

India

ADD (no change)

Consensus ratings*:	Buy 7 Hold 0 Sell 0
Current price:	Rs182
Target price:	Rs270
Previous target:	Rs320
Up/downside:	48.4%
InCred Research / Consensus:	48.1%
Reuters:	
Bloomberg:	UGRO IN
Market cap:	US\$200m
	Rs16,987m
Average daily turnover:	US\$0.8m
	Rs65.3m
Current shares o/s:	91.9m
Free float:	96.5%
<small>*Source: Bloomberg</small>	

Key changes in this note

- Strong disbursement and AUM growth led by high-yield segments such as micro enterprise loans and embedded finance.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.6	(10.0)	(28.8)
Relative (%)	6.7	(14.1)	(33.7)

Major shareholders	% held
DANISH SUS Fund	16.4
Clear Sky investments	16.2
New Quest Asia	16.2

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Ugro Capital

Moving up in high-yield segments

- UGRO Capital posted in-line 4Q PAT of Rs405m, led by strong AUM growth, amid rising NIM pressure and inching up of credit costs.
- Disbursements grew by ~16% qoq, led by better-yield 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 Rs270.

Emerging markets and embedded finance gather steam

UGRO Capital reported an in-line PAT of Rs405m in 4QFY25, led by strong AUM growth moving towards better-yield assets. Disbursements grew by ~57% yoy and ~16% qoq to ~Rs24bn, led by improving share of micro enterprise loans (up ~23% qoq) and good continuous traction from the embedded finance book at ~Rs6bn, which was partially offset by lower contribution from other unsecured segments like business loans owing to recalibrating the growth strategy. 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 212, from 127 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 high-yield segments like micro enterprise loans and embedded finance, which will be key drivers of profitable assets under management or AUM growth.

Concerns continue to hover over co-lending

Co-lending AUM grew by ~5% qoq and ~47% yoy to Rs25bn. There are still some concerns around co-lending; however, we believe that once the dust settles around unsecured products, co-lending will be another key parameter that will augur well for return ratios on the back of higher returns.

Seasoning of books led credit costs to inch up

Gross stage-3 assets inched up by ~20bp qoq to 2.3% of AUM. Consequently, credit costs rose to ~1.9%, up by ~30bp qoq. Management reiterated stable asset quality, despite some signs of overleveraging 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 (+34% CAGR over FY24-28F) led by both on-and off-balance sheet growth resulting in improving operating leverage, which will shore up return ratios to ~3.3% RoA and ~14.7% RoE (adjusting for equity infusion of Rs12.7bn) in FY26F. We maintain our ADD rating on the stock, valuing it at ~1.3x FY27F P/BV with a lower target price of Rs270 (Rs320 earlier) to factor in the transition and streamlining of products. Slower growth and weak asset quality are key downside risks.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	2,636	3,310	4,843	6,894	9,135
Total Non-Interest Income (Rsm)	3,752	4,830	6,612	8,758	11,732
Operating Revenue (Rsm)	6,388	8,141	11,455	15,652	20,867
Total Provision Charges (Rsm)	(1,163)	(1,731)	(2,392)	(3,618)	(5,101)
Net Profit (Rsm)	1,193	1,439	2,545	3,782	5,452
Core EPS (Rs)	13.03	15.65	15.77	23.44	33.79
Core EPS Growth	127%	20%	1%	49%	44%
FD Core P/E (x)	13.99	11.65	11.56	7.78	5.40
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)	157.1	222.6	190.0	213.5	247.3
P/BV (x)	1.16	0.82	0.96	0.85	0.74
ROE	9.9%	8.3%	10.0%	11.6%	14.7%
% 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	4QFY25	% yoy	% qoq
Interest Income	1,719	1,828	1,903	2,320	2,080	2,544	2,644	38.9%	3.9%
Interest Expenses	1,054	1,167	1,281	1,361	1,431	1,673	1,812	41.4%	8.3%
Net Operating Income	665	661	622	958	649	871	832	33.8%	-4.5%
Other Income	818	965	1,401	696	1,349	1,305	1,480	5.7%	13.4%
Total Income	1,482	1,626	2,022	1,654	1,998	2,177	2,312	14.3%	6.2%
Operating Expenses	829	865	1,052	894	1,053	1,234	1,197	13.8%	-3.0%
Operating Profit	654	761	970	760	945	942	1,115	14.9%	18.3%
Provisions	246	297	411	332	443	413	543	32.2%	31.5%
PBT	408	464	559	428	501	530	572	2.3%	8.0%
Tax	119	138	233	125	146	155	167	-28.4%	7.8%
<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>29.1%</i>	<i>-29.9%</i>	<i>-0.2%</i>
Reported PAT	289	325	327	304	355	375	405	24.0%	8.1%
AUM	75,920	83,640	90,470	92,180	1,01,570	1,10,670	1,20,030	32.7%	8.5%
Disbursements (net SCF)	14,770	15,520	15,540	11,450	19,710	20,980	24,360	56.8%	16.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

