U GRO Capital Limited
Q4 and FY21
Earnings Conference Call

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Management: **Mr. Shachindra Nath – Executive Chairman and Managing Director**
Mr. Anuj Pandey – Chief Risk Officer
Mr. Amit Gupta, Chief Treasury Officer
Mr. Sandeepkumar Zanvar – Chief Finance & Operations Officer
Mr. Nirav Shah – Chief Strategy Officer & Head Investor Relations

Moderator: Ladies and Gentlemen, Good Day and Welcome to the U GRO Capital Limited Q4 and FY 21 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the belief, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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I now hand the conference over to Mr. Shachindra Nath – Executive Chairman and Managing Director of U GRO Capital Limited. Thank you and over to you, Sir.

Shachindra Nath: Thank you. Good afternoon everyone. It is a pleasure to present U GRO's Q4 and full Financial Year '21 numbers. Along with me the Management team members of U GRO is also present on the call. We have Mr. Anuj Pandey – our CRO; Mr. Amit Gupta – our Chief Treasury Officer; Mr. Sandeep – our CFO; and Mr. Nirav who is our Head of Strategy and Investor Relations.

We have uploaded the presentation and I am hopeful that most of the participants should be able to see that. Let me take this opportunity to take you through a brief presentation about what we have done in last year and year before.

Today, U GRO in summary has a net worth of Rs 952 crores. As of March 31st, we have an AUM of Rs 1,317 crores. The cumulative disbursement of about Rs 2500 crores. We are serving more than 6600 customers supported by more than 29 lenders. Total debt of Rs 782 crores and have an employee base of 361 people. Our portfolio is 73% secured and we have expanded our branch network from 9 to 34 and we have customers coming out of more than 2000 pin codes in India. In Q4, we launched our GRO Micro vertical and our 25 branches were started in Q3 of the previous financial year.

To give you a brief executive summary of where U GRO stands:

Some of you might know that, post the acquisition of a listed company, we have re-capitalized and rebranded this company as U GRO. In FY 20 we had 11.5 months of full operations, and while FY21 was supposed to be a full year of operation, but given the Covid situation we were operational around five to six months. In terms of the AUM disbursement, our AUM stood at Rs 1317 crores, which was up from Rs 861 crores as of March '20, which is a 53% increase year-on-year.

Our disbursement for FY 21 was Rs 639 crores while we were operational only for five months, so on a run rate basis our disbursements would have doubled however due to COVID wave one, we were not functional for first half of the year.

In terms of our net interest income, it has stood at Rs 102 crores which is an increase from Rs 65 crores from first year with the 58% increase. Our NII for the quarter was Rs 27.5 crore which is again 22% increase on year-on-year basis. We had significant support which came from the liability side. Our liability base or the lender base actually increased quite significantly. We had an addition of 22 lenders in FY ’21.

Our borrowing cost is on a sequentially downturn, average cost of debt stood at around 10.4% in Q4 FY ’21 compared to 11.6% in Q4 FY ’20. We have today almost the entire universe of lending institution available with us as a base and some of which I will talk about in few next slides.

Our operating expenses, our cost to income ratio have been trending downwards. It stood at 71% FY ’21 compared to 85%, but U GRO continues to invest and grow, it is an early-stage evolution of its business and that is why comparative basis our OPEX to income ratio is little higher, but the base effect and operating leverage is now coming into our business.

Our credit cost, our GNPA stood at 2.72% and NNPA at 1.75%. Our collection efficiency was 93% in our branch led channel, 100% in machinery, and 97% in our partnership and alliance channel, and obviously we have used the tool of restructuring, but we have been very selective and around 6% of our portfolio was restructured for fundamentally sound businesses. Our focus has been to remain profitable despite early stages of business.

Our PBT stood at Rs 12.1 crore in FY ’21 compared to Rs 3.3 crores in FY ’20, which is a 266% increase year-on-year basis. Our PAT stood at Rs 28.7 crores FY ’21 compared to Rs 19.5 crores which is a 47% increase year-on-year basis. We remain profitable in all four quarters of FY ’21 despite COVID impact. Our net worth has increased to Rs 952 crores with a capital adequacy ratio of 65%. Our debt-to-equity ratio is only at 0.8x, which indicates that we have a long runway of growth available to us in our balance sheet.

Moving forward, you know as a refresher I would like to give you a full picture of what U GRO is all about. Given the early stage of our company, we always feel it is important that some of you who are joining us for the first time get to understand what U GRO is, so who we are?

U GRO if you think we are what we call ourselves is a five-pillar organization:

The first pillar of our organization is on the three core pillars of very high quality, strong governance, experienced Management Team, and very large institutional capital base, and underpinning that is what we call our knowledge and technology. Knowledge is our deep sectoral domain expertise which we are building and technology which drives that domain in our distribution, underwriting credit, and correction. I am moving onto Slide 10, some of you who have the presentation or who are watching through this webinar, our business both on the asset and liability engine side, at the center of it as I said is the knowledge in technology.

