29th October 2024

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001

Scrip Code: 511742

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
G Block, Bandra - Kurla Complex,
Bandra (E), Mumbai - 400 051

NSE Symbol: UGROCAP

Sub: Transcript of the Earnings Call with Analysts/Investors held on 23rd October 2024

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on 23rd October 2024 to discuss the financial results of the Company for the quarter and half year ended 30th September 2024.

The said transcript is also being uploaded on the website of the Company.

This is for your information and records.

Thanking You,

Yours Faithfully,

For UGRO Capital Limited,

Satish Kumar Chelladurai
Digitally signed by Satish Kumar Chelladurai
Date: 2024.10.29 11:19:42 +05'30'

Satish Kumar
Company Secretary and Compliance Officer
Encl: a/a

"UGRO Capital Limited

Q2FY25 Earnings Conference Call"

October 23, 2024

MANAGEMENT: **MR. SHACHINDRA NATH – VICE CHAIRMAN AND MANAGING DIRECTOR**
MR. AMIT MANDE – CHIEF REVENUE OFFICER
MR. ANUJ PANDEY – CHIEF RISK OFFICER
MR. KISHORE LODHA – CHIEF FINANCIAL OFFICER
MR. SHARAD AGARWAL – CHIEF TECHNOLOGY AND OPERATING OFFICER
MR. DEEPAK KHETAN – HEAD INVESTOR RELATIONS –

Moderator: Ladies and gentlemen, welcome to the UGRO Capital Limited Q2 FY '25 Conference Call. As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero on a touch tone phone. Please note that the conference is being recorded.

I now hand the conference over to Mr. Deepak Khetan, Head of Investor Relations. Thank you, and over to you, sir.

Deepak Khetan: Thank you, Sagar. Good afternoon, everyone. I welcome you all to Second Quarter FY '25 Earnings Call of UGRO Capital Limited. We will have a short presentation from the management followed by Q&A. In case we are unable to answer all your queries today, you can connect with us post the call, and we'll be happy to talk to you.

Discussion done today are subject to the disclaimer made in the earnings presentation, which has been already uploaded on exchanges and our website. I'll now introduce our management.

We have our Founder and Managing Director, Mr. Shachindra Nath there. Next to him, we have our Chief Financial Officer, Mr. Kishore Lodha. Next to him, we have our Chief Technology and Operating Officer, Mr. Sharad Agarwal. Opposite to Mr. Sharad Agarwal, we have Mr. Amit Mande, he is our Chief Revenue Officer. And next to Mr. Mande, Mr. Anuj Pandey, who is our Chief Risk Officer.

I'll hand over the call to Mr. Nath now for opening remarks.

Shachindra Nath: Thank you, Deepak. Good evening, everyone. Actually, it is a matter of great pride for UGRO because in this quarter we reached a milestone of INR10,000 crores. For a company which is technically a 6-year-old company, started in 2018, a company, which lost roughly around 3 years' time, both in liquidity crisis driven by IL&FS in 2019 and COVID crisis of 2 years in 2020 to reach a milestone of INR10,000 crores as a pure-play MSME financing business is what we feel is a matter of great satisfaction.

When we started the idea of creating India's large small business financing platform, it was an idea which was enshrined in the thinking that we have seen multiple categories of financial services, nonbank lenders to emerge over the last 3 decades. We have seen very large lender in consumer financing. We have seen very large lender for second-hand vehicle financing. We have seen few lenders in gold loans. We have seen few lenders in vehicle financing, but for India's largest credit - underserved credit market, which is MSME financing, we always felt that we need to solve the problem of credit for small businesses of our India.

Small businesses are backbone to our economy. And they are not just backbone to our economy, they also solve one of the largest problems of our country, which is employment. Today, the INR90 lakh crores of gap just not is the credit gap, but it also represents aspirations of large - millions and millions of Indians who reside in Tier 2, Tier 3 towns, who have no other alternative employment opportunity but to go and get employed with MSME. We have been able to contribute to that and have been part of our nation building journey is a matter of great satisfaction.

More so, I think so - I think in such a short period of time, having been able to build a business of INR10,000-odd crores, having raised almost INR2,800 crores of equity capital commitment, having support of more than 60-plus lenders, more domestic banks, global development financial institution, having partners in form of co-lending of 9 banks and 7 NBFCs is also a testament that this management team and the support of our shareholders and Board has been able to deliver whatever peer set has been able to achieve in probably a decade or more than a decade.

So, our short journey of - operative journey of 3.5 years is really gratifying for us as a management. Second, what we feel proud about? When we started, one of our core thinking and pillar was that India's MSME credit problem can be solved through the lens of data and technology. And that's why we call ourselves a data tech company.

But given that we are in the fintech world, which is largely focused on technology and doesn't look at the balance sheet aspects of the businesses, over a very long period of time, we were categorized like any other conventional NBFC. It was sometimes very disheartening. And sometimes we used to get frustrated why our investment and sheer focus on data and technology is not getting utilised.

We were surprised that all of a sudden, a jury led by Mr. Ramadorai ex-Chairman of TCS and EY shortlisted us as India's best fintech lender of the year and that award was given to us by Honourable Finance Minister.

So the combination of size and scale and probably third or fourth largest MSME financing company in a short period of 3 years despite of broader market difficulties and being recognized as the best fintech lender is a matter of great pride and I hope all our shareholders would also feel very happy about it.

Next, if you look at why we think so that the last quarter was a milestone quarter for us. It was a milestone quarter for us because whatever we have been thinking, whatever has been our aspiration, it looked like that our entire franchise came together and delivered to our promise.

Our promise to create a large financial institution driven by institutional ownership, independent Board and supervised by a management team and the focus on data and technologies to this underserved market looks like that it is coming together. Why is coming together? Because our last quarter was a quarter wherein, we did the lifetime highest loan origination of INR1,917 crores and vis-a-vis our first quarter, obviously, there was a massive and significant jump.

Second, we have been saying that where we think that the biggest opportunity, and the service which we need to do is our micro enterprises vertical, which are basically small businesses spread across 9 or 10 big states where we have to reach physically and set up our physical branches. Not only the ROA creation target, which we have, our micro enterprises vertical is the key pillar to that, but more so the power of the execution, number of branches, which we have added and how they have delivered was a matter of great satisfaction.

So our target of 250 locations by end of this year and 400 locations by end of next year looks possible. Why I've I emphasized because sometimes, it looks very simply that you open the branch and you deliver a lower volume, but it is a fairly complex process. For us to find a geography where we could do business, find right set of people and automate and design credit to a local cluster and combine with the power of our data analytics is a very complex process.

But the learning curve of our first 25 branches, then the second 50 branches is more or less over. Now it is a templated exercise. We know the 400 geographies where we have to expand, we know how to hire and train our teams, and we know that how in shorter period of time, we can become profitable, and that is coming in play.

