05th May 2025

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001

Scrip Code: 511742

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

NSE Symbol: UGROCAP

Sub: Transcript of the Earnings Call with Analysts/Investors held on 28th April 2025

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on 28th April 2025 to discuss the audited financial results of the Company for the quarter and financial year ended 31st March 2025.

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

This is for your information and records.

Thanking You,

Yours Faithfully,

For UGRO Capital Limited,

Satish Kumar Chelladurai
Digitally signed by Satish Kumar Chelladurai
Date: 2025.05.05 16:35:17 +05'30'

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

"UGRO Capital Limited
Q4FY25 and FY25 Earnings Conference Call"

April 28, 2025

MANAGEMENT:	**MR. SHACHINDRA NATH – FOUNDER AND MANAGING DIRECTOR** **MR. AMIT MANDE – CHIEF REVENUE OFFICER** **MR. ANUJ PANDEY – CHIEF RISK OFFICER** **MR. KISHORE LODHA – CHIEF FINANCIAL OFFICER** **MR. SHARAD AGARWAL – CHIEF OPERATING AND TECHNOLOGY OFFICER** **MS. RITU SINGH – SENIOR ECONOMIST AND HEAD (INVESTOR RELATIONS)**
MODERATOR:	**MR. KISHAN RUNGTA – EMKAY GLOBAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the UGRO Capital Limited Q4FY25 and FY25 Earnings Conference Call hosted by Emkay Global Financial Services Limited.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions once the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kishan Rungta from Emkay Global Financial Services. Thank you, and over to you, Sir.

Kishan Rungta: Thank you. Good evening, everyone. I would like to welcome the management and thank them for this opportunity.

We have with us today Mr. Shachindra Nath – Founder and Managing Director; Mr. Kishore Lodha – Chief Financial Officer; Mr. Anuj Pandey – Chief Risk Officer; Mr. Amit Mande – Chief Revenue Officer; Mr. Sharad Agarwal – Chief Operating and Technology Officer; and Ms. Ritu Singh – Senior Economist and Head – Investor Relations.

I shall now hand over the call to management for the opening remarks. Over to you, Sir.

Shachindra Nath: Thank you, Mr. Rungta. Good evening, everyone. I am delighted to share UGRO Capital's strong performance for the quarter and financial year ended March 31, 2025. Our results underscore the strength of our DataTech driven business model and the progress we have made in reaching underserved MSME segment across India.

Over the past 18 months, the public markets have expressed significant concerns about NBFC's growth and sustainability. This was clearly reflected in the compressed valuation across most NBFCs and microfinance companies, including UGRO. Market concerns started with, when the Reserve Bank of India implemented several regulatory measures and series of actions, which included on 16th November 2023, it increased the risk rate on bank's exposure to NBFC by 25% points and raised the risk rate on consumer credit to 125%. On March 4, 2024, it directed IIFL Finance to cease and desist from sanctioning gold loans. On October 17, 2024, it barred 4 NBFCs, namely, Asirvad Micro Finance Ltd., Arohan Financial Services Ltd., DMI Finance Pvt. Ltd., and Navi Finserv Ltd., from sanctioning and disbursing loans. It appears that RBI is now comfortable with the efficacy of its control measures and on February 25, 2025, effective April 1, 2025, it rolled back the additional risk rate on NBFC exposure and consumer credit and also have now lifted the ban on all NBFCs as well.

In addition, two consecutive repo rate cuts announced should lower the borrowing costs and further spur MSME credit growth across our distribution network. Irrespective, we maintain during this period that the real driver of credit demands for MSME financing remains fundamentally unaffected. Our performance today validates that conviction. Crucially, none of these interventions impeded the flow of credit to MSME. We remained fully growth-oriented, our distribution continued to perform well, we continue our investment in expanding our Emerging Market branch footprint and our liability partners continue to trust us, evidenced by robust growth in our targeted segments.

In FY25, we achieved disbursement of INR 7,651 Crores, marking a 30% year-on-year increase. Notably, in Q4FY25, we saw our highest ever quarterly origination of INR 2,436 Crores, up 57% year-on-year and 16% quarter-on-quarter. The record was driven by our Emerging Market channel wherein Q4 disbursement surged to INR 669 Crores, 230% up year-on-year. We added 85 new Emerging Market branches in FY25, bringing our total to 235 and we are on track to reach 400 branches by March 2026. Our Embedded Financing Platform, MyShubhLife, also crossed an AUM of INR 743 Crores as of March 2025, reflecting our commitment to innovation and diversification. As of March 2025, our total Asset under Management stood at INR 12,003 Crores, up 33% year-on-year and 8% quarter-on-quarter. Despite rapid growth, we maintained stable asset quality, GNPA at 2.3%, NNPA at 1.6%, with a provision coverage ratio of 47%, and collection efficiency at 95%.

Our net total income for FY25 rose 27% year-on-year to INR 814 crores, with Q4 net total income of INR 231 Crores, 14% year-on-year growth. PAT for FY25 was INR 144 Crores, up 21% year-on-year. and Q4 PAT was INR 41 Crores, 24% year-on-year growth, demonstrating our ability to scale profitably. On the liability side, we mobilized over INR 1,500 crores in borrowing in Q4, taking total borrowing to INR 6,904 Crores as of March 2025. Our cost of borrowing remains stable at 10.61%, supported by a diversified lender base across banks, NBFCs, DFIs and the capital market.

