7th March 2024

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 7th March 2024 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	8500	IND A/Stable	8500	IND A/Stable (Affirmed)
Bank loans	14000	IND A/Stable	14000	IND A/Stable (Affirmed)
Bank loans	-	-	4500	IND A/Stable (Assigned)
Commercial Papers	2000	IND A1	2000	IND A1 (Affirmed)
Sub-Debt	-	-	500	IND A/Stable (Assigned)

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

This is for your information and record.

Thanking you,
For UGRO Capital Limited

Satish Kumar Chelladurai
Digitally signed by Satish Kumar Chelladurai
Date: 2024.03.07 18:42:26 +05'30'

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

India Ratings & Research
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India Ratings Affirms UGRO Capital's NCDs at 'IND A'/Stable and CPs at 'IND A1'; Rates Sub-debt and Bank Loans

Mar 07, 2024 | 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	ISIN	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)#	-	-	-	-	INR8,500	IND A/Stable	Affirmed
Bank loans	-	-	-	-	INR14,000	IND A/Stable	Affirmed
Bank loans	-	-	-	-	INR4500	IND A/Stable	Assigned
Commercial papers (CP)	-	-	-	7 to 365 days	INR2,000	IND A1	Affirmed
Sub-debt*					INR500	IND A/Stable	Assigned

* Unutilised,
#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 ratings continue to reflect UGRO's wide product offerings for micro, small and medium enterprises (MSMEs), along with its geographic and end-segment diversification. Ind-Ra has also factored in UGRO's adequate liquidity and capital base, with a modest leverage ratio, its plan to keep augmenting capital buffers to support the growing franchise, and the presence of marquee investors. The ratings also reflect UGRO's moderate-but-expanding scale and profitability, which are likely to improve over FY24-FY25 as the operational leverage plays out and the seasoning of the book increases with a growing vintage of operations. While the seasoning is low, nearly 50% of the assets under management (AUM) was generated over the 12 months ended March 2023, when the effect of the pandemic was waning.

List of Key Rating Drivers

Strengths

- 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
- Adequate capital buffers
- Diversified funding mix and lender base

Weaknesses

- Limited track record; asset quality seasoning needs to be established
- Moderate profitability, but to improve as operational leverage picks up

Detailed Description of Key Rating Drivers

Focused on Funding MSMEs; Geographically and Sectorally Diversified Exposure Across MSME Value Chain: UGRO is a specialised 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 the upper cap being INR50 million for secured products and INR2.5 million for unsecured products. Since coming into existence in 2019, the entity has built an AUM of INR75.9 billion despite a large part of this period being impacted by the pandemic. Furthermore, the entity operates out of 104 branches (23 prime and rest for micro enterprises), which are largely present across nine Indian states, while its customers are spread across 24 states, with most of the state accounting for over 15% of the AUM. Furthermore, the AUM is diversified across ten key sectors, with the largest end-segment constituting 23% 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.

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-touch model wherein customers are sourced through its branch network, direct sales agents, anchors for dealer financing, original equipment manufacturers, co-origination partners and a soon-to-be-introduced completely 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. The collections largely continue to be through banking and financial instruments.

Targeting Strong Off-Balance Growth: UGRO has been targeting strong growth in capital-light off-balance sheet products by increasing its lending under the co-lending and direct assignment and co-origination segments. The combined share of these segments in the AUM grew sharply to 45% in 2QFY24 from 16% in FY22, even as the AUM grew over 2.6x to INR83.6 billion over the same period. While being less strenuous on the capital buffers, this growth has been providing a steady source of income for UGRO. Ind-Ra opines banks, in particular 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, and would determine UGRO's ability to further scale up the share of the off- book to 50%, even as the AUM continues to record a sharp growth trajectory.

Adequate Capital Buffers: UGRO has built adequate capital buffers post a capital infusion of INR3.4 billion during 1QFY24, resulting in a higher capital base of INR14.05 billion at end-9MFY24 (FYE23: INR9.8 billion; FY22: INR9.7 billion; FY21: INR9.5 billion), with a capital adequacy ratio of 22.3% (20.2%; 33.61%; 65.15%). Furthermore, the leverage ratio (debt/equity) improved to 2.97x at end-9MFY24 from 3.2x at FYE23 (FY22: 1.9%; FY21: 0.82%); however, with a sharp build-up in scale, the leverage will gradually increase over the medium term. Given the borrower dynamics in the segment, along with the high credit costs that the segment has been associated with, Ind-Ra believes the leverage, on a sustained basis, will be contained within 4.0x while keeping the proportion of lending to the unsecured segment capped at around 30% of the overall AUM. Furthermore, as per the management, the Reserve Bank of India's November 2023 circular on increased risk-weighted would not have any impact on Ugro's capital position.

Diversified Funding Mix and Lender Base: UGRO has mobilised funds from 60 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 33.8%, 4.0%, 6.7% and 10.4%, respectively, of the total borrowings at end-December 2023, with working capital loans constituting another 2.0%. NCDs and market-linked debentures constituted 29.4% and 2.0%, respectively, of the total borrowings, CPs formed 3.0%, and external commercial borrowings accounted for 8.7%. 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 10 partners also acts as an additional source of fund-raising. With huge funding requirements to support its growth, Ind-Ra believes UGRO will see a consolidation in its funding mix as it deepens relationships with its existing lenders and expands its market presence over the near-to-medium term.

