31st January 2024

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001

Scrip Code: 511742

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

NSE Symbol: UGROCAP

Sub: Transcript of the Earnings Call with Analysts/Investors held on 24th January 2024

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on 24th January 2024 to discuss the unaudited financial results of the Company for the quarter and nine months ended on 31st December 2023.

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

This is for your information and records.

Thanking You,

Yours Faithfully,

For UGRO Capital Limited,

SATISH KUMAR CHELLADURAI

Digitally signed by SATISH KUMAR CHELLADURAI
Date: 2024.01.31 20:11:13 +05'30'

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

"U GRO Capital Limited

Q3'FY24 Earnings Conference Call"

January 24, 2024

MANAGEMENT: MR. SHACHINDRA NATH – VICE CHAIRMAN AND MANAGING DIRECTOR – U GRO CAPITAL LIMITED
MR. ANUJ PANDEY – CHIEF RISK OFFICER – U GRO CAPITAL LIMITED
MR. KISHORE LODHA – CHIEF FINANCIAL OFFICER – U GRO CAPITAL LIMITED
MR. AMIT MANDE – CHIEF REVENUE OFFICER – U GRO CAPITAL LIMITED
MR. OM SHARMA – CHIEF OPERATING OFFICER – U GRO CAPITAL LIMITED

MODERATOR: MS. SONAL GANDHI - CENTRUM BROKING LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the UGRO Capital Limited Q3FY24 Conference Call hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone.

I now hand the conference over to Ms. Sonal Gandhi from Centrum Broking Limited. Thank you, and over to you, ma'am.

Sonal Gandhi: Thank you, everyone. On behalf of Centrum Broking, I welcome you all to the Q3 FY '24 Earnings Call of UGRO Capital. I would like to thank UGRO management for giving us this opportunity to host the call. I would now like to hand over the call to Mr. Shachindra Nath, Vice Chairman and MD, for his opening comments. After which, we will take Q&A. Thank you, and over to you, sir.

Shachindra Nath: I am the Managing Director of UGRO. I welcome you all in our December Quarter's Earnings Call. Along with me, the senior management team, consisting of Mr. Kishore Lodha, our CFO; Mr. Anuj Pandey, our Chief Risk Officer; Mr. Amit Mande, our Chief Revenue Officer; and Om Sharma, our Chief Operating Officer, are also present in the call. Our investor presentation is already uploaded, and I will be referring to the same presentation in our conversation with you.

Kindly refer to the Slide 3 of the presentation. Over the past few quarters, we have been consistently speaking about the large addressable market opportunity for MSME and how the credit gap for them has widened post-COVID. This slide demonstrates the strong rebound by MSME, post the initial dip during COVID.

If you look at the left-hand side of the chart, based on the data we have gathered from applications, we see that loan sanctioned per customer average INR 40 lakh in 2019. This number halved during the first and second wave of pandemic. However, in Q3FY21, there has been a strong resumption in business activity.

In the first year, post-pandemic, that is in FY22, 77% MSME in UGRO's target segment experienced a business resumption. Next year, 68% of MSME saw more than 10% year-on-year growth in the turnover. This has led to increasing credit sanctions per customer post-COVID, as seen in the right-hand side of the chart. Over the last 3 quarters, the loan amount sanctioned per customer has averaged around INR90 lakhs, much higher as compared to the pre-COVID period.

Both these charts demonstrate the resilience of the MSME sector, increasing credit flow to this sector and the importance of timely credit for small businesses. Besides this macro trend, it gives us the confidence that building a large institution around MSME financing, this power of Datatech is a real possibility.

Now, moving to the performance of the business. Please refer to Slide 4. Our early opex and infrastructure build continues to deliver strong top line and bottom line growth. In 9MFY24 we have delivered 64% year-on-year AUM growth, while our PAT has tripled on a strong operating leverage. Our return ratios have improved to 2.3% return on assets and 9.7% return to equity from 1% and 3.5% last year, respectively. And over Slide 5 in the presentation, this is a snapshot of other key business metrics.

If you refer to the Slide 6, our net disbursement stood at INR1,552 crores during Q3FY24, which represents 33% year-on-year growth, led by a strong growth across our prime business loans, micro enterprises secured loans, machinery secured loans and partnership and alliances segment. This has led to a 64% year-on-year growth in AUM, which has touched INR8,364 crores, explained on Slide 7.

We have now reached the coveted INR1 billion AUM. This journey from INR2,500 crores AUM to INR8,300 crores in AUM over the last 8 quarters has been an outcome of our early investment in multiproduct distribution channel, deep partnership with banks and large NBFC on co-lending and co-origination, investment in GRO score and continuous support of our balance sheet liability providers.

On Slide 8, you'll notice that this solid top line growth has led to significant operating leverage with PAT growing 8x over the same period. On Slide 9, you will see that our collection efficiency continue to be stable, while GNPA and NNPA stood at 2% and 1.1% of total AUM, respectively.

Our GNPA has increased by 0.1% quarter-on-quarter and 0.3% year-on-year basis, which is as per the plan. The increase is a function of our portfolio, which has been maturing over a period of time, and we do not see it as a credit deterioration as our collection efficiency and data have remained stable and tracks well.

