10th March 2025

**BSE Limited**
**Phiroze Jeejeebhoy Towers,**
**Dalal Street, Mumbai- 400001**

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

**Scrip code: 511742**

**Symbol: UGROCAP**

**Sub: Credit Rating - Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that India Ratings & Research Pvt. Ltd, credit rating agency, has issued a press release, dated 10th March 2025 in relation to the credit rating assigned/affirmed to the below mentioned instruments of the Company:

| Instrument | Previous Amount (Rs. in million) | Previous rating | Current Amount (Rs. in million) | Current Rating |
|---|---|---|---|---|
| Non-Convertible Debentures | 12,750 | IND A+/Stable (Affirmed) | 16,750 | IND A+/Stable (Affirmed) |
| | 4,000 | IND A+/Stable (Assigned) | | |
| Bank Loans | 26,000 | IND A+/Stable (Affirmed) | 31,000 | IND A+/Stable (Affirmed) |
| | 5,000 | IND A+/Stable (Assigned) | | |
| Subordinated Debt | 500 | IND A+/Stable (Affirmed) | 500 | IND A+/Stable (Affirmed) |
| | | | 2000 | IND A+/Stable (Assigned) |
| Commercial Papers | 3,000 | IND A1+ (Affirmed) | 3,000 | IND A1+ (Affirmed) |

The press release issued by India Ratings & Research is enclosed herewith.

This is for your information and records.

Thanking you,
**For UGRO Capital Limited**

Satish Kumar Chelladurai
Digitally signed by Satish Kumar Chelladurai
Date: 2025.03.10 16:34:22 +05'30'

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

**UGRO CAPITAL LIMITED**

**Registered Office Address**: Equinox Business Park, Tower 3, 4th Floor, LBS Road, Kurla (West), Mumbai - 400070
**CIN**: L67120MH1993PLC070739
**Telephone**: +91 22 41821600 I **E-mail**: info@ugrocapital.com I **Website**: www.ugrocapital.com

India Ratings & Research
A Fitch Group Company

# India Ratings Affirms UGRO Capital's NCDs at 'IND A+'/Stable and CP at 'IND A1+'; Rates Additional Subordinated Debt

Mar 10, 2025 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has taken the following rating actions on UGRO Capital Limited's (UGRO) debt instruments:

## Details of Instruments

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating Assigned along with Outlook/Watch | Rating Action |
|---|---|---|---|---|---|---|
| Commercial paper | - | | 7-365 days | INR3,000 | IND A1+ | Affirmed |
| Subordinated debt# | - | | - | INR500 | IND A+/Stable | Affirmed |
| Bank loan | - | | - | INR31,000 | IND A+/Stable | Affirmed |
| Non-convertible debenture# | - | | - | INR16,750 | IND A+/Stable | Affirmed |
| Subordinated debt# | - | | - | INR2,000 | IND A+/Stable | Assigned |

#Details in annexure

## Analytical Approach

Ind-Ra continues to take a standalone view of UGRO to arrive at the ratings.

## Detailed Rationale of the Rating Action

The affirmation reflects the continued growth in UGRO's franchise in 9MFY24, along with the raising of capital, providing visibility on future growth plans. The ratings also reflect the diversified funding with a healthy share of funding from banks and development financial institutions in the overall borrowing mix, the wide product offerings for micro, small and medium enterprises (MSMEs), and its geographic and end-segment diversification. Ind-Ra has also factored in UGRO's adequate liquidity and capital base, modest leverage ratio, plan to keep augmenting capital buffers to support the growing franchise, and the presence of marquee investors. The ratings also factor in the moderate seasoning in the book, as nearly 61.2% of the assets under management (AUM) were generated over the 12 months ended December 2024.