And third is those who track us, and those who believe that we will get to our target of 4% of ROA, which is predominantly an asset mix change from a 10% of assets which were being delivered from our micro enterprises vertical, which will go up to between 35% to 40%, looks like coming into play. And that's why in this quarter, we delivered INR456 crores vis-a-vis INR209 crores from our micro enterprise channel, which is that we were able to double the volume or more than double the volume in just 1 quarter.

Sometimes when we talk that we have to expand our ROA, and this company will deliver superior profitability. Because it comes at a lag effect of when we open branches, when we hire people, but this is the power of the distribution. Where they get fully set up and come into play, the size in the volume becomes naturally to us. And more than that, we have always been saying UGRO is an industry leader when it comes to the co-lending.

For the last 4 years, we have been saying that India's NBFC lending market is set for a massive transition from a purely leverage business, it is between services plus leverage business. The power of the liability still continues to be in the hands of the bank, and the power of generating assets and finding right set of customers, it continues to be a prerogative of NBFC. And rather than competing, we have to collaborate.

Regulators decided to enable that collaboration in 2019, accelerated that in 2020, and UGRO has been working relentlessly to go and tie up and partner with bank and then create this co-mingled platform. And now it is coming in shape. Not only we have more than 10 plus co-lending and co-origination partners, but the real volume throughput has also started coming. And that's why we have highest ever co-lending volume in the last quarter, which was INR650-odd crores.

Last but not least, besides our rating upgrade, which happened in last quarter, where we have been taken to A+ stable long term and highest rating of A1 in short term, what is more satisfying, that vis-à-vis is the narrative of liquidity constraint. We have been saying that is for over period of time that this narrative of that banks are not lending to the NBFC, there is a ballooning of credit happening in NBFC.

And we're just saying that is not for our segment of the market. Both liability side and investor side have to differentiate between NBFCs like UGRO which are focused on productive financing, which is MSME financing versus retail credit, consumer credit.

We are different than that, and we are treated differently, both regulatory intent, both the banking intent and policy intent is to support institutions like us, and that looks to be happening, and that's why last quarter was the highest liability mobilization quarter. So, that's why we say that this was a quarter which was deeply satisfying because our distribution and liability franchise fired together.

Amit Mande: I'll take a minute on this slide. And like Shachin said that we've been giving a rather direction that we want to take our ROA to focus in. One of the critical pillars in our ROA has always been the increase in yield by 150 basis points.

What is important to notice in this is the jump in micro enterprises business, the contribution of the business going to about 11% of the total disbursement this quarter rather than -- 11% of the AUM at the end of this quarter to reach to the 150 basis points incremental yield, we -- our micro enterprise business, which is coming from 210 branches today, will start really accelerating with another 50 branches coming up during this year and 150 branches coming up next year.

So when you look at 6 quarters down the line, we would be at about 400 micro enterprises branches and the contribution of the AUM would be upwards of 30%, thereby a complete product and a product mix change at the AUM level delivering 150 basis points incremental yield.

The other businesses are also firing extremely well. There has been growth across all segments of the businesses, all channels of the businesses, and they will continue to grow at a steady pace, while micro enterprises business will grow at an extremely fast pace, thereby delivering our desired goal of 30% AUM of micro enterprise business and this increased yield of 150 basis points.

Anuj Pandey: The short commentary on our overall portfolio performance continues to be stable. Our collection efficiencies for last few quarters are stable at around 96%. The gross NPA at the end of this quarter was 2.1% and a net NPA of 1.4%. In last quarter, Stage 1 assets actually has improved over the previous quarter and now it's close to 94%.

If you look at the segments within the portfolio by products, we see a little bit of decrease in GNPA in our secured business loans and machinery loans and a little bit of uptick on GNPA on business, unsecured loans, micro enterprises and supply chain.

I'll talk about supply chain first, and we have been talking about that for the last 2 quarters. We have been winding down our vendor finance book for about a year now. We had a peak AUM of INR722 crores. Today, we are at INR355 crores. And the reason we have been doing that was that, that business was not making commercial sense. It was at a yield, which was not quite an affordable for us. And because of that, there were some adverse customer selections as well.

Hence, we started identifying problematic accounts there and started doing accelerated provision. And last quarter, we took a write-off of INR16 crores for 1 large chunky account. We have a peak NPA of INR52 crores. And now whatever stress we had to see, we anticipate that we have seen that, and we don't expect any further stress in that portfolio.

On business loans and micro enterprises loan, these are the natural seasoning impact, which we are seeing, and which are very well calibrated. Being on a quarterly basis, do a very robust statistical modelling to predict our credit costs for the current year and for the next 2 years. And we have been telling that the way our portfolio construct is and what our models tell us is that our credit costs will peak and then gets stabilized at around 2% by end of next year.

In the first half of this year, we had 1.6%, well below that, and this is as per plan. But as we move forward, we anticipate that by end of next year, we would be around 2% or a little less than 2% of credit costs. So overall, the portfolio is behaving the way we thought it would.

Kishore Lodha: On liability side, co-lending is one of our core pillars. We have been talking about this for almost 2 years now. And if you look at the progress, we are progressing well on co-lending side. So if you look at the left-hand corner of the chart, slowly we are reducing on co-origination with NBFCs and gradually increasing our co-lending with banks and also our DA portfolio. This will be the trajectory going forward as well. Co-origination with banks, we will try to increase, but however it is a difficult proposition.

It will take some time to crystallize. Banks are more comfortable doing co-lending with NBFCs as of now because co-origination has to be done simultaneously where -- there are some mental blocks that still exists. So probably it may take another 12 to 18 months before banks are more comfortable doing co-origination with NBFCs. But whatever the arrangements we have for co-origination with NBFC, slowly, we'll be trying to move towards co-lending and once the portfolio seasons toward direct assignment.

So directionally, we have committed that we will reach 50% as off book and we are there. We have already achieved 44%- 45%, and this trajectory is likely to continue. And if you look at the right-hand side, almost all our products are going into co-lending. So our product construct itself is designed in such a way that most of the products are now going into banks and they are well accepted. These are as per the co-lending policies, which we have agreed with the banks. So we are not facing too much of challenge on the other side.

If you look at the balance sheet borrowing, as Shachin said, last quarter has been good for us. If you recall that last 3, 4 MPCs, RBI has been a little tough on NBFC lending by banks and RBI has also been cautioning the market on personal loan as well as consumer loans. We are not into personal loan and consumer loans, so we never faced any issue. But since RBI has been warning and cautioning banks to go little slow on NBFC lending. But however, we have seen that in last 3, 4 months, that flow has increased to us, and we could support whatever setting is required for the growth in the previous quarter.

Signs post this quarter are also positive. Recently, we have announced a deal with DFC, which is for $40 million. It is not only a deal which should be looked into isolation. It is our continuous effort where we have onboarded earlier FMO, ADB, GMO, etcetera. And also it is for the larger social cause. So here in DFC, we have committed that 70% of the borrowing would be towards women entrepreneurs. So in some sense, whatever is our endeavour is to promote the weaker section, women entrepreneurs.