We intend to cover ourselves well. With respect to provision coverage ratio, it has remained stable at 49%. As we have mentioned in the past, our liability strategy is a function of our on-balance sheet lending from diversified set of lenders, co-lending partnership with banks and NBFCs, and direct assignments with financial institutions.

On next slide, you will see that our off book share is 45% of AUM. This is as per our long-term vision of reaching 50% mix. We are seeing our relationship maturing with our bank partners and new partners are coming on board. We believe that next few quarters our contribution of co-lending would gradually start inching up beyond 50% as well.

On Slide 13, you will see our cost of borrowing increased 4 basis points quarter-on-quarter. Our borrowing stands at INR4,173 crores with 43% and 10% of this mix coming from banks and NBFC, respectively. DFIs, FIs and capital markets contribute to 18%, 10% and 19%, respectively. So our borrowings are fairly diversified across various financial institutions. We continue to believe that the increased risk weight on bank lending to NBFC would not affect us adversely, given our diversified liability strategy and less reliance on banks.

On Slide 14 to 16, details of our financial numbers and key ratios and the remaining slides give an overview of the company. We will continue to believe that UGRO, in coming quarters, would increase its penetration, yield profile and operating leverage. We would be happy to answer any questions now. Thank you.

Moderator: The first question is from the line of Darshil Pandya. Please go ahead.

Darshil Pandya: Congratulations on the good set of numbers. A couple of questions from my end. Sir, are we on track to achieve our aspirational INR10,000 crores AUM by this fiscal?

Shachindra Nath: Mr. Pandya, that's why we have used the term aspirational. We are striving very hard to get there. But at the current run rate, we are focused on 2 things. Obviously, AUM is one aspect of the business, but we are simultaneously controlling our Opex so that we can deliver operating leverage. If given a choice between increasing AUM and maintaining profitability, we would actually do the latter and will maintain profitability. I think we will be somewhere near to that number, but we don't think that we'll get there completely at INR10,000 crores.

Darshil Pandya: Got it. And sir, on the Slide 9, where the GNPA by product is given. So there I see that the prime unsecured loans contribute around 3.6% of the GNPA. So any measures that you have taken to take it down, maybe because that's showing one of the...

Shachindra Nath: Yes, Anuj?

Anuj Pandey: The planned GNPA number for unsecured loan as we have been commenting on various investor call, is between 4.5% to 5% lifetime. Around 89%, 90% of the portfolio is post-COVID, and is now seasoned up to about 24 months. So from traction perspective, we are at where we want it to be. We expect a lifetime NPA of around 4.5% for unsecured loans.

Shachindra Nath: Annualized credit cost is around 1.5% to 2%. We construct the portfolio to arrive at 2% credit cost. We want to make sure that not just the GNPA, but the total credit cost is within our tolerable range. That's why you see a a certain percentage of portfolio, which have certain defined credit cost metrics. As Anuj said, this is as per the plan. At 19.25% yield, 1.5% to 2% of total credit cost on an annualized basis, we think so this is a good product for us. But obviously, that's why we maintained this at near about 30% of our total portfolio.

Darshil Pandya: Got it. One final question. Have you opened any new branches this quarter? You said that you'll be opening around 75 more branches. So what's the update on that?

Shachindra Nath: We started this around 1.5 months back. Look, physical infrastructure rollout is a long journey of around 6 months. It has to be broken in identification (of geographies), which we have identified, so we are expanding in UP, MP and Andhra and few branches in 4-5 states. Post identification of physical infrastructure, then it’s hiring of people and then the branches go live. At the first 2 stages, we will be ready with 30 locations by end of this month. Operationally, we would be around 25 to 30 locations live and starting business by end of the quarter.

Over a period of next 2 quarters, we expect all of these branches to go live. And as you know, the micro branches take around 12 to 15 months to get to the stage of breakeven. But I should tell you this, that relative Opex increase on account of increase in the physical infrastructure has very limited impact on our overall profitability.

Darshil Pandya: Got it. Got it. And sir, any guidance on the cost of borrowing?

Shachindra Nath: As far as cost of borrowing is concerned, we have been able to manage the cost of borrowing at fairly reasonable level for the last 4 quarters when things were tough. RBI has increased the rate multiple times. Liquidity is not very encouraging at this point of time. Still, because of the diversity and because of our relationship with all the lenders through the 5 years of our journey, we've been fairly consistent as far as borrowing cost is concerned. It may inch up a little from here on, but we are not expecting a significant jump as far as borrowing cost is concerned.

Moderator: The next question is from Avinash Singh from Emkay Global.

Avinash Singh: Good set of numbers. A couple of questions. First one, if you can elaborate on yours plans for the micro enterprise loans in addition to your branch expansion plan. What sort of aspirations we have over the next year and beyond that to grow that micro enterprise book because that will be largely kept on book and of course, what will be the yields? What sort of AUM target you have, particularly in that segment in the micro enterprise driven by the branch expansion part. So that will be my first question.

And second, some color, if you can sort of provide around some bit of an increase in the credit cost and slight moderation. I mean, not Q-o-Q, but Y-o-Y basis in terms of the regular collection efficiency. Also some kind of a color in what is leading to a slight increase in this credit cost and models and in this collection efficiency.