## List of Key Rating Drivers

**Strengths**
- Strong growth in franchise
- Adequate capital buffers
- Focused on funding MSMEs; geographically and sectorally diversified exposure across MSME value chain
- Enablers in place to drive franchise expansion
- Targeting strong off-balance growth
- Diversified funding mix and lender base

**Weaknesses**
-Limited track record; asset quality seasoning needs to be established
- Moderate profitability, but improvement likely once operational leverage picks up

## Detailed Description of Key Rating Drivers

**Strong Growth in Franchise:** UGRO'S AUM grew multi-fold to INR110.6 billion at end-3QFY25 from INR13.2 billion at end-FY21, largely driven by its off-book AUM, which grew to INR49.0 billion from just INR0.11 billion over the same period. The on-book AUM also grew at a CAGR of nearly 58% during the same period. UGRO has 12 co-lending and co-origination partnerships, of which six are public sector banks. It also has a partnership with fintech companies, which act as business correspondent partners for the company. The company also witnessed strong build-up in its capacity between FY21 and 3QFY25, with the branch count rising to 224 from 25. Of this, only 23 are prime branches, while 201 are micro branches. The company plans to increase its branch count to 250, with an emphasis on increasing micro branches.

**Adequate Capital Buffers:** UGRO has a demonstrated track record of capital raising. In 1QFY24, the company raised INR3.4 billion. In addition, UGRO has approved a capital raise of INR12.7 billion through compulsory convertible debentures and a warrant issuance of INR2.58 billion and INR10.07 billion, respectively. While INR5.10 billion of the total capital raise of INR12.7 billion was exercised in 1QFY25, the rest will come in over 18 months from the issuance date. UGRO has built adequate capital buffers with a capital base of INR19.98 billion at 9MFYE25 (FYE24: INR 14.4 billion; FYE23: INR9.8 billion; FYE22: INR9.7 billion; FYE21: INR9.5 billion), and a capital adequacy ratio of 21.5% (20.75%; 20.2%; 33.61%; 65.15%).. The agency believes the current capital would be adequate to support growth over the next six-to-eight quarters. That said, UGRO targets to keep its leverage within 4.0x and cap its unsecured business loan exposure at 30% (excluding the exposure that is backed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)). The agency believes that this is required as the borrowing segment that it caters to is highly susceptible to economic slowdowns and has been associated with high credit costs in the past.

**Focused on Funding MSMEs; Geographically and Sectorally Diversified Exposure across MSME Value Chain:** UGRO is a non-banking financial company focused on providing funding across the MSME segment – secured against property as collateral, funding for purchase of machinery, supply chain financing and unsecured business loans. The average ticket size of the products ranges between INR0.5 million and INR9.5 million with an upper cap of INR50 million for secured products and INR5 million for unsecured business loans. Since coming into existence in 2019, the entity has built an AUM of INR110.6 billion despite being impacted by the COVID-19 pandemic for a large part of this period. Furthermore, the entity operates out of 224 branches (23 prime and rest for micro enterprises) across nine Indian states. Its customers are spread across 31 states and union territories with none of the state accounting for more than 15% of the AUM. Furthermore, the AUM is diversified across 10 key sectors with the largest end-segment constituting 24% of the AUM. The agency opines the product, geography and end-segment diversification bodes well for UGRO, given the volatility that the customer segment is known to face through economic cycles.

UGRO has re-calibrated its strategy with a focus on growing high-yielding products. It plans to expand its micro loans reach by adding additional micro branches. In supply chain financing, the focus is now on running down the old book, which had exposure mainly to wholesaler distributor/dealers, and UGRO intends to target retailers henceforth. The entity has undertaken this shift mainly to improve its margins. The company also wants to grow the share of the unsecured business segment, but this exposure will be backed by CGTMSE. At 9MFYE25, 41% of the unsecured business segment was covered with CGTMSE, and UGRO intends to roll it out to the entire segment. Ind-Ra opines the focus on improving profitability is a step in the right direction for UGRO, but the asset quality trend of this new portfolio will be a key monitorable.

**Enablers in Place to Drive Franchise Expansion:** UGRO has invested in technology infrastructure, data analytics, human resources, and systems and processes to expand its franchisee over the near-to-medium term. It follows a blend of physical and digital framework for sourcing, underwriting, disbursements and collections. UGRO uses a high-tech model, wherein customers are sourced through its branch network, direct sales agents, anchors for dealer financing, original equipment manufacturers, co-origination partners and digital channel. The company has developed a platform for lending and monitoring, which has a fully automated workflow and requires limited manual intervention. On the underwriting side, the company uses a data science-based credit decisioning model, which underwrites loan proposals using bureau data, banking data, and goods and services tax data.

