

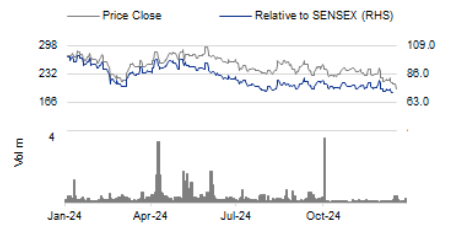
India

**ADD** (no change)

Consensus ratings*:	Buy 7	Hold 0	Sell 0
Current price:	Rs200		
Target price:	Rs320		
Previous target:	Rs350		
Up/downside:	60.0%		
InCred Research / Consensus:	60.4%		
Reuters:			
Bloomberg:	UGRO IN		
Market cap:	US\$215m		
	Rs18,552m		
Average daily turnover:	US\$0.6m		
	Rs48.2m		
Current shares o/s:	69.2m		
Free float:	97.8%		
*Source: Bloomberg			

**Key changes in this note**

- Healthy disbursement growth, led by higher-yielding segments, partially offset by slower growth in business loans and machinery loans. Asset quality remained stable qoq.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(18.6)	(13.7)	(27.7)
Relative (%)	(15.0)	(8.4)	(32.1)

<b>Major shareholders</b>	% held
DANISH SUS Fund	16.4
Clear Sky investments	16.2
New Quest Asia	16.2

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# Ugro Capital

## In transition mode

- UGRO Capital posted in-line 3Q PAT of Rs375m, led by healthy AUM growth, positively trending margin & stable asset quality, leading to lower credit costs.
- Disbursements grew by ~6% qoq, led by better-yielding products like micro enterprise loans & embedded finance, as other products saw some softness.
- We believe the focus on micro branches, along with co-lending partnerships, should lead to better return ratios. Maintain ADD rating with a new TP of Rs320.

### Moving towards better-yielding assets; demand softens for biz loans

UGRO Capital reported an in-line PAT of Rs375m in 3QFY25, led by healthy AUM growth moving towards better-yielding assets. Disbursements grew by ~35% yoy and ~6% qoq to Rs ~21bn, led by improving share of micro enterprise loans (up ~19% qoq) and good initial traction from embedded finance book at ~Rs3bn, which was partially offset by lower contribution from other unsecured segments like business loans owing to lower demand from banks and slower machinery loans due to rising competition. The company has been incrementally investing in micro branches, with a renewed focus to increase productivity from these branches. The share of micro branches rose to 201, from 81 a year ago, with a faster breakeven at around eight months, from 14-18 months earlier. We believe the company's focus is on increasing the share of micro enterprise loans, which will be a key driver of assets under management or AUM growth.

### Co-lending impacted by risk-averse banks

The slowdown in business loans had some impact on co-lending AUM, which grew by ~6% qoq and ~59% yoy to Rs23.5bn. We believe that after the dust settles around unsecured products, co-lending will be another key parameter to augur well for return ratios on the back of high returns. The sequential rise in opex is largely attributable to higher disbursements, higher cost of Credit Guarantee Fund Trust for Micro and Small Enterprises or CGTSM premium and inflation-led other costs. We expect improving operating leverage to be a key trigger in FY26F-27F.

### Stable asset quality is a key positive

Gross stage-3 assets were stable qoq at 2.1% of AUM. Consequently, credit costs improved to ~1.6%, down by ~170bp qoq. Management reiterated stable asset quality, despite some signs of overleverage seen in system credit to the MSME sector.

### Outlook and valuation

UGRO Capital is well-positioned to enter the next phase of its growth, with a rising market share in the growing landscape of MSME lending. We expect strong AUM growth (+33.2% CAGR over FY24-27F) led by both on-and off-balance sheet growth resulting in improving operating leverage, which will shore up return ratios to ~4% RoA and ~14% RoE (adjusting for equity infusion of Rs12.7bn) by FY27F. We maintain our ADD rating on the stock, valuing it at ~1.4x FY26F P/BV with a lower target price of Rs320 (Rs350 earlier) due to slight delay in AUM growth. Slower growth and weak asset quality are key downside risks.