Shachindra Nath: Yes. I will take first one broadly, Amit can comment in more detail. You rightly said that the micro enterprise is a slow burn, but highly accretive business to the balance sheet. We have been in that business for almost 2.5 years and it's a very hard group. We have learnt how to penetrate into the most profitable, but most underpenetrated business of micro enterprise segment.

We now have 75 mature branches delivering roughly around INR75 crores a month. And once we touch that milestone, we have committed to ourselves that when the first round of our 75 branches will get to INR75 crores, we will do the second set of 75 branches, and that's why we started the 2nd round.

And these branches, we expect that over a period of 12 to 14 months would also deliver INR75 crores per month basis. Incrementally, as we gain the traction, we would also continue to open more branches, but we will have to manage it basis the operating leverage, that we are promising to investors at last, and the incremental opex we can take. But I think we have to constantly invest in the business for long term, while delivering the quarter-on-quarter profitability as per the expectation. I hope this answers the question you in some way. You want to add something, Amit?

Amit Mande: On the AUM at this point of time, December ending our micro branches AUMs, just crossed INR 720 crores. And from here, we will be able to more than double this AUM in the next one year with a typically average run rate over 12 months or about INR100 crores. So that is what we're going to achieve, and that will be extremely profitable to the bottom line.

Shachindra Nath: Anuj, on the collection efficiency credit cost.

Anuj Pandey: From the movement on year-on-year basis, we have seen a additional 12 months review in our unsecured loan portfolio. So the contribution of the unsecured loans GNPA to overall GNP has gone up, as is our provisioning on that. That is what is accounting for a little bit of increase in the GNPA as well as on the credit cost.

But this was well envisaged. We have been tracking the bounce rate and collection efficiencies very minutely, and they continue to remain stable and in a comfortable zone. Overall, the portfolio of construct, if you recall, was 30% unsecured and 70% secured. And the weighted average, the way we have designed it, is to have a combined gross NPAs - at a steady-state level of about 2% and a credit cost aspiration of less than 2% on a steady-state level. Today, we are at 1.5%, because it will slightly go up in the next 2-3 quarters and then it will become stable just below 2%. I hope that answers.

Avinash Singh: It very much answers, just stabilizing peaking out of credit cost, I just wanted to sort of confirm, yes. So I mean a kind of steady state 2% will you achieve and before that, there will be some kind of a spike.

Moderator: And the next question is from Omkar from Vasuki India Fund.

Omkar: Congrats on the set of results. Just on the net interest income, what we can see is the net interest income line item, which you sold, that has been flat over the past 3 quarters. But of course, that was offset by the co-lending income, which came higher. I just wanted to know how we should look at this and try to model this number?

Amit Mande: Omkar, as far as net interest income is concerned, as you rightly said, that it is a mix of on book and off book. But despite interest costs going up or cost of borrowing going up, we are able to maintain our mix, which is encouraging. We explained earlier that with micro vertical taking up some yield and with higher yield product mix increasing e in next 12 months, it can expand further. But when the interest rate cycle is on the high, our cost of borrowings is increasing. When we are able to maintain our earnings, we think that it is satisfactory at this moment. As we increase the mix of higher lending products, it will expand further.

It is possible that by next year, we may see a reversal in this interest rate cycle. By year-end, probably the topping of interest rates may start seeping in. That point of time, will be the additional ticker for the needs of the company.

Shachindra Nath: I would add, the industry at large actually modelled everything on the basis of NII, but for players like us, you have to model us on the basis of total income. If you presume that of our total AUM, half of that is on our balance sheet and will continue to be in that range or will go up, the total income would continue to increase, NII may remain flat. But I mean it is the total spread, which the earnings is not just the spread of interest but the spread of fees or just spread, which we earn on the co-lending as well.

Omkar: Understood. So there has been an increase in cost of borrowing, as you said. So I just wanted to know that this pressure doesn't translate into co-lending spread as well? So banks would naturally try to curtail there as well.

Shachindra Nath: No, sir. There are 2 parts to it. One, when the RBI increased the risk weight on banks lending to NBFC, which means their capital allocation becomes higher, which means that translates to the higher cost. That is only one part of it. Second, also, because the year-on-year growth by banks lending to NBFC is more than 21%, there is a moderation in terms of the total lending -- to NBFC by the bank. But having said that in the co-lending when bank books the MSME which is a priority sector asset, the risk weight of that is either low or lower or at least lower than the NBFC lending.

It's my hypothesis that the moderation in their portfolio, which is a bank lending to NBFC would have a consequential indirect positive benefit to co-lending because banks should now try to paytake more asset on their balance sheet to the same NBFCs.

I don't think there is a correlation that where lending by bank to NBFC sees the cost increase would mean that the cost of co-lending would increase, I think so either it would remain stable or it would come down.

Moderator: The next question is from Arvind Dalal from CapitalEnd.

Arvind Dalal: My question is more in terms of the mix of liabilities from banks. Is it fixed rate or MCLR linked, and if that is the case then how have you managed to maintain the overall cost of debt despite MCLRs going up for most banks. And on the asset side, how does it translate to I mean, is it fixed rate pricing? Or is it again variable rate linked to some benchmarks. Just to understand the translation mechanism with some bank lending to the assets. That's question one.

The second question is, we understand that the trade cost will go up by 50 basis points in the medium term. And the sense I'm getting is that, part of it will be offset by higher yield on the portfolio. So which sections do you plan to kind of recalibrate in terms of your asset side to see that yield mix, which will offset the higher grade cost?