To further accelerate its digital journey, UGRO acquired MyShubhLife (MSL), an embedded finance fintech platform and intends to target the high-yielding retailer financing segment through the platform. The company disbursed INR3.4 billion through the MSL platform during 3QFY25, leading to an AUM of INR3.0 billion. It plans to build an AUM of INR15 billion and generate a profit after tax of INR1 billion over the next three years through the MSL platform.

**Targeting Strong Off-Balance Sheet Growth:** UGRO has been targeting strong growth in capital-light off-balance sheet products by increasing its lending under the co-lending, co-origination and direct assignment segments. The combined share of these segments in the AUM grew sharply to 44% in 9MFY25 from 16% in FY22, even as the AUM grew over 3.0x to INR110.6 billion over the same period. Along with being less strenuous on the capital buffers, off-book growth has also been providing a steady source of income to UGRO. Ind-Ra opines banks, particularly public sector banks, have become more amenable to taking on assets on their balance sheet under the co-lending route as it helps them build a granular book, while operational contours are left to the partner to manage. Furthermore, through this route, banks are able to lend directly to small-ticket customers under these arrangements rather than lending directly to non-banking financial companies. The effectiveness of the model, however, is yet to be established, given the low seasoning and credit costs, which need to stabilise over a larger scale. This remains a key monitorable.

**Diversified Funding Mix and Lender Base:** UGRO has mobilised funds from 59 financiers, including some of the largest public sector and private sector banks. Term loans from banks, small finance banks, non-banking financial companies and financial institutions accounted for 32.6%, 3.30%, 7.97% and 7.51%, respectively, of the total borrowings at end-December 2024, with working capital loans constituting another 4.41%. NCDs and market-linked debentures constituted 24.32% and 1.24%, respectively, of the total borrowings in 9MFY25, CPs for 3.26% and external commercial borrowings for 15.4%. Given the scale at which UGRO operates, the number of lending relations is adequate, and the liability mix is diversified. UGRO's focus on co-lending with 12 partners also acts as an additional source of fund raising. Also, with huge funding requirements to support its growth, UGRO consolidated its lender mix to 59 at 3QFYE25 (FYE24: 57; FYE23: 66); this has helped it to deepen its relationships with the existing lenders.

**Limited Track Record; Asset Quality Seasoning Needs to be Established:** UGRO began operations in 2018 and has built an AUM of INR110.6 billion since then. While UGRO's portfolio has been witnessing strong growth, the franchise size remains at a medium level. Also, the seasoning in the portfolio is low, as nearly 61% of AUM was generated in the 12 months ended December 2024.

UGRO's gross stage 3 stood at 2.1% in 3QFY25 (FY24: 2.0%; FY23: 1.6%), with credit costs of 2.9% (on on-book AUM). However, on a one-year lagged basis, the gross NPA remained elevated at 5.2% in 3QFY25. Also, the gross stage 3 provisions coverage was 47% in 3QFY25 (FY24: 48%; FY23: 49%), with total provisions at 1.0% of the AUM. In terms of the restructured portfolio, the book remains small, with an outstanding restructured book accounting for 0.2% of the AUM at 3QFYE25, of which most is secured. However, given the limited seasoning of its business verticals, Ind-Ra believes control over softer bucket migration needs to be actively monitored with the rising scale; this will be a key monitorable for the agency.

**Moderate Profitability, but Improvement Likely Once Operational Leverage Picks up:** UGRO has been profitable since its first year of operations, although its profitability during FY20-FY21 was aided by tax write-backs. The entity has been reporting a positive profit before tax, although it has been at modest levels due to high operating costs. The cost-to-income ratio increased to 54.6% during 9MFY25 (FY24: 53.8%; FY23: 63.3%; FY22: 71.8%; FY21: 70.8%).. Although it has moderated from its long-term trend, it remains at an elevated level, thus putting pressure on the profitability. It plans to focus on granular portfolio and increase its branch count, mostly micro-branch, which will keep its opex at elevated levels over the next few quarters, but if executed well it will provide a big fillip to the return on assets (9MFY25: 1.9%; FY24: 2.3%; FY23:1.1%; FY22: 0.6%, FY21: 1.9%). Ind-Ra opines UGRO will only be fully able to capitalise on its investment if it can keep its credit costs in check across multiple cycles and product lines.