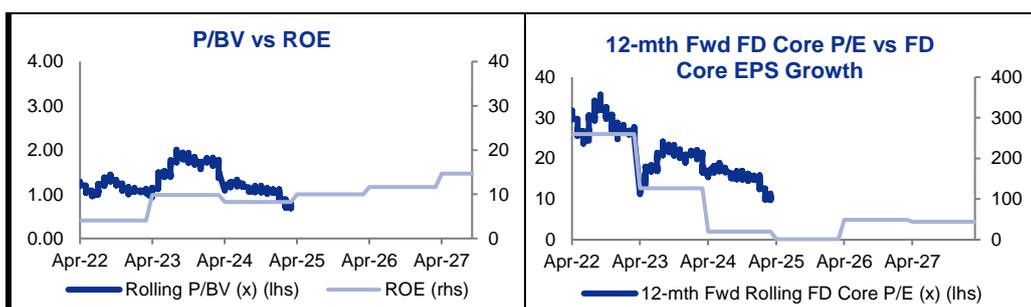
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	5,252	4,843	-7.8%	7,593	6,894	-9.2%	-	9,135	-
PPOP	6,706	6,027	-10.1%	10,655	9,020	-15.3%	-	12,889	-
PAT	3,026	2,545	-15.9%	4,834	3,782	-21.8%	-	5,452	-
EPS (Rs)	21.5	15.8	-26.6%	34.3	23.4	-31.7%	-	33.8	-
AUM (Rs)	1,60,021	1,61,337	0.8%	2,14,861	2,19,458	2.1%	-	2,90,617	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY25 earnings-call highlights ►

- Banks remained skeptical about unsecured lending products which weighed on co-lending demand.
- The company indicated that it would increase disbursements in secured business loans by 15-20%, led by improved employee productivity.
- Emerging market loans are guided to be one of the key drivers of AUM growth, with branch network expanding to 400 from 212 currently.
- Disbursements in the embedded finance book are guided to move at a similar pace, as witnessed in 4QFY25.
- However, there is some seasoning expected in the embedded finance book which will see gross NPAs rising to 2.7-3% from 20bp currently.
- Yet, the high yield of ~26% is expected to cover for any rise in credit costs.
- The company indicated that it would run down business loans, where disbursements have been declining at a steady pace.
- This comes as gross stage-3 assets in the business loan portfolio have reached 4% with credit costs at 1.9%, which are expected to go up by 20-25 bp as the book runs down.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	2,636	3,310	4,843	6,894	9,135
Total Non-Interest Income	3,752	4,830	6,612	8,758	11,732
Operating Revenue	6,388	8,141	11,455	15,652	20,867
Total Non-Interest Expenses	(3,437)	(4,379)	(5,428)	(6,632)	(7,978)
Pre-provision Operating Profit	2,950	3,762	6,027	9,020	12,889
Total Provision Charges	(1,163)	(1,731)	(2,392)	(3,618)	(5,101)
Operating Profit After Provisions	1,788	2,031	3,635	5,403	7,788
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	1,788	2,031	3,635	5,403	7,788
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	1,788	2,031	3,635	5,403	7,788
Exceptional Items					
Pre-tax Profit	1,788	2,031	3,635	5,403	7,788
Taxation	(594)	(592)	(1,091)	(1,621)	(2,336)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	1,193	1,439	2,545	3,782	5,452
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	1,193	1,439	2,545	3,782	5,452
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets					
Avg Liquid Assets/Avg IEAs	107.2%	107.5%	105.8%	102.9%	101.4%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	54,322	79,191	104,869	136,064	174,370
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	54,322	79,191	104,869	136,064	174,370
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	54,322	79,191	104,869	136,064	174,370
Intangible Assets					
Other Non-Interest Earning Assets	2,785	4,947	5,194	5,610	6,058
Total Non-Interest Earning Assets	3,307	5,828	6,207	6,724	7,285
Cash And Marketable Securities	4,549	5,444	5,176	1,917	2,413
Long-term Investments					
Total Assets					
Customer Interest-Bearing Liabilities					
Bank Deposits					
Interest Bearing Liabilities: Others	46,532	69,041	83,380	107,369	140,448
Total Interest-Bearing Liabilities	46,532	69,041	83,380	107,369	140,448
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	1,884	2,178	3,526	4,305	5,242
Total Liabilities	48,416	71,219	86,905	111,674	145,690
Shareholders Equity	14,384	20,464	30,659	34,440	39,892
Minority Interests					
Total Equity					

Key Ratios					
	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	39.0%	25.6%	46.3%	42.4%	32.5%
Operating Profit Growth	109.8%	27.5%	60.2%	49.7%	42.9%
Pretax Profit Growth	113%	14%	79%	49%	44%
Net Interest To Total Income	41.3%	40.7%	42.3%	44.0%	43.8%
Cost Of Funds	11.35%	10.86%	10.60%	10.40%	10.30%
Return On Interest Earning Assets	15.3%	14.4%	14.0%	14.0%	14.1%
Net Interest Spread	3.94%	3.50%	3.44%	3.56%	3.81%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	39%	46%	40%	40%	40%
Interest Return On Average Assets					
Effective Tax Rate	33.2%	29.1%	30.0%	30.0%	30.0%
Net Dividend Payout Ratio					
Return On Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.