars	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	YoY (%)	QoQ (%)
Interest Earned	1,828	1,918	2,320	2,080	2,544	39.2	-10.3
<i>Growth</i>	6.4%	4.9%	21.0%	-10.3%	22.3%		
Income on Off Book AUM	764	1,224	504	1,095	1,036	35.6	117.3
<i>Growth</i>	17.9%	60.1%	-58.8%	117.3%	-5.4%		
Other Income	201	162	192	253	269	33.9	31.8
Total Income	2,793	3,304	3,016	3,429	3,850	37.8	13.7
<i>Growth</i>	10.1%	18.3%	-8.7%	13.7%	12.3%		
Interest Expended	1,167	1,281	1,361	1,431	1,673	43.4	5.1
NII	661	636	958	649	871	31.8	-32.3
<i>Growth</i>	-0.5%	-3.8%	50.6%	-32.3%	34.3%		
OPEX	865	1,052	894	1,053	1,234	42.6	17.7
of which Employees Expenses	485	514	545	616	646	33.3	13.0
Other Operating Expense	289	439	100	107	463	60.1	7.4
Depreciation And Amortization	91	99	249	330	125	37.1	32.2
PPOP	761	970	760	945	942	23.9	24.3
<i>Growth</i>	16.4%	27.5%	-21.7%	24.3%	-0.2%		
<i>PPOP Margin</i>	27.2%	29.4%	25.2%	27.6%	24%		
Provisions	297	411	332	443	413	38.9	33.7
PBT	464	560	428	501	530	14.2	17.1
<i>Growth</i>	13.7%	20.7%	-23.5%	17.1%	5.7%		
PBT Margin	16.6%	16.9%	14.2%	14.6%	14%		
Tax Expense	139	233	125	146	155	11.6	17.0
PAT	325	327	304	355	375	15.3	17.1
<i>Growth</i>	12.6%	0.5%	-7.1%	17.1%	5.5%		
PAT Margin	11.6%	9.9%	10.1%	10.4%	9.7%		
Assets Quality							
Gross NPA (%)	2.0	2.0	2.0	2.1	2.1		
Net NPA (%)	1.1	1.1	1.2	1.3	1.5		
Coverage Ratio(%)	49.0	48.0	47.0	47.0	47.0		
AUM Breakup							
On Book	45,997	49,753	51,050	56,650	61,650	34.0	11.0
Off Book	37,634	40,707	41,140	44,930	49,020	30.3	9.2
Category wise							
Secured Business Loan	22,520	23,850	24,510	27,920	30,420	35.1	13.9
Business Loan	26,640	29,360	30,730	33,310	33,530	25.9	8.4
Micro Enterprise Loan	7,210	8,130	8,950	11,050	13,620	88.9	23.5
Supply Chain Financing	7,220	6,320	4,390	3,550	3,090	-57.2	-19.1
Machinery Loan	10,370	11,680	12,530	13,910	15,000	44.6	11.0
Partnerships & Alliances	9,670	11,120	11,080	11,840	11,990	24.0	6.9
Embedded Finance					3,020		
Network							
Branches (in num.)	104	150	164	210	224		
AUM per branch	804	603	562	484	494		

View and Valuation

We revise our FY25/26 ABVPS estimates by -3.1%/-6.9% and reiterate the **'BUY'** rating to with a revised TP of INR 254, valuing it at 1.45x FY26 P/ABVPS. While some medium to short term headwinds persists, the long term growth story remains intact. We strongly believe that UGRO's asset light model and calibrated AUM growth approach will continue to create value for its shareholders in long run.

12MF P/Adjusted Book Value



Key risks to Investments;

- **Credit Risk:** UGRO is exposed to the risk of non-repayment by its borrowers. Any significant defaults could negatively affect the company's financial health, leading to increased provisioning for bad debts, which in turn would reduce profitability.
- **Interest Rate Risk:** Fluctuations in interest rates could impact UGRO's cost of funds and its net interest margins. If the company is unable to pass on these higher costs to its borrowers, it could result in margin compression, thereby affecting its profitability.
- **Regulatory Risk:** As a non-banking financial company (NBFC), UGRO is heavily regulated by the Reserve Bank of India (RBI). Any changes in regulatory policies—such as capital adequacy requirements, asset classification norms, or lending guidelines—could significantly influence the company's operations and financial performance.
- **Risks in Co-Lending Partnerships:** UGRO's co-lending arrangements with financial partners introduce operational and compliance risks. Misalignment in systems, credit policies, or adherence to regulatory requirements could lead to inefficiencies, credit losses, or regulatory challenges, which could harm the company's financial performance and reputation.

RoA Tree

Particulars	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Interest Income	11.8%	13.5%	13.4%	13.0%	13.7%
Income From Colending	1.2%	4.3%	5.8%	5.9%	6.4%
Fees And Commission Income	0.3%	0.5%	0.6%	0.7%	0.7%
Other Income	0.3%	0.8%	0.7%	0.6%	0.6%
Total Income	13.5%	19.1%	20.4%	20.2%	21.5%
Interest Cost	6.0%	8.2%	8.4%	8.2%	7.6%
Operating Expense	5.4%	6.8%	6.5%	6.6%	7.2%
PPOP	2.2%	4.1%	5.6%	5.3%	6.7%
Credit Cost	1.3%	1.6%	2.2%	2.6%	2.7%
PBT	0.9%	2.5%	3.4%	2.7%	3.9%
Tax	0.2%	1.2%	1.1%	0.7%	1.0%
ROA	0.6%	1.3%	2.3%	2.0%	2.9%
Leverage	1.84 x	2.95 x	4.38 x	4.37 x	3.92 x
ROE	1.2%	3.8%	9.9%	8.8%	11.3%

Source: Company, CEBPL

Profit and Loss Account

Particulars In INR Mn	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Interest Earned	1,481	2,721	4,829	7,079	9,570	13,810
Growth	87.8%	83.7%	77.5%	46.6%	35.2%	44.3%
Income on Off Book AUM	0	269	1,541	3,075	4,331	6,538
Growth	N.A	N.A	472.0%	99.6%	40.9%	51.0%
Other Income	52	131	468	663	945	1,394
Fee Based Income	13	68	195	311	499	740
Other Income	39	63	273	352	446	654
Total Income	1,533	3,121	6,838	10,817	14,847	21,741
Growth	45.8%	103.5%	119.1%	58.2%	37.3%	46.4%
Interest Expended	446	1,373	2,933	4,429	6,113	7,596
NII	1,036	1,348	1,896	2,650	3,458	6,213
Growth	58.8%	30.2%	40.7%	39.7%	30.5%	79.7%
OPEX	770	1,253	2,499	3,437	4,675	6,438
Employees Expense	453	729	1,407	1,829	2,530	3,433
Other Operating Expense	200	400	915	1,255	1,660	2,334
Depreciation And Amortization	117	123	176	353	485	671
PPOP	317	496	1,406	2,950	4,059	7,707
Growth	134.3%	56.2%	183.6%	109.8%	37.6%	89.9%
PPOP Margin	20.7%	15.9%	20.6%	27.3%	27.3%	35.4%
Credit Cost	196	294	568	1,163	1,921	2,678
PBT	121	202	838	1,788	2,139	5,029
Growth	265.6%	66.4%	315.4%	113.2%	19.6%	135.2%
PBT Margin	7.9%	6.5%	12.3%	16.5%	14.4%	23.1%
Tax Expense	-166	56	441	594	567	1,333
Tax Rate	-136.8%	27.9%	52.6%	33.2%	26.5%	26.5%
PAT	287	146	398	1,193	1,572	3,696
Growth	47.2%	-49.3%	173.4%	200.0%	31.7%	135.2%
PAT Margin	18.7%	4.7%	5.8%	11.0%	10.6%	17.0%

Source: Company, CEBPL

Balance sheet

Particulars in INR Mn	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Share Capital	705	706	693	916	1,381	1,449
Reserves and Surplus	8,819	8,960	9,147	13,468	20,316	26,988
Net Worth	9,524	9,666	9,840	14,384	21,697	28,437
Debt	3,156	7,044	11,443	14,300	20,215	27,444
Borrowings	4,501	10,978	20,046	32,232	41,116	53,053
Other Liabilities And Provisions	367	861	1,726	1,878	2,558	3,812
Total Equity And Liabilities	17,548	28,549	43,056	62,794	85,586	1,12,746
Cash And Bank Balances	3,160	1,884	2,118	4,543	6,585	6,420
Loans And Advances	12,827	24,511	38,064	54,322	72,944	99,411
Investments	552	694	601	592	783	1,077
Fixed Assets	401	616	1,211	2,313	3,767	3,824
Other Assets	607	844	1,062	1,024	1,507	2,013
Total Assets	17,548	28,549	43,056	62,794	85,586	1,12,746

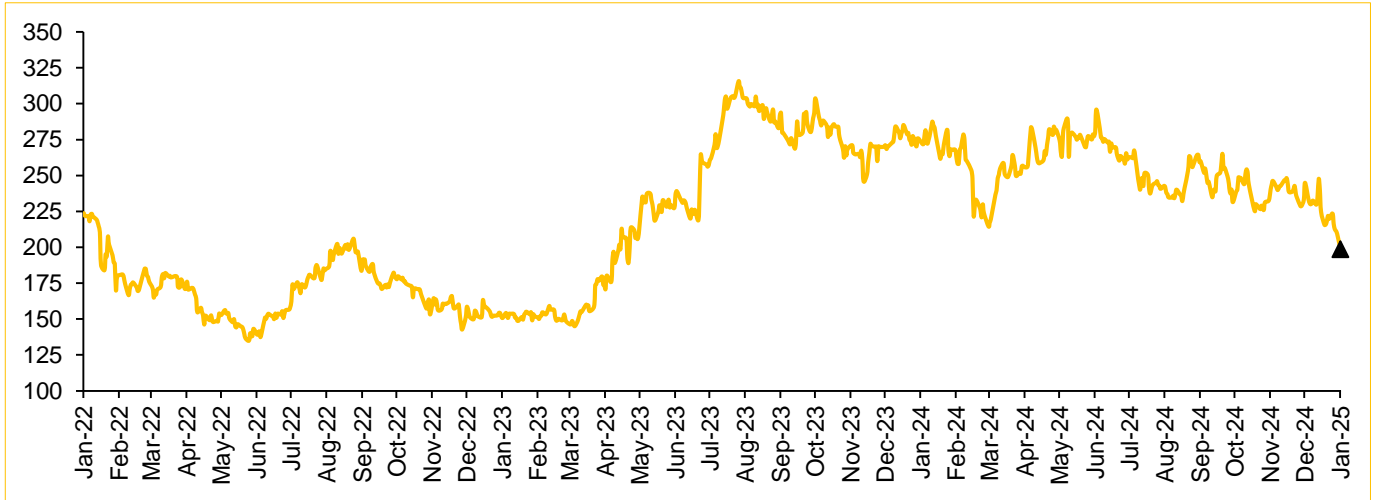
Source: Company, CEBPL

Ratios

Particulars	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Return and profitability ratios (%)						
Net interest margin (NIM)	7.4	6.2	5.6	5.3	4.9	6.6
Yield on AUM	13.8	14.3	14.5	13.9	13.7	14.2
Yield on loans	14.0	14.6	15.4	15.3	15.0	16.0
Yield On Off book Aum	0.0	11.0	10.6	9.5	9.2	9.2
EPS (Diluted) (Rs)	4.1	2.1	5.7	14.2	13.7	26.1
RoA	1.9	0.6	1.1	2.3	2.1	3.7
RoE	3.1	1.5	4.1	9.9	8.7	14.7
Cost of Funds	8.7	10.7	11.8	11.4	11.4	10.8
Operating Ratios (%)						
Loan to Borrowing Ratio	285.0	223.0	190.0	169.0	177.0	187.0
Cost to Income (C/I)	70.8	71.6	64.0	53.8	53.5	45.5
Non Interest Income / Total Income	3.4	4.2	6.8	6.1	6.4	6.4
Employee expense/OPEX	58.8	58.3	57.8	53.2	54.1	53.3
OPEX to AUM	7.1	5.8	5.5	4.5	4.5	4.3
Asset Quality Ratios						
GNPA	2.3	2.3	2.5	1.9	2.5	2.4
NNPA	1.6	1.8	1.3	1.0	1.3	1.1
PCR	33.2	21.5	47.9	48.0	47.7	51.3
Per share Data						
EPS (Diluted) (Rs)	4.1	2.1	5.7	14.2	13.7	26.1
Book Value	135.0	137.0	142.0	157.0	157.1	196.3
Adjusted Book Value	132.2	130.7	134.8	147.3	145.6	182.2
Valuation Ratio (x)						
P/E	51.3	100.1	37.1	12.8	12.2	7.8
P/B	1.6	1.5	1.5	1.3	1.3	1.1
P/ABPS	1.6	1.6	1.6	1.4	1.4	1.2

Source: Company, CEBPL

Historical recommendations and Target Price: UGRO capital Limited



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