## Liquidity

**Adequate:** At 3QFYE25, UGRO had a total liquidity of around INR9.4 billion, combining unencumbered cash, liquid investments, and unutilised bank lines, which are sufficient to meet its debt obligations for three months, without considering any inflows from collections. According to the behavioural asset-liability management statement at end-December 2024, the company was in a surplus position in the all-time buckets, with a cumulative surplus (excess of short-term assets over short-term liabilities in the up-to-one-year bucket) of 12.1% of the total assets. Furthermore, on a steady-state basis, UGRO aims to keep on-balance sheet liquidity sufficient for three months' debt repayment, considering nil collection. At end-December 2024, UGRO had an AUM of about INR110 billion, of which assets worth INR61.5 billion were on-balance sheet assets. Furthermore, it can raise money through securitisation transaction. The company has co-lending partners to fund borrowers for its offerings. UGRO expects the institutional co-lending model to generate significant opportunities for off-balance sheet assets with regards to liquidity and funding requirements on an ongoing basis.

## Rating Sensitivities

**Positive:** A significant expansion of the franchisee while improving the profitability with a return on asset of 3.5% while maintaining the asset quality, increasing geographical diversification, improving the cost of funds and bringing it in line with the peers and maintaining adequate liquidity could lead to a positive rating action.

**Negative:** Funding challenges, dilution in the liquidity profile, deterioration in the asset quality eroding operating buffers and the leverage exceeding 4.5x on a sustained basis, will result in a negative rating action.

## ESG Issues

**ESG Factors Minimally Relevant to Rating**: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on UGRO, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

## About the Company

UGRO (erstwhile Chokhani Securities Limited) was acquired in 2018 by Shachindra Nath (Vice Chairman and Managing Director). The company focuses on lending to MSMEs by offering them multiple products with varying tenors and ticket sizes. The company operates through 224 branches (23 prime and 201 micro), with a wide geographic presence. The AUM of the entity (own and managed) stood at INR110.6 billion at 3QFYE25, with the off-book volumes constituting 44% of the overall AUM (split almost evenly between co-lending and direct assignment, and co-origination). UGRO is listed on both the National Stock Exchange of India Limited and BSE Limited.

## Key Financial Indicators

| Particulars | 9MFY25 | FY24 | FY23 |
|---|---|---|---|
| Total assets (INR billion) | 83.6 | 62.8 | 43.1 |
| Total equity (INR billion) | 20 | 14.38 | 9.8 |
| Net profit (INR billion) | 1.0 | 1.2 | 0.4 |
| Return on average assets (%) | 1.9 | 2.3 | 1.4 |
| Equity/assets (%) | 23.9 | 22.9 | 22.9 |
| Capital adequacy ratio (%) | 21.5 | 20.8 | 20.2 |
| Gross Stage 3 (%) | 2.1 | 2.0 | 1.6 |
| Source: Ind-Ra, UGRO | | | |

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rating Type | Rated Limits (million) | Rating | 30 December2024 | 6 September 2024 | 30 July 2024 | 7 March 2024 | 8 January 2024 | 15 September 2023 | 24 July 2023 | 28 April 2023 | 24 February 2023 |
| Bank loans | Long-term | INR31,000 | IND A+/Stable | IND A+/Stable | IND A+/Stable | IND A+/Stable | IND A/Stable | IND A/Stable | IND A/Stable | IND A/Stable | IND A/Stable | IND A/Stable |
| Non-convertible debentures | Long-term | INR16,750 | IND A+/Stable | IND A+/Stable | IND A+/Stable | IND A+/Stable | IND A/Stable | IND A/Stable | IND A/Stable | IND A/Stable | IND A/Stable | - |
| Subordinated debt | Long-term | INR2,500 | IND A+/Stable | IND A+/Stable | IND A+/Stable | IND A+/Stable | IND A/Stable - | - | - | - | - | - |
| Commercial paper | Short-term | INR3,000 | IND A1+ | IND A1+ | IND A1+ | IND A1+ | IND A1 | IND A1 | IND A1 | IND A1 | IND A1 | - |