Some of the aspirational districts of India, we are actively doing our participation in that segment, and we are trying to create a viability's franchise around that as well. On financial numbers side, as we have discussed, this has been one of our best quarters in overall in terms of disbursement, AUM growth as well as PBT and PAT. So, in Q2FY25, we have done a total income of around INR342.9 crores vis-à-vis INR301.6 crores in the Q1FY25. In Q2FY24, it was around INR253.6 crores.

Net total income is at about INR199.8 crores, which was INR148.2 crores in Q2FY24 and around INR165.4 crores in the Q1FY25. Overall, the PAT is INR35.5 crores vis-à-vis INR28.9 crores in Q2FY24 and INR30.4 crores in the Q1FY25. So, there is a 17% QoQ growth on PAT as well. So, with this, we would like to conclude our management commentary. We will be very happy to take questions, if any, from all the participants. And I'm sure you would be eager to ask questions on the financials, on our outlook, on the markets. So please go ahead and ask your questions.

Shachindra Nath: Operator, we can open it for Q&A, please.

Moderator: Our first question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: Two questions. First one, if you can help with some color on GNPA on this off-book and on-book. So I mean that -- on the overall AUM, of course, you have given segment-wise disclosure, that's very clear. Just to sort of idea if at all there is any difference. That's one. And on the overall level, I mean, with the supply chain being now almost done. How do you see, I mean, the trajectory of the GNPA as well as the credit cost going forward? Asking because even if our supply chain pain is now largely done. But in terms of your business loans and secured micro are sort of -- for the moving asset quality moving in line with expectation or you see some increased stress there?

Anuj Pandey: Yes. Thanks, Avinash. So on our overall GNPA is between on-book and off-book. So currently, our overall at the AUM level, it is 2.1%. And on the off-book portion, it is -- the GNPA is around 1%. And that is primarily a function of the seasoning of that book. It is a relatively newer look because it is not more than one and half year old. In the long run, we expect that the overall AUM GNPA and the off-book AUM GNPA will converge because we don't differentiate at the time of sourcing and underwriting whether the transaction will be in -- remain on-book or off-book. So that is the answer to the first part.

Shachindra Nath: And that co-origination because we don't add to the denominator

Anuj Pandey: Yes, yes, yes. So the on-book GNPA looks artificially higher at this point in time because for the co-origination part of off-book, where we have given FLDG. Whenever the loan goes bad and the FLDG is applied, it comes back on our book. So the good part remains with the partner, only the bad part comes in and hence, the on-book GNPA looks higher. That's why our kind of business, the best parameter is to look at the overall AUM GNPA.

Now coming to the second part. We have more than INR300 crores of supply chain book is left, which has currently around INR35-odd crores of GNPA. We don't foresee any further stress coming in there. As far as micro business loans and unsecured business loans are concerned, they are tracking the way we expected it to be.

The lifelong GNPAs and credit costs expected in an unsecured business loan, GNPAs are in the tune of between -- around 4.5%, translating to a credit cost of around 2.5%. And lifetime GNPAs in micro business loans are expected to be around 3% to 3.5% translating to a credit cost of about 1%. We are slowly peaking towards that. We have observed in our portfolio.

The peak delinquencies are happening around 21st month and the total seasonality of book is a little less than that. But more or less, we have seen a lot of quarterly cohorts that is likely to remain that way. So going forward, we don't foresee too much changes from a percentage perspective or a roll-forward perspective for incremental NPAs.

Avinash Singh: And quickly one, I mean, how is the competitive intensity, particularly in the secured side, both, the large-ticket LAP and micro-LAP, are there kind of instances or rather increased instances of balance transfers in the market or is it like a business as usual?

Amit Mande: So you're very right. There are competitive pressures but largely on the intermediated channels, prime is that. This is because, these are originated by the intermediating partners. And so once the customer does well on our books, there is a tendency for the customer to move to a lower yielding principle. However, having said this, on the micro lease, which is largely self-originated, direct originated business, the pressures on foreclosures and balance transfers is lower. In fact, very significantly lower than what the prime business is.

And that is why as we grow our micro business, we will see these foreclosure pressures go down. But at this point of time, the foreclosure pressures are there on the book, but that has been accounted for in our annual operating plan. They could be slightly higher, but nothing very different than what we anticipated.

Shachindra Nath: And Avinash, if I may add, that is what is real advantage of UGRO, like if you look at roughly around INR425-plus crores of quarterly disbursement in micro enterprise vertical in this quarter, INR200 crores in the month of September itself, we saw that almost 40% of that secured origination happened in what we call the medium ticket size, roughly around INR35 lakh to INR45 lakh per ticket size of loan origination at a much higher yield than what we see in our intermediated top 30 city channel vis-à-vis any of our peer sets. So micro enterprises secured, lending either there are lenders who only do this INR5 lakh or INR6 lakh of loan or there are large lender who do only INR1 crore of loan. Probably we are the only lending institution, which has the ability to go to a Tier 2 and Tier 3 location. And because we do both businesses, now in this year, we launched this, that all of our locations will not do INR3 crores, INR5 crores loan, but would also do direct origination of little higher ticket. They will also do machinery loan, they will also do rooftop solar, and they also continue to do micro enterprises INR10 lakh to 12 lakh of loan. So ability to monetize the platform across our product channel through an expanding distribution reach coupled with a co-lending line and all of the products being accepted and thrust of the liability which we are getting on a favourable treatment we are getting from the banking institution because we are an MSME, I think it is coming into play big time.

Deepak Khetan: Avinash, I hope that answers your query.

Moderator: We'll move on to the next question. And the next question is from the line of Shailesh Kanani from Centrum Broking.

Shailesh Kanani: So I just wanted to ask a couple of questions. One, the interest income has been lower this time around on a sequential basis in spite of AUM growth. So reasons for that. And we have seen a good bump up in DA income. So the sustainability of the same? And how should we kind of build-up that in our model?

Kishore Lodha: So into that, so you should look at the interest income and DA and co-lending income together because whenever there is higher DA and co-lending, naturally, the interest income on balance sheet would reduce. So this is one part of the answer.

The other part is that we have seen some compression in interest income this quarter because if -- you may recall that sometime in May, RBI came up with a circular that wherever there are cheques issued into the customer and as long as the cheque is not banked, NBFC and bank cannot charge interest on that. So essentially, wherever there is property involved, it takes about 1 to 2 weeks' time to get the check cleared because of the processing involved, which is fairly similar to every lender.

So there, again, we had to take some amount of it during the quarter because it came for the entire first half. So some compression came on the interest income side on that side also. So put together, this is where we are. Additionally, on DA and co-lending -- it should continue to grow the way we are. It should grow in same ratio as that of our AUM or slightly more than that because our core hypothesis is that we should reach around 50% off book on balance sheet, which is now 45%.