Looking ahead, we will continue to expand our Emerging Market portfolio targeting a rise from 22% to 32%-35% of AUM in the next 6-8 quarters while leveraging our technology-driven underwriting, data analytics and multi-channel approach. We remain committed to operational excellence, aiming for ongoing improvement in cost to income and return on assets without compromising asset quality or profitability. In the results presentation, we have provided a fact sheet for analysts by each of our distribution channels, which guides them on disbursement volumes, yields, targeted GNPA and credit costs. This would help analysts and investors to clearly infer UGRO's deliverables in coming years. In closing, we thank our dedicated team, partners and stakeholders for their unwavering support. UGRO Capital is well positioned to capitalize on the growing MSME credit opportunities, and we remain steadfast in our mission to empower India's small businesses with tailored, high-impact financial solutions. Thank you.

Moderator: Thank you, Sir. We will now begin with the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touch tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Rushi, an individual investor. Please go ahead.

Rushi: Mr. Nath. Thank you very much for the update and congratulations on a great quarter. I have a few questions with regards to the latest release from the management with regards to the QIP and if you could give us some color around what the intention behind the QIP, that would be great.

Shachindra Nath: Yes, this resolution which has been approved by the board is nothing but a standing resolution. Every year, in order to tap the market opportunity, if required, we pass an enabling resolution so that whenever there is an opportunity, we should be able to raise capital through a QIP. It does not entail or give an indication that we are about to do a QIP. If you look at our past track report, every time annually, we just renew this resolution.

Rushi: That's perfect. So, we are not looking at raising cash where the market is still not valuing us, where we should be technically, at least based on what we think the business is worth. Would that be fair to say?

Shachindra Nath: On question with respect to the QIP, that the resolution of QIP is a standing resolution, which we renew. With respect to the new capital, it depends upon our capital adequacy and growth. And whenever we would definitely need capital for maintaining our capital adequacy, we will tap the market at that appropriate point of time.

Rushi: And how does it tie in with the existing warrants? Like, for example, we do have warrants which expire by December this year. And they are definitely at a premium to today's market price and the subscribers have already paid 25% if I am not wrong. So, I am just wondering, like, if in your discussions with them have they shown intent to subscribe to the warrant, even if the market price by December is not there, technically, because at least, I mean, the volume that they would be getting cannot be bought in the market, so the market price is not really relevant for the warrant subscribers, from what I see, because it's about 50% dilution, and the price in the market has nothing to do with the warrant conversion price, because with the current liquidity warrants, if forfeited and bought in the market would probably increase the price 4x or 5x. Would that be correct to assume?

Shachindra Nath: Yes, in June 2024, UGRO did a raise of INR 1,265 Crore of total capital commitment, of which around Rs. 1,010 Crore were warrants and balance was compulsory convertible debenture. That was done at price of INR 265. Of the INR 1,010 Crore of warrants, our existing investor, Samena Capital, which is a large fund out of Dubai, committed roughly around INR 500 Crores. There was another fund out of Singapore, which is called Aregence. They put in around INR 210 Crore, of which INR 168 Crore were warrants and then we had a bunch of Indian family offices which have put balance of the warrants capital commitment. We are in continuous dialog with most of these investors. One investor sits on our board and they are quite comfortable with the growth and the numbers we have delivered and demonstrated. Obviously, share price is not in our hand, that's a broader market the way we look at it. At an appropriate time, they would take the call on conversion of the warrant. We are quite hopeful that, you know, most of these investors would not like to lose their money and will convert warrant when the time would come. And company is also considering ways and means to see that how these warrant holders get comfort and convert and commit their capital to the company.

Rushi: Okay, thank you very much. I think that helps.

Moderator: Thank you. Participants, please restrict yourselves to two questions. If you have any more questions, would request you to rejoin the queue. The next question comes from the line of Rishad, an individual investor. Please go ahead.

Rishad: Congratulations on a very good set of numbers. Sir, my question is regarding the Emerging loan portfolio which we are currently growing. We are doing a disbursement of around INR 600 Crores in a quarter. So going forward, what is our target of returns, like ROA and ROE from this segment? Once the book matures, like you said, we are going to add around 400 branches as on 31st March 2026. So, what is our target of ROA and ROE by the time the book matures?

Shachindra Nath: I would just point that you look at Slide #21 of our presentation, which is the forward guidance, the forward-looking guidance which we have given to investors. If you look at, we have said that at right now, the exit for Q4 was INR 669 crores. This was at a base of around 230 odd location, which will go to 400 location. So which means the average number of branches this year would be roughly around 325. And we expect productivity per branch to come at INR 1.1 Crore.

The average portfolio yield would be at around 17.6% and the credit cost being 1%. Currently the OPEX for this vertical is hovering around 8% to 9% just because so much of the OPEX has gone but as the maturity of all the branches is becoming productive, the OPEX should come at around 4%-4.5%. So the way to look at this, you know, is at a 17.5% on average yield, credit cost of 1% and, you know, OPEX of around 4 odd percent, this will deliver a very strong, positive ROA.

Rishad: Sir, even after the GNPA reaching a level of around 4%, since our collection efficiency is now around 95%, once the portfolio matures, even after taking a hit of around 3.7% to 4% in GNPA, we will still achieve a ROA of 4%, you are saying?