Amit Mande: Yes, as far as our lending is concerned, barring the unsecured portion lending, which is roughly around 30% rate, most of the loans are floating rate loans. So, we can pass on the incremental cost of borrowing to the customers. As far as our ability to contain the rate where for most of the large players, cost of borrowing has gone up significantly, we could hold our rate. It is a factor of the consistent hard work that we are putting in the last 3-4 years, where we have very deep relationships with a multiple set of lenders. Whatever we have committed on portfolio side that as a company, we have delivered that. That has created a lot of goodwill among the lenders.

So, now they are more comfortable lending to us at softer rates, seeing that going through the cycle. This is our primary reason why our cost of borrowing has not gone up as much as for some of the large lenders, which are directly linked to the MCLR for the bank. On your question, how much percentage of our borrowing is linked to MCLR and how we are affected, roughly 43% of our borrowings are from banks which is MCLR linked.

Wherever there is an increase in MCLR, of course, that increase would come to us. Over the last 4 quarters, we have not seen RBI increasing the benchmark rate. Recently, some of the banks have increased their MCLR by 10 basis points. Otherwise, last 3 to 4 quarters, benchmark rates have remained more or less stable. On credit cost, Anuj would take it.

Anuj Pandey: Yes. What we have mentioned is that the overall credit cost traction in the next few quarters, and, in a steady state basis, is likely to be around 2% or below, and this is as per the design which we had in the starting. We have been adding the higher-yield segment. Shachin mentioned that we have planned to add 75 new branches in micro. Out of that, 30 became active in this quarter and the remaining in next quarter.

We've also been adding a lot of infrastructure and resources to expand our retail financing base, which is granular supply chain business for small retailers and have been gradually transitioning out of the lower yield supply chain portfolio. This is already in process and part of plan.

Shachindra Nath: Yes. But this is not a reaction to any credit cost moderation. We have been on a long-term journey of 5 to 10 years. We have just completed our 5-year of which we saw 2.5 years got wasted in crisis led by DHFL and IL&FS and then we saw a COVID period, but we have remained on how we will build this business.

Our core hypothesis is that we will granulize and we will use data, use technology, and we'll go to the deeper market segment of customer, which is within INR15 lakh to INR15 crores band, we'll design the yield and the portfolio segment wherein the total credit cost can remain in 2%, and we can deliver our 4% return on asset in 15%, 16% or more of return on equity, and we are on that path.

Moderator: The next question is from the line of Sonal Gandhi from Centrum Broking Limited.

Sonal Gandhi: Congrats on good set of numbers. I just wanted some clarification on how do you calculate IRR for the portfolio. So there were certain questions on the NIM. So just to give you some numbers, I mean, your AUM is up 10% Q-o-Q. But if I look at interest income, that is up only 6% on a Q-o-Q basis. Even your on-book AUM is roughly up around 10% Q-o-Q. And the yield for the IRR that we've given on portfolio, that is up by 10 basis points. So where is the difference? Or how do we calculate this portfolio yield?

Anuj Pandey: So when we mentioned portfolio yield, we think what is the customer IRR on the various segments of our borrowers. So 16.2, 16.3, which is the IRR we disclosed, it is that customers' ROI is for us. On an overall basis. But when you look at on balance sheet, it is again dependent on that how much of that various segment is secured, unsecured, micro remains on our balance sheet, and how much goes into off balance sheet.

It does not necessarily mean that whatever remains in the balance would have seen a similar impact as that of overall customer IRR. It will depend upon the mix of portfolio that remains on the balance sheet, which can be lower or higher compared to our overall IRR.

To give an example, if we consider a product that is of a lower rating product that remains higher on balance sheet, then our balance sheet interest income would be lower. Our customer IRR would remain steady. Vis-a-vis a micro product, which is a higher yielding product remaining on balance sheet, then our balance sheet interest income would go up, but it may necessarily mean that our co-lending income may be lower. So it is a mix of that.

Shachindra Nath: Sonal, if you want to really calculate and reconcile, you should look at our AUM, , we give you gross disbursements, and in our core lending slide, we'll also give you co-origination and co-lending. If you combine the 3, you will be able to understand that how much of total origination, how much has gone into our balance sheet and how much has remained on to the balance sheet. And if you do that trending for a few quarters, you'll be able to come to a model analysis of that.

Sonal Gandhi: Sure. Sure, sir, that's helpful. Another question that I had was the micro enterprises loan. So if I look at net originations, that has gone down Q-o-Q. What explains that? Because I think micro enterprises has been the core focus segment for us.

Shachindra Nath: Yes. For micro enterprises business, it is INR 6 crores lower than the last quarter, that is predominantly because we were operating 2 products in micro enterprises. One was micro enterprises secured, which is the predominant large portfolio, and also, we were adding micro enterprises without collateral loans. What we have realized over a period of time that giving micro enterprises, non-collateralized loans was cannibalizing our secured loan and we have moderated that.

If a customer comes, who has an ability to offer you a collateral, if you open up a non-collateralized, tendency was not to offer collateral. And that's why have in a way, curtailed it down. That's why there was a moderation of INR 6 crores. And as you say, next quarter, you'll see a jump from there.