So incremental, whatever disbursement we would do in this quarter or quarters going forward, at least 40%-45% would go into co-lending and DA. So the income directionally should be into that proportion only. Hope I have answered you clearly?

Shailesh Kanani: Yes. That's helpful. Sir, one more thing on asset quality per se, especially on the unsecured portion. Since last year, we have seen various products, be it credit card and now recently MFI as well have been facing some issues. So would you like to call out any areas of concern or anything which you have been experiencing? Or how is the outlook over there?

Shachindra Nath: Yes. So Shailesh, there are a few things. We run this campaign called MSME Accha Hai, right? For last 1 year or so, we have been extensively trying to educate the institutional side of the market, sell-side and buy-side, our banking liability providers with the core hypothesis is MSME Accha Hai. We say MSME Accha Hai, and I would recommend that you should go through -- we do publish a report called MSME Sampark, which is an industry-first joint driven report wherein D&B does the macro analysis.

We take a customer base of 30,000 plus customers and we analyse the GST data and the banking data. And by this sector we come and present the resilience of micro enterprise customers, especially our targeted customer segment, which is the INR15 lakhs turnover to INR15 crores turnover. I would strongly urge and recommend analyst fraternity that to differentiate between different type of customer segment and it's just getting built up.

So what you are seeing in microfinance industry, the consumer finance and what we call the retail credit industry, that actually does not have any direct correlation to NBFC, which are focused on MSME financing, predominantly because the consumer financing, microfinance industry, the challenge has been very small ticket in microfinance industry, what I read from public market commentary, it is largely the over-leveraging of customers, which means that there is -- you do not assess the repayment capability and it becomes eventually a distribution business, so as in the consumer financing or any retail product.

And that's why there is ballooning of credit is happening versus given more resilient small business economy in Tier 2, Tier 3 town and whatever data is showing. And because we do predominantly repayment assessment capability, we are not seeing those stresses which are building in other segment of the market, especially in the NBFC industry. And that is why it is reflecting in our rating upgrade; it is reflective of we are having highest liability funnel in this quarter. It is reflective that every bank, financial institution and DFI are actually expanding their liability to us.

So, it is difficult when there is an overall negative narrative about NBFC and ballooning of stress building up on the credit side and retail credit, to stand out and say we are different, sometimes it's difficult to absorb. But I would urge that data should be looked at and that people like us, not just UGRO, by other entities involved in similar type of businesses would show a remarkably different performance, both on growth as well as on credit performance. Anuj, if you want to add something?

Anuj Pandey: No, you're right. Also, we also keep experimenting within the product construct to try out new things and we continuously keep taking insights. But broadly, now what we are doing, we are quite confident that it is not like what is happening in the personal loan or retail unsecured market. So the portfolio performance going forward is not likely to throw any surprise.

Shachindra Nath: And whether our data will show a different thing, we could the first one would come and educate the market about it. Fortunately for us and for the broader peer set community, which is involved in MSME financing, I think it's a good time ahead.

Shailesh Kanani: That's very helpful and comforting as well. Sir, just last question from my side. On -- so we have got a rating upgrade as well. So any early indicators of respite on cost of funds or any reduction expected this year or next year?

Kishore Lodha: So it is -- rate cut is on the cards. If you look at internationally, the inflation has been cooling off and ECB, FED etcetera, everyone has reduced it. So sooner or later, we will also see rate cuts here. But as far as UGRO is concerned, we will definitely see some amount of rate reduction. But we think that it may still go up by about 5 basis points for the next 2, 3 months, and then it will start settling down.

And then from Q1, definitely, it should go down. It can happen earlier also, depending on how RBI deals in next monetary policies. But we are extremely confident that with or without RBI reducing it, from Q1 next year, we will definitely see a downside in terms of ROIs.

Shachindra Nath: And as we have said that we look at our ROA targets for next 6 to 8, 10 quarters, we have projected that we'll have a total cost of borrowing reduction of 75 basis points. We are confident with our capital raise of INR1,265 crores, which -- in the current year and added around INR500 crores to our net worth. When our borrowings would convert, our capital adequacy would again go back at a higher level. We will have much sizably scalable business operation. And more importantly, the profitability of company would double from where we are today.

And in that scenario, it is natural, and we are hopeful that both we'll have better rating from what we have today, and that maturity of our business would allow us to be in a better negotiating position to get a better rate from all of our lending institutions. I think right now, we have not seen the direct benefit of rating upgrade into our product pricing, but we have seen an incremental capacity of borrowing.

So we have been able to sustain and maintain a very high level of inflow of debt capital into us that has allowed us to grow at a pace which we are growing, but we have not seen real advantage of that. But as the liability funnel keep increasing, which means that we have better ability to negotiate the prices, rates will start going down.

Moderator: The next question is from the line of Narendra Khuthia from RoboCapital.

Narendra Khuthia: Congratulations on a great set of numbers. So sir, my question is regarding our target of 4% ROA by FY26, okay? So given that we are currently at around 2% ROAs, it is kind of a steep task to go to that 4% of ROA. So when do we see the actual ramp-up towards this target, if you could throw some light on that?

Shachindra Nath: Sure, sir. And giving that kind of a hard number, it is reflective of our confidence of what we intend to deliver and how we will deliver that. But also there are external circumstances which we have to be always conscious of. The reason why we give that kind of a number because to some extent, it is a state of aspiration which we want to set for ourselves, and that's why we always like to what we give it to our Board, is what we want to give to the market.

Our target is off to get to a 4% of ROA on a steady state basis as we exit FY26 is a sequential target. We would like it to be delivered gradually on every quarter basis. This target of 4% ROA is a direct function of how our micro enterprises branches would expand. So the bridge is simple. We were roughly around INR100 crores of monthly disbursal when we exited FY24. We are at INR200 crores of monthly disbursal right now as of September. We have expanded our physical location from around 75 to now around 165 or 170 in total -- 210. We would go to 250 by end of this year and around 400 next year.

So the trick is that actually, we have seen very good productivity performance as per our target. Our first set of 25 branches actually broke even in 18 months, second 50 branches broke even in 14 months. Our target of this set of branches is between 9 to 12 months. We are seeing a 12-month of target of these branches getting breakeven. So we are hopeful that our learning which we had in the last 2-3 years, would come in play.

And as we keep increasing our number of branches, the funnel of higher yielding micro secured business would keep adding to our ROA creation. So as we exit the FY26, and if we happen to achieve this asset mix of 35% odd of our total portfolio to be contributed our micro enterprises, we will surely hit the 4% ROA. And we are very, very committed and working 24x7 to deliver that. And hopefully, you will monitor it up and keep us at task as to that target.

Narendra Khuthia: And sir, second question is on your leverage, right? So what kind of leverage are we comfortable with? If you could share with that?

Kishore Lodha: So I always say that we will be comfortable at 7x, 8x leverage as well, provided the lenders are ready. So jokes apart, this is on the lighter note. We think that we can -- with the maturity of business and the kind of capital we have the capacity to lever ourselves up to 5x. So .5x would be a realistic one in next 12 to 18 months' time. But with this capital coming in, we can aspire for 5x leverage as well.

