# "UGRO Capital Limited
# Q2 & H1 FY22 Earnings Conference Call"

## November 03, 2021

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**Management:** **Mr. Shachindra Nath - Executive Chairman and Managing Director**
**Mr. Amit Mande - Chief Revenue Officer**
**Mr. Anuj Pandey - Chief Risk Officer**
**Mr. Amit Gupta - Chief Financial Officer**
**Mr. Rishabh Garg - Chief Technology Officer**
**Mr. Nirav Shah - Chief Strategy Officer and Head – Investor Relations**

**Moderator:** Good morning, everybody. And welcome to U GRO Capital Q2FY22 Earnings Call. We have along with us, Mr. Shachindra Nath who is the Executive Chairman and Managing Director of the Company. Along with him, we also have the management team of U GRO Capital. We will begin with Mr. Nath giving us an overview of U GRO journey since inception, update on distribution channel and technology, and Q2FY22 performance post which we would open the floor for questions and answers. Over to you, sir.

**Shachindra Nath:** Thank you. Thanks all the attendees to join our conference call just one day prior to the Diwali. Wish you all a very Happy Deepavali. Along with me is also Mr. Amit Gupta, our CFO, Mr. Amit Mande, our Chief Revenue Officer, Mr. Anuj Pandey, our Chief Risk Officer and Nirav our Head of Strategy and Investor Relation. As we have always been doing, given youngness of our company, rather than just straight talking about the quarterly numbers, we have to explain how this company is being built over a period of last two years, and how the future look like. So, we would request your patience in hearing out the full presentation and a little bit understanding of how we see that we are differentiating ourselves in the MSME financing business. So I will begin with that.

So the executive summary is, since we started because I think so what we have seen in public market that we are normally compared with much older companies versus our company is relatively younger, but has been built on a base of both capital infrastructure and people infrastructure to build a scale. We started our journey, we raised the entire capital of around Rs 950 Plus crore for this company in July of 2018. We began our operations in Jan 19. So Jan 19 to March 19, which was the first three months of period we did around Rs 53 odd crores, which was our pilot and then the first full year was from April 19 to March 20. You would all recall this is a period, which was the most turbulent times pre-COVID for NBFCs because this September 2018, we had an IL&FS crisis. So we made sure that during that period of time, we do slower asset build, but we continue to build our infrastructure so that our first full year we did around Rs 574 odd core. And unfortunately for us immediately after that, we had the first round of pandemic which halted all of the lending operations, but we use that time to continuously build our both digital infrastructure and people infrastructure. And in that last five months of the COVID round two, we increased our business to Rs 1,375 odd crores and then we had another three-month shutdown, which was in COVID period two, and now we had resumed our growth stage and we are now benefiting from both our data analytics digital infrastructure and distribution franchise and the liability franchise which we have built. So this is the journey.

We request everyone to contextualize us that, this company has been in operational existence for almost three years now of which around one and a half years have been completely broken periods. In context of that, but if you look at how we have done and how we have been evolving, I feel very happy that all of that investment which we have done is showing its result now, and it would continue to progress in the same way. So this is our disbursement trend. In September 20, which was immediately post COVID round one, from Rs 115 crores of gross disbursement and net AUM disbursement of Rs 68 crores, in September of this year we have moved to Rs 288 crores and Rs 229 crores.

Some people believe this is a hyper growth but actually the size for which this organization and infrastructure has been built, is for much larger business and that is now coming in fruition because we are now fully open for business. And that is resulting into an AUM growth, and as of September 2021, we were Rs 1,933 crores. We are adding around Rs 200 crores of AUM every month. And I think, in the last quarter of FY22, when all of our distribution franchise would mature, we should be at least double this rate from where we are. And this is where we stand overall.

