31st January 2025

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 27th January 2025

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 27th January 2025 to discuss the financial results of the Company for the quarter and nine months ended 31st December 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: 2025.01.31 10:31:14 +05'30'

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

"UGRO Capital Limited Q3FY25 and 9MFY25 Earnings Conference Call"

January 27, 2025

MANAGEMENT:	**MR. SHACHINDRA NATH – FOUNDER 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 OPERATING AND TECHNOLOGY OFFICER
MODERATOR:	**MR. AMAN VISHWAKARMA – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the UGRO Capital Limited Q3FY25 and 9MFY25 Earnings Conference Call hosted by PhillipCapital.

As a reminder, all participants' lines will remain 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 call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aman Vishwakarma from PhillipCapital (India) Private Limited. Thank you, and over to you, Sir.

Aman Vishwakarma: Thank you. Good afternoon, everyone. On behalf of PhillipCapital Private Client Group, I welcome you all to the Q3FY25 and 9MFY25 Earnings Conference call of UGRO Capital Limited.

From the management, we have Mr. Shachindra Nath – Founder and Managing Director; Mr. Kishore Lodha – Chief Financial Officer; Mr. Anuj Pandey – Chief Risk Officer; Mr. Amit Mande – Chief Revenue Officer; Mr. Sharad Agarwal – Chief Operating and Technology Officer.

I now hand over the conference to Mr. Nath for his opening remarks and we will then open the floor for the question-and-answer session. Over to you, Mr. Nath. Thank you.

Shachindra Nath: Thank you, Aman and PhillipCapital for hosting this call. Good afternoon, everyone. Thank you for joining us for UGRO Capital Q3FY25 Earning Call.

The financial sector continues to experience significant regulatory changes and market challenges, particularly for NBFC and microfinance. Despite these headwinds, UGRO Capital has demonstrated resilience and continues to deliver strong performance, reinforcing our commitment to empower India's MSME.

We are proud to share that UGRO Capital's Asset under management reached a record INR 11,067 Crores, reflecting a robust 32% YoY growth. Our net disbursement hit an all-time high of INR 2,098 Crores, showcasing our operational strength and strategic focus.

Our Emerging Market channel, previously referred to as 'Micro Branch Network', has been standout performance for this quarter. The renaming of this channel reflects our focus on differentiating ourselves from the microfinance business which UGRO Capital does not engage in.

Instead, the emerging market channel focuses on addressing the credit need of MSMEs in smaller towns and many other markets delivering a tailored solution to help these businesses thrive. This channel's disbursement grew to INR 543 Crores compared to INR 180 Crores in the same quarter last year. This exceptional growth has been supported by additions of 74 new branches, taking our total to 224 branches across 11 states.

However, while our performance remains strong, it is important to acknowledge that the realization of our 4% ROA target has been delayed due to lower volumes, primarily driven by slower liquidity environments. Despite this, we are actively expanding at a faster pace than before, enabling us to transition to higher yielding portfolios more quickly. This strategic calibration will strengthen our profitability trajectory over the long term.

At the same time, the regulatory tightening around unsecured loans has created a perception challenge for NBFC, while co-lending volumes have temporarily declined as banks have become cautious on business loan segments. Hence, the volume in this quarter dropped to INR 372 Crores from INR 615 Crores in the previous quarter.

UGRO Capital's unsecured loan portfolio remains well anchored as these loans are guaranteed under CGTMSE, Credit Guarantee Fund Trust for Micro and Small Enterprises scheme, ensuring portfolio quality and reducing risk. We expect that most of the banks will restart the business loan segment in the current or ensuing quarter, which should bring back the volume of co-lending for UGRO.

In the interim, given expansion of our Emerging Market channel, expansion of our secured volumes are also growing, which would also compensate for a shortfall of unsecured in co-lending. Despite this, the broader market's inability to differentiate MSME lending from personal and consumption loans has posted a temporary challenge.

Despite these headwinds, UGRO Capital has maintained a stable GNPA ratio of 2.1% and net NPA of 1.5%, reflecting our disciplined underwriting practices and proactive risk management.

On the funding side, we mobilized INR 1,400 Crores this quarter, underscoring the trust we have built with a diverse lender base. While we are navigating a slow liability environment, our costs of borrowing remain flat at 10.68%. We continue to believe that our rate of borrowing is higher than our peers set of markets. Our given the volume of borrowing and RBI cycling on bank's lending to NBFC, these have not come down as envisaged. We are taking active measures to optimize it further to improve net interest margin. We believe that with continued scale of operation and good performance, our rate of borrowing would gradually start coming down as envisaged albeit at its lower pace.

Looking forward, our roadmap of achieving 4% ROA and 16%-18% of sustainable ROE includes:

1) Focusing on high-yield Emerging Market loans: Expanding this segment allows us to cater underserved MSME in semi-urban and rural markets, delivering both impact and return,

2) Optimizing funding costs: As our credit rating improves and our financial position strengthens, we see significant scope to reduce borrowing costs.