Our asset engine is divided in four parts, the largest of that is our branch-led channel. Our branches are divided into our prime and micro branches. Second, our asset engine is our ecosystem channel which is divided in our supply chain and machinery business. Third is our partnership and alliances which is a platform called GRO Xstream and fourth is our direct channel, which is GRO Direct, so these are the four asset engines.

On the liability side, unlike traditional lending institutions our liability side is both on and off-balance sheet liability, so we have a traditional balance sheet approach where we have co-origination. We are working on creating program for multi-lateral DFI and wherever possible we also like to securitize and assign our portfolio to different financial institutions, that drives our business. I will talk about each of the pillars.

In terms of the governance, our view has been that India as a market, the financial services business especially lending is in area of immense opportunity. Majority of the failure in lending and financial services is failure of governance. The way we protect against that is of a pre-enshrined framework of governance, which is in our Articles of Association.

Majority of our company's Board of Directors are independent that is provided in our articles. Any shareholders which are more than 10% of the company qualifies to have a Board seat. Majority of our committees of the Board are headed by our independent directors. This company cannot lend more than 1% of its net worth unless the full Board approves it. We have Board approved multi-layer credit authority dedication matrix; key management team including CRO, CFO, all require three-fourth majority approval for appointment, termination, so on and so forth, and both in terms of the regulatory oversight and in terms of our framework of audit and governance, our articles provide for that to be a level which is above what regulatory framework provides for NBFC. Last but not the least, this is a company which is 80% owned by institutional investors itself.

We are supervised by a Board. Our Board draws people from different expertise from the financial services industry, it is a combination of people drawn from regulator, public sector, and private sector. Our Board consists of an ex-CMD of SIDBI, member who is on the Board of rating agency and ex-bureaucrat, private sector financial services expert Mr. Sen, an ex-CD of RBI, private sector banker Mr. Puri who has built the branch banking for HDFC, and its member of SEBI and by virtue of our article which provides for representation of large shareholder on our Board, four of the private equity investors who are more than 10% of our company have representation onboard.

Our Board, our supervisory function is in the hands of the majority independent directors, and it also has representation from the large stakeholders, so it is a very good combination which we have tried creating in a framework of governance.

In terms of the Management team, our philosophy of Management team, which is provided long-term incentive through equity options, 5.8% of the company has been given to the Management team members. Our management teams have drawn people from diverse experience. They have come from large financial institution and banks and each of our not only the first layer of the Management, but also our second and third layer of people, our people who are experienced in their respective domains, and we have pre-invested in our three layer of organizational structure upfront so that at a scale we do not have to manage the, there is a team which can manage even much larger scale. It is my belief that U GRO's investment of capital into the Management team is sufficient to take it to at least five to seven times larger than what its current AUM is.

In terms of our large institutional capital, U GRO is a unique company which at the point of its initiation itself raised more than Rs 950 crore of capital from four diversified sources. For private equity investors, we did a QIP which brought public market investors, we had participation from insurance company and family offices, so not only it was a large capital raise, but also it was a diversified capital raise and that has supported us very well in a very turbulent time for NBFCs and we have seen the combination of our capital size with good quality books and the benefit of that is now seen on our liability side. Not only by equity capital, but also as I said that in last one-and-a-half year, we have seen support from almost the entire universe of public sector bank, private sector banks, few of the DFIs and majority of the large NBFC and SMEs who are now participating in our different debt programs. In terms of our approach, I said the center of our hypothesis of our business is knowledge and technology. Our belief is that specialized MSME lenders are better positioned to bridge the MSME credit gap because it is a non-homogenous sector and unless you do not understand the underlying customer very well, to do lending in plain simple terms is very difficult.

If we look at banks and traditional NBFCs, they are very product oriented, so they do either against a type of collateral or a type of loan versus in specialized lender look at each of these customers from a different length. We have seen emergence of multiple specialized lenders who are doing great job and we are a combination of that at a scale. In terms of our specialization where we fall, we look at the universe of lending to MSME in two parts. One part is what we call our specialized lenders. Our specialized lenders you can divide in sectors, products, and geographies, and then the other side there are multiple fintech players look at different product lines. We are at the center of both, on one side we are a specialized lender and other side we are deeply technology oriented, so we are both a combination of traditional NBFC and fintech. In terms of our specialization at the beginning of the company itself, we looked at the entire 180 sectors in which SMEs in India operate.