It's a company which is at a Rs 958 crore of net worth, Rs 1933 crore of AUM, cumulative disbursement of more than Rs 3,600 crores. We service now more than 10,000 plus customers and that is growing. One of the good things is that our liability side franchise has done relatively well in a period of market, which was difficult for NBFCs. We have a large number of active lenders, our gross debt has now reached to Rs 1000 odd crore and our headcount, our people franchise, has been increasing since we have launched our U GRO micro vertical, wherein we added roughly around 40 odd branches. Our headcount is increasing so, we have 700 plus employees now.

And with two rounds of pandemic, our portfolio quality relatively have stood the test of time and that is reflected in our gross NPA and net NPA numbers. This is the comparison of last year to this year, though this comparison is relatively not very important given that the base effect was not there. So, we are not a company which has a size of an AUM and we are growing from there.

In terms of Operating Metrics, I think so we are showing relative improvement with every passing day. You would imagine that a company which is both growing and investing simultaneously, some of our investment would yield result over a period. And that's why our debt to equity ratio, because we were equity funded in Q2FY21 versus now, we are still a highly under levered company, but our debt to equity has reached 1.14x so as our capital adequacy ratio.

Most relevant is that our yields are now stabilizing. We have taken this strategic call at the beginning of this business that we would operate in the first three years of our business into high credit quality MSME segment at a lower yield. And over a period of time as we mature, our higher yield band would start kicking in, and that is gradually happening. We are not open for turning the portfolio construct of secured to unsecured, we are over weighted to secured business and that's why our yields are a little lower but now that is gradually opening up and that's why our yields are stabilizing somewhere around mid 15%.

Our cost of debt has been coming down over a period of time. I think given our size of capital, our cost of debt should be much lower. But it is a transitionary phase, most of the lending institution in first three, three and a half years, have to show the resilience of portfolio performance and consistent growth and then that gives them a rating upgrade and cost of borrowing keep coming down. So, we would remain in the same range but at the same range, size of our liability is now growing quite a bit.

And last but not least, if you look at our entire peer set, which is mostly unlisted domain, we decided to start this company in listed domain because we wanted to make sure that the public market also have the benefit of early stage growth companies. But most of our peers set in the first year of their operation would burn significant amount of cash. We have taken this call that we will calibrate our size of growth, but would remain profitable and now we have to show relative improvement in terms of the metrics which is return on equity and return on asset which will happen over a period of time.

I would now want to take you to what is happening in MSME lending landscape. We keep saying that MSME lending landscape is reaching in next two to three years, where consumer financing is. So MSME lending in India, because of the maturity of the data would reach from collateral to cash flow underwriting, and some glimpse of that I wanted to give.

Number one, there is what we call in India Stack 2.0 evolving, which is we call the UPI moment. The historical problem of MSME financing, not being able to understand the revenue, not being able to understand the expense and have difficulty in assessment of cash flow, is gradually changing. It is changing because of this entire Open Credit Enablement Network, which is just coming where in lending institutions would have access to data on tap through multiple modes. If you have a high data analytics company, you will be able to use that data and be able to underwrite. I think the risk assessment process product and engagement all of that would evolve around the OCEN framework and between legacy and new generation FinTech that is the differentiating factor. Legacy institutions rely on their physical documentation, which is the historical cash flow. When it comes to MSME, it is at the point of decisioning you will have to evaluate of feasibility or an intent to be able to pay back and that is what is changing the credit dissemination. My personal belief is that, in the next three years, there is a massive influx of MSME financing which would happen in India given the relative size of MSMEs and its contribution to GDP.

Second is, which is changing the landscape for MSMEs in India, is the level of digitization. The level of digitization, which is happening, for this is exactly the same what has happened around 10 years back. For consumer, every piece of component which helps in underwriting, disbursing and collecting, is now getting digitized and that would help new generation entities being able to give on-tap financing. So, that is also now coming in full flow.

And third is, this whole OCEN network would divide. So, earlier it was a bilateral relationship between a lender and a borrower. But now, you would see an emergence of a middle layer, the people who will facilitate the credit and which will be called on the OCEN as loan service provider, it can be anyone, it can be an Amazon, a Flipkart, it can be a manufacturer, anyone who has a base of a merchant or a customer or a small business. And then, they have an ability to showcase not only their financials, but also transaction data, you can combine the three and underwrite the customer and that is what would eventually change.