Sonal Gandhi: Understood. And sir, just one more question. So the co-origination has been going down as a percentage of our off-book AUM. Basically, the share of co-lending is going up. You said it at the beginning of the call that co-lending is something that you will be focusing on. But why is co-origination dropping? That is one.

And second is the fair value gains that we are recognizing on direct assignments around co-lending, that has increased substantially this quarter. How should we look at that number from the modelling perspective?

Shachindra Nath: Yes. As you know, the co-origination has gone down for 2 factors. One, at least 95% to 98% of our co-origination was happening with the larger NBFCs, where we were also providing some kind of first loss cover. But with the credit guarantee scheme coming for the co-lending, and now the interest rate cap on that has been increased from 18% to 21%, the adoption of business loan within the banking segment has accelerated at a very faster pace.

Some of our NBFC-led co-origination has moved towards bank. And that's why you have seen a drop from co-origination and it has moved to the co-lending. Most of the origination, which has moved to the co-lending this quarter has happened in option 2, which means that there is a fair value gain, which came into the balance sheet. But I think we are making consistent efforts to moderate it and take it to the option one and increase the volume so that it remains same balance. As we were doing with NBFC, we will try to do it with the bank itself. I think it would take another 2 quarters to get to a stable position.

We are getting more new number of partners, banks find it very difficult to do under option one where the turnaround time when we lend at that same time is the same as the bank's. So banks predominantly get attracted to say, you do it on your balance sheet and then we'll take it later. While we keep saying that, in order to generate capacity, you do simultaneously. All of that is going on right now. But in summary, the good thing is the banking system is now adopting all products which you grow. That is a very healthy thing.

Right from our prime secured business to prime business loan segment to machinery to our micro enterprises loan, if you look at the chart on the co-origination and co-lending, you'll see, except supply chain, which is very difficult to do co-lending, most of our products are in co-lending segment, which means that our engine and its credibility, its origination, its credit quality within the broader banking system is now getting accepted.

Sonal Gandhi: Understood. And sir, just one last question from my end. If you could run us through credit cost product-wise, I mean, on a mature basis, what kind of credit cost product-wise do you estimate or do you expect?

Anuj Pandey: On a mature basis from credit cost perspective, although in the investor slides, we have given a GNPA number. I'll start with the GNPA, first and then we will correlate it with the credit cost. For prime secured loans, steady state GNPA would be in the range of 0.5% to 0.75%. For prime unsecured loans, we expect it to be around 4.5% lifetime at a steady-state basis. I will also tell the annualized credit cost impact for each of those, for prime unsecured loan, actually the credit cost percentage annualized was less than 2%.

For unsecured loans, it is less than 2%. For micro enterprises, at steady-state GNPA would be around between 2.5% to 3%, where the corresponding credit cost would be in the range of 0.75% to 1%. On supply chain, it is a little higher than expected at this point in time. But when we are transitioning towards retailer finance and a steady-state GNPA should be about 2% to 2.5%. On machinery loan, the expected GNPA on a steady-state basis is between 0.75% to 1%, and the corresponding credit cost in the range of 0.2% to 0.3%.

And in partnership and alliances, because we have a credit enhancement in place, we don't expect any credit cost going forward, though it can happen in rarest of rare case.

Amit Mande: Yes. The only thing I would say, Sonal, that for analysts like you to model over, this is a little difficult because the translation of this credit cost to our balance sheet is depending upon how much of that portfolio is held on to the balance sheet and held in co-lending and held in co-origination.

Wherever you model the credit cost guidance we are giving you should look at on balance sheet plus co-origination coming to the balance sheet and no credit cost coming when it comes to the co-lending. I think that you have to be careful. It's not a straight-through model that you do for banks and NBFCs.

Sonal Gandhi: Understood. But sir, when we are talking about 2% credit cost or lower than that, are we talking about AUM, right, on the AUM basis?

Shachindra Nath: Yes, Yes.

Moderator: The next question is from the line of Pruthul Shah from Anubhuti Advisors.

Pruthul Shah: Yes. Sir, congratulations again for good set of numbers as always. One update that the company has made recently with respect to entering into the factoring business, it would be good if you give some gains of this business, how the government platform would be used and how it would be beneficial to UGRO? And probably what would be the yields in credit cost that we are internally expecting by entering in this business?

Shachindra Nath: Thank you. This is a factoring license. It is not expansion of new line of activity for us. While around 4 years back, mainline NBFCs were allowed to additionally have factoring license, and it's taken roughly around 1.5 years for us to get, and we are now a factor.

What it does for us, one, obviously, we are eligible to now participate on the TReDS platform. But I don't think that the NBFC like us are competitive to play on the test platform because the yield at which the invoices get discount there is predominantly for banks and very large NBFCs.

But what it does is facilitate and improvise certain product of ours. So to give you a practical example, in our regular financing and in our supply chain ecosystem, we do sales invoice discounting. Sales invoice discounting means that if I'm selling honey to Dabur, I've been doing it for 5 years, and UGRO want to discount the invoice, which as a vendor for Dabur, I have sold the material, and I want to get in money against that. In today's scenario, Dabur pays back that money to me, when I'm a supplier, and then I pay back to UGRO because there is a financing is there.