3) Leveraging economies of scale: Our scalable infrastructure ensures that fixed costs remain efficient as the AUM grows and

4) Accelerating portfolio recalibration: By expanding faster and increasing the share of high-end segments, we aim to drive profitable growth in the near term.

Additionally, our acquisition of MyShubhLife, an embedded financing platform, continues to progress well. MyShubhLife's AUM stands at INR 302 Crores as of December 2024, and it has served over 28,000 customers since we announced the acquisition, through partnership with platforms like PhonePe, FINO, Meesho, Airtel, Mobikwik, and we expect more partners to be onboarded in this quarter. With access to potential market of over 3 crore merchants, MSL is helping us adjust critical credit gap in the small retailer ecosystem.

While NBFC and microfinance sectors face scrutiny, UGRO Capital remains uniquely positioned. Our focus on MSME financing, supported by strong risk management practices, a diversified portfolio, and a strategic approach to growth ensures that we remain on a solid path of achieving our long-term goals.

As we close Q3FY25, UGRO Capital is well positioned to deliver 30% AUM growth YoY, enabling MSMEs across India to thrive. I extend my heartfelt gratitude to our team for their relentless dedication and to our investors for their trust in UGRO's vision. Together, we are building financial institutions that not only delivers value but also transforms the backbone of Indian economy, its small businesses.

Thank you, and I look forward along with my team addressing all your questions. Aman, over to you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question comes from the line of Narendra from RoboCapital. Please go ahead.

Narendra: My first question is regarding the cost to income, right? We can see that this quarter, it has inched up. So, was there any one-off in this or should we take this as the trend going ahead?

Shachindra Nath: As I said in my opening remarks, you know, it's continuously accelerating its branch infrastructure to grow because we believe that our bridge to a high ROA is a function of how quickly we can expand to our Emerging Market channels. We have added 75 plus branches. As you know, a good thing is that, our first set of 75 branches took almost 18 months to break even. Our newest set of our last 90 branches took only 8 months. That gives us the confidence that we should continue to expand our branch infrastructure and some of the OPEX increase which you are seeing is just a sheer function of that. Kishore, if you want to add something.

Kishore Lodha: Yes, that is right, Shachin. So, as we have now 214 branches in Emerging Market, this trend is not one-off. This is in the part of the plan and probably next few quarters we may, as we expand our footprint in the Emerging Market, this trend may continue for few quarters.

Narendra: So, what could be the cost-to-income in that case for this year as well as next year if you could summarize?

Kishore Lodha: This year we should end closer to 55%, 1% here and there. And next year, it should go down depending upon how next three months pan out as far as distribution is concerned. So, we will re-evaluate it in the month of March based on the distribution that how it will pan out in the next year.

Narendra: So, this INR 125 Crores of operating expenses should continue every quarter for the next 2-3 quarters at least, right?

Kishore Lodha: Yes.

Narendra: And my second question was regarding your secured and unsecured mix. So, what is our mix between secured and unsecured? And in the secured segment, what would be our LTV?

Anuj Pandey: I will take that. So, our broad intent is to keep secured-unsecured mix as around 30-70. And within the unsecured loans also now, 41% of our portfolio is covered under the Central Guarantee Scheme. And we started this exercise about one-and-a-half years back. So, every new source which we are doing for each quarter, we are covering it under the Central Guarantee Scheme. And on average, on LTVs for secured loans, we are at around 55%.

Narendra: So, your secured would be 70% and unsecured 30%, right?

Anuj Pandey: Yes.

Shachindra Nath: Yes, only caveat is that what generally markets say is unsecured. The unsecured portfolio, because it carries credit guarantee cover, which is called CGTMSE, where in 75% of outstanding loans, the credit loss on that is guaranteed by the coverage. So, the market would not treat that as unsecured. But we differentiate between collateralized loans and non-collateralized loans. So, loans which don't have any type of collateral constitute around 30-odd percent. But if you take the CGTMSE guarantee as a form of security, then an unsecured portion of our book is roughly around 18%.

Narendra: And going ahead, all the unsecured loans are going to get covered under this scheme, right?

Shachindra Nath: Yes, we try to take as much as coverage possible. We have calibrated between the cost of the guarantee versus the expected credit cost. And between the two, depending upon what the situation the market is, we take the coverage.

Narendra: And in your opening remarks, you mentioned that the 4% ROA guidance has been delayed. So, by when can we expect to reach that kind of a number, if you could throw some light?

Shachindra Nath: Yes, so I think the way we are expanding, I think our capacity is now completely getting built out. You will see that in our disbursement number. Last quarter was also our highest quarter in form of both AUM and gross disbursement. This quarter is both.

We continue to believe that our capacity built out is much larger than what we are seeing in form of the liquidity. I think that will get released now. Given that the lower growth which NBFCs are showing, bank financing to NBFCs would start reviving by within a quarter or a little later than that. And also we don't want to expand liability at an expensive cost.

Guidance is keeping that in mind was to give confidence to people and our shareholders and investor fraternity that UGRO continues to be on the path of its build-out. It is demonstrating both its capacity of origination, its infrastructure, and credit costs and credit delivery. But if the liquidity remains a little tighter or it is coming at an expensive pace, we just don't want to chase assets at any cost. And that's why this guidance.