Shachindra Nath: And I would add -- for any medium- to long-term investors, if you look at broader credit market, banking system in India, generally are at a return on asset of around 1.5%. It ranges from 0.8% to 1.8% or 2%, but largely between -- the median range would be 1.2%. But ROEs are in the range of 18-odd percent because banks are highly leveraged institutions.

Now there are 2 sets of NBFCs, highly levered NBFC which are AAA rated, which have been in existence for a very long period of time. They also return on asset is around 3%, but leverage is again 6x plus. That's why there is a high ROE. What we are promising that we will get to a good ROA profile and our leverage in the medium term would still remain low, but we have offset that by an off-balance sheet asset and co-lending. But as the business would mature and you will get longer term, we would also get benefit of the leverage.

So, a combination of our off-balance sheet, co-lending and when we get to better leverage, then this platform would deliver very superlative financial performance. So that's the hope. But obviously, as a builder of an institution, we keep everything in mind what we have to build, not for today, not for a quarter, but for many number of years to come, but simultaneously to satisfy the need of quarter-on-quarter. So, we balance the both, but we are very long-term oriented in terms of what we are building.

Moderator: The next question comes from the line of Anil Tulsiram from ContrarianValue Edge.

Anil Tulsiram: Congratulations on achieving INR10,000 crores milestone. Yes, all my questions are on micro enterprise loans. So first is how do you ensure these micro enterprise customers are not overleveraging themselves? So, where I'm coming from is, I understand we do underwriting at the individual level and the husband, wife and the kids may borrow again in their own name and the household may become over-leveraged. So how do you ensure this doesn't happen?

Anuj Pandey: Sir, I think you are confusing between microfinance and micro enterprises. We don't consider household income at all. We only consider business income. So, our end borrower is always an entity. It's a micro enterprise. We take the entity's reporting income as well as in case if he is dealing in liquid cash, we also add that liquidity income back. And we don't lend to new-to-credit customers. So, we also have with bureau and in the last 12 months' banking. So, this is the way we calculate eligibility, his overall obligations. And hence, overall, his debt is very much analyzed before we give an offer.

Anil Tulsiram: Got it. Sir, second question is we are planning to scale up branches from 75 a year back to 400 by FY '26. So how do we ensure that we maintain consistent underwriting standards across all branches given how intensive the operating process is and given the high attrition of staff turnover and the operational complexity?

Anuj Pandey: Yes, you're right. When we scale up, the complexity will go up. But the way we had approached is that the core of underwriting and policy execution is centralized, and the -- all the other product policy propositions are templated. And the way a branch is structured is also a template.

So, each branch consists of 10 people, five to six in sales, one in credit, one in operations, one branch manager and once the AUM goes up, one collection head. So typically, now we have learned on how to scale up. There are tremendous exhaustive training sessions and repeat sessions across all functions on what we want to see and the documentation of that and the business rule engines are centrally coded in the system, which they access in our branches. So, from consistency of underwriting perspective, we have taken a lot of steps so that it remains there. And also, as a process when we enter it -- so first and foremost, the 400 locations where we will operate, we know today. We did a design of -- a data analytics center actually analyzes roughly around 3,000-plus PIN codes of India, looked at peer set lenders' data and came up with the best 400 clusters wherein the credit quality of competitors are best, and that's why where we are operating. So, we started with Tamil Nadu, Telangana, Karnataka, Rajasthan, Gujarat. Now we added UP, MP, Andhra and Maharashtra, and we know where we have to go.

Second, when we enter into a location, while what Anuj said, the policy parameters and how to analyze the loan is predefined and templated and very limited judgment is allowed at the ground underwriting level, but also the delegation of power of underwriting in the time the branch needs at critical stage is not delegated to them, but rather it is a cluster approach. So every five branches would have a senior credit cluster officer, senior sales officer and the delegation at the branch level would happen at a certain AUM level.

And last but not least, in micro enterprises, while we analyze the cash flow and repayment ability, but we only do secured vis-à-vis all of our loans have a physical collateral attached to that, whether it is a self-occupied residential property, commercial property, largely these two, and for certain under products like machinery and rooftops, solar.

So, I think so we have reached to a state wherein we are the first of pan-India micro enterprises company. All of our comparable and peer sets are either in South or North, but we know the art of how we have to do it, and we will be able to execute fairly well across the country.

Anil Tulsiram: Got it. And sir, the last question...

Moderator: Anil sir, sorry to interrupt. May we request you return to the question queue for follow-up questions as there are several other participants waiting for their turn. The next question is from the line of Moid Ansari from Hyderabad Investors Forum. Mr. Ansari, your line is unmuted. Please proceed with your question.

Shachindra Nath: Can we go to the next question, please?

Moderator: Sure. As there is no response from the line of current participant. We'll move on to the next question. And next question is from Sahil Bambade from Sirius Advisors. Please go ahead.

Shachindra Nath: Operator, I don't think so that we are -- we have clear voice, can we go to the next question please?

Moderator: Sure. We'll move on to the next question. Next question is from the line of Amit Jain from Citi Advisory. Please go ahead.

Amit Jain: Yes. So, sir, my question is regarding our micro branches. So, we have taken an ambitious target, and we are indexing a lot on micro branches to grow our AUM further. In fact, if you look at our growth in micro, it has been significantly higher than other segments. My question is, how are we so confident that we'll be able to maintain the credit quality in this channel?

Considering the number that we are seeing right now, So, in micro, our GNPA is around INR40 crores. And Q4 AUM was around INR813 crores, so closer to 5%. I'm assuming that there would be no NPA for loans in the last 2 quarters. So, what I think is mostly INR40 crores GNPAs coming on INR813 crores, which is 5%, significantly higher. So, what gives us confidence that we'll be able to scale this channel at a good credit quality?

Anuj Pandey: So the way we have modelled this is that in micro enterprises, also the peak delinquencies happened between 18 to 24 months. And then because we only do secured loans, there is a repossession and then a time about 5 to 6 months to sell that property off. So eventually, the peak delinquencies in month 18 to 24 will reach around this percent, and then start coming down.

So the way -- currently our GNPA is about 3.8%, and we already have started seeing success in a repossession of properties. Also, as we expand and as we learn, we keep tweaking our policy. And that has been the journey. So if you recall, our first set of 75 branches operated for a year, and then we took a break on expansion of branches because we wanted to learn the business in its full intricacy.

Now that once the learning is there, all the new branches roll-out is as per them. So if you see -- and we closely monitor the early delinquency indicators for all the new branches, which is basically the bounce rate, 30-plus in 6 months and the first 12 months NPA rates, etcetera, they are all within the range. So all this put together, we think at a steady-state level, the delinquencies or the GNPA in micro enterprises will hover around -- between 3% to 3.5%.