The risk is that if I have some other need at that point of time, I would spend money that Dabur pays to me, I will use that money for something else. Now we convert that as a factor, which means I assign that receivable to be on the factoring act and Dabur is obligated to pay that money directly to me. So I have a recourse against the vendor as well as Dabur. So some of our products actually would now be more palatable and we should be able to grow that, how much is what, we are making an assessment.

But I think tally gives us a regulatory cover, there is the very large need of getting working capital against invoices, we should be able to enable through this license.

Pruthul Shah: Okay. And sir, like going forward like 2, 3 years or any longer-term time frame, what would be the percentage that we might be having through this business?

Shachindra Nath: Factoring? I think the percentage of our supply chain is what you should look at, it should remain in the same percentage than what it is today. So our portfolio construction is a long-term strategy. 70% of our portfolio would like to be secured by some form of collateral, 30% of our portfolio we would like to do without collateral.

Of that bucket of 70%, there is a certain percentage of portfolio, which we'll do against receivable and other form of business. I don't think so that this changes the construction of our portfolio. We'll continue to grow in the same defined risk metrics and portfolio metrics. But I think the credit cost, because of this, might come down by certain basis points.

Pruthul Shah: Okay. Okay. Got it. And sir, one another question with respect to the collection. So currently, how the collection is done from the clients, like is it the manual collection that we are doing? Or is it ECS or NACH base? Are we getting the cheques? If you can guide on that aspect. And if say some payments are automatically coming to the UGRO, then how much percentage of the money is coming to us directly and how much is coming through this offline or that way?

Anuj Pandey: 100% of our customers are NACH registered. Some of them are e-NACH registered. So we don't do anything manually. But in case there is a bounce, then there is a very large collection team, including a large collection call center, which follows up with the customer. And in that case, it might happen that the customer is sent a separate link through which you can pay. But that also, about 90% of that collection, is also electronic. In far and few cases, the customer can opt sometimes opt for a cash collection. We don't encourage it, but sometimes it is part of the game, and hence, we take it. But broadly, we are into automated collection.

Shachindra Nath: 99.999 percentage of our collection is digitized, is directly to the customer's bank account, is the summary of the answer. We follow the behavioral aspect of MSME which is that, at the point of repayment when we hit their account, sometimes they don't maintain balances because they may be using this cash for their other working capital needs. That's why you have to have a process of a rigorous follow-up and remind them of importance of paying it timely. Once you do that, that's when the money comes back very quickly to us.

Moderator: The next question is from the line of Yash Dalvi from Systematix.

Yash Dalvi: Congratulations are on great set of numbers. So our target was to take the off-book AUM to around 50%. So when can we expect to achieve this?

Shachindra Nath: See that target was defined for the next year. But as I said in my opening remarks, that we are seeing this as a counterbalancing to liquidity, which might get little bit slowed down from the banking system to NBFC. But given our underlying asset class which is MSME priority sector highly granular, and certain new bank partners coming to us who are getting onboarded. This we might achieve it much faster and probably go beyond 50% as well next coming few quarters.

Yash Dalvi: Okay, sir, got it. And sir, regarding our portfolio yield, it has been stable around 16.3% net yields for the past 3 quarters. Will it be in that range or it may increase going ahead?

Anuj Pandey: With the increased contribution from our new branches of micro enterprises and retailer finance it is likely to go up. Amit, do you want to add?

Amit Mande: No, like Anuj explained earlier also, the focus has been introduction of these products, now that we have a significant reach with our branches and with our new branches that are opening. The retailer finance business and the micro enterprises business will help us increase these yields, the increase will start inching up quarter-on-quarter. By next year-end, we should see about 75 to 100 basis points yield increase across the area.

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

Anil Tulsiram: Sir, my question is regarding the underwriting process on micro loans. What I'm trying to understand is, if I look at the affordable housing players which are operating under 10, 15 lakhs, most of the players, in fact, majority of the players in the past have suffered from high NPAs once they scaled up beyond INR5,000 crores , INR6,000 crores. How our underwriting process is different or what we have learned from them to ensure that we don't face the same problem? That is the question, mainly on the underwriting process, selection of the customers, geographies, collateral, all those things.

Shachindra Nath: Sir, predominantly, housing finance company, whether the prime housing finance company, like the HDFCs and other or affordable housing finance company are evaluators of collateral. So they rely on collateral first and repayment ability second. We rely on repayment ability first, collateral is the second defence to recover our money in case of a default.

I think the 2 businesses are not comparable, not parallel. We lend to businesses. We assess their cash flow. We look at their repayment ability and whether that is done by a machine, or in case of micro enterprises, through a rigorous process of a templated underwriting.

Once our system on people are comfortable that the customer during the defined period has the visible cash flow to pay back the interest plus principal, then only we lend. But for the minute or percentage of people who will go in default, we take collateral to recover our money. So I think that's -- Amit, do you want to add something to it?

Amit Mande: I think that's enough. The point is that a lot of analysis and investment needs to done to understand the customers' business behavior, unlike a typical housing loan. That is why the numbers will be very different in the future.

Anil Tulsiram: Yes. And I have a request also maybe this quarter or next quarter whenever you find feasible. Can you add some slides on the micro loan book so that we can understand more how the customers are selected, geographies are selected, the organization structure, number of staff. There are lots of questions which may not be possible to ask in the call, but if you can provide some slides, that will be very helpful.