<b>Financial Summary</b>	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	1,896	2,636	3,567	5,252	7,593
Total Non-Interest Income (Rsm)	2,008	3,752	4,817	6,729	8,998
Operating Revenue (Rsm)	3,905	6,388	8,384	11,981	16,590
Total Provision Charges (Rsm)	(568)	(1,163)	(1,687)	(2,383)	(3,749)
Net Profit (Rsm)	398	1,193	1,492	3,026	4,834
Core EPS (Rs)	5.75	13.03	16.29	21.45	34.27
Core EPS Growth	260%	127%	25%	32%	60%
FD Core P/E (x)	34.69	15.31	12.25	9.30	5.82
DPS (Rs)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
BVPS (Rs)	142.2	157.1	173.3	223.7	257.9
P/BV (x)	1.40	1.27	1.15	0.89	0.77
ROE	4.1%	9.9%	9.9%	12.8%	14.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	% yoy	% qoq
Interest Income	1,719	1,828	1,903	2,320	2,080	2,544	39.2%	22.3%
Interest Expenses	1,054	1,167	1,281	1,361	1,431	1,673	43.4%	16.9%
<b>Net Operating Income</b>	<b>665</b>	<b>661</b>	<b>622</b>	<b>958</b>	<b>649</b>	<b>871</b>	<b>31.8%</b>	<b>34.3%</b>
Other Income	818	965	1,401	696	1,349	1,305	35.3%	-3.2%
<b>Total Income</b>	<b>1,482</b>	<b>1,626</b>	<b>2,022</b>	<b>1,654</b>	<b>1,998</b>	<b>2,177</b>	<b>33.8%</b>	<b>9.0%</b>
Operating Expenses	829	865	1,052	894	1,053	1,234	42.6%	17.2%
<b>Operating Profit</b>	<b>654</b>	<b>761</b>	<b>970</b>	<b>760</b>	<b>945</b>	<b>942</b>	<b>23.8%</b>	<b>-0.2%</b>
Provisions	246	297	411	332	443	413	38.9%	-6.9%
<b>PBT</b>	<b>408</b>	<b>464</b>	<b>559</b>	<b>428</b>	<b>501</b>	<b>530</b>	<b>14.2%</b>	<b>5.7%</b>
Tax	119	138	233	125	146	155	11.7%	5.9%
<i>Tax rate (%)</i>	<i>29.2%</i>	<i>29.9%</i>	<i>41.6%</i>	<i>29.1%</i>	<i>29.1%</i>	<i>29.2%</i>	<i>-2.2%</i>	<i>0.3%</i>
<b>Reported PAT</b>	<b>289</b>	<b>325</b>	<b>327</b>	<b>304</b>	<b>355</b>	<b>375</b>	<b>15.3%</b>	<b>5.6%</b>
<b>AUM</b>	<b>75,920</b>	<b>83,640</b>	<b>90,470</b>	<b>92,180</b>	<b>1,01,570</b>	<b>1,10,670</b>	<b>32.3%</b>	<b>9.0%</b>
<b>Disbursements (net SCF)</b>	<b>14,770</b>	<b>15,520</b>	<b>15,540</b>	<b>11,450</b>	<b>19,710</b>	<b>20,980</b>	<b>35.2%</b>	<b>6.4%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

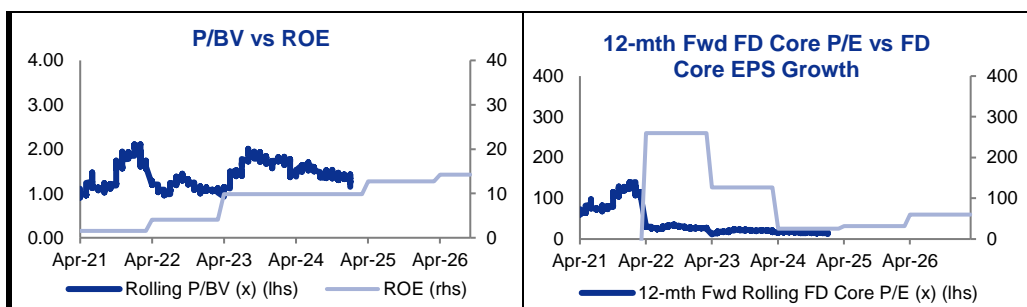
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	4,037	3,567	-11.7%	5,757	5,252	-8.8%	7,882	7,593	-3.7%
PPOP	4,665	3,788	-18.8%	7,410	6,706	-9.5%	10,780	10,655	-1.2%
PAT	1,992	1,492	-25.1%	3,381	3,026	-10.5%	4,872	4,834	-0.8%
EPS (Rs)	21.7	16.3	-24.9%	24.0	21.5	-10.6%	34.5	34.3	-0.7%
AUM (Rs)	1,23,567	1,20,349	-2.6%	1,63,153	1,60,021	-1.9%	2,18,861	2,14,877	-1.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Key takeaways from 3QFY25 earnings call ►

