06th September 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 06th September 2024 in relation to the credit rating assigned/upgraded 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	8,500	IND A+/Stable (Upgraded)	8,500	IND A+/Stable (Affirmed)
Non-Convertible Debentures	2500	IND A+/Stable (Assigned)	2,500	IND A+/Stable (Affirmed)
Bank Loans	18,500	IND A+/Stable (Upgraded)	18,500	IND A+/Stable (Affirmed)
Bank Loans	7,500	IND A+/Stable (Assigned)	7,500	IND A+/Stable (Affirmed)
Commercial Papers	2,000	IND A1+ (Upgraded)	2,000	IND A1+ (Affirmed)
Sub-Debt	500	IND A+/Stable (Upgraded)	500	IND A+/Stable (Affirmed)
Non-Convertible Debentures	-	-	2000	IND A+/Stable (Assigned)
Commercial Papers	-	-	1000	IND A1+ (Assigned)

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: 2024.09.06 18:42:52 +05'30'

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

India Ratings & Research
A Fitch Group Company

India Ratings Assigns UGRO Capital's Additional NCDs 'IND A+'/Stable; CPs 'IND A1+'; Affirms Existing Ratings

Sep 06, 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 assigned along with Outlook/Watch	Rating Action
Non-convertible debentures#	-	-	-	-	INR11,000	IND A+/Stable	Affirmed
Bank loans	-	-	-	-	INR26,000	IND A+/Stable	Affirmed
Commercial papers	-	-	-	7 to 365 days	INR2,000	IND A1+	Affirmed
Subordinate debt#					INR500	IND A+/Stable	Affirmed
Non-convertible debentures#	-	-	-	-	INR2,000	IND A+/Stable	Assigned
Commercial papers	-	-	-	7 to 365 days	INR1,000	IND A1+	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 ratings reflect the continued growth in UGRO's franchise in 1QFY25 along with its demonstrated track record of capital raising, providing visibility on future growth plans. The ratings also reflect the diverse funding, with a healthy share of funding from banks and development financial institutions in its overall borrowing mix, its 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, 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 in 1QFY25, which are likely to improve further over FY25-FY26 as the operational leverage has started playing out. The rating also factors in the moderate seasoning in the book, as nearly 62% of the assets under management (AUM) were generated over the 12 months ended June 2024.

List of Key Rating Drivers

Strengths

- Strong growth in franchisee
- 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 INR92.2billion at end-1QFY25 from INR13.2 billion at end-FY21, largely driven by its off-book AUM, which grew to INR40.8 billion from just INR0.11 billion over the same period. The on-book AUM too grew by a strong CAGR of nearly 56% 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 witnessed a strong build-up in its capacity over FY21-1QFY25, with the branch count rising to 164 from 25. Of this, only 23 are prime branches, while 141 are micro branches. The company plans to increase its branch count to 250 by end-FY25, with emphasis on increasing micro branches.

Adequate Capital Buffers: UGRO has a demonstrated track record of capital raising. The company has approved capital raise of INR12.7 billion through compulsory convertible debt (CCD) and warrant issuance of INR 2.58 billion and INR 10.07 billion, respectively. This was in addition to INR3.4 billion raised in 1QFY24. 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 capital base of INR14.38 billion at FYE24 (FYE23: INR9.8 billion; FY22: INR9.7 billion; FY21: INR9.5 billion), and a capital adequacy ratio of 20.75% (20.2%; 33.61%; 65.15%). Furthermore, the leverage ratio (debt/equity) came down to 2.36x at end-1QFY25 (FY24:3.2x; FY23: 3.2x). 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 millio-9.5 million, with the upper cap being 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 INR92.2 billion despite being impacted by the pandemic for a large part of this period. Furthermore, the entity operates out of 164 branches (23 prime and rest for micro enterprises), which are present across nine Indian states, while its customers are spread across 31 states and union territories, with none of the states accounting for more than 15% of the AUM. Furthermore, the AUM is diversified across ten 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, and now the focus is to grow high-yielding products. It plans to expand its micro loans reach by adding more 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 want to grow the share of the unsecured business segment, but this exposure will be backed by CGTMSE; at FYE24, 25% of the unsecured business segment was covered with CGTMSE, and UGRO intends to roll it out to the entire segment. Ind-Ra opines that 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 recently announced the acquisition of MyShubhLife (MSL), an embedded finance fintech platform. The company believes this acquisition will enable it to target the high-yielding retailer financing segment. UGRO expects to build an AUM of INR15 billion and generate 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 and direct assignment and co-origination segments. The combined share of these segments in the AUM grew sharply to 45% in 1QFY25 from 16% in FY22, even as the AUM grew over 3.0x to INR92.2billion 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 for 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 57 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 36.6%, 3.2%, 7.8% and 9.3% respectively, of the total borrowings at end-June 2024, with working capital loans constituting another 2.2% of total borrowings. NCDs and market-linked debentures constituted 27.6% and 2.0%, respectively, of the total borrowings, CPs formed 3.0%, and external commercial borrowings accounted for 8.4%. 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 57 at end-1QFY25 (FY24: 57; FY23: 66); this has helped it to deepen relationships with its existing lenders.