Shachindra Nath: What I would add that the mainline financial institution or large banks or NBFC, the degree of difficulty to understand micro enterprises by state and cluster have been a huge challenge. Even within the listed world, we have 2 micro enterprises NBFCs which are listed, and there are a few more which will come to the market. You will see majority of them are very state focused or too state focused because the micro enterprises cluster behaviour or state behaviour of the customer type is fairly unique depending upon the geography.

So Tamil Nadu is a different geography than UP. So as Rajasthan to Telangana. So we took time to learn this. So we experimented first with 25 locations, then 50 locations. And that's why we run 1 business, but we run product policy cluster by -- designed by the unique cluster. So the way the collateral policy in Tamil Nadu will work is very different than what would be in UP and MP and Maharashtra.

So I think so the size of the platform, which we have built, and our rapid expansion is a function of that we have invested early or very heavily both in technology, in understanding the credit process, understanding the type of collateral, and then augmenting senior management across the length and breadth of the country. So it's a company in its own. And that's why we're fairly confident that this business can be run at the overall GNPA levels of 3%, 3.5% and credit cost of 1%. And the payoff of that expansion is significant to us.

Moderator: The next question is from the Nirvana Laha from Badrinath Holdings. Please go ahead.

Nirvana Laha: So Kishore sir, question is to you. So, in the P&L, the net gain of derecognition of financial instrument that has DA income and co-lending income, right?

Kishore Lodha: Yes.

Nirvana Laha: Is it possible to give a split between the two for this quarter?

Kishore Lodha: So I would not remember the number exactly often. So you can assume that 70% of it would be coming from co-lending and 30% would be coming from DA.

Nirvana Laha: Okay. So just trying to understand that number, sir. So 70% would be like about INR70 crores or even then above that. Whereas if I look at your presentation, the co-lending AUM in this quarter has increased by about INR400 crores from INR1,830 crores something to about INR2,200 crores something. As I understand, the co-lending income in report is upfronted for the credit spread, the interest spread for the entire delta in this quarter, right? So

Kishore Lodha: This understanding is not correct. So, what happened is that Ind AS have come in 2017, which says that if any asset is derecognized in your book, then the risk and reward has been completely transferred to the counterparty. You don't have the option to do an accounting on EIR basis.

If you remember that prior to 2017, when the DA and PTC were quite in existence as it exists now. At that time, the accounting on DA was also on EIR. But post 2017 when NBFCs were to migrate to Ind AS, that optionality was snatched away from system. Everyone needs to account for the DA and co-lending income -- for the lifetime income like the NPV, they have to account for, they don't have any other choices.

And in our case, what happens that now since we are doing it for almost 2.5 years now, and where the product cycle is roughly around 3 years, 2 months, so gradually it is -- the funnel is getting settled down. So whatever we had upfronting in the quarter, almost in 1 or 2 quarters, we'll see that similar amount would have come in, in form of interest income had we not done this kind of accounting. But this aberration will continue to remain as long as we are in doing Ind AS manner.

Nirvana Laha: Okay. Okay. Sir, I'll connect with you separately to understand that in more detail. I have two short data points that I want to know. One is what is the LTV in our micro enterprises portfolio? And out of a total AUM, how much is on fixed interest rates and how much is floating?

Anuj Pandey: So on the LTVs on the broad portfolio level in micro enterprises, we would be closer to 50%. And overall, all our secured loan book which is prime secured, micro secured and machinery loans, they are on floating rate.

Nirvana Laha: They are on floating. And sir, in terms of reposition, what -- can you give us some statistics like how many loans have been made and how many cases of repossession have had to be enacted?

Anuj Pandey: So life to date, we would have repossessed about 100-odd properties out of our total loans which will be -- which would have crossed about INR4,000 crores, INR5,000 crores in number.

Nirvana Laha: And this is for the micro enterprises segment only?

Shachindra Nath: No, all put together. In micro, it is very small that part yet because there's not too many, but now as we move forward in the coming year, we anticipate much more repossession.

Nirvana Laha: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Arpit Agarwal. Please go ahead.

Arpit Agarwal: So my question is basically that we have had a good AUM growth, but the profit has not grown with a similar proportion. So the AUM has grown upwards of 30%, but due to credit cost, the profit growth is in the middle of 20%. So what is your forecast regarding this? Do we -- will we have operating leverage going ahead, or would the situation be same?

Kishore Lodha: So I will take the question in two parts. As far as operating leverage is concerned, if you look at the number, it has already kicked in. So if you remember our data for 2022 our cost-to-income ratio was 73%. Then it came down to 63%. Last year it was 64% and if you look at this quarter's data, this is 53%, probably you may look at it as 1% saving on the previous quarter, however you have to take into account that we have opened 46 branches, micro branches during this quarter and almost 100 branches during this year.

So despite opening new branches, it takes time to deliver the operating other metrics. We have been quite better off in terms of operating leverage. So that means then all the entire engine is shining well, and operating costs are going down vis-a-vis the overall asset side and income side. So this is first part of the question. Second part is that how -- you are right that the AUM has grown by almost 30%, the profits have grown by 22% largely on account of credit costs going up.

As we are seeing that the complete cycle of the books are completing one cycle we are completing. As we stated earlier in our several other calls that -- our model suggest that overall credit cost would be closer to 2%, we would be inching towards that. While we are making our model, we have figured 2%, projected 2% cost, credit cost. If you look at this quarter which looks higher, but it is still 1.8%.

So for four to six quarters' time, it is likely that we will settle closer to 2% and then it should remain that way unless some micro or macroeconomic event happens. So broadly, we are in line. So probably the other parameters like the increase in the yield or reduction in borrowing costs will take some more time to settle in. However, directionally, we are in the same path which we have directed all of you in our previous conversations.

Arpit Agarwal: Okay. Thank you.

Moderator: Thank you. We'll move on to the text questions. The first question is from Arshay Agarwal and the question is, UGRO Capital achieved a record net loan origination of INR1,970 crores in Q2 FY '25. Could you explain the key factors behind the strong growth? Was branch expansion the main contributor to this increase? Moreover, do you see this loan origination figure as setting a new base level for the future quarter?

Amit Mande: So partly to this first question -- Arshay yes you answered part of the question. The branch expansion in quarter 1 and quarter 2 is really one of the drivers to this growth, but you may have also seen that all other business lines have also shown their growth. This is typically also that quarter 2 is a little better quarter and the businesses start picking up in quarter 2 across the country, pre-festive businesses.

And so one would see that growth coming in quarter 2. Rightly said, this is the new base level for future quarters and the next quarters will be, in fact, the pace will continue. Our exit run rates in September were upwards of INR700 crores, which means that the next quarters will see higher than those run rates and therefore this is the new base level for us.

Moderator: The next question is from Manojj Bhatia. And the question is are you planning to get a strategic investor in the company?