- Secured and unsecured loans are indicated to be in the 70:30 ratio, largely aided by the CGTSE scheme.
- The LTV on secured loans is ~55%.
- Management indicated a delay of two-to-three quarters in the initial AUM growth due to the drying up of liquidity. However, it reiterated the 4% RoA guidance.
- The recently acquired MyShubhLife loan book shows good traction with an embedded finance product. It is a short-tenure unsecured product and is not used for co-lending.
- Monthly disbursements in the machinery loan segment declined to Rs 750m due to higher competition.
- The targeted disbursements in the machinery loan product are Rs1.5bn per month. The company has started sourcing through direct sales agents or DSAs while emerging market branches are being fine-tuned for the same.
- The company sees good potential for higher-ticket products in tier-3 to tier-5 markets.
- Most banks have opted for the second co-lending mechanism whereby UGRO Capital boards a customer on its balance sheet and then the lenders take over.
- While the arrangement of co-origination of loans has been slower with non-banking finance companies or NBFCs, we believe this will help in keeping credit costs in check as co-origination carries a relatively higher credit cost.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	1,896	2,636	3,567	5,252	7,593
<b>Total Non-Interest Income</b>	<b>2,008</b>	<b>3,752</b>	<b>4,817</b>	<b>6,729</b>	<b>8,998</b>
Operating Revenue	3,905	6,388	8,384	11,981	16,590
<b>Total Non-Interest Expenses</b>	<b>(2,499)</b>	<b>(3,437)</b>	<b>(4,596)</b>	<b>(5,275)</b>	<b>(5,936)</b>
Pre-provision Operating Profit	1,406	2,950	3,788	6,706	10,655
<b>Total Provision Charges</b>	<b>(568)</b>	<b>(1,163)</b>	<b>(1,687)</b>	<b>(2,383)</b>	<b>(3,749)</b>
Operating Profit After Provisions	838	1,788	2,101	4,323	6,906
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	838	1,788	2,101	4,323	6,906
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	838	1,788	2,101	4,323	6,906
<b>Exceptional Items</b>					
Pre-tax Profit	838	1,788	2,101	4,323	6,906
Taxation	(441)	(594)	(609)	(1,297)	(2,072)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	398	1,193	1,492	3,026	4,834
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	398	1,193	1,492	3,026	4,834
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets					
<b>Avg Liquid Assets/Avg IEAs</b>	<b>106.4%</b>	<b>107.2%</b>	<b>106.9%</b>	<b>112.4%</b>	<b>111.2%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>38,064</b>	<b>54,322</b>	<b>72,210</b>	<b>96,013</b>	<b>128,926</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	38,064	54,322	72,210	96,013	128,926
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	38,064	54,322	72,210	96,013	128,926
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>1,644</b>	<b>2,785</b>	<b>3,286</b>	<b>3,615</b>	<b>3,904</b>
<b>Total Non-Interest Earning Assets</b>	<b>2,018</b>	<b>3,307</b>	<b>3,913</b>	<b>4,336</b>	<b>4,697</b>
Cash And Marketable Securities	2,118	4,549	4,126	16,745	8,554
<b>Long-term Investments</b>					
Total Assets					
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	31,489	46,532	62,344	82,846	102,352
Total Interest-Bearing Liabilities	31,489	46,532	62,344	82,846	102,352
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,726	1,884	2,627	3,301	4,050
Total Liabilities	33,215	48,416	64,971	86,147	106,402
Shareholders Equity	9,840	14,384	15,875	31,551	36,385
<b>Minority Interests</b>					
Total Equity					

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	38.6%	39.0%	35.3%	47.3%	44.6%
Operating Profit Growth	183.2%	109.8%	28.4%	77.1%	58.9%
Pretax Profit Growth	315%	113%	18%	106%	60%
Net Interest To Total Income	48.6%	41.3%	42.5%	43.8%	45.8%
Cost Of Funds	11.85%	11.35%	11.30%	10.50%	9.90%
Return On Interest Earning Assets	15.4%	15.3%	15.4%	15.3%	14.9%
Net Interest Spread	3.59%	3.94%	4.06%	4.81%	5.00%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	40%	39%	45%	36%	35%
Interest Return On Average Assets					
Effective Tax Rate	52.5%	33.2%	29.0%	30.0%	30.0%
Net Dividend Payout Ratio					
Return On Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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CIN: U74999MH2016PTC287535

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.