

Milestone Quarter for the, MSME focused, fastest growing tech led NBFC

Ugro witnessed a milestone quarter as it surpassed 100,000 mn Aum mark with lifetime highest Net Loan Origination of Rs 19,700 millions in current quarter attributable to burgeoning momentum in on-ground presence pan- India. The portfolio yields inches up as the focused segments ie Micro Enterprise and Business Loans witness robust growth during the quarter led by branch expansion. Credit Rating upgrade offers a testimony of a healthier balance sheet. Profitability during the quarter improved as PAT grew 17% QoQ after a dismal Q1FY25. Pat margin grew improved by 29 bps driven by operational leverage. GNPA and NNPA both rose by 20 bps along the expected lines. Journey to 4% exit ROA by FY26 remains on track.

- **AUM momentum picks up** – After a disappointing Q1, Ugro achieves a milestone quarter in net loan origination compensating for the earlier quarter. The branch addition plan of 104 branches in past 3 quarters and 46 during Q2F25 has driven the AUM beyond Rs100000 mn. Continued focus on high yielding products like micro enterprise loans, now at ~11% of total aum gaining ~300 bps YoY, is likely to improve the overall portfolio yield. The company is aiming to achieve Micro Loans to be at 35% of AUM by FY26. This looks achievable as Ugro plans to add 150 more branches till FY26.
- **Operating Leverage at play** – The cost to income ratio during the quarter improved to 52.7% improving 320 bps YoY and 135 bps QoQ. This was primarily led by lower other expenses during the quarter on YoY basis compensating for increased depreciation due to increased capex to drive branch expansion. The cost to Income ratio is expected to reach 44% by FY26.
- **Asset quality worsens but on expected lines:** The GNPA and NNPA on overall AUM rise 20 bps IN Q2FY25 on YoY basis and 10 bps on QoQ basis. GNPA and NNPA inches up to 2.2% and 1.3%. PCR remains flat at 47%. The higher credit cost, which grew 33.6%, was on account of accelerated provisioning and write-offs in supply chain book. Rs 160 million was written off in Q2FY25. Although the management expects to recover this amount in future.

View and Valuation: After extensive learning on scaling the micro enterprise loan segment, the tech based NBFC is well versed to scale up its loan portfolio in this segment. AUM mix skewness, from 11% to 35%, towards a segment with ROI of 20.8% will drive the portfolio yield even in anticipated falling interest rate cycle. We believe this strategic shift along with lower borrowing cost due to increased negotiating power will drive 200 bps expansion in overall spread. Aided with falling cost to income ratio, Ugro is on track to achieve the 4% RoA mark. We reiterate our Outperform rating and target price of Rs 345 valuing the stock at 1.84x FY26 P/ABV.

Financial Snapshot (Rs mn)

Metric	FY21	FY22	FY23	FY24	FY25E	FY26E
AUM	13,170	29,690	60,810	90,470	1,17,398	1,77,654
Off-book AUM (%)	1%	16%	40%	45%	43%	48%
NII	1,023	1,348	1,896	2,650	3,801	6,312
PPOP	434	619	1406	2950	4,435	8,011
Pre-Tax Profit	121	202	840	1787	2,600	5,426
PAT	287	146	400	1190	1,911	3,988
Cost to Income Ratio	70.80%	71.80%	62%	54%	51%	43%
ROA	93.7%	0.70%	1.10%	2.30%	2.56	3.95
ROE	3.06%	1.50%	4.10%	9.90%	10.49	15.61
GNPA	2.3%	2.3%	1.6%	2.0%	2.4%	2.2%
NNPA	1.4%	1.9%	0.9%	1.1%	1.23	1.06
stage 3 PCR	38.0%	26.9%	48.6%	48.0%	48.0%	48.0%
P/ABV	1.74	1.76	1.71	1.56	1.54	1.23