Shachindra Nath: Sir, the GNPA and the credit costs are two very different spectrums. Given that most of loans are secured loans secured by mortgages, GNPA does not necessarily mean equal to credit costs. GNPA is a portfolio which crosses 90 plus days and because this is secured loan, there is a very strong recovery which happens because we have an ability to take over the collateral and auction back and that's why we have guided for a credit cost of 1%. So GNPA aside what you should in ROA, what you take into account is credit cost, not the GNPA.

Rishad: Sir, but in terms of LTV, what is our LTV in these loans? Say if my asset is around like INR 1 Crore, how much am I given loan based on that security?

Shachindra Nath: Average LTV for UGRO overall it must be around 55 to 60%.

Rishad: Okay, thank you.

Moderator: Thank you. The next question comes from the line of Krishnan P.S. from HNI Investor. Please go ahead.

Krishnan P.S.: Thank you and good evening to the UGRO Capital Management team. You have shared a roadmap for UGRO Capital for FY26 and some of the metrics included achieving an AUM of INR 20,000 Crore at a 4% return on assets. If you can share an update as to where we are on this growth curve and what are the timelines for achieving this metrics? And what do you see are some of the stumbling blocks towards our goal of achieving a 4% return on equity?

Shachindra Nath: If I understand clearly your question, you are saying that we have already guided certain return on assets and certain growth plans. Where are we on that? Is that the question?

Krishnan P.S.: Exactly, that's right. Yes, correct, yes.

Anuj Pandey: We have been giving guidance on what is the road map from the current about 2%-2.5% ROAs to 4% ROA in next few quarters and the major assumptions which we had given on that was on four counts. The first one was an increase in portfolio yields by about 75 to 100 basis points, a decrease in OPEX-to-AUM ratio by about 50 basis points, a decrease in cost of borrowing by about 50 basis point and an increase in credit cost by about 50 basis point and then we can very quickly take you through on what all has happened on that and what the company has done so far. On the first bit, on the increase of the total portfolio yields, the strategy which we are executing is to increase the contribution of Emerging Markets. When we started the year, it was in early teens as a percentage around 15% contribution. Today, it stands at 22% contribution and by the time we complete the next 80 branches expansion, it will start the overall Emerging Markets contribution is expected to stabilize at around 35% of our total AUM. Added to that, we also have now an Embedded Finance platform which is doing extremely well, which is at a much higher yield than our average portfolio yields. So we are very much on the path of increasing the total portfolio yields. Yes, it got a little delayed as per our original plan, but once our second leg of 80 branches gets completed, then, from where we are today, we would be about 100 to 150 basis points higher. Then, coming to cost of borrowing, overall macros, triggers are showing us and as Shachin told in his initial speech as well, the market rates are softening and we are expecting that because of that it will impact favorably in our cost of borrowings as well. Notwithstanding that with increased scale and with increased portfolio vintages, there is a chance that our ratings also will be favorably upgraded by next year.

As far as on OPEX to AUM ratio is concerned, we took a deliberate call and we have been explaining that over the last 2-3 investor calls as well, where we said that we will look into the future for medium term to long term and expand our Emerging Markets as fast as possible. That's why during last year we took the call of increasing the branches from the current to 85 more branches. That is the reason why the OPEX in the Emerging Market vertical continues to be at an elevated level but once the branches which we have opened last year, they typically will get breakeven between 9 to 12 months and the result of that will start showing next year. As far as the credit cost is concerned, we had estimated, because the Emerging Markets' contribution was going up and the overall seasoning of the portfolio also was happening, we had anticipated earlier as well that our credit cost will start stabilizing around 2%. We are still less than that, but in coming years, we think that it would be around 2% level. So, in short, the four broad strategic initiatives which we had in mind are well into execution and we are quite confident that we will start reaching the desired ROA levels of about 4% in next one to one-and-a-half years.

Moderator: Does that answer your question, Krishan?

Krishnan P.S.: Oh, yes, definitely. It does, sir. Thank you very much.

Moderator: Thank you. The next question comes from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Hello, good evening, Sir. Thank you so much for taking my question, I was going through your presentation and just wanted to know, on an average, what kind of AUM growth can we expect? Because in some parts, we want to increase it by 15% to 20%. But I think our business loan we want to kind of reduce it to meet our secured, unsecured mix. So, just wanted to know like how our AUM growth will be and going forward, what kind of a secured, unsecured mix can we expect, Sir?

Shachindra Nath: Sir, I thought from Slide #19 to Slide #23, we gave very clear guidance. So if you look at, we have said that on the Prime Intermediate Secured business, our exit run rate for the quarter was around INR 300 Crore, which would go up by 20%. So, 300 into 20%, there is a number. Then if you look at, we said that our exit of business loan was INR 285 Crore, which will go down by 30%. So, 285 less by 30%. Then we said that INR 669 Crore was the exit for our Emerging Market Secured loan that was at a base of roughly around 230 odd locations and we will go to 400 locations. The average number of locations comes to around 330 odd branches at INR 1.1 Crore, that makes roughly around INR 350 Crores a month. So that should give you the number and we have said that our green and asset channel is INR 287 Crores. You multiply by 20%, that will give you the number and on our digital, we said that it will continue at the same level. I think in those four slides, if you take our guidance and multiply the percentage, you will get the disbursement numbers.