Limited Track Record; Asset Quality Seasoning Needs to be Established: UGRO began operations in 2019 and has built an AUM of INR83.6 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 50% of AUM was generated in the 12 months ended December 2023. However, Ind-Ra derives comfort from the fact that a major portion of the recent generation was completed at a time when the effect of COVID-19 was waning.

The gross stage 3 for UGRO stood at 2.0% in 3QFY24 (FY23: 1.6%; FY22: 2.3%; FY21: 2.3%), with credit costs of 2.4% (on on-book AUM). However, on a one-year lagged basis, the gross NPA remained elevated at 3.36%. Also, the gross stage 3 provisions coverage was low at 49% of the on-book AUM in 3QFY24, with total provisions at 1.3% of the AUM. In terms of the restructured portfolio too, the book remains small, with an outstanding restructured book of INR0.3billion (0.4% of the AUM) at end-3QFY24, 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 to Improve as 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, though it has been at modest levels due to high operating costs. The cost-to-income ratio came down a bit, but remained elevated at 53.2% at end-3QFY24 (FY23: 63.3%; FY22: 71.8%, FY21: 70.8%). The operating cost-to-average-asset ratio too was high at 5.2%-6.8% over FY21-FY23, thus putting pressure on the profitability. The entity, however, has made investments in its technology platform and the ground-level infrastructure, providing it the ability to scale up its disbursements by another 40% over the next couple of years with the same infrastructure. This, if achieved, will give the company a big fillip in terms of its return on assets (3QFY24: 2.1%; FY23:1.1%; FY22: 0.6%, FY21: 1.9%). That said, Ind-Ra opines UGRO will only be fully able to capitalise on its analytics-based credit model if it can keep its credit costs in check across multiple cycles and product lines.

Liquidity

Adequate

At end-3QFYE24, UGRO had a total liquidity of around INR6.8 billion, combining unencumbered cash, liquid investments and unutilised bank lines, which cover its debt obligations for three months, without considering any inflows from collections. Furthermore, in the up to one-year bucket, UGRO maintained a surplus on a cumulative basis at end-3QFY24. On a steady-state basis, UGRO aims to keep at least two months of debt payments and operating expenses along with one month of disbursements as on-balance sheet liquidity. At end-December 2023, UGRO had an AUM of about INR83.6 billion, of which assets worth INR45.9 billion were on-balance sheet assets. 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 profitable and a significant expansion of the franchisee while maintaining the asset quality, geographical diversification and 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 4.0x 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). UGRO focuses on lending to MSMEs by offering them multiple products with varying tenors and ticket sizes. The company operates through 104 branches (23 prime and 81 micro) across a wide geographic spread. The AUM of the entity (own and managed) stood at INR83.6 billion at end-9MFY24 with the off-book volumes constituting 45% of the overall AUM (split almost evenly between co-lending & direct assignment and co-origination). UGRO is a publicly listed entity on both the National Stock Exchange of India Limited and BSE Limited.

FINANCIAL SUMMARY

Particulars	9MFY24	FY23	FY22
Total assets (INR billion)	57.4	43.1	28.5
Total equity (INR billion)	14.05	9.8	9.7
Net profit (INR billion)	0.86	0.4	0.15
Return on average assets (%)	2.4	1.4	0.6
Equity/assets (%)	24.5	22.9	33.9
Capital adequacy ratio (%)	22.3	20.2	34.37
Gross Stage 3 (%)	2.0	1.6	2.3
Source: Ind-Ra, UGRO			

Status of Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	8 Jan 2024	15 Sept 2023	24 July 2023	28 April 2023	24 February 2023
Bank loans	Long-term	INR18,500	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable
NCDs	Long-term	INR8500	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	NA
Sub-Debt	Long-term	INR500	IND A/Stable	-	-	-	-	-
CP	Short-term	INR 2,000	IND A1	IND A1	IND A1	IND A1	IND A1	NA

Annexure

ISIN	Date of Issue	Coupon (%)	Maturity Date	Rated Amount (million)	Rating/Outlook
INE583D07364	6 June 2023	10.25	6 December 2024	INR250	IND A/Stable
INE583D07372	18 September 2023	8.56	18 September 2025	INR500	IND A/Stable
INE583D07398	08 November 2023	1.0	10 May 2025	INR300	IND A/Stable
INE583D07406	12 December 2023	10.38	12 December 2027	INR2496	IND A/Stable
INE583D08040	24 January 2024	10.25	18 April 2026	INR500	IND A/Stable
INE583D07455	27 February 2024	11.00	27 May 2026	INR 464.2	IND A/Stable
INE583D07463	27 February 2024	10.50	27 May 2026	INR 341.5	IND A/Stable
INE583D07448	27 February 2024	10.35	27 February 2026	INR 258.5	IND A/Stable
INE583D07430	27 February 2024	10.75	27 August 2026	INR 664.6	IND A/Stable
INE583D07414	27 February 2024	10.25	27 August 2026	INR 271.2	IND A/Stable
			Limit utilised	INR6,046	
			Limit unutilised	INR2,454	
			Total	INR8,500	

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loans	Low
NCDs	Low
Subordinated debt	Medium
CP	Low

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

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

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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