Shachindra Nath: We will try to do that. But the difficulty of the challenge is that most of our peer set are in only one segment or 2 segments. Somebody does only high ticket, somebody only does MFI, when it comes to the MSME financing, we have taken this enormous task to ourself to solve the problem of credit, and that we are doing through multiple modes, right?

Micro in itself is a business which has multiple metrics, so is our supply chain, so is machinery. We have been getting this constant feedback that our investor presentation is very large and elaborate, and you should focus on more key return metrics and deliver that -- that's what market monitor us. When anyone has a more detailed question trying to understand the segment, we are happy to do that. But we take your point and we'll see that how, in some of our slides, we give more data around each of our segment, not just micro.

Anil Tulsiram: Okay. And sir, the last question is, I think 6 months or 1 year back, RBI allowed NBFC to do eKYC through some KUA or something. So have you already registered for this license or we are planning to register this?

Amit Mande: We have registered for this license, and we are in the process of implementing this internally, and that will help us achieve some efficiencies in terms of the KYC as we go along.

Moderator: The next question is from the line of Surbhit from Tradeswift Broking Private Limited.

Surbhit: Yes, I just need a little clarification about something which you have said earlier in today's call. I think I might have misheard the same, that you said that you have 75 branches as of right now and you are expecting to do INR75 crores of business from each branch?

Shachindra Nath: No, sir. I wish its true whatever you just said, INR75 crores from 75 micro enterprises branches right now. But I wish what you said becomes through in some time.

Surbhit: Yes. That's what I wish too.

Moderator: The next question is from the line of Nitin Gupta.

Nitin Gupta: Mr. Nath, I have a couple of questions. There was some problem on the line, so I'm not sure if you have answered them already. The first one is, are you on track on your guidance of 3% ROA by FY24 end, and 4% by FY25 end, financial year. And same thing goes for ROE.

Anuj Pandey: Fully on track as far as guidance on ROAs are concerned. We are fairly confident that whatever we have guided on ROAs and ROEs, we should be almost there, some basis point here and there. Next year, we are again on the drawing board for meeting our next year 30 to 45 days, we will be clearer in our mind that where we will be. But the path is directionally, we are moving towards to that.

Shachindra Nath: As I have keep saying that, look, we believe that we are in the journey of making an institution. Our capital structure is institutional. Our governance is structure is independent. And this is led by an entrepreneurial management team, which want to deliver an MSME financial institution in India. On that part, we believe that the best financial services and lending companies deliver 5 -- 3, 4 things. Steady-state growth rate of 30% and above, and ROA between 3.5% to 4% and ROE of 18% and above, credit cost below 2%.

Only difference is that most of the lending companies deliver this ROA on leverage of 6 to 7, whereas we will deliver this ROA leverage of 3.5 to 4 because we have this model of balance sheet business. I think we are continuing on that path. We think that our investors current, prospective and public markets, would continue to benefit from this conviction of ours that we can deliver an institution. Some degree of variation in some quarters, in some years, do not deter us from our long-term goal of delivering an institution to you.

Nitin Gupta: Okay. The second question which I wanted to ask is with respect to the AUM. So I have learnt -- I mean, in the previous calls that I have attended, I've learnt that you were saying it to be roughly INR9,500 crores to INR10,000 crores by FY24 end and around INR18,000 crores to INR20,000 crores by FY25 end. So even the lower end seems far fetched right now, because one point which I want to really emphasize here is we achieved an AUM of around INR1,000 crores in the Q4 of financial year FY23, but we haven't been able to achieve any of the quarters in this financial year.

Shachindra Nath: Sorry, can you repeat your question?

Nitin Gupta: I'm saying what about the guidance with respect to the AUM. Because as per what I'm observing from the past few quarters, the guidance which have been given, I don't think even the lower end, they will be able to achieve it. And to give an example, like we have not been able to achieve a quarterly AUM growth of INR1,000 crores which was delivered in the Q4 of financial year 22.

Shachindra Nath: This is a fair question. I think this I've been saying for long. As institutional builder, we put ourselves and we don't differentiate on what we say in the market and we say to our Board and we say to ourselves, we would like to be the largest financial institution around MSME financing and we put milestones behind that. We have put a milestone of INR10,000 crores, then INR20,000 crores, then INR30,000 crores, then INR50,000-odd crores and also simultaneously to reward the shareholders and for shareholders to benefit from that, we have to deliver the end bottom line profitability.

If you're a public market investor and if you have to gain from investing in our stock, then it is just not the function of the top line growth or AUM, but it is also comparable delivery of the bottom line performance. We make that adjustment between premium growth to bottom line performance, and that's why the play is there is always a little bit of a degree of variation come.

What we have said, we exited March '23 at a INR550 crores gross run rate. We said that we will now will not invest in further Opex. We would deliver INR550 crores on a monthly basis. And this is that math and what would be the end of the year, we aspire to be at INR10,000 crores.

But simultaneously, we also make promises to deliver certain bottom line performance. Depending upon the liquidity, depending upon the flow, depending upon the credit cost, depending upon the arbitrage between AUM to the profitability, the business automatically get recalibrated and hopeful all of you would be rewarded.

If you look at in our peer lending segment, there is no company, and I repeat, there is no company which has able to triple its AUM in a difficult time in 3 years, it has tripled its profitability and it is still promising to do it in the same way.