Darshil Jhaveri: Fair enough, sir. That's helpful, sir. And sir, just wanted to know like how do we see the market currently like on the ground? Is there a higher competition to capture the customer and how is the competition hitting up and on the ground, is there like the risk that was seen in MFI and everything? So, how is the demand for like a good asset like a good stable asset? So just want to know about that, Sir.

Shachindra Nath: I would say this to all the analysts plus fund management community and investor community, NBFCs and asset classes are not homogeneous by nature. What is happening in MFI is not necessarily get translated to a gold loan or a CV or auto or a consumer financing bases. MFI customer base is completely different, its underwriting is different, origination is different. Consumer financing personal loan is a different segment. CV, commercial vehicle is a different segment. Gold loan is a different segment. So is MSME. There are multiple players in the market. Some players, when they call themselves MSME, are very close or adjacent to MSME financing. For example, if an MSME financier does a INR 3 lakh ticket size and say we do a secured loan to an MSME, they are actually closer to a microfinance customer. The microfinance borrow was between INR 1 lakh, you know, INR 75,000 to INR 1 lakh and such microfinance borrower, when it starts some business, so you think of a carpenter or, you know, an individual worker, he starts becoming some kind of MSME and become an adjacent to it.

Our customers are business customers. We focus customers which are in the turnover band of INR 15 lakhs to INR 15 Crores. We focus prime customers, which are INR 1 Crore to INR 15 Crore. We focus on emerging market customers in Tier-2, Tier-3, Tier-4 towns, which are most of the cases between INR 15 lakhs turnover to INR 3 Crore turnover. We have machinery to customer which are all above INR 5 Crore to INR 15 Crore band and we have embedded financing or merchant financing, these are retail trade customers which will be in the range of INR 25 lakh to INR 30 lakh customer.

So, our customers are business customer which have vintage, defined cash flow and are into business activity either retail trade or manufacturing. We continue to see very robust credit demand. We continue to see stability in the cash flow. We have seen for certain some select markets, especially in the unsecured loan, that there is overleveraging and stress and that's why we have brought down our business loan segment, especially in prime market, but nothing of great concern over there as well. Our view is that in next year, year and a half coming, given focus of the government, regulator and impetus on MSME financing in India, this segment of the market would be an outlier vis-a-vis other segment of the credit in India.

Moderator: The next question comes from the line of Mohit Ansari from Hyderabad Investors Forum. Please go ahead.

Mohit Ansari: My concern is regarding the quality of our borrowers. See, when we had started UGRO, we were one of the first movers into MSME financing and now that we are seeing a lot of very conservative NBFCs like Sundaram Finance also talking of moving into MSMEs, my concern is these guys are able to raise their funds at a much lower rate, so they will be lending at a competitive rate. So, what happened to us in the supply chain financing that we were left with not top-quality customers, so our NPAs spiked up and we had to sort of scale down on that. Are we going to face a similar problem because a lot of other very established and very conservative capital structure NBFCs are now moving into MSME financing. How do you look at it from vis-a-vis emerging competition from a lot of new players and old players entering into this field? And second is, any…

Shachindra Nath: Can we answer that first before we move to the second question? This is a long question.

Mohit Ansari: Yes

Shachindra Nath: On the first question, with respect to supply chain financing, Sir, I don't think so supply chain financing, the construct was completely different. In the supply chain financing, when we started, the market construct was very different. There are three fundamental changes that have happened over a period of time. One, the supply chain financing on the vendor side, there was a market infrastructure in the form of threats which came in, which allowed banks to underwrite and pay to the vendors of large corporate. So, an AAA corporate or an AA corporate, its vendor started getting very low cost of borrowing, not from NBFC, but from the bank. Because for banks, a vendor to an AA corporate was equal to a AA credit and that's why price dropped very, very significantly. Second, we wanted to pivot this to more retailer financing. So, if there is a large corporate and if there is a vendor which was supplying to the corporate, that started getting money on the trades. Then we said, okay, in that case, we will start financing the distributor and retailers of the same corporate ecosystem. But over a period of time, we realized that the cost of origination and operation and the time to build that portfolio was coming very expensive and we had other opportunities across our portfolio and that's why we said that rather than going in the lower grade of the corporates whose vendor we were financing, from a AA to go to triple B minus, we are better off to exit from that business. So, that is fundamentally very different than pure play MSME financing.

Second to your question of that lot of many players which are big one are all saying that they will get into MSME financing. Sir, the cost of borrowing is the not only reason why people can do credit. Because by that logic in consumer financing business, in second-hand vehicle financing business, they are players in the market whose cost of borrowing is also fairly similar to what the market leader is but they are not able to do the consumer credit. It is a function of your distribution. It is the function of your underwriting. It's a function of selection of customers and vintage for a particular business. We are of the firm opinion that NBFC credit is a domain of people who deeply specialize for a segment of the market and then deliver outlier credit performance and distribution performance. Bigger and diversified players not necessarily have the motivation or the same domain that they can enter into the same segment. The point in case that almost every large NBFC and large bank in India want to and are doing co-lending with us because they also recognize for the same time and effort, our credit underwriting is stacked up and they can take the advantage of their cost of borrowing by partnering with us. And last but not least, please believe me, the MSME credit under penetration in India is INR 1 lakh Crore. If every lender in the country, including all the banks, including the largest bank in India, tomorrow decides to do only MSME credit, then also each one of us would grow at the rate of at least 25% CAGR. INR 1 lakh Crore of credit gap fulfillment require roughly around INR 20 lakh Crore of equity capital and that kind of capital is not available in the market at this point of time.