We filtered out 20 core sectors and started our business in targeted eight sectors plus microenterprises. The hypothesis was that each of these eight sectors are homogenous in nature and if you build your distribution and credit underwriting closer to the sector nuances, you will be able to build the business much better. The quality of origination, quality of underwriting and the turnaround time would be far better, and you will be able to control this better. That was the core hypothesis of choosing our sectors and over the last one year, we have added microenterprises, which we believe is a sector in itself. The reason for that is that when it comes to the bottom of the pyramid sub-25 lakh loan even if you are negative for example on pharma or an auto as a sector, small auto component shop or trader may not be as negative as the sector itself because microenterprises are more driven by their own clusters and that is why we created a sector in itself, so our entire micro branch network to that extent is driven by the cluster approach not by the sector approach.

On top of that within those eight sectors, we have identified 100 plus sub-sectors, and we work around the ecosystem, so it is not that in education we do everything, we are focused only on K12 play school. In healthcare, we are only focused on general nursing home, eye clinic, dental clinic, diagnostic for an example. Post selection of our sector, subsector when it comes to the underwriting, our belief is that in India the MSME financing in next five year would be very close to where the consumer financing is. The power of the data and the power of the technology or data infrastructure which is developing which we call India stack-2, which is a combination of GST, banking, and account aggregation can take MSME financing with near to on-tap and we have pre-invested to make sure that on the emergence of that we should be able to be at the forefront of MSME financing.

We look at our credit underwriting in two parts, one is what we call our data analytics driven so we have a proprietary score which was called GRO Score 1. Post pandemic, we have redesigned that and is called GRO Score 2. Our proprietary digital score card is a combination of bureau, GST, and banking, and it has an ability to filter bottom of the 20% customers who contribute 80% of the loan, so this is an yes and no system, and this system is then supported by what we call a physical underwriting model because we believe that there is lot of judgment which is applied in MSME financing at the bottom of the pyramid. The credit underwriters for them to really create specialization around each of the subsector is a very difficult exercise, so we have created pre-templated underwriting expert score cards, which is done on the basis of more than 2000 customers surveys and credit metrics which we have seen meaning for every sector and sub-sector, there is a template of underwriting which an underwriter had to adopt and work on that, so this is a combination of what we call that we looked at the data approach and combined that with the historical knowledge which exists within the MSME financing ecosystem, and that is then supported by what we have very heavily invested is what we call our advanced analytical system which is a combination of bureau, banking, and GST.

There are thousands of permutations and combinations which can be applied in the combination of that. Our view is that once the system matures, you do not need to physically take any financials of a particular customer because the virtual profiling which you can create through GST, banking, and bureau is far superior than any kind of physical estimates which is done today. I think India is moving towards that transition and that is why we have invested very heavily to benefit from the evolution, which is happening in the lending world. Second is post knowledge is our technology. We generally believe that for any scale platform, the technology must be at the center of its entire operations whether it is distribution, credit operation, and collection. The way we look at technology is our approach is product led. As I said that we are a combination of both fintech and traditional NBFC and all of our channels are driven by very proprietary, pre-invested platform so our branch-led channel is led by a platform which is called GRO Plus which supports our intermediaries and also our branches. For our supply chain, we have a platform called GRO Chain, and for our partnership and alliances we have a platform called GRO Xstream and for our direct digital distribution we have platform called GRO Direct. These platforms then integrate with the center of our rule engine, which is called GRO Protect, which is the underwriting platform and the backend of is our LMS system which is a vendor driven system.

All our platforms given that our emergence is of a new generation, so it is a fully integrated platform. Our platform has ability to give in-principle approval in first 60 minutes itself. Our platform have data enrichment layer where we integrate with more than 35 plus APIs and with all the kind of ecosystem which can exist, whether it is the partnered distribution system, whether it is for alliances underlying co-lending partner, whether it is form of an ecosystem which is a manufacturing ecosystem or any form of a digital direct program, so we are continuously investing in our frontend platforms and making sure that we achieve the 100% digitization which in next three to five years would happen for MSME business. Our distribution network as I said, so we talked about the knowledge portion, the technology portion, and now I will talk about the distribution side of our business. In last one-and-a-half year or two years, we have now built all our distribution engines and now it is time to scale them up.

As I said, our branch-led distribution which will constitute of 70% of our assets are divided in two parts, prime and micro. Our ecosystem is supply chain machinery, partnership, co-lending with NBFCs, fintech, and portfolio purchases from our partners and a digital direct program which is now in beta. If you look at our branch-led channel, as I said our branch led channel is both in Tier-1 and Tier-2 and in terms of the product architecture, U GRO is one of the unique company which is servicing now from the prime most customer which is below 10% yield and also to the low prime or emerging customer which are above 18% yield, so in our prime branches, which is nine prime branches, we have three products which is called Pratham, Sanjeevani, and Saathi.

Pratham is a highly templated prime customer in the CMR or credit rating band of CMR 1 to 4 and in the price band of 8% to 10% against a very high-quality collateral can be self-occupied residential property. The reason why we are being able to launch this product, this was launched in mid-March itself because at the backend of it is a co-lending partnership with Bank of Baroda. I think there is a general belief that the co-lending, our view is that the co-lending is future for NBFCs, and we have very heavily invested in last two years in order to get some of these partnership live, Pratham is now live wherein the common lending program has been agreed and approved by the banks fold and now we are rolling out the distribution of that. Our Sanjeevani program which is in the price band of 10% to 14% again is a prime customer. Our definition of prime is a customer who has both banking and GST available expect his eligibility is not automatically calculated, rather an underwriter has to go and understand the cash flow which is available beyond GST and banking. Saathi is again a bank customer which both have GST and banking expect his collateral tie is not self-occupied residential property, but it is a collateral tie which is little different or then a prime customer, so these are the three types.

We look at our prime branches by both customer type and underlying collateral type and GRO Micro is designed to service the customer, so all the prime branches are supported by intermediaries versus our GRO Micro vertical which we are now building. We are live at 25 and we will take it through to 275 in next few years is direct distribution model wherein our branches and the sales forces will go, and hunt customers and it is sub-Rs. 25 lakhs of loan, so that is our branch led product architecture. In terms of our second channel what we call ecosystem, our belief is that MSME financing gradually he is moving from collateral-based financing to cash flow-based financing and we believe that supply chain financing is the largest component of that. We have just gone live, we created India’s first, we are first financing platform on Government e-market place which is GeM Sahay and also we have invested now all form of product categories in supply chain financing, so we do in two ways, what we call anchor led wherein we go and tap in to a value ecosystem of a manufacturer and we also do non-anchor led, so our anchor led system is both vendor financing, distributor, retailer, and non-anchor can be a sales invoice discounting, purchase invoice discounting, pre-shipment, post-shipment, so that is our ecosystem Part 1.

Our ecosystem Part 2 is our entire machinery financing business. Again, we tap into an OEM and its ecosystem of distributor and dealer network wherein we understand the types of the machinery because we believe machinery financing is more productive asset financing versus loan against property. Sometimes is not productive asset financing and in that ecosystem, we do machinery as a collateral. Our underwriting methodology being same, the eligibility of the customer is predominantly dependent on banking and GST. In our third channel, which we talked about is partnership and alliances. We believe that our size of the capital or rating and the cost of capital can give advantage and we can tap into a very large ecosystem of B2B marketplaces, online aggregated, e-commerce players, neobanks, NBFC, online aggregators wherein because we understand the underlying MSME credits very well, we can go and underwrite a platform its origination and credit intermediation capacity and partner with them and expand our network rapidly, so that is our third channel.

Our digital channel is already done in beta. Our view of a digital channel is a channel which tap into an ecosystem wherein both origination underwriting and collection all can be done digitally. We tested this pre-pandemic, and we are waiting for pandemic to be over completely to launch this in full flow mode and as I said that in terms of the portfolio construct, 70% of our business would be from branch-led channel roughly around 20% to 30% in ecosystem, 10% to 15% would be co-lending and partnership and 5% to 10% would be digital, so within that framework the entire asset base would increase. On the liability management as I said that we have three-pronged strategy, one is lever our balance sheet, second is co-origination, and third is securitization. We had very high-quality success with respect to building out our lender base. As I said that from base of seven lenders, we have now more than 29 lenders.

Our cost of borrowing has been sequentially coming down. Our liability mix is very, very diversified, so we have now all form of liability side available to us, term, PTC, cash credit, NCDs, liquid facility, and CP. Almost the entire universe are private sector banks, other institutions, SFBs and NBFCs are with us now and this is very rapidly expanding.

In terms of our partnership on the co-lending side in the RBI first scheme of co-lending, we signed three partnership which is Bank of Baroda, SBI, and ICICI, but they were inefficiently designed in the RBI framework of co-lending which came first time and when the framework came in we have now re-signed our partnership with Bank of Baroda and gone live, and we are working with SBI to go live with them as well. We think so that in terms of as I said about asset side, as of today when we look at five year forward, we believe that 30% of our book would be in co-lending, 20% of our book would be in securitization, and 50% of our book would be in balance sheet led liability, but our endeavor on every passing day is to increase the portion of our off-balance sheet asset versus on-balance sheet assets.

In terms of the financial metrics, broadly we have already talked about our AUM has gone up from Rs 851 crore in Q4 FY 20 to Rs 1317 crore, disbursement has grown 80%, our debt to equity leverage we are still from 0.28x we are now at 0.8x. Our CRAR stands at 65%, number of lenders have increased, and our total asset base has also increased.

In terms of the portfolio trend, we are now seeing gradual uptick in our portfolio yield. We are still very sensitive in terms of the quality of asset we are bringing that is why we have an overweight focus on secured assets, but gradually as we are getting more comfortable as we are diversifying our asset base and that is why we are seeing an increase in our portfolio yield. Our cost of borrowing has come down to 10.4%. Our NII and NIM is now hovering around 9.1% and Rs 27.5 crore.

Our OPEX to income ratio is now gradually coming down and as we talked about that our gross NPA and net NPA is around 2.7% and 1.7%, and our PBT have moved from Rs 3.3 crore in FY20 to 12.2 crores in FY21.

In terms of the liquid portfolio overview, I will just take two more minutes. As I said all our channels are now firing, 67% of our asset is from branches, 13% and 21% respectively from ecosystem and partnership. Our portfolio is split by branch led Rs 864 odd crores is within our branch led and sectoral mix we have given machinery finance business is Rs 72 crores, supply chain Rs 211 crores, and partnership alliance is Rs 171 crores. Our portfolio is split by geography is very well diversified. In terms of the portfolio provisioning collection efficiency and restructuring, our bounce rate in branch-led channel was around 27%, this is as of March. Our ecosystem was around 9.2%, partnership alliances at 19%. Our Stage-1 asset are around 94%, Stage-2 of 2.8%, and Stage-3 of 2.3%. Our ECL provisioning is roughly around 38% higher than what IRACP norms of RBI provide for.

In terms of the restructuring, we have around 6% of our portfolio, which has been restructured. Having a sectoral focused lending institution has helped us in terms of the understanding the underlying risk. It is reflective from a factor that if you look at education as a portfolio, while this is highly stressed because most of the schools are closed, but is still, out of our total portfolio, only 6.8% of our education portfolio got restructured, so that also gives you a sense of why a sectoral focus, NBFC has better ability to control and manage the risk versus a generalized lender. We talked about our income and profitability in little details, so I will skip that side.

In terms of our goals as I said that our asset side strategy is to open our micro branches now expeditiously. There will be a lag effect in terms of the AUM build. On the liability side strategy, we are expanding our base of the liability. We are now tapping into DFIs and we are focused on co-lending, and we are now building both organizational and achieving our technology mission. Our FY '25 target which we talked about in last quarter is to reach a total branch network of 270 of which 225 would be our direct distribution branches. We will expand our prime branches to 36. We have cumulative disbursement target of around Rs 11,000 crores five years from now and our branch-led channel would be the largest contributor of that. Our long-term five-year goal from here is to achieve an AUM target of Rs 20,000 crores, interest yield of 16.5%, while we expect our borrowing cost to be much lower, but we have targeted at 9.5%, NIM of 8.5%, ROA of 4.2%, ROE of 18.8% with a low leverage of 3.8 times, so I would end here and we are here to answer any questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rishikesh Ojha from Robo Capital. Please go ahead.

Rishikesh Ojha: Sir, I have two questions from my side, one is like what can be our year end loan book for FY '22 and FY '23 and also if you could share any cross disbursement for Q1 and Q2 for FY '22?

Shachindra Nath: Rishikesh we do not give forward number by quarter or by year end. Last quarter we had decided to give an overall guidance in terms of the five year and how we will expand. Nirav, we have not yet made public quarter-on-quarter numbers, right?

Nirav Shah: No Sir we have not made the forward number public.

Shachindra Nath: The way you should think of Sir is that if you look at our executive summary slide, for FY '20 which was virtually our first year of bill, in 11.5 months we disbursed Rs 861 crores. In the second year which was the FY '21, which is the year which we are talking about when we were operational for around five months, we disbursed around Rs 639 crores, so if you take that base of five months Rs 639 crores and if you look at the expansion which has happened during last two quarters, it will give you some sense of where we would reach end of this year subject to of we remaining functional next nine months.

Moderator: Thank you. The next question is from the line of Krishnan P. S. from India Advisory - U Gro Investor. Please go ahead.

Krishnan P. S.: Thank you very much and good day to you, I would like to compliment you on the good set of disclosures in the investor presentation.

Shachindra Nath: Thank you.

Krishnan P. S.: I wanted to understand referencing the ECL data, what is the repayment status for Q1 especially April and May '20-21 for Stage-1 exposures?

Shachindra Nath: We are still looking at it, the quarter is ending today, I think so April-May both were quite depressed because if you look at our dispersion of our assets because most of our asset in the prime location which are timed branches and all of them were largely closed, so our collection efficiency were down and it has started coming back quite sharply both in May and June, I think so we have been back to that March levels is my sense, so that much I can tell you across Stage-1.

Krishnan P. S.: As a follow up of this question, would you also have data in terms of number of percentage and borrowers that have not paid for one or two months for April and May, what is the bounce rate for April and May '20-21?

Shachindra Nath: Sir, I think so at the end of July itself we will disclose the full quarter's number because we have done it for March, I understand that you would like to see the trend which is happening for April and May. I think so our bounce rate has increased little bit from what was in March and that is understandable because by end of March we came to level at what was pre-COVID levels and then both for April and May, it dropped again quite sharply.

Anuj Pandey: In the month of April-May, we have seen an increase in bounce rate over March and a little dip in collection efficiency. In June also, the same thing has continued, and we are hoping because of lockdown impact is now less and less. From July onwards, we should be back to March levels.

Krishnan P. S.: My second question was we are now taking increased borrowing limits from 3000 to 4500 crores and there is an NCD issue of 2500 crores in the offing back with 500 crore QIP, what kind of lending opportunities does U GRO see post the second phase of COVID?

Shachindra Nath: I do not think so those resolution you should take as an indicator of the size of the business, I think those resolutions were more enabling especially the QIP because we keep Rs 500 crore of QIP resolution alive and that was expiring, so we have just revived that. This company is very well capitalized company. It does not need any more primary capital given that we are less than one time leverage on our balance sheet. Our capacity to grow without additional capital is very superior, that is point number one. Number two as I was answering the previous question that if you look at the base effect, so in the first year 11.5 months which was when we were just in the process of completely setting up everything, we disbursed around Rs 861 odd crore. In a very disrupted year which was FY '21, we were operational only for four or five months, but given that during even pandemic with the level of digitization and everything we achieved, we disbursed roughly around Rs 637 odd crores. Now while the first quarter is a wash, if you take the base of five months, RS 635 crores of disbursement and if we be operational for nine months, our base has gone up in terms of our distribution outreach, so that should give you a sense of where the size would be. I do not want to comment guiding number for the year because still the market is, we just do not know about third wave, we do not know how much more disruption would happen, but if things remain normal, I think our base would expand from here.

The part two of your question in the event COVID and how we see, there are two parts of it, if you have a large existing portfolio you have to manage it far more and your energy is focused on that. Fortunately, for us we have started at a point of time where most of our portfolio is largely secured, we have a good base effect. The credit demand is there because every time we are seeing a very V-shaped recovery and every V-shaped recovery because the existing large lenders and I am not talking about the bank, but the NBFC are very focused in terms of managing their liability and managing both their assets versus we are only focused on our growth, so this is the time where we can pick and choose very high quality credit in all of our buckets right from micro credit to median to prime supply chain machinery, we are seeing very good uptick. Obviously, we must be very careful of not taking negative selection, we are not funding and as I said most of our credit underwriting is dependent upon GST and banking, it gives you very good sense of how much of actual cash flow is available with the customer.

Krishnan P. S.: Thanks for that, just as a follow up on the fund raise, so I think you have also stated that at no point of time your leverage is going to go beyond 3.5 to 4 lakhs of the equity. Going forward you do not expect any large-scale equity dilution, so my assumption is I think the return on equity ratios should sufficiently take care of further capital adequacy requirement?

Shachindra Nath: Yeah, the guidance of ROE which we have given is post dilution, so obviously this company would need capital to get to a Rs 20,000 crore of base, so think of this way. In the same breadth, I also said we expect of the Rs 20,000 crore, 30% would be in the co-lending which does not require capital, 20% would be under securitization which again release of capital, 50% on-balance sheet, so roughly around Rs 10,000 crore would be on our balance sheet and we have said we will not lever more than 3.8 times and even if you take four times, we will give you an resultant equity base which will require. Existing equity base add our profit will give you what kind of a capital raise which will be leading, but I do not think we need that capital right now for the next 24 months.

Moderator: Thank you. The next question is from the line of Venkat from 3Sigma Financials. Please go ahead.

Venkat: Thanks for the opportunity, I just wanted to understand probably you must have built a model of how banks and other NBFCs are actually lending, this is the way U GRO is lending, so with whatever liability that you are having and the bounce rate that is happening, do you have a kind of model, it need not be accurate, say for instance if we look at all the large private banks in a basket, how do you compare our returns versus this in normal general circumstance, I am not talking about pandemic situation but in normal general situation?

Shachindra Nath: Sir, sorry I could not understand what is that comparable you would like us to respond, compare us with the bank?

Venkat: I am not talking from the profitability point of view, but I am talking purely from a lending point of view because that is the closest comparison that you would have with banking or NBFC. If you take the most efficient banks as one bucket and most efficient NBFCs as one bucket and U GRO as one bucket, because you seem to be using lot of technology and I am sure you must have created a model of how the NPAs would be with those models versus your model?

Shachindra Nath: Let me try answering this in few different ways, I do not think so that banks because just lending universe is very, very diversified, so let me start for saying that 70% of lending in India is still by banks. Of the total bank population, large portion which is 70% to 80% is public sector banks, so if you look at public sector bank and their distribution of SME and MSME and their…

Venkat: No, I was talking more from an efficient private sector banks?

Shachindra Nath: Our view is that MSME financing, I am not talking consumer, not talking mid-market, not talking corporate, purely MSME financing in India is all about having deep understanding of the customer, deep sectoral specialization, and designing your distribution and underwriting closer to that, and basis that if you do a right mix of secured and unsecured kind of a mix, your loss ratios would always remain contained. If you look at majority of that universe of NBFC and most of them are sub-10 years old that is why we have given that universe of NBFC is divided in three parts, people who are focused only on one or two sectors, people who are only focused on few products, and people who are focused on geographies. Most successful such NBFCs are geographical led, so Au take an example which was an NBFC in Rajasthan converted now into a small finance bank was a geographical focused NBFC. Now, we have few in south and few in North because each of India's geography is very different, customer's psychology is different, underwriting parameters are different, so we are a mix of those sets of NBFC wherein we have a sectoral approach. Then we have a product, or a distribution approach and we have a technology led deep underwriting approach and what could be the potential loss ratio is already reflected when we are talking about ROEs and ROA, but we would be top quartile in terms of all of those metrics is our belief.

Venkat: Okay, so that will be your advantage, your IT infrastructure and technology advantage that you are going to leverage?

Shachindra Nath: Sir, it is three-fold, our sectoral expertise, our data analytics capability, and our focused distribution and our diversified liability base combined with that is our unique advantage.

Venkat: Sir, next question I have is you talked about sanctioning a loan in like 60 minutes to disbursal of four to five days, so can you broadly tell us what kind of cash flow advantages does your customers get, does your borrower get from this kind of model?

Shachindra Nath: Sir, in SME and micro-SME financing, it is time to deliver money is more important than anything else because the need of the money, because it is largely always for a short-term working capital requirement or to fulfill or do an expansion so the turnaround time becomes very important for a customer and that is why customers chooses vis-à-vis a large bank or a large NBFC, so that is one of the advantage. When we say 60 minutes because our ability, so one of the biggest problem historically in MSME financing have been that when a lender goes to the customer he used to estimate everything for the customer, his revenue because that was not visible, his expenses not visible, and profit margins, so to lend to a customer, the lender was estimating manually almost everything and that is why at the end of it, it used to rely on a physical collateral because nothing was visible. I think the digitization force, which is coming, so with GST you do not need to estimate customers revenue, you can pull the GST data and do multiple permutation and combination. With digitized banking, you can pull the banking data or the customers bank statement in a digital form and you can look at how much of total debt obligation he has, what is his expense ratio, where is he spending money, and what is the next EMI he can afford. Combined this with his bureau behavior and build a model and that is why you can deliver credit which we call virtual profiling in few minutes right so in GeM Sahay we actually not only sanction we disburse loan in almost 3 to 5 minutes versus for a main secured customer it is still checking the collateral and value and technical and legally it takes times, but still you can do lot of these things very quickly, so I think the turnaround time is very critical and that gives you higher yield also. Customer will pay you a premium for receiving money in time.

Venkat: But you have not quantified the benefit that a customer would get based on early approval and early disbursal, so it looks like you cannot quantify that kind of analysis, good if you can give it in the next subsequent quarters, may not happen because you may not have so much of data right now, but down the line probably one year to two years down the line this information might be helpful for us?

Shachindra Nath: Yeah, Sir the way you should think of this if you look at our GRO Micro vertical wherein we have a targeted yield between say 18% to 22%, more often than less this customer is for his immediate need is borrowing from informal segment at a rate of 40% to 50% versus now we are giving an ability to come in to the formal sector and borrow at 18%, so normally the arbitrage is that 10% to 15% which he is otherwise saving and that is across every product line.

Moderator: Thank you. The next question is from the line of Anil Tulsiram from Contrarian Value Edge. Please go ahead.

Anil Tulsiram: Thanks a lot for taking my question and thanks for a very, very detailed presentation and lots of exposure. Sir first question is on the unsecured loan, so two questions on unsecured loan, first whether there is any difference in the NPAs and restructured asset between secured and unsecured loan, and second is in the last two years SFDs like Equitas and Ujjivan has stopped unsecured loans of under 10 lakhs after suffering steep losses, even few NBFCs like Lendingkart, Capital Float, and Sirona Capital who tried unsecured MSME loans are suffering with very high NPAs which are in double digits, so given our relatively short operating history, how confident are we with our processes and procedures that we will able to handle the appraisal of a pretty difficult class to underwrite well?

Shachindra Nath: Sir, it is a very complicated subject which you have asked for, it needs another half an hour to explain but I will try to be short and crisp. Number one I think when it comes to restructuring and portfolio quality collateral has no value there because the collection efficiency is a function of have the money or do not have money. It is not I have taken a loan against my personal property and my business is shutdown, I will still be able to pay back a loan so whether I am a secured customer or unsecured customer, it makes no difference and that is what we are seeing in our portfolio as well. Obviously at the time of final full default, a secured customer our ability to recover money is very high versus an unsecured customer, number one. Number two, I will not comment on particular lender, but I think the way you should look at unsecured financing is the risk adjusted returns, historically even some of the names which you have taken at the peak level of losses, their peak losses were not beyond 6% to 7% of overall portfolio. The problem was more of their overweight of being only unsecured at a portfolio level. We make sure that our total portfolio level we do not cross the unsecured portion beyond 20% or so. Number two, we make sure that as an early stage company all of our unsecured is into the highest category of the bureau cutoff and our own proprietary risk score, so we select our unsecured customer from top of the pyramid versus middle or a bottom of the pyramid, so I think if you maintain this keep on a aggregate portfolio level unsecured portion lower to in comparison to secured and if you pick up the top category of unsecured and you can still command price and risk adjusted basis if you do a unsecured portfolio at 19% and even if you have a 2.5% of losses, you will still be very fine from a economic return basis, but for some of the company which you talked about their entire portfolio was only unsecured and that is why when in a cycle it became very difficult for them to mange that.

Anil Tulsiram: Got it, Sir second question is on the supply chain financing, I understand generally supply chain financing is unsecure, so in case of default what is the recourse available with you and is it linked to the GST, so actually basically what I am trying to understand is how do you ensure that there is no multiple lendings against the same invoice?

Shachindra Nath: One, I think the supply chain ecosystem and the probability of fraud on invoices is getting eliminated with every passing day, so you have platforms like **Kredx** and that is why you tap in to ecosystem, so that is why we use the term the ecosystem because it is not that you are a customer, you sold to anyone and we can discount that invoice that is more on B2B or a marketplace platforms which do that, we do not do that, we will tap into an ecosystem. In terms of comparing this with an unsecured financing I think this is a little unfair, the reason if I think of any manufacturer, think of somebody making consumer goods, if you look at distributor and dealer, they have been attached to the manufacturer for 15 years, 20 years, 30 years, most of the manufacturers provide credit to their ecosystem, their channel. Historical default in the distribution chain have been less than 1% across the board, so no distributor or dealer default to his own manufacturer, there can be time delays, so if you use the same parameter and as a lender, so if an FMCG company is selling to its distributor and you are financing and discounting that invoice to distributor level or from distributor to dealer level, if you as a lender understand the ecosystem, if you have a great partnership with your anchor and he is helping you collect as if he was collecting his own money, if there is a risk participation sharing from the anchor and if you have a technology and un understanding of the underlying product and its power, I think the supply chain financing is a very safe business.

Moderator: Thank you. The next question is from the line of Ashish Mittal from Waterfield Advisors. Please go ahead.

Ashish Mittal: Sir, my question would be more on the Management side. Do we have any plans to expand the Management given that recently you spoke was about the exit of a very senior person in the Management, any expansion plans or any new hiring plans that you have there?

Shachindra Nath: I do not know what do you mean by expansion of Management team, but as of today I think so we have done a reset of Management team. The kind of growth plan and the type of businesses and all of that if company required to bring new sets of people who are deeply specialist of their segment of the market, for example, we made a change in terms of we divided our finance and treasury function, we have Amit who is on the call who is a specialist of treasury and that is why you are seeing the benefit coming to the company, so I think our senior Management is quite in place. We have no intention of making any change there. In terms of our middle and the junior, we are expanding rapidly, so we are more and more people are getting added. If you look at it from a last year to this year, our base has increased three times so last FY '20 end we were 105 people, today at the March end we are 365 people and we are adding 50 more branches, so our total infrastructure in terms of the number of people is rapidly growing now.

Ashish Mittal: Sir, any plans to fill in the post of CEO?

Shachindra Nath: Right now, I do not think so that we are doing that because as I said that our second level of Management team each one of them are capable for being CEOs of their own and that is why right now they are very focused and I think so they have the capability to provide the leadership to the company in the short-to-medium term.

Moderator: Thank you. Ladies and Gentlemen, due to time constraint, we will take that as the last question. I now hand the conference over to Mr. Shachindra Nath for closing comments.

Shachindra Nath: Thank you very much, it has been our endeavor to present as much as details which is possible about the evolution of the U GRO. I would say at the closing that all of you should remember that this is a company, which got reincarnated mid of 2018. It started this operation at the beginning of 2019, it has now completed two years of full operational run, which is FY '19-20, '20-21 of which a significant portion has been impacted and affected. Having said so, we still believe that the underlying MSME segment in India continues to provide a very large scalable opportunity. We have all the ingredients with us; we have large capital base, we are supported by large liability side, we have great Management team distribution and technology architecture, I would say please continue watching this space. Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of U GRO Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.