I think it's very difficult to calibrate and give you clear guidance of when it would be. I think we are seeing around two to three quarters of delay versus what AUM we should have been versus what we are. It is showcasing at least a 2 to 3 quarter delay.

Narendra: So, the main pain point is the cost of funds. Is that right?

Shachindra Nath: And absolute liquidity which is available in the market for our size of NBFC.

Narendra: So, the sourcing of funds is a pain point, right?

Shachindra Nath: No, our last quarter was the highest quarter in terms of overall borrowing. That was the largest quarter. But the capacity of the disbursement which we have built, if we have to match, our costs of borrowing will shoot up, which we don't want. So, we have to balance between the kind of growth which we can undertake given our infrastructure versus what we would like, because ultimate final P&L is not only a function of just physical disbursement, it is also the cost of borrowing. So, that's why it is, you know, till the time the overall market liquidity and risk perception around NBFC in general doesn't change, I think it will remain a little slower.

It's nothing to do with us. We are not in microfinance. We are not in some of the consumption led loan, neither we are in PL, nor we do all of that. But overall, generally, when RBI takes action on NBFC, general perception on NBFC is lower, it impacts every player in the market.

Moderator: Thank you. The next question comes from the line of Avinash Singh from Emkay Global Financial Services Limited. Please go ahead.

Avinash Singh: Two questions. The first one is on co-origination of CLM1. That CLM1 co-origination has been very weak for the last four or five quarters. So, what is sort of an underlying reason? Is there some kind of a discomfort, the banks have or something else is playing out? So, that's one.

And second, if I come to this emerging market LAP or a small ticket LAP, what is the typical duration of these loans? This question I am asking because if I see the quarterly disbursement and the AUM accrual, the difference is to wide and suggest that every quarter 20-25% of the loan is being repaid. Because in this ticket size you will not expect much of a balance transfer, what is happening here? I mean if I see this quarter in the emerging market LAP, we have INR

543 Crores disbursement but the AUM accrual is of INR 260 Crores. That suggests out of INR 1,105 Crores that was in September, nearly 25% have been paid off in this quarter. So, what's happening here? These are my questions.

Shachindra Nath: Avinash, I will take the first question. I will request Anuj to take the second one. I am just trying to see the data which you are seeing. On the first one with respect to co-origination, so as you know, just for the broader audience perspective, there are two forms. One, co-origination as a term. In our balance sheet of INR 1,412 Crore, this is largely our business loan being done with the larger NBFCs and other form of co-lending and co-origination, what you can do with banks. Banks typically continued to do co-lending, which is option to a co-lending, which is akin to DA, which means we onboard the customer on our balance sheet and on T+3 or 5 days that goes into the co-lending and gets, you know, 80% of that loan get transferred to the bank and we get to the refinancing with that.

With respect to co-origination, earlier the business loan as a segment was not being accepted within the bank because there was no credit guarantee. Once the credit guarantee came, all banks started doing co-lending on business loan and that's why our volume in relation to most of the large NBFC stopped and that volume moved to the bank and that's why there is a drop and that increased the co-lending volume for the banks per se.

In last two quarters, what we have seen, general this perception around so-called unsecured, co-lending volume in the banks have also now slowed down. We have gone to all the banks and explained that unsecured consumption in PL is not an unsecured MSME loan because banks generally do unsecure. I think most of the banks have understood. DFS has also taken a note of that, and there are a lot of industry-wide consultation is happening. And we expect that some of these banks would restart the business loan segment, and one of the largest banks or large banks in the country is starting the business loan segment, so it would restart. So, that's broadly the color why you see drop in co-origination happening, because that volume got subsumed in banks. Bank's volume has come down because they want to do only secured. But as both would pick up, if we see a systematic change of banks not wanting to do unsecured or business loan segment, then we will reinitiate the co-lending, co-ordination with other NBFCs.

The second part is, as Anuj said, we want to keep only 30% of our balance sheet at an AUM level, non-collateralized loan. Once we acquired MyShubhLife, the volume delivery there on embedded financing all of a sudden accelerated. So, last quarter itself, we did INR 300-odd Crores. And we were doing roughly around 225 crores of business loans. Put together, that would have become 50% of our disbursement volume. So, we naturally brought down our business loan segment to now INR 100-odd Crore, so that unbalanced on AUM basis, we continue to remain within 30%. The entire embedded financing piece, which is coming from our fintech MyShubhLife, cannot be co-originated or co-lend because that is a short-tenure, one-year loan to be repaid on a daily EMI basis through payment platform aggregation. So, that's why you will see over a period of time business loan to remain mostly through embedded financing on balance sheet and not go in co-lending format. We would replace that with more secured volume which is now happening because of the large expansion. I hope we have explained the real picture.

Anuj Pandey: Hi, Avinash. So, our average tenures in our emerging market product is about 7 to 8 years. But what we have tried is also to introduce our Sanjeevni bigger ticket loans in these markets. So, that is why a little bit of confusion has happened in terms of AUM increase. So, while in the investor deck, the Emerging Market LAP product is the product up to INR 25 lakhs ticket size.

So, while we have done INR 543 Crores from the emerging market channel, some of it is larger tickets also, which is what we wanted to plan and that is a strategy because in Tier 3, Tier 4, Tier 5 towns, there is an opportunity to do slightly bigger tickets, there is lesser competition and we have the underwriting where with all to do that. So, out of that INR 543 Crore, whatever is relevant for Emerging Market, less than 25 lakh, that is being reflected in the Emerging Market AUM, rest is in Sanjeevni product AUM. There is no gap in the sense that whatever we disbursed has not translated into AUM. It's just that it is shown into two different products.

Shachindra Nath: Yes, I think we should change the disclosure going forward.

Anuj Pandey: Yes, we will change that going forward.

Moderator: Thank you. The next question comes from the line of Ganesh from Bharat Bet Research. Please go ahead.

Ganesh: My question is regarding our machinery loan segment. We seem to be growing quite well in this segment and the broader asset quality for this is also quite positive. So, going forward, how are we looking at it in terms of opportunities here? And is there a possibility of expanding our presence in this segment further?

Shachindra Nath: We continue to believe that productive asset financing, we call machinery as a productive asset. Mainline lenders have not yet captured this opportunity fairly well. Our core of our underwriting is to do cash flow analysis through our data analytics platform by analyzing GST, banking and bureau, create eligibility. Underlying collateral defines the tenure and the price. Machinery, CNC, printing, packaging, plastic molding machine, is a productive asset and has its own cash flow. So, when you add in the cash assessment method, the cash flow of the machinery, it becomes very viable product. It is a shorter tenure and a reasonable yield, more or less at a secured deal. And that's why the portfolio has performed very well. We would like it to be expanded further. We are doing average of around INR 75 Crore a month. Our target was to take it to INR 150-odd Crores. What we are seeing is that we have worked with roughly around 75 plus OEMs in India. What we are seeing is that expansion of the volume over here either would require expanding the ticket size or reducing the average cost of lending. Both we don't want to. And that's why we are taking very deep, calibrated effort to gradually increase the size and deepen our penetration. We have taken two steps, one of which is successful and one of which is not so successful. In our Intermediate Prime channel, for the first time in India, we introduced machinery to all our intermediary partners, which we call DSAs, and we have seen around INR 25-30 Crore of volume started happening there. It's a new product. Most of the DSAs in India either do unsecured loan or do LAP. For them to do machinery was a new concept, but we marketed and they have now understood. And we are becoming reasonably successful there. We also have expanded our machinery product to all of our Emerging Market branches, where we did not see so much of reasonable success because for our credit officer and credit fraternity to also learn because they have just learnt from doing small ticket LAPs to now big-ticket LAPs and now also graduate immediately to machinery was not very successful. We are making constant effort to monetize the entire branch channel and multi-channel network to adapt machinery as a product. We are hoping that by end of this last quarter, the INR 75 Crore to INR 80 Crore of average volume takes this one plus milestone of INR 100 Crore, and next year, we take it and stabilize it at around INR 150 to INR 175 Crore per month. So, short answer is, this is an extremely good product. We have seen its acceptability across all our Co-lending partners with the bank. It is very good credit quality. It is a reasonable use and shorter tenure. We would like to expand it but not by increasing the ticket size or lowering the yield. So, within the same band of three-and-a-half years of tenure and INR 35 lakhs of average ticket size with an average yield of 14 odd percent, we will gradually increase it by expanding to our entire network.

Ganesh: And just the second question, on our Slide #27, which is the gross score risk band. Over there, if we look at the risk band B, the divergence between the disbursed and the non-disbursed defaults is quite high. So, just wanted to check, in addition to this score, what is driving the decision-making between disbursal and non-disbursal because that is quite a material gap that we have identified? So, if you could just provide some color on that.

Anuj Pandey: There are a variety of other drivers. We don't disburse a case unless we meet the customer. So, we use Gro score as our primary filter and then other policy parameters, which would mean doing reference checks of the customer, calculating his eligibility, kind of property, because property is not covered in the Gro score, etc. are part of the other reject reasons. But the way the gap is, it actually tells us that the Gro score is stacking quite well.

Moderator: Thank you. The next question comes from the line of Anil Tulsiram from ContrarianValue Edge. Please go ahead.

Anil Tulsiram: My first question is on your Emerging Market loans, which is a small LAP of INR 10 to 15 lakhs. I think the most important thing here is collections and legal infrastructure. So, can you elaborate how you are ensuring that now that our branches are expanding at a rapid pace for the last 18 months, we are ahead in forming collection infrastructure and the legal team?

Anuj Pandey: We have a very exhaustive collection and litigation infrastructure dedicated to Emerging Markets. So, today we have about 210 active branches and about 250 people in collections dedicated to these branches. The way this happens is a set of five branches combined into a cluster and set of three to four clusters combined into a state and states combined into a region. For each of these, we have a collection fraternity and a collection supervising channel. Also, for each set of 5 to 10 branches, we have a dedicated litigation domain expert whose only job is to execute the litigation orders which we get. So, we are quite aware of this and have invested a lot on this.

Anil Tulsiram: And Sir, the second question is on Co-lending. So, just give me one or two minutes to explain the concerns. I have spoken to a few industry experts and according to them, what's happening in the industry, I am talking about industry, not UGRO. Proper risk sharing is not happening in the Co-lending industry, wherein the small players are being forced to replace the bad assets with good assets by the big banks. Secondly, banks are hesitant to enter into Co-lending because of micro-supervision by the RBI, wherein for any default of even NBFCs, they fear that they will be held responsible and they may face sanctions or other things. And you are part of this Co-lending committee which has been formed. So, what are the steps being taken for these concerns which is slowing down the industry growth?

Shachindra Nath: So, this would be a very long answer. For the benefit of you, I will try to summarize it. Number one, banks and regulators both, and especially the Government of India, all of them are aligned to the fact that for priority sector lending, NBFCs are well poised to demonstrate the credit or disseminate the credit and that's why banks are eager to participate further. And there is no doubt about it. Second, the process of Co-lending has become more robust as the passing of the day. In fact, in last quarter, we took a large number of public market investors to multiple banks to showcase how Co-lending happen. Third, within different banks, they also understand that the Co-lending is more return-accretive than their own direct channel, because at an average banking advance yield is around 9.5%, return on asset is 1.5%. Even adjusted for credit costs, co-lending actually delivers them superior return on asset. Last but not least, temporarily, when RBI said that unsecured business should be brought down, A lot of banks became nervous and gone slow on the unsecured piece of the Co-lending. But they are coming back. We are understanding that unsecured business, which is 75% credit guaranteed, is not unsecured. They, in their business, are lending to a MSME without any collateral. Last but not least, there are three types of NBFC which play the market. One, large AAA NBFCs and AA NBFCs, most of them are on balance sheet leverage players because they continue to get liquidity at a cheaper cost and Co-lending being very hard to execute, they don't get interested. Some of them, I won't name on the conference call, but some of them started and then stopped because they found it very cumbersome. Second is the peer set, which is A-rated NBFC universe. 5-7 of us, which are in the A-rating universe, continue to do fairly well when it comes to the Co-lending and that's why we have a very disproportionate market share on MSME Co-lending side. Last but not least, there are large number of players which are in the range of, say, BBB- to BBB+, banks continue to find it very discomforting to do Co-lending with very small NBFC which doesn't have power of the capital, they don't have their own balance sheet. Rightfully or wrongfully, ideally the bottom of the pyramid credit which is done by these NBFCs should be adopted by the bank, but it would happen only over a period of time.

In summary, I think the co-lending, and I am not at liberty to tell you what has been the recommendation of the committee which was set up by DFS, but in summary, all of the recommendations and the consensus was Co-lending is here to stay. It needs to be strengthened. The operational hassle needs to be removed. More technology integration should be done and there should be more support and more widespread adoption of co-lending should happen within the banks.

Moderator: Thank you. The next question comes from the line of Amit from RoboCapital. Please go ahead.

Amit: My first question is on the Emerging Markets branch channel. Just wanted to know, like, how is the typical branch? What is the size of the branch? How many employees are in the branch? And what type of AUM do we need to break even? What type of products are being done from the branch? Just some high-level overview of the branch network.

Amit Mande: So, your question, every branch today has a branch manager, about 6 sales officers, a credit manager, an operations manager, and a collections manager. So, it's a typically 11-member branch, and the collections guy comes in month, too. So, the overall operating cost of a branch is anywhere between, depending upon the city, which also includes rentals and salaries and incentives is about INR 4 - 4.5 lakh. This is the monthly operating cost. So, the moment our AUMs touch about INR 5 Crores, operationally the branch break even, and they would be accretive going forward. So that's the back of the thumb unit dynamics for the branch.

Shachindra Nath: I think most importantly, the Emerging Market channel, it requires a level of hierarchy. Every 5 branches have a cluster credit and cluster sales. Every set of few clusters have then regional geography and then it rolls into state. And then it is divided into south and west. We are the only small-ticket LAP business or Emerging Market business which is pan-India.

Most of our peer set either are south focused or north focused. We are very prominently present in Tamil Nadu, Telangana, Karnataka, Andhra in South. And now we are very strongly present originally in Rajasthan, Gujarat. And now we have expanded into UP, MP and Maharashtra.

So, we have invested both in the branch infrastructure but also hierarchy infrastructure. And we are using our learning of our data technology and how data can be used to do credit. These branches, as of today, do small ticket LAPs, which is up to INR 25 lakhs, and select branches, roughly around 50% of our branches, now we have trained them to do also larger ticket LAPs, up to INR 1 crore. Average ticket size is coming around INR 40-50 lakhs. Over a period of time, while we have rolled out both machinery and rooftop solar, we have not seen uptick because we have to train people to understand how to underwrite credit on rooftop solar and machinery. But our eventual goal is also to do that. Last but not least, our channel infrastructure growth also helps us indirectly in two of our additional businesses. So, for example, in our embedded financing business, we are in India's largest payment platform are now integrated with us through our fintech platform, MyShubLife. We have the capacity to do merchant financing in almost 3,000 plus pin code because of our 200 plus physical location. Same way, our partnership analysis, wherein we partner with smaller NBFC and fintech, there also we can underwrite loans into all the physical geography we are expanding. So, there is a direct benefit to UGRO of expanding our branch network. But there is also an indirect benefit that some of our channels, we can underwrite businesses where others can't go because they don't have that much of physical presence.

Amit: So, we are not doing any unsecured from the branches. Is my understanding correct?

Shachindra Nath: We are not, but we believe that out of our total location, we have around 50 to 65 or 75 locations, wherein there is a potential to do high-quality business loans. As you know, we have been doing business loans which is under credit guarantee. We have done a volume of around an average of INR 200-odd Crores, which we have brought it down to INR 100 Crores. We are seeing the trend that between the two markets, prime market of 40-50 cities in India, and Emerging Market, the credit quality in emerging market is far superior.

So, we are doing a little bit of experiment of also doing business loan in some select branches where we see maturity of our credit clusters, credit fraternity and sales fraternity. But this would not be a mainstay of our business. Our mainstay of our Emerging Market business would continue to be a secured LAP business.

Amit: And just a follow up on that. So, the business loans that we are doing, so those are from DSA in that case, right? Those are the DSA channels.

Shachindra Nath: Mostly, yes.

Amit: So, those would be what type? I mean, those would be working capital type of loans and what would be the end use of those loans?

Amit Mande: You are right. Largely working capital or other business needs. These are short-tenure loans between 24 to 36 months and up to INR 50 lakh. So, you are right. They are largely for working capital or inventory stocking up, etc.

Shachindra Nath: We move to the next question. But I would only urge you, Sir, and also the broader market. You have to differentiate between an unsecured loan for a consumption, buying fridge, TV, scooter, a personal loan to invest, for example, in a cryptocurrency versus a business loan for a small business, which is done on the basis of a cash flow and guaranteed by CGTMSE.

The entire focus of MSME financing in India, the government focus, the regulator focus, is to move MSMEs to cash flow-based underwriting and most of these business loans, which is done for short tenures, are done through the help of GST, banking, cash flow in the banking, and completely automated. And we have seen very steady credit costs of around 2.5% across our portfolio. But also, given that there is no collateral, we keep it under control in terms of the total volume of our balance sheet.

Amit: Yes, that's what I was trying to get to. Thanks for this. It was really useful.

Moderator: Thank you. The next question comes from the line of Kamal, an individual investor. Please go ahead.

Kamal: I would like to hear a bit more about your long-term moat. I am assuming that this is mainly data-driven lending. How central is technology to your data-driven lending? In other words, what would be the tangible impact to your AUM growth or to your NPAs if you completely removed technology-driven lending?

Shachindra Nath: Yes, the cost-to-income ratio would go up significantly and our credit costs would go up significantly. Our core belief that, like it has happened in consumer financing space, if you look at pre-2008 of consumer financing and post-2008 of consumer financing, consumer financing in India expanded on the power of consumption-driven data demand, self-employed population growing and your ability to do cash flow underwriting basis bureau score has not exploded the consumer financing market.

We continue to believe the advent of the GST, digitization of banking, maturity of bureau, would continue to explode credit. It is not for the purpose of the origination of the loan, but it is making our credit and sale fraternity more productive and our credit costs more predictable. We cannot create a scale and size without continuously investing in our data analytics and our IT and technology infrastructure.

Kamal: And just a quick follow-up. Is that the only long-term moat that UGRO has? Or do you also seem to have different modes which would differentiate you from other NBFCs of the kind?

Shachindra Nath: Yes, so I think within MSME space, number one, we continue to believe that MSME market gives a significant opportunity to create a very scaled business in India. India's credit market gap on MSME financing is humongous. There has to be multiple players which have to step up and there is the opportunity to build very scalable business. That scalable business, our moat continues to be to underwrite customer and understand the cash flow through the lens of data.

Second, we are the only player in the country which has a diversified asset channel and a focus on one customer segment which is INR 15 lakh to INR 15 crore turnover where we have the ability to do a loan of INR 5 lakhs to up to INR 5 crores. We have the ability to understand multiple types of collateral. We do against self-occupied residential property, industrial, commercial property. We do machinery. We do rooftop solar. We do embedded financing. So, our distribution and its velocity is the second moat.

And third is our liability in them, which is very diverse and deep. We are not just an on-balance sheet borrower. But we have an ability to partner with very large banks and adjust our both distribution and credit to fit into that, that allows us to scale. So, the combination of these three, we think so, continues to be fairly unique. Time would tell whether what scale, size, profitability, and how we become the top-rung NBFC across multiple product lines.

Moderator: Thank you. The next question comes from the line of Rishi, an individual investor. Please go ahead.

Rishi: So, I just have a couple of questions. One on the CGTMSE scheme. So, I am not completely aware of what it covers and what it doesn't cover. So, earlier in the call, you mentioned that it covers 75% guarantee. So, I just want to understand what does the GNPA that you currently have allocated to that means? Does that take into account the 75% or do you consider it as completely unsecured and you have provisioned 3.8%, which is about INR 120 Crores? I think that's about half of all the provisions that you currently have on the GNPA. So, if you could just explain around that would be helpful.

Anuj Pandey: So, there are actually a couple of schemes from the Central government where SIDBI is the facilitator, which are targeted to encourage sourcing for micro and small customers. The most popular and the largest one is called CGTMSE, where we are also part of that. What it does is it arrives, it studies the portfolio of the company and it arrives at a premium amount. And you pay that as a yearly premium for the portfolio which you cover, which is approximately 1% of the total portfolio size and for the duration of the loan, you keep paying this premium. And whenever an NPA happens, you can raise a claim. Typically, the claim which you can do in a particular year is two times of the premium paid.

So, we have been a member of this and have been covering our unsecured loans for last one-and-a-half years every quarter through this scheme. What you see as NPA, as a good accounting practice, we keep showing the account as a NPA till the time we receive the claim from CGTMSE. What CGTMSE policy does is, it guarantees 75% of the principal outstanding. So, for example, if INR 100 of loan is covered and it is covered under the guarantee scheme, then at the end of the, after it becomes NPA and the documentation and the normal operational paperwork is completed, then INR 75 of that government reimburses as part of the plan. So, till the time we get that, we continue to show that as an NPA.

Rishi: So, a lot of, I mean, a part of it is expected to roll back into this.

Anuj Pandey: Yes, by next year.

Rishi: And one other thing that I wanted to ask, I mean, this is more from a global perspective of how you see the business evolving. So, I understand that the intention is to grow AUM at about 30%. And I mean, in general, if the return on equity is our target return on equity, I think it's about 18%. So, any lending that you do above the 18% is going to come from additional equity raised unless you want to change the leverage, which I believe that at the two-year mark, which we have been talking about, where our current committed equity is about INR 2,800 Crore plus-minus net profit, it's probably going to be about INR 3,000 Crores. And on-book AUM would be about roughly, with the leverage, probably about INR 12,000 Crores and off-book, at the current ratio, should be about INR 9,000 Crores. So, beyond the 21,000 AUM mark, if the company is still interested in sort of building an AUM at 30% on rate, if the market's feedback on the share price is not commensurate with the ROE and the ROA, will the company consider only growing at the return on equity rate? I hope the question is clear because my question is basically dilution of shareholders?

Shachindra Nath: Yes. On lending institutions, except few deep south of the three south players, except one, most of the lending and banks, one of the reasons why RBI guides banks to not grow beyond 15% because RBI wants banks to grow lower than their ROE performance so that they are not stuck in the incremental capital requirement and they grow out of their retained earnings. Most of the NBFCs, including the biggest one in India, grow at a rate higher than ROE performance. The only caveat being there is equity markets. They give them a pricing power which allows them to dilute further and which is accretive to the shareholders. If we continue to perform the way we are performing, which means on all metrics we deliver, but it does not get reflected into the share price, then which is something which is beyond our control, we would no choice but to go at a lower pace because we cannot grow at 30% because we would need more capital. And more capital cannot come when your share price performance is not there, and your existing shareholder would not allow you to value further.

So, I hope the answer is right. We are hopeful that would not remain the case because there is no logical answer why a company, we continue to believe that this is just an inward market cycle, wherein all of the investors are coloring all NBFC in one brush, and that's why not rewarding NBFC which are different than microfinance and some other players in the market. But as the things get normalized curve, pricing should get normalized and allow us to raise more capital at a much better pricing than what it is today.

Rishi: No, absolutely, Mr. Nath. I think I understand that point. Because, I mean, I just wanted to understand that whether the management was on the same page because other companies that I have invested in, the management worries more about the business. Here, I understand that you hold a substantial part of your net worth in the company. So, I am expecting that it will be shareholder friendly as well.

Shachindra Nath: Of course.

Rishi: Another question is just on the portfolio makeup. So, the diversification based on the different secured and the different products that we have has obviously given us a much better profile in terms of risk when we see the microfinance institutions showing better ROE but huge provisions these past few quarters. But on a global front, it looks like the company is more like an index of individually concentrated NBFCs. Would that be right to say?

Shachindra Nath: Yes, your analysis is quite correct. I think that within NBFC space, we have four different types of diverse offerings which different NBFCs provide for. And we are in the aggregation of all four for reasons which explained by me earlier. So, there is a Prime Business channel, which actually big players, which are AAA NBFC undertake. There is an Emerging Market business with three or four NBFC undertake.

We are little upper ticket size. There is a machinery and productive asset business. There are two, three players in that. And there is a high fintech orientation on our embedded financing platform. We have aggregated these four businesses in one company because we think that over a longer period of time, to serve a customer, this is the best way to do it. And at its scale, all of these have a point of confidence, and you can benefit from each other channel very well. And also, it reduces the risk to some extent while giving you the operating leverage. So, you have got it very right. We continue to believe that.

Rishi: My only concern is that it takes a very long time to understand this, and I hope the market understands and appreciates the company. I mean, it's very similar to HDFC Bank as opposed to commercial banks or only retail banks. I mean, so it's a great model, but I hope in the long run, the market appreciates that.

Shachindra Nath: Sir, I can only say that we are constantly trying to explain. We have failed in that to some extent. We will double up on our effort to convince people of what we are doing is best for creation of an institution. And hope that once the abrasion in market goes away and people look at it on a normalized curve, this will bounce back very quickly.

Moderator: Thank you. The next question comes from the line of Hari Prasad from Claypond Capital. Please go ahead.

Hari Prasad: I just wanted to check what would be the branch level profitability that we are talking about, given that we have incurred significant OPEX on the back of new branch addition. And could you give us some guidance on the profitability going forward as well?

Shachindra Nath: Yes, we will do it very quickly. So, obviously, those OPEX are all in the numbers which you are seeing. For our emerging market branch, a branch at a broad disbursement of a monthly volume of 1 crore and an AUM of 5 crore, not only breaks even, but becomes fairly positively ROA accretive. Out of our total block, we have 90 branches, which are new branches and come in the last two quarters, are yet to reach that mark. Rest of our branches are in the positive territory, while we are adding 100 more branches.

So, over a period of being established at 400 odd locations, I think in three quarters from now, all of our locations would be positive-accretive. And then we will take a halt and we will make sure that the end result of all 400 locations comes into the positive territory. We can take that and give you some more color on this on a separate call if required.

Hari Prasad: Can you help us understand a little or can you share some commentary on the other expenses as well, which have gone from 38 crores in Q3FY24 to approximately 59 crores in Q3FY25?

Shachindra Nath: Sorry, I didn't get the question. Anuj, if you have got the question, if you can take that.

Anuj Pandey: No, I also missed that. Can you please repeat?

Kishore Lodha: There are multiple components to it. One is purely a function of higher disbursement. There are certain costs which come along with the disbursement. With the increase in disbursement, the costs come. That is one part of it.

Second part of this expense would be the GST expenses. Because as an NBFC, as a business grows, we are supposed to get only 50% of the input credit and 50% is charged up to the P&L. Some portion of it belongs to that as well.

Third component is that as we are talking about a lot in CGTMSE, it costs us 1% of the portfolio secured. And we write it off over a period of 12 months because the coverage is for 12 months. So, the third component which is related to CGTMSE cost.

And fourth one is inflation, where normally all costs are getting inflated to the extent of normal market, 6-7% inflation.

And fifth one is the branch expansion.

So all put together, 38 crore has become 58 crore. It is not a function of one of these.

Moderator: Thank you. The next question comes from the line of Meghna from InCred Equities. Please go ahead.

Meghna: I just had a couple of questions. I had a question on the yield. The net yield and the gross yield, the difference between the two and the movement in the quarter.

Kishore Lodha: Meghna, if you look at the yield, it is, yield remains flattish to 16.7%. And this quarter, there is some uptick on the gross yield, which is 18.2%. It is largely because some, as Shachin and Anuj explained earlier, that we have partnered on some embedded finance side this time where the gross yields are higher, but our margins would be to the extent we have agreed with the partner. So that divergence is on account of that.

While we have been talking about that our emerging market portfolio is expanding, which is higher yielding, however, there has been some competitive pressures on the other channels, especially on the larger ticket LAP and machinery financing, where Some pressure has been on the pricing. That is why despite Emerging Market going up, this overall yield remains flattish for one or two quarters. However, as the mix would go up significantly from the emerging market, this trend will change and the yield is likely to go up.

Meghna: Just one more question is on the yield. The net yield would be net of? what is the difference between gross yield and net yield?

Kishore Lodha: Net of the partners here. So, wherever we have partners who are originating for us, some portion of the yield, they would take away. Some smaller NBFCs are originating for us. Similarly, in embedded finance, there are partners like PhonePe, BharatPe and others, Meesho, etc. would be originating for us. And they would be taking a share of the yield as part of the arrangement. And so whatever is going to the partner is the difference between the gross yield and the net yield.

Meghna: And I had two more questions. One is on a broader segment, are you seeing any asset quality stress coming up in any segment? Or is it stable? And the second question I had is, on the other OPEX, as you mentioned, do you see the current run rate to be carried forward for the next few quarters at 48 crores or should it move?

Anuj Pandey: So, on the asset side, from early portfolio indicators, there is nothing specific which we have seen. But from our acquisition engine, we do see a little more on decline by machine, primarily owing to customers, bureaus getting stressed, getting a little bit of over leverage, and the turnovers dipping. But those have not yet reflected on the portfolio, and I don't think they will get reflected. But from our acquisition perspective, approval rates will go down a little.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Aman Vishwakarma for his closing comments.

Aman Vishwakarma: Thank you. On behalf of PhillipCapital Private Client Group, we thank all the participants for your valuable time, and especially the entire team of UGRO Capital for letting us host this call. And for the closing comments, I would now hand the call over to the management. Over to you, sir. Thank you.

Shachindra Nath: I was saying thank you so much for everyone attending this call. Our team, Head of Investor Relations lead Ritu and her team would be very happy to answer any further questions. Thanks PhillipCapital for hosting this call. Have a very good day. Thank you.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.