Mohit Ansari: Okay. My second question was, is there any development where you had petitioned RBI and government for a separate categorization of MSME lenders among NBFCs so as to separate you from ordinary NBFCs and microfinance NBFCs? Are they going to, any development is there in on that front, separate categorization of MSME lending NBFCs like gold?

Shachindra Nath: Sir, we are doing like a company that we can petition it into the RBI or RBI would definitely take our petition in cognizance. There has been an industry wide effort which some of which we are also part of, to categorize priority sector lenders as a separate category. As we have housing finance category as a separate category, we have microfinance as a separate category. There are certain institutions, industry bodies, which believe that creating a new lending category called priority sector lenders will increase the overall penetration of priority sector in India. You would have seen a recent report in Economic Times, that overall priority sector lending in India has gone down and the priority sector includes both MSME financing and non-MSME financing. So, there is some industry effort, but I don't think that there is any concrete, you know, thought process or action as of yet.

Mohit Ansari: One last final question, important one. Co-lending percentage is going down to 42%.

Shachindra Nath: Since you have asked this question, we will quickly answer. The co-lending percentage has gone down purely because in the intervening period, as I said in my opening remarks, there was a general noise about the unsecured financing. Banks also got overwhelmed by thinking that RBI is telling them not to do unsecured financing while our assessment is that RBI said unsecured financing with respect to consumer credit and personal loan. That's why certain banks stopped the unsecured business loan on co-lending side and that's why the percentage dropped, but now it has all come back. Most of the banks have restarted that.

Moderator: Thank you, Sir. The next question comes from the line of Jay Wadhawan, an individual investor. Please go ahead.

Jay Wadhawan: Hello. Sir, you mentioned that there is a huge credit gap in the industry. I wanted to understand that everyone is growing at 25%-30%. What is our USP in the sense, are we just growing because the industry is growing or are we taking the market share from other companies? Or is that a point of concern right now?

Shachindra Nath: I don't really understand what you mean by whether we are growing or we are taking market share.

Jay Wadhawan: Yes, I will elaborate a little. So, let's say, what does the MSME look at, in a lender, while deciding what to choose? So, do we have some special offering, let's say, we are better because our credit underwriting is good. So, we are likely to have lesser NPA. But is there a specific reason why an MSME borrower will choose us over another lender? That is what I wanted to understand.

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

Amit Mande: Yes. You are right, there is enough competition in the market across all segments, but however, growth and sustaining growth is a function of servicing the customer, turnaround times and ability to be responsive to them, whether it's the customer or the channel. I think why we have been able to garner that market share that we have in the market today is essentially because of our ability to reach the customer at the right time and also give out decisions faster than the industry. You must have heard about our GroScore earlier as well and our ability to say 'No' to a customer if we are not interested in giving a loan, our ability to say 'No' is within few minutes. Post that our ability to really focus on the customers that we want to and give them a better turnaround time than the market is really our USP. So, I will kind of reiterate, one is being able to reach and service the customer better and also turn around their credit needs faster. That's the USP that we work on.

Shachindra Nath: Yes. For all those who are listening, if you go to Slide #6, it's a very interesting question that why a customer comes to us and why it doesn't choose any other lender. I don't think the answer is that there are not enough lenders today. There are definitely enough lenders for every type of customer. Sometimes it is that we are the first one to reach out. But if you look at four of our channels, first is what we call the Prime Intermediated customer. All of these customers, when we say intermediated, it means that these customers are linked or associated with a direct selling agent and they are very well established in the market. The DSA, when he receives a loan request or a file, brings to multiple lenders. A file gets logged in with at least 8-10 lenders because the competition here is almost every large lender in the country, including banks and large NBFC. Our moat here is our turnaround time because our machine can decide and give an in principle in 60 minutes, all of our intermediated partner or DSA likes the fact that we can say yes and no very, very quickly. So, if we say no, they don't waste time with us and they can take the file to some other lender. So, the investment which we have done in the machine and its ability to pull the GST, banking and bureau and take an in principle decision very quickly is the moat.

If you look at our Emerging Market in our Tier-2, Tier-3 channels, again, our deep distribution and physical credit underwriting and a templated approach. So, here we do, of our 9 sectors and 300 plus sub sectors, for this channel, we have templated credit underwriting methods. So, for a bakery, once a customer comes in, both our sales and credit need to know exactly what they have to see and their ability to then turn around and not only say yes, but how much they can do is the moat. So, it's largely physical outreach and distribution driven. If you look at our green plus asset financing, I will give you an example, in our green financing, because we do rooftop solar, none of the lenders in the market willingly understand that for an MSME financing, as long as the loan tenor and the EMI is equal to existing electricity bill, you cannot do green financing, and we automate that by looking at what the customer can pay and what is the longevity of the asset. In machinery, because we are embedded now with 50 plus OEMs, we know each machinery type, we know which machinery has got its residual life, what is the income which machine generates and ability to say quick yes is our moat. If you look at our Embedded Financing, it's a high prowess technology and data integration. So, partners like Phonepe, Fino, Airtel, which have more than 30 crores plus merchants, when we embed in the merchant app of a Phonepe or a Fino, we can within minutes say yes for a very short-term financing. So, it's very unique and large platform which is designed to service every type of customer needs in the defined timeline and that's the moat.