Our heavy investment in Opex technology and data is delivering to desired results. While some of the investors may just monitor us on the basis of one number, some of them will look at the combination of all 3. But we will get there, what we have said. It may be just maybe by a quarter some time, but we can get accelerated also by a quarter sometimes.

Nitin Gupta: How are you planning to do it in the coming financial year? I'm not asking about the numbers, but are we having the enough infrastructure in the form of the branches at that point that financial year '25, we'll do some monthly reach? We must be having some monthly targets or quarterly targets. So are we having -- have you laid down the infrastructure to basically achieve it?

Shachindra Nath: Sir, we are delivering INR550 crores of gross disbursement. Our AUM is...

Nitin Gupta: I'm talking about the coming financial year, sorry.

Shachindra Nath: I'm coming to that, sir. We are delivering INR550 crores of gross disbursement, then there is repayment, there is foreclosure, and that comes to the net AUM increase. Now we have said that we are adding 75 more locations. Technically, we should be adding 200 more locations, given that we have strong underpenetration, which is in a micro enterprise segment, but that's the arbitrage between how much OpEx we can take versus just the AUM growth.

Considering the increase of about 75 branches, our focus on the increased penetration of retailer financing, we are hoping that, from current INR550 crores, we hit the benchmark of INR750 crores per month and then INR1,000 crores per month, so that we can get back to near to what we aspire to be in next financial year, by end of next financial year.

Only caveat being, it is also a function of overall liquidity into the market. We are feeling very confident that given the number of bank partnership which we have, our ability to do co-lend, our diversified lending book, we would be there, near to that, but we will also calibrate between just AUM growth to the profitability and we'll try to deliver both of it.

Moderator: The next question is from the line of Omkar from Vasuki India Fund.

Omkar: On net lower origination, I was looking at your mix for the last few quarters, so the secured -- prime secured disbursements have been coming down. It was INR360 crores in Q4, and currently it is around INR250 crores. Unsecured has been growing at a factor base from INR400-odd crores to INR600 crores in this quarter. How do we see this mix going ahead? Maybe is this our steady-state mix of originations.

Amit Mande: So very well. This is a good question, why has secured come down over the last 2 quarters. We had 2 products in secured, if you've been following us, one was the prime secured and one was the affordable loan against properties, affordable lap called Saathi. Now now that you would have heard that our -- one of our fundamental pillars for the long-term loans, so that the long-term loans do not stay on our books, is co-lending.

The affordable loan against property was typically a loan which is done on the periphery of the large cities, where the collateral may be not as prime as the collateral in the prime loans, where we also saw some resistance by some of the co-lending partners to onboard this collateral.

In view of 2 things, one, wanting to generate our secured long-term business for co-lenders. Second, to ensure that our ALM on-book ALM remains -- does not get stranded by these long-term loans, we decided to scale down that part of our secured. What we are currently booking is the prime secured. And from here, this prime secured will continue to inch up quarter-on-quarter and come back to those INR360 crores levels, hopefully in this quarter itself.

Shachindra Nath: If I may add to that, the way we look at is not by product but overall portfolio. Our philosophy is that, overall, we will try to have 70% portfolio in secured. And wherever there is an opportunity, lower-yielding segment would converge to higher-yielding segment. Our secured business is not just what segment which you are saying. Our micro enterprises is also secured. Our machinery is also secured. Our retail financing have cash flow attached to that.

Now we have been balancing, that doing a 12% yield business, half of that which we based on our balance sheet versus doing higher-yielding business, which also has the capacity to go back to the banking co-lending system.

What should we do? This is a planned transition of gradually happening. The way you should monitor us is on the blended portfolio of 70% remaining secured. That's why as we gradually a little bit taper down the loading portfolio to high-yielding, but secured portfolio, our overall portfolio yield also would increase. If you would have missed we said that by end of FY '25 we expect our yield -- portfolio yield to go up by 70 basis points to 100 basis points, and this is happening because of this gradual everyday transition, which we do.

Omkar: Okay. Understood. And the micro loans, is it entirely secured? What is the mix there?

Shachindra Nath: Yes. Majority of it is entirely secured. We had a non-collateralized loan product, but we -- it was cannibalizing our secured volumes, so we are tapering it down and it's negligible right now.

Omkar: Okay. And what is the security in this case? Is it a residential, property or commercial?

Shachindra Nath: Residential, commercial properties are the collateral.

Omkar: Okay. And another question, any update on the fund raise?

Shachindra Nath: Right now, no. I think we have multiple transactions on the debt side, which are going on. I think we are well capitalized. Capital adequacy is quite appropriate. But we would see and calibrate with our board that what is the appropriate time. We only have an approval of INR500-odd crores. The timing of that is yet to be decided. So we have still a lot of capital buffers. I'd like to mature our business before we actually hit the market.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to management for closing comments.

Shachindra Nath: Thank you very much. If you have any further questions or queries, please feel free to reach out to our Investor Relations head, Sneha, or write to us. We also have an investor bot. Please feel free to make use of it. All of the investor relations information can be also fetched through our bot. And we are happy to engage on quarterly results and continuously as and when required. And wish you all a very good evening. Thank you.

Moderator: On behalf of Centrum Broking Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines.