"U GRO Capital
Q4'FY22 And Full Year FY22 Earnings Conference Call"

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Hosted by: ICICI Securities

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Represented by: UGRO Management

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Mr. Amit Mande, Chief Revenue Officer
Mr. Anuj Pandey, Chief Risk Officer
Mr. Amit Gupta, Chief Financial officer
Mr. Rishabh Garg, Chief Technology Officer
Mr. Subrata Das, Chief Innovation Officer
Mr. Nirav Shah, Chief Strategy Officer & Head of Investor Relations

Rushad Kapadia: Good afternoon and welcome to all the attendees. ICICI Securities takes great pleasure in hosting the Q4 FY22 results conference call for UGRO Capital Limited. We have with us from the management Mr. Shachindra Nath, who is Vice Chairman and Managing Director; Mr. Amit Mande, Chief Revenue Officer; Mr. Anuj Pandey, Chief Risk Officer; Mr. Amit Gupta, Chief Financial Officer; Mr. Rishabh Garg, Chief Technology Officer; Mr. Subrata Das, Chief Innovation Officer, and Mr. Nirav Shah - Chief Strategy Officer and Head of Investor Relations.

So, without further delay, I would now like to hand over the floor to the management for their opening comments. Thank you and over to sirs.

Shachindra Nath: Good afternoon. Thank you ICICI Securities for hosting us. As a matter of information as of yesterday in our last board meeting uh we have appointed Mr. Satyanand Mishra as Non-Executive Chairman of our board and I have taken the redesignation as vice chairman and managing director. We did that because at the scale at which we are operating now and the scale which we would like to achieve it is our considered view that the financial institution, the board governance should be headed by an independent director, as you would all have seen that majority of large financial institutions, the board chairmanship is in the hands of independent directors. This is what regulators also expect us all of you know SEBI has come up with an advisory of voluntary acceptance of the segregation of the post of managing director and the chairman and we have done that much prior to when it becomes a regulatory obligation. So, in that context actually we are completing third year of our full operation. It has been a journey which has been both rewarding and also of great learning. In July 2018 when we raised significant amount of capital, the aspiration was to build UGRO as India's largest financial institution solving the problem of credit for small businesses. This problem has been in existence for many numbers of decades. Large number of lending institutions have been trying to solve for this problem. With every passing year the credit gap has been increasing, while the contribution of MSME's to the GDP of India is increasing but the simultaneous offtake of credit for SME has been a challenge and our view was that within the lending institution outside the bank there is an opportunity to use deep specialization and data analytics and combined with technology can gradually solve the problem of credit. When we started, obviously some of our embedded thinking we thought that we have to first use it, test it, implement it, and be successful and then we will bring it at forefront to public market for them to understand what we have done and delivered. There are many numbers of players in the market who actually start with the promise of what the data analytics and technology can do. We have taken the conservative route of first anguishing ourselves, build portfolio, prove through our portfolio performance what data analytics can do. We generally believe that the future of credit for small businesses in India is a function of how data can be used to disseminate the credit. Now it is actually proven that the entire SME credit industry, the ecosystem of data is going to power the credit. Historically when it used to come to SME it was genuinely believed within the lending fraternity that this is a segment of the market wherein the information flow is very poor. The formal to informal economy gap is very high and the credit decisioning can only be done with their physical footprint driven touch and to be done on a collateral basis. We continued to believe that this is changing with every passing day, and this is happening because the three core layers of credit, which is the identity layer, the payment layer and the data layer is all maturing at a rapid pace. Once the OCEN gets fully implemented and ONDC also get implemented we can see that the future generation of lenders would be able to do give the credit decisioning purely on the basis of data and that would evolve into all the three form of credit, embedded credit, flow-based credit, and buy now pay later kind of credit. This is also a function of what you know we have many numbers of fintechs their payment platforms have been growing. There is large amount of VC funding coming for that. We differentiate ourselves or we differentiate between tech and data. Our view is that data is more powerful and actually within the lending universe the uses of data is very less. Use of technology has become prominent and sometimes we combine and understand the tech is the data but that's not true. Data is your ability to look at information, analyze and use it for decisioning, monitoring, and future performance; where tech is enabling the process flow and that's why we say at completion of three years we are presenting UGRO as powered by data and tech what does data do for us is very unique. We have an underwriting scorecard, which is an effort of last four years of deep data analytics platform which we have built. Now which is called Version 2. This is our machine learning algorithm platform which provide the decisioning through a rule engine and faster roll out of credit and you know find the different kind of customer and risk rank them. Our data also helps in origination which in finding new location. you know mapping our sales forces, tracking them

and you know making sure that they reach the right target. Our technology platform provides the efficiency which means that at every point credit industry in India is highly manual and physical. Obviously, we use our physical footprint to do the last mile work in distribution and also support collection but the intermediation from the point of origination to decisioning is largely digitized through our tech platform and also we are using data plus technology across our operation and collection and last but not least we have seen within the lending universe, the use of data for early warning signals and future portfolio performance is not extensively used but we believe that with the advent

of deep bureau footprint multiplicity of information flow coming from different open sources can also provide for deep insight of how the customer would behave in future and that's why we are here to present and say UGRO has in the last three years evolved as a data tech company since its inception. So, you know as I said we have our Chief Risk Officer, Anuj and we have Subrata, our Chief Innovation Officer. Last four and a half years they have spent 24x7 their time in thinking through and designing this. So, I would leave this into good hands of both Anuj and Subrata to tell what is this data driven proprietary score model and why this becomes core to us when it comes to decisioning of credit.

Anuj Pandey: Thank you Shachin. Good evening, everyone. So next two three slides I'll spend some time to take you all through what all we have done which is at the heart of the innovation we are undertaking in lending to small businesses. So typically, as one understands lending is primarily based on the prior repayment behavior of the customer and what we were trying to do which we think is the right way to underwrite a small business customer is to do a cash flow-based underwriting. So, through data analytics and machine learning platform what we have done with our proprietary scoring model is to combine these two elements. So, our GRO Score today is a combination of the repayment behavior score of the customer and over that the banking behavior score of the customer. Typically, you can see on the screen, and this has come after a lot of rigorous analysis of more than 25,000 parameters which can be seen and extracted from a normal bank statement and a bureau track record of the customer. We have customized that to our target segment, and this is the innovation which in this kind of scale and with this kind of execution almost no one has attempted in India before. This has given us a lot of directional

sense and a window because this goes hand-in-hand with the way data ecosystem is getting evolved across the SME businesses in India. So today when a customer applies to us, all we ask is his GST number, GST statement, and his bank statement along with the KYC documents and post that the system takes over and it goes into very deep and extracts various kinds of parameters for example the borrowing mix, the frequency and magnitude of defaults, history of high cost debt, obligation as a percentage of turnover, etc. which have all been customized to our kind of target segment and this has been back tested and is administered in real time. So, in terms of giving a credit decisioning to the customer we are right on the cutting edge. So just to you know uh show you all the glimpse of what we have already evidenced through the initial administration of our score typically our scorecard categorizes the customer into five bands: “A”, “B”, “C”, “D”, “E”. “A” being the least risky and “E” being the most risky. And already in our analysis for the customers whom we have given loan and on customers who we haven't given loan we have applied our scorecard and we have found that this risk ranks beautifully. So scoreband “A” customer has negligible default rate and a scoreband “E” customer has relatively higher default rate. So, depending on the kind of customers we have, we now have a template, which of course we are using but eventually the thought process is that it can democratize SME lending in the country. Just to you know reiterate when we started, we said that we want to focus on eight sectors within the SME industry we added a ninth sector called micro enterprises for very small loans. We continue to build more momentum and gain more insights in these sectors. So, whatever statistical work we have done sits on top of our sector selection. This the idea is eventually to have operational, and facility related insights also from customers depending on which sector or sub sector they belong to and make a policy and underwriting very easy for them.

Shachindra Nath: Amit, Rishabh you want to take this?

Amit Mande: Let me take this Sachin. Having said that the data and our Gro Score is at heart of our ability to decision customers and moving towards complete database underwriting. I think that is also at heart of our entire tech platform and at the center of the slide you will all see Gro Protect which is our rule engine which houses this decision engine and data power that is the fundamental to all our tech platforms that support business. To this core there are multiple connected multiple platforms, our Gro Plus is a platform that powers our prime branches. I will come to that distribution later, but our prime branch is essentially the large ticket products. Our Gro Direct is what we have built to go direct to the customer again, derives its underwriting power from the BRE that we've built called Gro Protect. This is the large growing business, which is the supply chain business, is powered by our platform called Gro Chain which not only does the supplier side of the business but also the buyer side of the dealer side of the business and that's also again powered by Gro Protect and finally our partnership and alliances where we harness multiple ecosystems is the fourth platform. So, our entire full suite SME lending platform as we call it from the intermediary distribution to direct distribution to our supply chain and partnerships are all built around this one single thought process of being able to underwrite the SME and MSME on basis of data tripod, the GST, banking and the bureau which rests inside our Gro Protect engine and of course it's supported by our data lake. So, what exactly are these platforms powering. The Gro plus powers our prime business as we call it or the prime branch business, where we do large tickets secured loans, the unsecured loans and also our entire micro business. We are now 75 branches on micro across the country in five states and growing at a very rapid pace and we've tasted initial success on the high yield secure product here and we believe that this will be our growth engine. Our ecosystem business essentially the supply chain and the machinery business which is fundamentally runs on the ecosystems of 45 anchors in supply chain and about 30 OEMS in the machinery finance business again works on the Gro Chain platform. We continue to harness multiple ecosystems to reach to the last mile of the MSME with multiple partnerships essentially co-lending and fintech partnerships. We found this is a very rewarding business where we, our partners together in collaboration are able to reach the last mile and provide them with credit. Fundamentally Gro Direct powers our digital platform where we go direct to the customers. Fundamentally, all this distribution is built on our tech platforms which then again go back to the core of our Gro Protect engine which is our tripod of underwriting.

Shachindra Nath: You can take this one as well Amit.

Amit Mande: Sure. What has also been essentially our driving force of our growth has been our partnerships on the other side with the large banks and the NBFCs. This has been our liability engine and we've been able to. We have this unique advantage and leadership position in being able to have multiple relationships across all the large PSU banks for our co-lending business right from whether it's been Bank of Baroda, Central Bank of India, State bank of India, IDBI and another about seven banks in pipeline. These will continue to fuel our growth ambition by providing us the necessary liability through co-lending. If one were to look at how successful we have been with Co-lending then, yes, we did take time initially but now 16% of our book in quarter four of last year did come from the co-lending business and the co-origination business. As we go forward this will be our essential pillar of growth and by next year end, we will look at about 35% of our business off-book through these partnerships.

Shachindra Nath: I must add this, our view is that the NBFC or the fintech lending is systematically changing in India. Conventionally most of the lending institution have succeeded in leveraging their balance sheet from five to seven times. You know managing the portfolio not on contractual liability asset tenor but on average asset tenor and then creating some type of asset liability mismatch, but that era is receding. I think so the systematically financial institutions in India and globally would like to use our power of data analytics technology and asset origination and use us as an intermediation partner and that's why those who would succeed in creating a marketplace kind of platform which is co-lending would have both very high profitable growth and liability would not remain a constraint or concern and I think directionally we are very strong on that. The return reward ratio, if you were to lever your balance sheet only three times or four times and you have to earn the same margin to get to a double digit return on equity is very challenging but in our model which we will show you I think this becomes a reality very-very quickly. One of the things which we have been hearing in last three years. We are little odd the way we started our business. Most of the businesses in lending industry would start as a private company, would build under a private umbrella, and then once they mature then they will go to public and raise capital at a significant premium to their equity base. Our view was that good companies like ours which are providing a growth opportunity should start as a listed company. In US we have seen multiple SPAC getting very successful wherein they start with a blank capital and then build business around us. We did the same. In 2018, we took over a very small listed NBFC, we raised significant amount of capital and we expected the capital market to benefit from the growth momentum which we are building. But sometimes in the marketplace we are compared to legacy or very established 10-year, 15-year, 20-year-old organization. All of our peers which are still private to get the benefit of high multiple or very high value realization because private investors can see what would happen in future and they provide a value to that and this is our effort to give public market the visibility because a lot of people who have heard this question that we understand what you guys are building, when we compare it to legacy or establish player your return matrix looks very muted but obviously there is a heavy amount of investment and capitalization which has happened and that's why first last year we gave our 2025 guidance and we felt that would be sufficient but we now think that given the level of transparency which we provide to all our public shareholders we have given the bridge of how we would move year on year and we are hopeful that you know this would help you in understanding our company. So, if you look at AUM rise of FY22 we have an AUM of 2969 crore. We are targeting as of FY23 an AUM of 7000 odd crores. We had an off-book asset under management of 16% and that we are increasing 35%, we would like it to even go further but this is our conservative estimate. We think that our yield band would remain in the 14.3% to 14.5%. Please remember that UGRO operate across the yield band in its product portfolio. We do a highly secured business starting at 9% yield versus you know business loan segment at 18% yield and we create a healthy mix so that our portfolio quality remain stable and we are not only in high yield businesses and that gives sustainability. We have taken a conservative view in terms of our cost of borrowing. We believe that the lending market, the institutional bank lending market is highly gravitated because financial institutions are still suffering from the impacts of IL&FS and then pandemic and that's why it's not natural to lend independent company and cost of borrowing to come down. There are set of 5 or 10 NBFC, which have deep parentage and that's why they have the cost of borrowing advantage and that's why we think it would come down as we mature but we have projected to remain in the same cost of borrowing band and same net interest margin. Our portfolio has now seasoned and our Gro Score prediction is also coming out very strong but the change which you are seeing given the heavy investment which we have already done and now the output into the business is coming and we have multiple co-lending partnerships which gives both on balance sheet borrowing and off balance sheet borrowing, we are seeing that our written on asset should move from 0.6 of FY22 to 2% and then the target of 4.5% by 2025 and our ROEs would also you know improve from 1.5 to 6%-8%. This ROE could have been better but we are also our given our initial period years, we are still keeping our leverage below 3.0x so there is a capital infusion also planned that is depressing our ROE but we will see if we continue to grow the way we are growing and if the capital comes at a later part of the year so ROE would be much higher.

Anuj Pandey: I'll quickly take you through the snapshot of our portfolio as of March 2022. So, you'll see that across products, across geographies, across the sectors which we have it is pretty well diversified. We started with 9 branches of our prime loans in 2018 and later on we have expanded now close to 20 branches in prime loans and close to 75 branches exclusively catering to micro SMES. So now we are well established across pan India. Our original 8 sectors are pretty well distributed. The light engineering sector we are seeing a lot of positive movement thanks to manufacturing buoyancy, which we are seeing in the last two quarters. We think that will continue for some time across our product categories. The prime loans are the largest currently accounting for 54% of the total portfolio. As we go forward, we don't see much change in the overall mix across sectors or geography will continue to remain well diversified. Overall collection efficiency trend over the year it has improved every quarter last year as we moved forward and now has stabilized at around 94% percent at ending March 22. Out of our total portfolio, 96.4% of the portfolio is in stage 1. Our total restructuring owing to COVID was about 136 crores, which is 4.6% of our AUM as of March 22. Within that restructured portfolio maximum amount of restructuring was done for schools, for hospitality business, and for light engineering and we are already seeing a lot of green shoots coming education and light engineering sectors are back. Hospitality continues to be a little sluggish, but we expect that in next one or two quarters it will again be back. Our end gross NPA number as of March 2022 is 2.3% and this includes if you recall RBI had come out with a circular in November of 2021 on reclassification of assets and we have adopted that fully. Although RBI had given more time to NBFCs till September 2022. We have decided that we will continue to remain adopted.

Shachindra Nath: I think most of other things it has been uploaded you have all the metrics. We would like to use the time for answering the question these are all published set of information and through the question we can address some of this. I think so this mostly we have covered in our previous slides so, but this result presentation is uploaded on both exchange websites, is available on our website, please feel free to download and read it through but we are here and happy to answer any question.

Nirav Shah: Hi Rushad, there are few questions in in the chat and Q&A session. So maybe you wanting to take those questions one by one?

Rushad Kapadia: Sure. So, we have a question from Gaurav Agarwal. Nirav you'll have to unmute his line so that he can speak out his question.

Nirav Shah: Yeah, sure one second.

Rushad Kapadia: Gaurav you can unmute your line and speak out your question now. Gourav can you hear us?

Gourav Agarwal: Yeah, hello

Rushad Kapadia: Yes, Gaurav, please go ahead.

Gaurav Agarwal: Yeah, thank you thank you for the update there. Just wanted to understand as to how are we planning to grow in the different sectors of our loan portfolio in the coming year and what is the target that we have?

Shachindra Nath: So, can you go back to the slide when we have done FY23 projection.

Gaurav Agarwal: Yeah.

Shachindra Nath: Yeah, so Gaurav this is what we have projected that our current AUM is roughly around 3000+ crores. It is growing to 7000+ crore. Our asset engine is across. It is from our channels which is prime wherein we do prime secured customer, we have micro enterprises where there is a big thrust and focus. We have now 75 + physical location and we want that to grow both our machinery supply chain business is also growing and our partnership alliance's channel would be steady state. If you have anything specific to ask, we are happy to answer.

Gaurav Agarwal: Yeah, so in terms of cost of borrowing you mentioned that you are going to keep the same cost going in line in the next year.

Shachindra Nath: That's what we are projecting. We are hopeful that it should come down what we are projecting.

Gaurav Agarwal: Right. So, when do we see like the metrices that you mentioned in the listed markets and investor interest coming in I mean what is the kind of threshold that you plan to achieve?

Shachindra Nath: So, both are given here sir. So FY23 and FY25, so as we have said that we are hopeful that like private market our peerset private investors especially the investors are providing very high multiple you know for similar set of performance rather than lower performances. I think so at this point of time our view is that the public market is overweighted by what you know is right now being not being able to provide the premium or being able to give any kind of momentum or a growth of for growth-oriented companies. So, majority of the lenders who are listed have three sets of the problem. Problem of growth and problem of legacy portfolio and wherein the credit performance is unknown and that worries public market investors because they are not sure of what would be the real balance sheet versus you know we have crossed that hurdle and we are growing so given our lower base and from that base we are growing at this speed I think so we would be much more valuable and we are hopeful that some of you would recognize that and find it attractive.

Gaurav Agarwal: All right. Okay thank you.

Rushad Kapadia: Thank you. We have the next question from the line of Chinmay Bhargava. Nirav if you could please unmute his line.

Nirav Shah: Yeah, I have allowed. Chinmay you can go ahead with the question.

Chinmay Bhargava: Good evening. Thanks for the opportunity and congratulations on the set of results. I have a few questions on the proof of concept as well as the QIP, so I just going to tell you them one by one. So, on the proof-of-concept banks in the west for example when they've implemented machine learning models, they've complained about how they have to keep updating the set of rules that go into this model to stay on top of you know customer behavior. So, for our model how often do we need to keep on top of this and how often do you update the grow metrics with your data set?

Shachindra Nath: Yeah, thanks Chinmay, very-very good question. So, we have Subrata who is our chief innovation officer and our entire data analytics team have been working tirelessly for the last four years. Subrata this is something for you.

Subrata Das: Thank you Sachin. Thanks for the question, Chinmay. So, we are well placed to monitor and govern the performance of the scorecard as for very well-defined structured framework. Through our experienced scorecards such as these in our market have been seen to hold their level of performance for anywhere between 12 to 24 months or more if you're lucky but given the nature of the diversity of the underlying customer segment if you need to tune them faster than that then we are in a very good position to do that but as of now the scorecards are holding the early indicators that are very encouraging and we have put in place a robust framework to keep on monitoring this so that the moment we see the need of refinement we are able to do that, yeah.

Shachindra Nath: And Chinmay if I may add that majority of the scorecard which are in existence in Indian market including the consumer financing segment are largely bureau dependent. So, bureau has lot of data and people do you know added work on what they get from the bureau but when it comes to small business a bureau cut off or bureau behavior may not necessarily be able to predict the cash flow analysis and the future behavior and what would be the future profile of the business. What we have found is unique and that's what we are saying the transformation which is happening into the SME market in India that both GST which gives you the turnover data and 400 parameters around turnover and digitized banking can do three things. The intent of the customer, the eligibility and the ability to pay. So all three and bureau is behavioral in analysis and that's why it is very unique. So today for roughly around 350+ or 400 crore of monthly disbursement UGRO doesn't ask anyone a balance sheet or an income tax return or profit and loss statement and you'll be amazed to know that the top 10 lenders in the country including the largest of them the State Bank of India and Bank of Baroda and likes have accepted that because they have seen the result of that because at a 6 month or 10 month or a 12 month old balance sheet led financial statement is not the true representation of what is the you know ability and eligibility of the customer.

Chinmay Bhargava: Okay. Thank you for the wonderful insights on that. If I could ask two quick questions as well. On the next slide could you please explain why we disperse at all to score band D and E customers, like why not just focus on A, B, and C.

Anuj Pandey: So, I'll answer that. So, it is also a function of the kind of product you are doing so if you see our Gro Score is a predictor of probability of default but there is other element of loss given a default in case of a secured loan and lot of times one can draw little comfort. So, in the spirit of testing the scorecard in terms of risk rank through our live portfolio and also taking into account the loss given default parameter we have done some disbursals but in unsecured loan where there is no security, we don't do disbursals in Gro Score D and E.

Chinmay Bhargava: Am I right in assuming that D and E would also have higher yield loans and the data point to the right suggests that A and B have the highest disbursals and you disburse lower amounts to D and E.

Anuj Pandey: That's right

Chinmay Bhargava: Okay. Another quick question, could you shed light on the QIP that you have planned. You've told us uh for years now that you know in FY23 you're aiming for a QIP but 500 crores that you're planning to raise translates to a significant percentage of our shareholding. So, could you shed some light on the plans please?

Shachindra Nath: Yeah, So I think so the QIP resolution if you're looking at that outcome our QIP resolution is an enabling resolution as you know that every year when you go to the shareholders you know keep an enabling resolution and depending upon how the market performs and there is an opportunity you do that. You know I think so where we are trading right now, and at that level this would lead to a significant dilution and that's why you know we would raise capital that's our endeavor because the kind of growth which we have to get you know capital is a necessity but the timing, the form, and the kind of investor we are yet to decide. So, I think by next quarter when we will come and meet up with you, we'll give you much more concrete answers to this question. This is not necessarily you should take that QIP resolution means that we are going to do a QIP itself.

Chinmay Bhargava: Okay, okay thank you so much and all the best in you know the next year I'll jump back into the queue.

Shachindra Nath: Thank you.

Rushad Kapadia: Thank you. We have the next question from the line of Anil Tulsiram. Anil, please go ahead.

Anil Tulsiram: Yeah, thank you for the opportunity. My first question is on your Grow Micro loan. So I want to understand like what is the customer profile here, so is it like someone who has a credit score or a new credit customer or how is it and also any of your scoring model is helpful here so basically I am trying to understand how our business model is different to five star because I think five star is mostly into five to seven like ticket sizes but mostly into the secured loan and I think if I am right we are into unsecured loans for the Gro micro.

Shachindra Nath : I would get both Anuj and Amit to answer but I'll just give you, since you have taken name one name, I will give you one input. First and foremost, I think around six months back there was a change wherein the retail trade industry in India has been classified as MSME. The unique proposition only for priority sector loan purposes. The one unique proposition means that the entire bank financing which requires the 40% to be priority sector and of that 7.5% has to be MSME retail trade industry, which means in a small town a shopkeeper is MSME for priority sector so that's why the opportunity set is very unique. Number two, with most of our peers set which do that business including the Five Star from because that is the only segment of the market which they operate, they largely are in the loan banks sub 7 lakhs or 8 lakh rupees. Given that we are you know large and diversified player we have scores, we have data analytics prowess technology and distribution and we also do secured loan up to three crores. Our ability into the same cluster and geography to do even little higher ticket size loan is a very unique advantage to us and that's why in our micro enterprises channel we don't do lows up to 25-lakh secured and gradually you know we have a product which is 75 lakh to 1 crore in our prime branches will be also rolled out in our micro enterprises resulting into a faster break even and much larger volume of business. Anuj and Amit! type of customer and credit profile if you want to take that.

Anuj Pandey: Yeah, so I'll quickly just add, so we don't do new to credit customers. So primary eligibility of customer is that he should have some kind of credit records although it might be very thin and because the profile of the customer the banking and credit history might be very thin. So the efficacy of applying his scorecard at this point of time is relatively lower but we are working on that but alternatively what we have done is we have applied a lot of analytics in selecting the geography from which we want to source these loans and hence we have done a pin code wise analysis across all the states and we have picked depending on the future portfolio performance size of the market in which the kind of pin code we want to do business with.

Anil Tulsiram: Got it and I have just one more question and it's a very broad question. See we have been repeating our target of reaching 20000-crore by 2025 for which it's obvious that we need to grow at a higher growth rate. So, I think we will face three challenges in this. First maintaining the corporate culture, second hiring the right set of people and giving enough incentive for the people to stay us for a longer period of time, and third maintaining the credit culture. So, any thoughts on these three aspects.

Shachindra Nath: I will try quickly responding to that. First is the corporate culture, I think so UGRO has a culture, you know this is an institution wherein the ownership is institutional, supervision and governance is by an independent board and we would like to have people who think of this as a long-term home for themselves. Now having said that the culture which we have to instill and install of a culture of ownership because you know that we have a 5.88% of equity ownership of this company is in the hands of the management. We would like that ownership to go up and like we have seen many other institutions likes of HDFC and ICICI wherein people joined the institution and benefited by creating shareholders value. This institute there UGRO also give people the same opportunity. Second is about maintaining the credit culture. I think so our credit culture is maintained by our data. Because our credit is controlled by what our data sees and there is nothing beyond that. We are into highly granularized templated data decision loan business and that's why and strategically we have to only think of the segment of the market and what could be the potential loss ratio. I think so we are in a very good place where we have achieved in three years’ time and pandemic has proven that all of our model is working. I missed, what is the third question.

Anil Tulsiram: So, hiring the right set of people and giving incentive to stay them longer.

Shachindra Nath: So, it differs at the stage of the people who come. First and foremost, I think that this room and the sets of people who are sitting over here, they are co-owners of this business they are incentivized by long-term shareholder value creation, and they are benefiting from that and also their next level. Second, we try to see our business as a niche business where it's broken in multiple pieces and parts in each part being run by a strong leader who is responsible for its own P&L and once, he performs for the P&L it benefits. You'll be amazed to know that right up to our L3 levels and the business head and the credit people they are incentivized for their particular vertical delivery and that is also one of the reason people like to come and work for us because they think as if they are quasi-CEOs for their respective businesses. And when you go to the bottom of the pyramid wherein your compensation or the fixed cost is low you incentivize people by providing them shorter term variable structure so that what they do in the near term is what they get paid for so we are building the hybrid culture of equity based ownership for senior management, variable pay basis structure on P&L performance and you know monthly and quarterly incentive plans for the sales and you know collection forces.

Anil Tulsiram: Yeah. Thank you and just one small clarifying question. This micro loan below 5 lakh ticket size is entirely unsecured loan right if my understanding is right.

Shachindra Nath: No, our micro enterprises business 80% of that portfolio is secured.

Anil Tulsiram: No, I'm talking below of 5 lakhs.

Shachindra Nath: Yeah absolutely.

Anil Tulsiram: Okay thank you.

Shachindra Nath: Thank you.

Rushad Kapadia: We have the next question from the line of Bhavesh Jain. Nirav will you please unmute his line.

Nirav Shah: Yesh, Bhavesh go ahead.

Rushad Kapadia: Bhavesh kindly unmute your line and go ahead.

Nirav Shah: I have given him the permission, one second, yeah. Bhavesh, you have to unmute yourself.

Shachindra Nath: Can we move to the next question.

Rushad Kapadia: Yes. We have next question from Manish Agarwal. Manish kindly unmutes your line and go ahead with your question.

Manish Agarwal: Hello sir can you hear me?

Shachindra Nath: Yes, we can hear you. Thank you.

Manish Agarwal: Thank you so much sir. First of all, congratulations on good set of numbers. I have just a couple of questions. First of all, going through the quarter-on-quarter performance I observed that the AUM growth is falling down every quarter for example in September from June to September the growth was 45%, from September to December the growth was 30% and from December to March the growth has come to 15%. So could you please give any reason why there is a fall in growth of AUM.

Anuj Pandey: So, when you compare AUM you also should consider the base effect. In each quarter the base has grown a lot. So cumulatively if you see on a year-to-year basis you will see a very high growth but when you compare quarter-to-quarter obviously the growth would be somewhat muted.

Shachindra Nath: We started in you know predominantly in April 19 as our first full year. So that was 850 crore of total asset under management. In FY21, we were roughly around 1300 crore, FY22 we are roughly around 3,000 odd crore. I think so we are growing.

Amit Gupta: On a year-on-year basis we have actually grown 127% and what you were actually talking about that was quarter on quarter sequential growth. So, in that way if you actually want to see the first quarter, we had actually started doing disbursement only in the end of June. So, in that quarter our aum growth would have been by 150 crores only. So, in that between quarter one and quarter two we would have grown the highest but over a period of times after our business engine started kicking on you would obviously on a sequential basis you would not see that kind of a growth.

Shachindra Nath: Yeah.

Manish Agarwal: Okay. Thank you, sir. So, and what was the disbursement? The disbursement has fallen in this quarter. Like last quarter we had a disbursement of around 1050 crore, and it has come down to 960 crores so what could be the reason behind the falling disbursement.

Shachindra Nath: Two reasons sir. First and foremost, as you know as soon as we ended the month of December the fourth wave of COVID came in. That disrupted the first 20 days of business while it receded very fast, but it was unknown to us that what would be this expansion and how far it would hit. As a lending institution obviously, you go in a contraction mode very quickly when you see that is happening and then you restart that business. So, our first month of January was a complete wash and by the time we restarted re-assess it was mid of Feb. So actually, in the Q4 we had roughly around 45 days to 50 days of operating threshold. Second also as you know that we are a business wherein on one side of this business you have liability engine which is banks and financial institution who give us the money and other side we lend the money to customers through our different channel. Most of the banks and financial institution also because of the fourth round of pandemic was slower in giving disbursement to us for us to onward lend and you know this is you would, I must tell that you please expect some volatility on you know quarter-on-quarter because depending upon where you know we are also impacted by macroeconomic and you know financial institutions response to us in terms of giving money is dependent upon that not necessarily related to us but you know as a constitutive strategy that's why we are heavily focused on off balance sheeting and partnership with partners who can do co-lending and also co-origination so that we have uniformity in our disbursement engine.

Manish Agarwal: Thank you sir, so one question is on regarding co-lending sir. In co-lending we have a percentage of 80-20 if I remember so if the 20 percent which we are saying is there any waterfall mechanism in that.

Shachindra Nath: So, sir there are two types. So, when the co-lending which is under the RBI circular of 2020 it is at Pari-Passu level and there is no waterfall mechanism. The risk and rewards are shared in Pari-Passu nature. We have now also entered into some co-origination partnership with some of the large NBFCs and also we have done as you might see in the slide one BC arrangement with a small finance bank those have waterfall mechanism but most of them when you see our balance sheet they are disclosed but most of them are within our tolerance band of credit cost which we expect and they are fully provisioned for in terms of what we expect to come from there.

Manish Agarwal: Okay, so going forward what can we expect like more contracts will be in waterfall mechanism or will be Pari-Passu?

Shachindra Nath: Our expectation is, Amit you have that number how much of that is?

Amit Gupta: It would be around 50-50. Because when we are actually talking about our AOP plan, the co-lending and co-origination, I am actually saying co-origination there we would probably be providing some kind of trade enhancement. Co-lending mostly would be with the bank. So, the numbers are actually similar in next year. So, 50-50 you can assume on a rough basis.

Amit Mande: By next year end, 37% of our portfolio will be off book 36.5% out of which about 16% is in co-lending, 11% to 12% is in co-origination and the rest is on direct assignment. So, co-lending still forms the higher percentage of the off book, co-origination will be just about near double digits.

Manish Agarwal: Thank you so much sir.

Nirav Shah: Rushad, you may want to take couple of questions, which people have asked on the chat box, I think.

Rushad Kapadia: Sure, we have questions from Pramod Jain. So, the first question is does UGRO have any mechanism of forecasting sectoral scenarios to realign its lending policy and avoid NPAs and sectors undergoing downtrend cycle?

Shachindra Nath: Anuj?

Anuj Pandey: Yeah, we do that. So, we have a partnership with Crisil, and we keep getting macroeconomic indicators from them and also because the distribution and the portfolio is sector focused, the portfolio performance of our own is also a good early warning signal in case something is going wrong. Just to give you one example pre-pandemic we had started seeing slowdown of auto component sector and we had proactively slowed down our own distribution and as a result of that our auto component sectors portfolio performance as of today is amongst the best in the industry, so both are a constant monitoring of our own portfolio and our quarterly updates on the macroeconomic indicators across the sectors in which we are. These are the twin mechanisms which we follow.

Rushad Kapadia: Thank you. Next question from Pramod himself is very few NBFCs have withstood and survived the entire cycle so how does UGRO cushion itself and assure investors of its long-term survival and growth?

Shachindra Nath: I broadly disagree with the question itself. So three things, one non-bank finance sector have provided outline performance in capital market vis-a-vis banks if you look at set of broad banks public sector, private sector except three private sector banks majority of the combination of public and private sector bank and now even SFBs vis-a-vis the NBFC as a sector, NBFC have outperformed the banking as a sector. Number two there are at least of the top 10 listed companies at least 7 of them have been in existence for more than three decades and you know so you have you know the likes of Chola, Sundaram, Mahindra finance independent company like Muthoot, Manapuram, they have all succeeded survived and grown over a very long period of time and actually if you look at those who had either a deep specialization into a segment of the market or have the ability to underwrite a customer on unique set of information or underwriting criteria have actually provided much better performance. The uniqueness and that's what regulator and the policy maker also recognize the bank model is a broad base model and their ability to go to a deeply specialized underserved segment is what NBFCs do and when now that's why this whole approach of collaboration. Banks are custodial of the liability side; they get money from saving and retail investors to hold the money NBFC are unique in set of being able to find and serve the market which are not being served and that's why they should collaborate. So I think generally if you look at either so don't look at the wrong examples of you know companies which have been in the real-estate, wholesale credit, have been done with a very short-term approach obviously they would not survive but those who are in segment of the market which is either retail or SME or consumer and have an ability to design it little longer time horizon would definitely be able to succeed and survive and this is not a phenomenon just in India it is a phenomenon globally.

Rushad Kapadia: The third and final question from Pramod is, is it correct to say that UGRO’s main business will always be a zero-sum game as UGRO’s borrowing costs shall always be far higher than its peers and therefore cross selling or company lending is the only space where the company is going to make its profits?