Jay Wadhawan: Yes, thanks and Sir, one additional question regarding this tech stack. So, we are servicing a particular sector or industry, let's say, where we have an understanding how the cash flows work. Are we expanding the number of sectors that we will cater to?

Shachindra Nath: Not at this point in time. I said not at this point in time. So, we have well expanded.

Jay Wadhawan: Okay. Sir, the second part is, is this a rule-based engine or is it constantly learning? So, do we analyze data and then come up with the next iteration of the growth score or is it a constantly evolving system?

Shachindra Nath: Anuj, you want to take that?

Anuj Pandey: While it is a constantly evolving system because it is based on machine learning, but we come up with the new versions of GroScore every 15 to 18 months because the GroScore predicts a probability of default for the coming 12 months. It is only fair that we test the model for at least 12 months and then do changes. But the learning and the insight keeps happening online.

Jay Wadhawan: Okay, correct. Got it. So, it is a machine learning module, but you give it time so that the book matures and then you can make a decision as to whether it makes sense.

Anuj Pandey: Correct.

Jay Wadhawan: Thank you so much, Sir.

Moderator: Thank you. The next question comes from the line of Heet Khimawat from IIFL Securities. Please go ahead.

Heet Khimawat: Hi, Sir, a couple of questions from my side. One is on the new draft co-lending guidelines which has come in. So, just wanted to know how does it impact the CLM 2 model which is basically when you originate the loan and then maybe T + 3 or T + 5 days it goes into a co-lending to banks. So, does the new guidelines allow that or does this change? Can you give any color on like any other major change that would have been brought about by these new guidelines? That's one.

And secondly, on the state of Tamil Nadu, we currently would be having around a 13% share on advances. So, with the government talking about restricting forced collections in the state and things like that, any idea on how things are shaping up on the ground in the state of Tamil Nadu? Yes, those are my questions.

Shachindra Nath: I will take your co-lending question. I will request Mr. Amit Mande, our Chief Revenue Officer, to take the second question. I would urge you to look at Slide #48 of our presentation. We have given our understanding of the draft guidelines. Summary answer is that we don't think so that the option 2 which is akin to direct assignment would no longer exist. But the good thing is that after all of you and analyst fraternity as well as the investor fraternity were of the view that co-lending is not a permanent feature and it is fragile, and it may stop at some point. Contrary to that public opinion, RBI has actually broadened the scope of co-lending or co-origination in India. It has done few things. One, it has now created a unified framework for co-lending between two regulated entities. So, it has broadened the scope of co-lending between banks and NBFC, NBFC to NBFC, banks to banks, technically, right? It has then broadened the scope of co-lending outside the priority sector. Now, because prior to draft guidelines, when it will become guidelines, a particular bank which wanted to do a co-lending outside the priority sector, it used to go to a RBI and take a specific approval. Now co-lending is available for all banks to banks, all NBFC to NBFC and NBFC to banks, and it is also available to priority sector. In summary, what RBI is saying is that the banks and large NBFC liability costs advantage can definitely be utilized to expand the market and give benefit to the end borrower. Number two, which is our long-standing demand that while the co-lending option 2 was as cumbersome to start with, one of the biggest problems was that when you lend at 15% and you ask a bank to give you a rate of say 9%, and you cannot provide any kind of credit support, banks were very uncomfortable to say yes to a loan because they were taking the risk on the balance sheet without the skin in the game for the balance 80% by the NBFC. Now, the default loss guarantee has been allowed uniformly. That is, it is allowed in digital lending guidelines. Same has been now allowed into the co-lending format as well. What in turn it would do that banks, you know, while they give loans to NBFC, they would be very, very motivated to now expand their co-lending portfolio because technically they will see as a risk-free origination. For example, if you look at our co-lending volumes or business, if our average credit cost is around, say, 2%, If we give provided 3% of credit guarantee, banks would see this as a credit cost neutral of 3% co-origination and they would pass on that benefit in the end pricing.

Last but not least, operational efficiency. The option 2 of co-lending was a discretionary option, which means banks could reject it. Now in option 1, when this format would become alive, banks are supposed to fund every customer. And then you can create a platform wherein two, three banks also come together. So, I think there will be some little bit of initial hiccup taking so that this would expand the market. Banks would draw massive comfort with the first loss cover being provided. Technology today, so the multiple technology platform over I think around six, seven months back, we hosted all the public market investors. We brought Yubi as the platform, which does the co-lending intermediation platform. Technology is now enabling both types of co-lending.

So today, for example, with SIDBI, we do option one and as well as option two. With Bank of Baroda, we have fully integrated on option one. With multiple banks, we have both on option one and option two. Till date, most of the banks have preferred option two, but now technology being there, FLDG being provided, the market size of co-lending, in my view, would now expand very, very rapidly and this you should see as a major liability line for NBFCs which are in A category to AA minus category.

Heet Khimawat: Got it, Sir. But I just want to follow up. So, you said like some would be on CLM 1, some on 2. So, with this CLM 2 completely ends and then everyone will have to shift to CLM 1. That is the right understanding, right?