Shachindra Nath: Mr. Bhatia if you have bought shares of UGRO, you are the strategic investor. Our aspiration is to build an institution of size, scale and solve the problems of the credit. For us from day one we got backing of serious private equity investors. We got a global DFI to back us. In last round, we saw participation from multiple family offices. And our aspiration is that the way we are growing and what we are building that larger, broader institutional public market, retail high net worth and family offices continue to participate in our growth journey and all of you become our strategic investor. Your support is key to our success. And at this point in time, other than you we have no insight or no plan to bring any other strategic investor.

Moderator: Thank you. The next question is from Sunesh Khanna and the question is can you please elaborate as to how and when the operating leverage will play out?

Shachindra Nath: Yes. I guess we have already answered this question. Kishore has answered this so we can move on to the next question, please.

Moderator: Thank you. And the next question is from Aradhana Singh. And the question is, first, congratulations for such a good quarter. My straightforward question is about not so good effect being reflected in the stock price.

Shachindra Nath: Mrs. Singh it's a very difficult question for management to answer. While our job is to build business for you and continue doing putting our earnest effort in building and delivering to the metrics what we are promising. Now stock price sometimes is a reflection of the broader market and sometimes very hard for us to understand the reason and rationale for that. But whatever I understand at this point in time, the broader narrative of RBI talking about credit ballooning happening in retail market, RBI commentary on saying banks should not lend to NBFC. And we've seen periodic episodes of few NBFC getting banned, a few segments of the market showing pressure. In that for public market investors, institutional, retail, high net worth have little motivation incentive to call out a particular NBFC and say, this is different than the other, but it is just a matter of that time for any medium to long-term investor. I think so it is difficult to avoid the size and scale creation of an institution which is happening in UGRO.

In 3.5 years' time, we have built a INR10,000 crores of business, which has never been done in India before. And it is very hard to avoid us. You can look at us, you can be sceptic about us, but eventually it is going to be very difficult for any one of you not to look at us and invest into us. And when that happens, I think so we would have a very good run on us.

Moderator: Thank you. The next question is from Deepak Yadav and the question is number one, when will the SCF be completely out of your books and out of INR355 crores SCF outstanding, how much is recoverable? Second question was the credit cost of INR44 crores in this quarter was the peak and now onwards, this will ease out? And the INR16 crores write-off regarding SCF was in this quarter or in the Q1?

Anuj Pandey: So on the supply chain book, out of the total INR355 crores outstanding, most of it is our very good customers. The NPA within that at this point of time is about INR35 crores. And most of that NPA is also in regular course of business through collection, effort and mitigation of it is likely to get recovered.

So no big write-offs from that is anticipated. As far as running down is concerned because it is an evolving business, we do that in consultation with the end customer. And that is why we will eat it out in next few quarters. Some of it is with green assets which we may not wind down and it will continue.

As far as absolute credit cost of INR44 crores is concerned, I think the better way and the correct way to look at credit cost is as a percentage of AUM. We have been modelling that and our models tell us that we will peak and then stabilize at about 2% or little below 2%. So on an absolute number of credit cost, it won't be fair to comment whether we have peaked or not because we are growing and we will be double of our AUM in next 2 years, 3 years. So the question should be seen in the right perspective. Yes, the INR16 crores write-off in SCF was taken in this quarter and not in Q1.

Shachindra Nath: Operator next question, we have answered in multiple other questions, so we can move on to the next question.

Moderator: The next question is from Subavel Murugaiah and the question is what will be the profit growth for second half?

Shachindra Nath: I would say Mr. Subavel that we have given enough data point in terms of how we are progressing. So we will not pick out a number to give it to you. We believe that we are in a trajectory to achieve our long-term objectives. When we are confident that our total profitability for this year is significantly higher than what last year. If you look at our first two quarter performance of previous year versus first two quarter performance of this year, we are at a very healthy run rate. So I think so there are a lot of sell-side coverage analysts are there. It's their job to moderate and give guidance to you, but it should be much better than what it was last year.

Moderator: Thank you. The next question is from Arpit Agarwal, and the question is in a total, you mentioned four parameters on which you would focus to improve ROA. How has each of the parameter turned out from last quarter?

Shachindra Nath: I would say Arpit this bridge to ROA is not a quarterly bridge. It's more directional of what we would like to achieve over a period of when we will be exiting 2026. And on each one of them, you will see a gradual improvement, what definitely you can track. So the bridge is 150 basis points yield increase, 75 basis points cost of borrowing reduction, 0.5% of operating leverage and a negative parameter of credit costs going up by 0.5%.

So from what was at that point in time, March '24 of 2.3%, it will go to 4%. Obviously, what is very easily monitorable by quarter is the portfolio yield enhancement and that we are definitely seeing that. And that is sheer function of our contribution for micro enterprise business and that has doubled quarter-on-quarter.

As we have said that we have not seen the reduction on the liability side, and we have to wait out for a certain more period. And I have explained that we probably have another 2 to 2.5, 3 quarters when we start seeing the benefit of that. Operating leverage because we are -- we're seeing, but actually also simultaneously we are heavily investing in our new branch infrastructure. I think as we see the maturity curve of another 8 to 9 months, that will kick in.

The credit cost, we are seeing setting into where the target is. So from a 1.5% this quarter, we saw a little bit of uptick. And I think it will settle down at 2% as we come to near the end of FY '26.

Moderator: The next question is from Deepak Yadav. And the question is number one, there are many micro and prime branches in AP and MP, but the percent of AUM is merely 2% per state. Why so? And the second question is ROI of partnership and alliance is 15% quite lesser than micro enterprise. It was a size of assumption that if the ticket size is less, then ROI is higher. Could you please explain?

Amit Mande: So 2 questions, and I will take it one by one. And I think partly Shachin answered this question earlier. The micro and the prime branches, if you look at the evolution, the first set of 75 micro branches were in the states of Tamil Nadu, Telangana, Karnataka, Rajasthan and Gujarat. However, this set of branches which we've opened now have branches in AP and MP. And that is why the AUM is now building up and it will steadily build up.

So it is not that it's lower, it's nearly 2%. It is just the evolution of branches and the opening times of these branches. On the partnership and by alliances, this is the net revenue or the rate to UGRO. The way this works is we work with multiple partners. There is an end customer rate that the partner offers to the customer. And these are the hurdle rates on which we work with. Basically, these rates are sort of 15% is net of any opex or very little opex and net of losses. We earlier also expressed that this partnership and alliances business is backed by a first-loss guarantee.

And so there is no -- further to 15%, there is no drain to the revenue. And so these are extremely good rates. Practically, this is 4% clean ROA business for us, and that is why it is at 15%.

Moderator: The next question is from Deep Shah, and the question is, where does the company account for income from co-origination? Is it under income from co-lending/DA? Second question, can you please explain the ESOP vesting conditions for the management?