Limited Track Record: Asset Quality Seasoning Needs to be Established: UGRO began operations in 2018 and has built an AUM of INR90.4 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 62% of AUM was generated in the 12 months ended June 2024.

The gross stage 3 for UGRO stood at 2.0% in 1QFY25 (FY24: 2.0%; FY23: 1.6%), with credit costs of 2.7% (on on-book AUM). However, on a one-year lagged basis, the gross NPA remained elevated at 4.8% in 1QFY25. Also, the gross stage 3 provisions coverage was 47% in 1QFY25 (FY24: 48%; FY23: 49%), with total provisions at 1.1% of the AUM. In terms of the restructured portfolio too, the book remains small, with an outstanding restructured book accounting for 0.3% of the AUM at end-4QFY24, 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, though it has been at modest levels due to high operating costs. The cost-to-income ratio moderated but remained elevated at 54.06% at end-1QFY25 (FY24:53.8%; 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-FY24, thus putting pressure on the profitability. Additionally, its plan to focus on granular portfolio and increase its branch count, mostly micro-branch, to 250 from current count of 164 will keep its opex at elevated levels over next few quarters. The investments towards increasing capacity, if executed well, will provide a big fillip to the ROA (1QFY24: 1.9%; FY24: 2.3%; FY23:1.1%;

FY22: 0.6%, FY21: 1.9%). However, 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 end-1QFY25, UGRO had a total liquidity of around INR7.0 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-June 2024, the company was in a surplus position in all time buckets, with a cumulative surplus (excess of short-term assets over short-term liabilities in the up-to-one-year bucket) of 12.7% of the total assets. Furthermore, on a steady-state basis, UGRO aims to keep on-balance sheet liquidity sufficient for three months' debt re-payment, considering nil collection. At end-June 2024, UGRO had an AUM of about INR92.2 billion, of which assets worth INR50.7 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 towards 4.0% ROA and maintaining the asset quality, demonstrating profitable expansion of new segments, adequate capital buffer and prudent management of liquidity will result in 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 164 branches (23 prime and 141 micro), with a wide geographic presence. The AUM of the entity (own and managed) stood at INR92.2 billion at end-1QFY25, 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.

Key Financial Indicators

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

Correction in Previous Rating Action Commentary

Ind-Ra updates the rating action commentary published on 30 July 2024 to rectify the loan origination as a share of the total AUM in the past 12 months ended March 2024 at 64.7%.

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 July 2024	7 March 2024	8 January 2024	15 September 2023	24 July 2023	28 April 2023	24 February 2023
Bank loans	Long-term	INR26000	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	INR13000	IND A+/Stable	IND A+/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable	-
Subordinate debt	Long-term	INR500	IND A+/Stable	IND A+/Stable	IND A/Stable	-	-	-	-	-
Commercial paper	Short-term	INR 3,000	IND A1+	IND A1+	IND A1	IND A1	IND A1	IND A1	IND A1	-

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loans	Low
Non-convertible debentures	Low
Subordinated debt	Medium
Commercial paper	Low

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

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 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	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 2025	INR 664.6	IND A+/Stable
INE583D07414	27 February 2024	10.25	27 August 2025	INR 271.2	IND A+/Stable
INE583D07497	11 July 2024	Variable-Other	11 Jan2027	INR 750	IND A+/Stable
INE583D07489	3 July 2024	9.3	5 January 2026	INR 500	IND A+/Stable
INE583D07471	25 June 2024	10.25	25 June 2027	INR 350	IND A+/Stable
			Limit utilised	INR7646	

			Limit unutilised	INR5354	
			Total	INR13,000	

Source: Company, NSDL

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	INR150	
			Total	INR500	

Source: Company, NSDL

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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.
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Solicitation Disclosures

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APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process