Shachindra Nath: That's the right understanding.

Heet Khimawat: Yes, and there could be some hiccups on the disbursement in the near term until this realigns.

Shachindra Nath: Probably a 60 day, maximum.

Heet Khimawat: Got it, got it. And Sir, the second question.

Amit Mande: The second question was regarding the Tamil Nadu when the recent bill has got tabled. So, one is that of course it is just tabled and it is yet to pass. But if you look at the contents of the bill, largely there is an existing RBI code of conduct on collections which takes care of timings of call, how does the calling has to happen, how much intensity is permitted on the collections call?

I think largely what the bill is doing is reiterating those code of conduct. I also read an article where it said that this is largely directed towards the moneylenders and not the lenders. All lenders irrespective of whether it is Tamil Nadu or Maharashtra or anywhere in the country, we have to adhere to the RBI's code of conduct on collections and all lenders including us are well within those codes. So, this is not going to really impact any of the portfolio that we have.

Secondly, there are provisions like SARFAESI, which allow possession of property well defined and timelines also have been defined. We use those provisions that are available to us. So, at this point of time, we don't think this is detrimental. In fact, it is good for the consumer, where the consumers face coercion from the local moneylenders. That's our view on this.

Shachindra Nath: By the way, this Money Lending Entities Bill, 2025 does not include NBFC. So, it means coverage are entities which are not regulated by RBI. The draft says very clearly the money lending entities such as unregulated individual lenders and digital platforms but it does not override the RBI regulated entities.

Heet Khimawat: Yes, right, Sir. I get that, but then sometimes there is some collateral damage, if you see, like even if it is not applicable to REs. But yes, I get the understanding. This is helpful, Sir. Thank you.

Moderator: Thank you. The next question comes from the line of Piyush Bothra from GMO Payment Gateway India Private Limited. Please go ahead.

Piyush Bothra: Yes, Hi. There are recent market murmurs about some inorganic corporate action which might happen, a buyout or a merger or those sort of things. I would like to seek some clarification from the management.

Shachindra Nath: I would repeat what we have told the journalists as well. UGRO, because of its size, its availability of capital, we keep seeing multiple opportunities for UGRO to acquire other entities. We keep evaluating them but as of today, there is nothing which we can tell the market or disclose to the exchange. But obviously anything which comes on and there is a lot of entities which are up for sale. There are entities which are going through trouble. And you know, people keep showing us, but nothing which is actionable at this point of time, which I should tell you.

Moderator: Does that answer your question, Piyush?

Piyush Bothra: Yes.

Moderator: Thank you.

Shachindra Nath: And you are our lenders, so don't worry. If we were to do something, we will come to you first. Don't worry on that.

Moderator: Thank you, Sir. A reminder to participants, please restrict yourselves to one question so that the management can address as many participants as possible. The next question comes from the line of Chetan Falak from Vihan. Please go ahead.

Chetan Falak: Hi, Mr. Nath and team. Hi. Congrats on the persistent set of numbers. I just had one question about the high yield EM portfolio, the product. What kind of risk management are we doing on this, especially in terms of affordability and any other color you can add on the risk management? Thank you.

Shachindra Nath: Anuj?

Anuj Pandey: Your voice was not fully clear. I will just reiterate for the sake of clarity. You are talking about Emerging Markets?

Shachindra Nath: Yes, Anuj, he said that on this market portfolio, what's the risk? How do we mitigate the risk and what's the yield on that?

Chetan Falak: And especially the affordability. What kind of metrics, affordability metrics do we monitor, given that it's a high-yield portfolio? So, what kind of customer affordability do we monitor?

Anuj Pandey: So, in our Emerging Market vertical, we operate our branches in Tier-2, Tier-3, Tier-4, Tier-5 cities, where the specific target segments are customers up to turnovers of INR 3 Crores. Here, when we started, we gave loans up to INR 50 lakhs ticket size, collateralized by their self-owned residential or commercial property. But with our experience in prime markets of giving slightly higher ticket size loans as well, last year we started experimenting with slightly higher ticket size also with great success.

So overall, from an affordability perspective, it is quite affordable because that market yields are in the range of 21% to 24%. Our average yields in this segment last year were in the vicinity of about 20-21%. As we increased our ticket sizes there, in our fact sheet also we have projected the incremental yields to be around 18%. So, it is very much affordable. These customer segments, typically in Tier-3, Tier-4, Tier-5 towns, otherwise are taking loans from local market sahukars or very small NBFCs. So, they welcome when a very large franchise like us comes up, comes and gives an offer which is quite certain and very transparent in nature.

Chetan Falak: Okay. So, a follow-up on that. So, that's relative affordability, right? So, in terms of absolute affordability of the customer or the business provider, do we have any graph on the cash flows of the business and whether they will be able to meet ends meet in case of a slowdown?

Shachindra Nath: Yes, it is a very, very comprehensive scope which we have on that. So customers, within the Emerging Market customers, whosoever turnover is greater than INR 40 lakhs where GST is applicable, we take help of GST, banking and bureau like our prime and do a statistical cash flow analysis. For customers who are slightly lower turnover, we do a very detailed personal discussion, and our credit manager goes on the field and assesses the cash income which he generates through the templated models which we have for each sub-sector within the sector in those.