Shachindra Nath: Again I would say that please look at go back in decades history, I think so if you're comparing NBFC to NBFC peer cost as the business mature the cost of borrowing keep coming down very dramatically, please go and look at a bank like you know AU which was an NBFC look 10 years back look at their starting cost of borrowing and as they matured it came down dramatically so with vintage your cost of borrowings keep coming down. For us actually our cost of borrowing is going down at an accelerated pace because why on the face of it you may see that our average cost of borrowing is 10.5% but when we you know originate asset with a borrowing of 10.5%, we are down selling that asset into co-lending anything between a 7% to 8.5%. So actually, we have the same pricing advantage which a large bank have because that large bank's money is coming to us and as we mature our cost of borrowing, and you know which keep coming down and third and most we operate in the segment of the market which otherwise mainline lenders have found it difficult. On the face of it actually they should also be able to do it. I think somebody on the call you know ask about a five-star credit which is a micro lender for very small MSME, and they have shown an outlier performance. Theoretically all banks should be able to do it but banks have many other things to do it simultaneously and that's why to build that deep focus and being able to find opportunity wherein you have a higher yielding customer and that's why your margin is much higher so this is not a business wherein the cost of borrowing matters it is a business wherein your cost of lending matters and NBFCs generally have a cost of lending which will be higher than what banks can get uh or mainline large NBFCs can get and we are in that play.

Rushad Kapadia: Thank you we have the next question from Tejas. He has asked in the last con-call a monthly disbursal target of 600-crore was provided and what caused us to fall short of that and what would be the month-on-month disbursal expectations going forward.

Shachindra Nath: Yeah, so we have talked about the capacity. Our distribution is set for a capacity of roughly around 600 to 700 crores. Now of that what capacity we are utilizing is a function of three things. What can we get on balance sheet borrowing? How much of funnel is getting created out of our co-origination and co-lending? And what is our risk appetite given the broader macro scenario? Right, so our capacity and our disbursement are a calibration of all three. So, as you see that we have done you know 1080-crore of disbursement in Q3 it came down because all three were falling short. The market was still volatile, pandemic was about to hit big time and you know this is a sector which get affected very-very quickly. So, we calibrated it down but what we have provided you is a very clear guidance of what we will be doing. So, we said we had touched just 3000 crores, our AUM would go 7000 crore, of that AUM what would come on our balance sheet, what would be off-balance sheet is all provided and please be guided by that. I must still say the disclaimer is most of the companies don't stick their neck out and give this kind of yearly guidance. We have provided that so that the early stage some of the investors can really understand how we are growing but obviously it is subject to all the macro factors how the liability market is functioning what is happening in the macro, and you know hopefully the COVID is not a concern anymore. Amit, Anuj anything you want to add, Mande! Sorry you are mute.

Amit Mande: So rightly put three factors that define our growth, and they are essentially the ones that feed the distribution and the asset growth, but the asset growth engine has really been cranked up, as Sachin said to about a 550 to a 600 crore a month kind of disbursals. This quarter as guided we should look at a 1000+ crores of disbursal and it will keep growing to touch our 7000 crore AUM by March end.

Rushad Kapadia: Thank you. So next part of the question is when can we expect the expenses pertaining to branch expansion cooling down?

Shachindra Nath: So, as you might have seen in some of our previous quarters, we have said that for most of our incremental expense was coming in our branch expansion, we have a target to grow to 280 + location in five of the identified states where we think there is the highest degree of opportunity and we have been on the path of you know rolling out newer branches by every quarter. However, we have taken a pause because we have realized that we have to simultaneously we have to invest into our business for long term growth but we have to simultaneously prove to all of our shareholders that what we have invested also represent, so that we have taken a pause on first two quarters of any further branch expansion and you know that's why you are seeing if you look at our FY23 guidance it tells you the guidance that our expenses are fully baked in and now we are focusing on growth and bottom line creations and that's why our income to Opex ratio is coming down from 73% to roughly around 63 odd %.

Rushad Kapadia: Thank you very much.

Nirav Shah: One last question. I think there's one question from Sanjeet.

Rushad Kapadia: Sanjeet is asking that considering the fact that we operate in the MSME sector, have we got any interest from foreign institutions for sustainable financing or are we looking at this as an option?

Shachindra Nath: Very good question, thank you so much. So, I think yes, if you look at our source of financing mix obviously, we divide term financing on our balance sheet, co-lending, and co-origination and securitization of asset. Within the term financing we pride ourselves being able to attract all sources of financing most of the public sector banks are lender to us but within them also as you know RBI has a framework of you know onward lending which qualifies the priority sector. We take money from public sector banks in that. We take money from private sector banks, we take money from capital market, and we also have started taking money from most of the multilateral and DFIs. Actually, we have done the first trade with ResponsAbility and now we are in discussion with many of them. And that is also happening, and I think so on 3rd of June our impact financing report would go public. We have analyzed serious impacts on different SDG goals which we are creating through our network and that's why we have an ability to do what we call specialized directed financing. As you know most of the multilaterals DFI's and impact fund would like to provide capital for some form of a directed financing so which cannot sure be WASH financing which can be clean energy financing, which can be on women empowerment financing. UGRO actually represent a unique opportunity wherein once we analyze top 45 lending institutions within the multilateral and DFI's world at least 80% to 90% of their mandate get covered within the UGRO network framework and that's why we have roughly around uh $75 million to $100 million target this year within the DFI community itself.

Rushad Kapadia: Thank you, that was the last question for this interaction. I would like to thank the management for patiently answering all the queries and congratulations on good set of numbers. I would also like to thank the participants for making this an interactive session. Thank you very much and have a great day ahead.

Sachindra Nath: Thank you.