Source: Company, CEBPL

	Oct 24, 2024
CMP (Rs)	237.5
Target Price (Rs)	345
Potential Upside	50%

*CMP as on 23rd Oct 2024

Company Info

BB Code	UGRO IN
ISIN	INE583D01011
Face Value (Rs)	10.0
52 Week High (Rs)	315.0
52 Week Low (Rs)	213.1
Mkt Cap (Rs mn)	22077.1
Mkt Cap (\$ mn)	262
Shares o/s (mn)	91.8
FY25E ABVPS (Rs)	149
FY26E ABVPS (Rs)	188

Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoter	2.23	2.23	2.24
FII	20.4	20.3	19.8
DII	2.8	2.6	3.8
Public	73.3	73.6	72.9

Relative Performance (%)

YTD	1Y	2Y	3Y
Ugro capital	-18.1	37.8	33.6
BSE Small Cap	46.9	96.5	103

Rebased Price Performance



Quarterly Snapshot (Q2FY25)

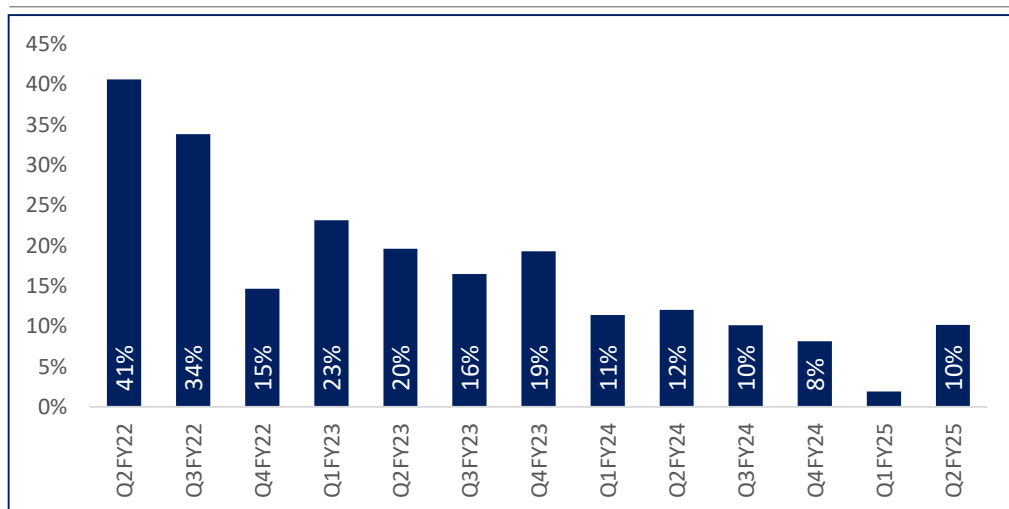
Particulars	Rs (Mn)	YoY (%)	QoQ(%)
AUM	1,01,580	33.8	10.19
NII	649	-2.37	-32.3
NIM on Aum (%)	7.9	-91 bps	22 bps
Fee Income	120	55.7	37.8
C/I (%)	52.7	-320 bps	-135 bps
Opex	1053	27.04	17.7
PPOP	945	44.6	24.3
PAT	355	23.0	17.1
GNPA (%)	2.1	20 bps	10 bps
NNPA (%)	1.3	20 bps	10 bps

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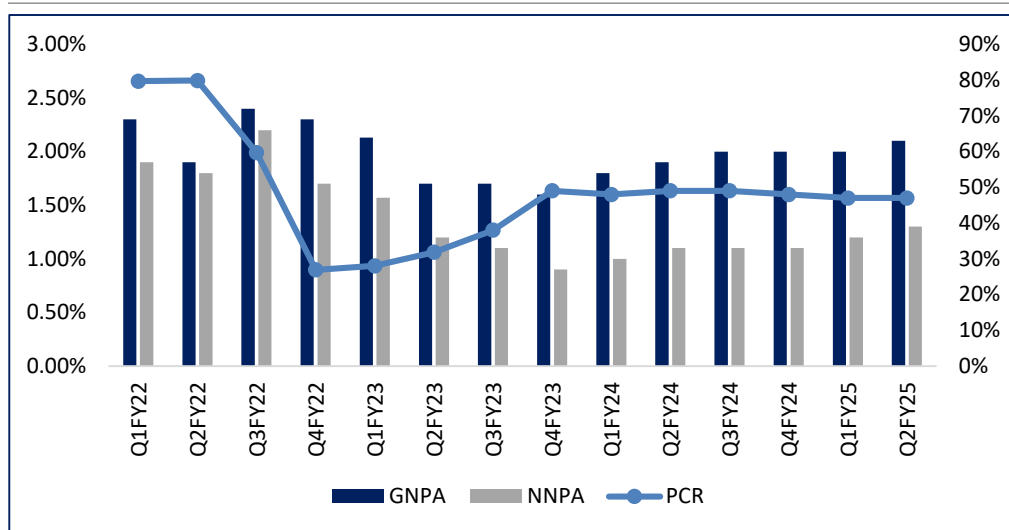
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AUM growth trend QoQ



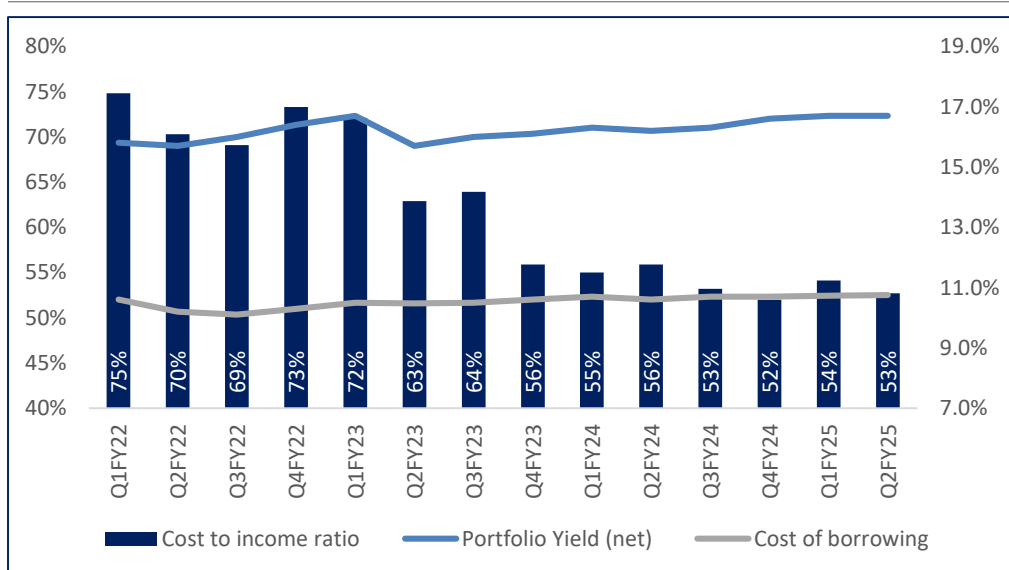
Source: Company, CEBPL

Asset Quality Trend



Source: Company, CEBPL

Yield, Cost of Funds and Cost to Income Ratio



Source: Company, CEBPL

Sequential Operating Performance (Rs mn)