## Bank wise Facilities Details

## Complexity Level of the Instruments

| Instrument Type | Complexity Indicator |
|---|---|
| Bank loan | Low |
| Commercial paper | Low |

| | |
|---|---|
| Non-convertible debenture | Low |
| Subordinated debt | Moderate |

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

## Annexure

Private NCD

| ISIN | Date of Issue | Coupon (%) | Maturity Date | Rated Amount (million) | Rating/Outlook |
|---|---|---|---|---|---|
| INE583D07372 | 18 September 2023 | 8.56 | 18 March 2025 | INR500 | IND A+/Stable |
| INE583D07398 | 10 November 2023 | 1.0 | 10 May 2025 | INR300 | IND A+/Stable |
| INE583D07406 | 12 December 2023 | 10.38 | 12 December 2027 | INR2,496 | IND A+/Stable |
| INE583D08040 | 24 January 2024 | 10.25 | 18 April 2026 | INR500 | IND A+/Stable |
| INE583D07497 | 11 July 2024 | Variable-Other | 11 January 2027 | INR750 | IND A+/Stable |
| INE583D07489 | 3 July 2024 | 9.3 | 5 January 2026 | INR500 | IND A+/Stable |
| INE583D07471 | 25 June 2024 | 10.25 | 25 June 2027 | INR350 | IND A+/Stable |
| INE583D07539 | 30 January 2025 | 10 | 30 January 2029 | INR750 | IND A+/Stable |
| INE583D07547 | 7 February 2025 | 10.02 | 7 August 2026 | INR500 | IND A+/Stable |
| INE583D07554 | 20 February 2025 | 10.28 | 20 February 2029 | INR2,600 | IND A+/Stable |
| | | | **Limits utilised** | **INR9,246** | |
| | | | Limit unutilised | INR1,504 | |
| | | | **Total** | **INR10,750** | |
| Source: NSDL, Ugro | | | | | |

Public NCD

| ISIN | Date of Issue | Coupon (%) | Maturity Date | Rated Amount (million) | Rating/Outlook |
|---|---|---|---|---|---|
| INE583D07414 | 27 February 2024 | 10.25 | 27 August 2025 | INR271.2 | IND A+/Stable |
| INE583D07430 | 27 February 2024 | 10.75 | 27 August 2025 | INR664.6 | IND A+/Stable |
| INE583D07448 | 27 February 2024 | 10.35 | 27 February 2026 | INR258.5 | IND A+/Stable |
| INE583D07455 | 27 February 2024 | 11.00 | 27 May 2026 | INR464.2 | IND A+/Stable |
| INE583D07463 | 27 February 2024 | 10.50 | 27 May 2026 | INR341.5 | IND A+/Stable |
| INE583D07505 | 24 October 2024 | 10.15 | 24 April 2026 | INR965.24 | IND A+/Stable |
| INE583D07521 | 24 October 2024 | 10.25 | 24 October 2026 | INR690.82 | IND A+/Stable |
| INE583D07513 | 24 October 2024 | 10.40 | 24 April 2027 | INR343.94 | IND A+/Stable |
| | | | **Limit utilised** | **INR4,000** | |
| | | | Limit unutilised | INR2,000 | |
| | | | **Total** | **INR6,000** | |
| Source: NSDL, Ugro | | | | | |

Subordinated debt

| ISIN | Date of Issue | Coupon (%) | Maturity Date | Rated Amount (million) | Rating/Outlook |
|---|---|---|---|---|---|
| INE583D08057 | 15 March 2024 | 12.5 | 15 September 2029 | INR350 | IND A+/Stable |
| | | | Limit unutilised | INR2,150 | |
| | | | Total | INR2,500 | |
| Source: NSDL, Ugro | | | | | |

## Contact

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

## Solicitation Disclosures

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### APPLICABLE CRITERIA AND POLICIES

**Non-Bank Finance Companies Criteria**

**Evaluating Corporate Governance**

**Financial Institutions Rating Criteria**

**The Rating Process**