Kishore Lodha: So on the co-origination side, the income is accounted in interest income. So whatever is the differential interest that we get in the partnership. So to give you an example, if we have originated a loan at 15% and if we have co-originated the partner at 11%, then 4% differential interest would be accounted as interest income throughout the life cycle of the loan. So this is the accounting on co-origination. It is quite different from co-lending and direct assignment.

As far as ESOP vesting is concerned, it is part of our presentation, and we have earlier stated that whatever ESOPs are vested in the management, it is linked with the performance of the equity. So if the equity investors make money, then only the management can exercise its ESOP which are vested in there. The next cycle of ESOP listing would be coming sometime in 2025, 2026 subject to our stock pricing performing at the agreed level with the management.

Moderator: We have a voice follow-up question from Mr. Anil Tulsiram from Contrarian Value Edge.

Anil Tulsiram: Yes. Sir, my question is again on micro enterprises. Since we are operating in Tier 2 cities and below, how do you manage the risk associated with the collateral valuation? And is it in-house or outsourced?

Anuj Pandey: So the collateral valuation is done by our empaneled valuation engineers and closely supervised by an internal in-house technical team.

Amit Mande: I must appreciate your question because it seems like you are aware that certain micro enterprise businesses, the valuation is in-house. We practically as an NBFC are not experts of what valuations are. And so we rely on the experts, which are third-party valuers.

Anuj Pandey: That's right.

Anil Tulsiram: Got it. And last question is, see, as from the NCD prospectus, around 25% of the advances are the ticket size of more than INR1 crores. So I couldn't correlate this with our business model, why 25% advances are more than INR1 crores. Can you explain at this point?

Kishore Lodha: So actually, it is not like that. 30% of our AUM is into prime secured where the average ticket size is about INR70 lakhs. So based on the conversion on balance sheet, the disclosure may have gone into the prospectus.

Anil Tulsiram: So will we continue to do in this high-ticket size because I think even if in co-lending, there not be much spread or income which we have been generating in this?

Shachindra Nath: No. So I guess, look -- if you look at the total volume of our business, our prime secured business, which is a higher ticket size would broadly remain static in absolute volume term. So theoretically, if we have done, let's say -- out of our monthly volume of INR700 crores, if we did INR150 crores of prime secured business, over a period of next 2 years, that INR150 crores would remain in the range of INR150 crores, or it will go maximum INR200 odd crores. But what will you grow from this point onward in our micro enterprises loan, right?

So I think, once the mix -- you start seeing the mix. So today if you look at exit of FY '24, our prime business was roughly around 50%, both between the secured business and unsecured business. And our micro enterprise secured business was around 10%. And then this mix would change, this 10% would go 30%, you keep seeing the -- transition to lower value secured business happening.

But also, you remember that one of the drivers, both on the credit cost plus on the driver for co-lending is a little higher ticket secured business because banks like to do that. So what you are saying is that there is a lesser spread. I agree with you, but also there is a lesser associated credit cost, and also, it is also a driver of liquidity and overall portfolio quality to maintain in a certain manner. So you have to mix -- create a balance around all of that. We have to create a balance around high profitability, high ROA, high ROE, but you have to keep -- as a builders of the institution, we have to keep in mind what would happen over a period of 3 years, 2 years, and so on and so forth.

Anil Tulsiram: Sir, my last question is on co-lending. What's the progress on co-lending with Tata Capital, Godrej and Mahindra? And how much we are able to scale up the book, technical integration and all other things?

Shachindra Nath: No, look, we don't -- neither we disclose it because they are all very large, listed companies. So we don't know what their public disclosures are. So it's very hard for us without their consent to give you that disclosure. What I can say, broadly say that we would like to have the -- what we take pride in that large leading banks of India, all of the public sector banks, SBIs and Central Bank, the Bank of Baroda, IDBI, all of them, UCO, all of them are our partners. We have all of our large NBFCs in this country which has been in existence, they have approved our organization and credit quality are our level partners, and we are now seeing the order of big private sector bank also being our partner.

We would like to maintain the mix. We'd like to have active 6-7 partners and we'd like to build the business with each one of them. Over a quarter-by-quarter, some would be higher, some would be lesser, but that is all okay with us.

Anil Tulsiram: No. Let me put this question in a different manner. What I meant is earlier top 3-4 were accounting for more than 70%, 80% of the co-lending book. So if the situation persist like that or has it changed?

Shachindra Nath: No, it is getting more diversified, sir. So there are 2 very clear and distinct trend. So our co-origination volume, which was largely with NBFCs is coming down, and co-lending volume in the bank is going up. It is happening because the segment -- 1 segment of the market which is business loan was earlier not being done by banks, but after the application of credit guarantee scheme on co-lending, banks have started taking business loan also under the co-lending.

So broad commentary is that our business -- participation of business with NBFC has gone down, but we'd like to maintain certain percentage of our business with NBFC as well. Second, the concentration with only business with few banks are very well diversified. I think so over a period of next few quarters, no bank would be more -- the bank or an NBFC would be more than 25% of our total co-lending volume.

Moderator: The last question is a text question from Mr. Deepak Yadav and the question is number one, you have sold INR50 crores worth of loan to ARC. Were they predominantly SCF loans? How much haircut you took here? And do you plan to sell more in the fiscal? And number two, on a conservative basis, how much should be the AUM and ROA by the end of this financial year? All the best for the next quarter.

Anuj Pandey: So on the ARC question, it was a combination of business loans unsecured and supply chain. And we haven't taken any haircut. And we don't plan as of now to do any more of this kind of a transaction.

Shachindra Nath: It was done in cash.

Anuj Pandey: It was an all-cash deal. And on the AUM and ROA forecast.

Shachindra Nath: Our trajectory is given. As I have said earlier that our job is to guide all of our shareholder partners, investors, existing and prospective on our long-term vision growth plan, what this company plans to achieve and how we are building an institution. As we have 6-7 sell-side coverages, analysts actually do deep analysis and project what would be our AUM's growth, ROA growth and they also give comparative. So I would urge all of you when they do the coverages, when they do the quarterly analysis, please look at and read with them and take a mean of that. And they are more appropriate.

We have deep conviction and commitment of what we are building, and we continue to do that. Sometimes, we have to look away from quarter-to-quarter performance and keep remain our focus on what we are building for long term. And we are hoping that we will have shareholder partners who would also look at in the similar fashion as we are looking at this business.

Moderator: There are no further questions from the participants, I now hand the conference over to Mr. Deepak Khetan for closing comments. Over to you, sir.

Deepak Khetan: Thank you, Sagar. Thank you all for the queries and your continued support. Please feel free to reach out to me and my colleague Viral, if we have not answered any of your query or you have additional queries. I would like to thank Chorus and JM Financial who helped us organize this call today. We look forward to your continued support going ahead. And thank you. Have a good evening.

Shachindra Nath: Thank you. Happy Diwali.

Moderator: Thank you very much, sir. Thank you, members of the management. Ladies and gentlemen, on behalf of UGRO Capital Limited, that concludes this conference. Thank you for joining us, and you may now exit the meeting.