	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	YoY (%)	QoQ (%)
Interest Earned	1719	1828	1918	2320	2080	21.0	-10.3
Growth	6%	6%	5%	21%	-10%		
Income on Off Book AUM	648	764	1224	504	1095	69.0	117.3
Growth	48%	18%	60%	-59%	117%		
Other Income	170	201	162	192	253	49.4	31.8
Total Income	2536	2793	3304	3016	3429	35.2	13.7
Growth	16%	10%	18%	-9%	14%		
Interest Expended	1054	1167	1281	1361	1431	35.8	5.1
NII	665	661	636	958	649	-2.4	-32.3
Growth	-3%	-1%	-4%	51%	-32%		
OPEX	829	865	1052	894	1053	27.0	17.7
of which							
Employees Expenses	460	485	514	545	616	33.9	13.0
Other Operating Expense	281	289	439	100	107	-61.9	7.4
Depreciation And Amortization	88	91	99	249	330	275.4	32.2
PPOP	654	761	970	760	945	44.6	24.3
Growth	15%	16%	27%	-22%	24%		
PPOP Margin	26%	27%	29%	25%	28%		
Provisions	246	297	411	332	443	80.5	33.7
PBT	408	464	560	428	501	22.9	17.1
Growth	14%	14%	21%	-23%	17%		
PBT Margin	16%	17%	17%	14%	15%		
Tax Expense	119	139	233	125	146	22.5	17.0
PAT	289	325	327	304	355	23.0	17.1
Growth	14%	13%	1%	-7%	17%		
PAT Margin	11%	12%	10%	10%	10%		
Assets Quality							
Gross NPA (%)	1.9	2.0	2.0	2.0	2.1		
Net NPA (%)	1.1	1.1	1.1	1.2	1.3		
Coverage Ratio(%)	49	49	48	47	47		
AUM Breakup							
On Book	4,176	4,600	4,975	5,105	5,665	35.7	11.0
Off Book	3,416	3,763	4,071	4,114	4,493	31.5	9.2
Category wise							
Secured Business Loan	2164	2252	2385	2451	2792	29.0	13.9
Business Loan	2,380	2,664	2,936	3,073	3,331	40.0	8.4
Micro Enterprise Loan	636	721	813	895	1105	73.7	23.5
Supply Chain Financing	670	722	632	439	355	-47.0	-19.1
Machinery Loan	893	1,037	1,168	1,253	1,391	55.8	11.0
Partnerships & Alliances	849	967	1,112	1,108	1,184	39.5	6.9
Network							
Branches (in num.)	104	104	150	164	210		
AUM per branch	73	80	60	56	48		

Source: Company, CEBPL

Interest Income rose by 21% YoY but fell 10.3% QoQ

Interest Income on Off book Aum rose by 69% YoY and 117% on QoQ on account of robust lending in this segment

Other Income rose by 49.4% YoY and 31.8% QoQ

Interest Expended rose 36% YoY and 5.1% QoQ as cost of funds inch upwards

Operating Leverage starts to play as Cost to Income ratio falls and Opex growth was slower than income growth

Credit Cost was indeed higher in the quarter but is along the expected lines as the portfolio seasons

PPOP, PBT and PAT margins Inch upwards on QoQ basis. PAT saw margin decline in the quarter. Margin improvement was driven by operating leverage and burgeoning momentum in Off book AUM Income

Asset quality sees upward momentum as exposure to high yield portfolio picks up

Aum growth in the current quarter compensates for the dismal Q1FY25 as Aum surpasses 10000 crores in the quarter

Focused Segment, i.e Micro Enterprise Loans achieves highest growth rate on account of branch expansion and other factors. SCF, 10% GNPA book, continues to run down by 19.1% QoQ.

Management Call - Highlights

Record Loan Growth:

- UGRO Capital's total AUM surpassed INR 10,200 crore in Q2 FY25, reflecting a 34% YoY growth.
- Net loan origination reached INR 1,970 crore, with a significant focus on MSME and micro-enterprise lending.
- Micro-enterprise loan disbursement surged 118% to INR 450 crore, now accounting for 11% of AUM, with a target of 35% by FY26.
- Co-lending operations grew to INR 600 crore, expanding partnerships to 9 banks and 7 NBFCs.

Diversified Liability Base & Liquidity Management:

- Borrowings hit INR 1,100 crore, the highest in a single quarter, with banks contributing 45%, capital markets 31%, and DFIs 26%.
- **Capital Adequacy & Ratings Upgrade:**
- Capital Adequacy Ratio (CAR) stood at 24.5%, and CET1 ratio at 13.74%.
- UGRO received a credit rating upgrade to 'IND A+/Stable' for long-term debt and 'IND A1+' for short-term liabilities from India Ratings.

Profitability Growth:

- UGRO recorded a PAT of INR 36 crore in Q2 FY25, a 20% QoQ increase from INR 30 crore in Q1.
- Net Interest Income (NII) improved, driven by higher lending volumes in MSME and micro-enterprise segments, with a NIM of 2%.
- Non-interest income from co-lending partnerships added significantly to the company's revenue streams.

Stable Asset Quality:

- Gross NPA ratio stood at 2.1%, and Net NPA ratio at 1.3%, with a provision coverage ratio of 47%. The rise in GNPA is along the expected lines.
- UGRO anticipates no major deviations in GNPA levels, although credit costs may rise in the short term as the portfolio seasons.

Strategic Growth Focus:

- UGRO aims to increase micro-enterprise loans to 35% of AUM by FY26, leveraging a capital-light co-lending model and an expanding branch network to fuel growth.
- The company's strong operational execution and diversified funding base are expected to drive sustained profitability in the coming years.

Other Updates:

- **Branch Expansion:** 50 new branches to open in FY25, with an additional 100 by FY26.
- **Micro-Enterprise Growth:** Focus on expanding the micro-enterprise loan book, key to reaching 4% ROA. Peak delinquencies expected in 18-24 months, with GNPA stabilizing around 3-3.5% in the long term.
- **Cost of Funds:** A 5-basis point increase is expected, with a downward trend anticipated from Q1 FY26.
- **SCF Book Recovery:** No significant write-offs expected; current NPAs are projected to recover in future quarters.

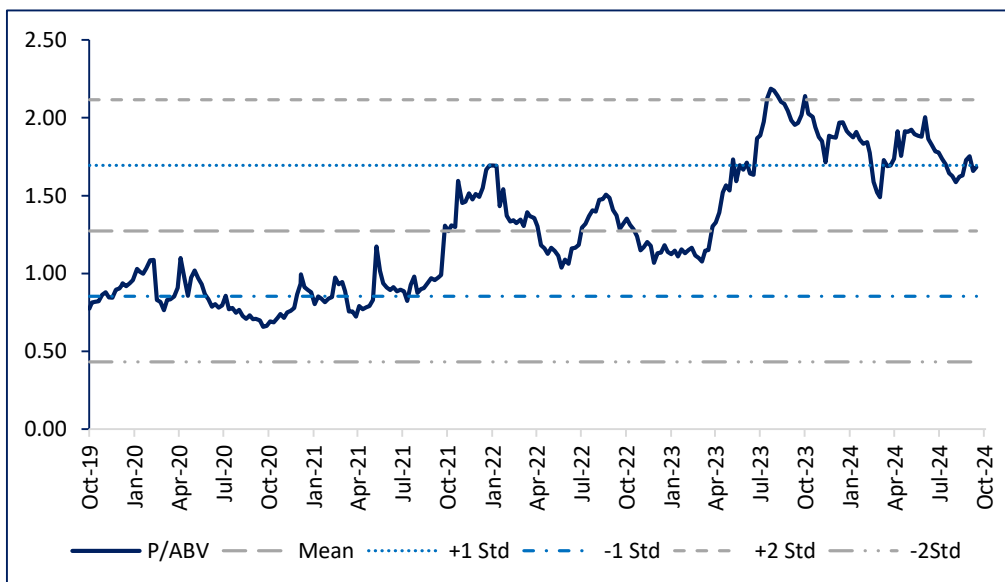
View and Valuation

- After extensive learning on scaling the micro enterprise loan segment, the tech based NBFC is well versed to scale up its loan portfolio in this segment. AUM mix skewness, from 11% to 35%, towards a segment with ROI of 20.8% will drive the portfolio yield even in anticipated falling interest rate cycle. We believe this strategic shift along with lower borrowing cost due to increased negotiating power will drive 200 bps expansion in overall spread. Aided with falling cost to income ratio, Ugro is on track to achieve the 4% RoA mark. We reiterate our Outperform rating and target price of Rs 345 valuing the stock at 1.84x FY26 P/ABV.

Key risks to Investments;

- Credit Risk:** UGRO Capital 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 Capital'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 Capital 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 Capital'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.

12MF P/Adjusted Book Value



Source: Company, CEBPL

RoA Tree

Particulars	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Interest Income	11.8%	13.5%	13.4%	13.3%	13.9%
Income From Colending	1.2%	4.3%	5.8%	5.9%	6.6%
Fees And Commision Income	0.3%	0.5%	0.6%	0.5%	0.5%
Other Income	0.3%	0.8%	0.7%	0.6%	0.6%
Total Income	13.5%	19.1%	20.4%	20.3%	21.7%
Interest Cost	6.0%	8.2%	8.4%	8.2%	7.6%
Operating Expense	5.4%	6.8%	6.5%	6.1%	6.1%
PPOP	2.2%	4.1%	5.6%	5.9%	7.9%
Credit Cost	1.3%	1.6%	2.2%	2.5%	2.6%
PBT	0.9%	2.5%	3.4%	3.5%	5.4%
Tax	0%	1%	1%	1%	1.4%
ROA	0.6%	1.3%	2.3%	2.6%	3.9%
Leverage	1.84 x	2.95 x	4.38 x	4.37 x	3.93 x
ROE	1.2%	3.8%	9.9%	11.2%	15.5%

Source: Company, CEBPL

Ugro Capital Ltd- Standalone Financials

Profit And Loss A/c

Particulars	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Interest Earned	1,481	2,721	4,829	7,079	9,947	14,037
Growth	88%	84%	77%	47%	41%	41%
Income on Off Book AUM	0	269	1,541	3,075	4,433	6,685
Growth	N.A	N.A	472%	100%	44%	51%
Other Income	52	131	468	663	793	1,170
Fee Based Income	13	68	195	311	365	552
Other Income	39	63	273	352	429	618
Total Income	1,533	3,121	6,838	10,817	15,173	21,892
Growth	46%	104%	119%	58%	40%	44%
Interest Expended	446	1,373	2,933	4,429	6,146	7,724
NII	1,036	1,348	1,896	2,650	3,801	6,312
Growth	59%	30%	41%	40%	43%	66%
OPEX	770	1,253	2,499	3,437	4,593	6,157
Employees Expense	453	729	1,407	1,829	2,270	2,839
Other Operating Expense	200	400	915	1,255	1,838	2,646
Depreciation And Amortization	117	123	176	353	485	671
PPOP	317	496	1,406	2,950	4,435	8,011
Growth	134%	56%	184%	110%	50%	81%
PPOP Margin	21%	16%	21%	27%	29%	37%
Credit Cost	196	294	568	1,163	1,835	2,585
PBT	121	202	838	1,788	2,600	5,426
Growth	266%	66%	315%	113%	45%	109%
PBT Margin	8%	6%	12%	17%	17%	25%
Tax Expense	-166	56	441	594	689	1,438
Tax Rate (Annualised)	-137%	28%	53%	33%	27%	27%
PAT	287	146	398	1,193	1,911	3,988
Growth	47%	-49%	173%	200%	60%	109%
PAT Margin	19%	5%	6%	11%	13%	18%

Source: Company, CEBPL

Balance Sheet

Particulars	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Share Capital	705	706	693	916	1,381	1,449
Reserves and Surplus	8,819	8,960	9,147	13,468	20,655	27,619
Net Worth	9,524	9,666	9,840	14,384	22,037	29,068
Debt	3,156	7,044	11,443	14,300	20,406	28,059
Borrowings	4,501	10,978	20,046	32,232	41,512	54,258
Other Liabilities And Provisions	367	861	1,726	1,878	2,638	3,970
Total Equity And Liabilities	17,548	28,549	43,056	62,794	86,592	1,15,355
Cash And Bank Balances	3,160	1,884	2,118	4,543	6,972	6,766
Loans And Advances	12,827	24,511	38,064	54,322	73,645	1,01,669
Investments	552	694	601	592	783	1,077
Fixed Assets	401	616	1,211	2,313	3,675	3,798
Other Assets	607	844	1,062	1,024	1,517	2,045
Total Assets	17,548	28,549	43,056	62,794	86,592	1,15,355

Source: Company, CEBPL

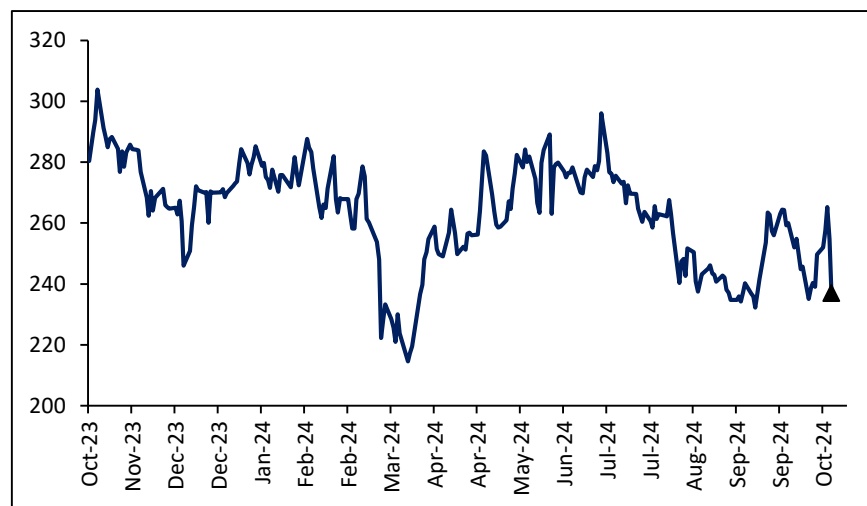
Ugro Capital Ltd- Standalone Financials

Ratios

Particulars	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E
Return and Profitability ratios (%)						
Net interest margin (NIM)	7.38	6.16	5.56	5.26	5.37	6.58
Yield on AUM	13.76	14.29	14.51	13.85	14.19	14.42
Yield on loans	14.01	14.57	15.43	15.33	15.55	16.01
Yield On Off book Aum	0.00	11.03	10.60	9.46	9.73	9.73
EPS (Diluted) (Rs)	4.09	2.10	5.71	14.15	16.64	28.18
RoA	1.93	0.63	1.11	2.25	2.56	3.95
RoE	3.07	1.52	4.08	9.85	10.49	15.61
Cost of Funds	8.74	10.69	11.85	11.41	11.41	10.76
Operating Ratios (%)						
Loan to Borrowing Ratio	285	223	190	169	177	187
Cost to Income (C/I)	70.82	71.64	63.99	53.81	50.88	43.46
Non Interest Income / Total Income	3.40	4.20	6.84	6.13	5.23	5.35
Employee expense/OPEX	58.84	58.26	57.80	53.20	49.42	46.11
OPEX to AUM	7.07	5.85	5.52	4.54	4.42	4.17
Asset Quality Ratios						
GNPA	2.33	2.26	2.46	1.90	2.39	2.15
NNPA	1.55	1.78	1.28	0.99	1.23	1.06
PCR	33.21	21.54	47.86	47.98	48.47	50.73
Per share Data						
EPS (Diluted) (Rs)	4.09	2.10	5.71	14.15	16.64	28.18
Book Value	135.04	136.99	141.95	157.04	159.55	200.61
Adjusted Book Value	132.16	130.71	134.76	147.30	149.09	187.61
Valuation Ratio (x)						
P/E	56.20	109.63	40.65	14.00	11.02	7.97
P/B	1.70	1.68	1.62	1.46	1.44	1.15
P/ABPS	1.74	1.76	1.71	1.56	1.54	1.23

Source: Company, CEBPL

Historical recommendations and target price: UGRO IN



UGRO IN

Date	Rating	CMP	Target Price
23-Oct-2024	Outperform	237	345
21-Sept-2024	Outperform	256	345

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