So, if he is a small tiffin home, then we have our own proprietary developed cash flow input statement. If he is a small contractual worker, then we have a different model. So, we have about 50-60 of such templated cash flow analyzers in place, which we make use of. So, each loan before it is sanctioned, we ascertain the cash flows and the customer's ability to pay EMIs in time.

Chetan Falak: Okay, great. Thank you.

Moderator: Thank you. The next question comes from the line of Vivek Kumar from Bestpals LLP. Please go ahead.

Vivek Kumar: Sir, my doubt is regarding the co-lending thing. So, how restrictive is it in terms of our future growth and how dependent are we if the new guidelines, the option one has to be taken, how eager do you think banks will be in passing on the rates and co-origination and trying to get integrated? All these things do you think is more restrictive or this is actually better for us in the long run in terms of co-lending being part of?

Shachindra Nath: Yes, I did a detailed explanation to the IIFL analyst. I will repeat. In our view that co-lending, now in the draft guideline, RBI has clearly indicated that co-lending is here to stay in a bigger and broader format. They have formalized co-lending between NBFC to banks. They have also formalized co-lending between NBFC to NBFC, which means large NBFCs which have cost of borrowing advantage would be free to do partnership with people like us in a regulated format.

Number two, because now co-lending first loss cover or default guarantee has been allowed to be provided by people like us, banks would become more motivated to move into co-lending because they will find this as a credit-cost free kind of origination for themselves.

And third, with respect to operational assets, as I said, with most of the, at least three, four of the technology platforms have fully evolved to do co-ending in the format of option one, which is co-origination, or option two. And as these two things would coincide, we don't think that would be a major challenge. Obviously, when we sign up on the new format, there will be initial hiccups, which is operational hassle, which is no different than when we onboard a new bank for co-lending. But in summary, we think so that the co-lending market would expand at least three times in aggregate from where it is today.

Vivek Kumar: So the integration issues is not going to be taking a lot of time like between banks and NBFCs.

Shachindra Nath: No. All the co-lending platforms have the ability to do both formats.

Vivek Kumar: Got it. Thank you, Sir. And Sir, an ROE of 4% is like, because you stopped giving this in the presentations now, is it like you want to get back to it once you get more clarity or can you guide on how many years or how many quarters away that is?

Shachindra Nath: No, it's not a question of that we have stopped giving. I think what we found it to be more prudent, we are at it that finally in order to create value for all of our stakeholders, shareholders and generally we have to get to a 4% return on asset and targeted return on equity. But we thought it would be more prudent because the market being very dynamic, our ROA bridge consisted of four elements – increase in portfolio yield, decrease in cost of borrowing, increase in credit cost and decrease in operational efficient or improving our operating efficiency.

We thought that rather than just making the broad statement, we give product by product trajectory of how we will evolve. That's why this year, this time at the year-end presentation, we have guided by our channels and what we will do in each of the channels so that people can infer that where are we standing. We continue to be on the path, and I think that the target which we have given will be there in six to eight quarters.

Vivek Kumar: Thank you, Sir. Thank you, Sir, and all the best.

Moderator: Thank you. Ladies and gentlemen, the last question comes from Ramesh Chandrasekaran, an individual investor. Please go ahead.

Ramesh Chandrasekaran: Hi, Congratulations on the excellent set of results. This question largely is on the fund raise that you guys made in May, where it came with both warrants and convertible debenture. We are hearing certain changes in the way you are doing warrants. Is it also applicable for the CCDs or it is only for the warrants?

Shachindra Nath: So, we are continuously in engagement with the people who have put capital through warrants and CCBs. We are trying to see that what is the best form. We are hopeful either the share price recovers so that the warrant holders don't lose money, and the company gets the required capital, or we are in discussion with alternative route.

I can only tell you this much that all of our warrant holders and some of them, especially, one of our investors, which is an investor who sits on our board, along with other warrant holders, are fully convinced with the UGRO's business model. The growth it has delivered and that its performance is on track. So, we are in continuous dialog and there are discussions on. We will see how it evolves. There is nothing which I can report right now and I can tell you till the time we have an approval from our board and our shareholders.

Ramesh Chandrasekaran: Okay, sir. Just one follow up there. Are you making a distinction between warrants and CCDs in this entire approach or you are treating that on the same footing when you go back to your board?

Shachindra Nath: What I am saying is that we are in continuous dialog. There is nothing which has been approved as of yet for which I can tell you on a public forum right now.

Ramesh Chandrasekaran: Got it. Okay, thank you.

Moderator: Thank you. Ladies and Gentlemen, that brings us to the end of the question-and-answer session. I would now like to hand the conference over to the management for the closing comments.

Shachindra Nath: Thank you all of you for spending time with us, going through our story quarter-on-quarter. We hope that as we have delivered a very strong performance, the market would start appreciating the effort being done by the management. We hope to come back to you every quarter and give very transparent and open view about what we think about the market and what we think we are delivering. And thanks for spending time.

If anyone of you whose question has not been answered, or whose query has not been addressed, we are more than happy to answer those questions or queries on a bilateral basis. Ritu Singh, who is our Senior Economist and Head of Investor Relations, would be very happy to engage and answer those questions. Thank you so much for your time.

Moderator: Thank you, Sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. You may now disconnect your lines.