So, most of the exuberance, you're seeing in the VC market for new generation FinTech, which are payment platform, it is relying on the future of this. When it comes to MSME, you don't have to look at what this business has done on the balance sheet basis rather you are lending, on the basis of a particular transaction, which is linked to a transaction flow. And that would get further accelerated when the account aggregation, which is the new mode of licensing, which RBI has done, comes in full flow. What it does or what it changes, it changes that on a single basis. Everything which we believe is required for underwriting is available on-tap.

When UPI started, nobody believed that such high level of volumes of payment flow would happen through UPI. And we are sticking our neck out and saying, once the account aggregation and entire OCEN network would come in full flow, the size of MSME credit in India from the current level, can multiply in many fold. And some bit of that is happening, we have done actually, you know, transformative platform plays along with government in marketplace GeM Sahay, but all of this would change the MSME credit from traditional balance sheet lending to embedded credit buy now play later and so, basically, where we are mostly present.

In terms of what we do and how we do it, for those who are attending for the first time, we started this business of saying that we are bringing homogeneity to a non-homogeneous sector. What I mean by that is that when it comes to MSME, two type of small businesses are not same, a dentist and an IVF clinic are not same, K12 school or an engineering college is not same. Specialty chemical manufacturer and auto component manufacturer or not same. Lending institution, try underwriting them on same methodology. And that's create problem. And that's why you have to find homogeneity on a very large number of sector. In 2019 when we started, we looked at the entire 180 sector in which MSME operates in India, we drilled down to 20, and then we drilled down to eight sector. And we continue to operate in those eight sectors which are chemical, electrical equipment and competent, hospitality, light engineering, food processing, healthcare, auto competent, education, but we have added micro enterprises.

What we have realized that sub Rs 15 lakh rupees of loan to find homogeneity they are in themselves are homogeneous and driven by a particular cluster, rather than by sector. So, we operate in this domain, but within our sectors, we don't do everything. In order to build deep expertise, we have created an ecosystem around these eight sectors and around 100 sub sectors. So for us, a caterer to a K12 School is K12 ecosystem rather than caterer itself. So that is the way we look at our universe of lending. And, you know, we started with what we call this concept of what I said finding homogeneity, we created that through a deep research and expert scorecard, our 100 Plus expert scorecard look at different operating parameters and give a tool to our underwriting officer, what they have to look in a small business at the point of underwriting and created a template of giving weightage to different operating parameters. This is an IP which we are creating over the next five years or so, we will have a templated platform wherein every small business can be underwritten differently. And we added in supplement that through a massive data analytics tool, which we created what we call our sectors specific scorecard, we have filed patent for this, wherein we looked at roughly around 80 lakh loan records, we segregated those low record in sectors, sub sector, geography and ticket size, and we tried filtering 20% of the bottom of the pyramid which contributes 80% of the loss ratio. Actually, two rounds of pandemic has proven that our data analytics driven underwriting actually works, and that is now reflected in our portfolio quality.

In 2020, we evolved this because once the pandemic hit, we had a time of around eight, nine months to rethink and redesign and adopt to the newer changes which has happened, which we call the force effect of the digitization, and how we did it? So today, we moved from our entire underwriting to this what we call the data tripod. So, as I said that traditionally five years back or four years back if you look at a large lender would go to a small business and ask for balance sheet, ask for income tax return do multiple other things, we believe that that is not required anymore. 100% of our all programmes in underwriting, the first point of interface of underwriting is driven on this data tripod, which is GST, banking and Bureau. GST gives us 400 Plus parameter, wherein you can analyze the entire turnover, quality of turnover and the exposure which an entity is taking. When you take the GST and cross analyze it with banking, you can look at the quality of business which is being reflected in the formal sector. And banking also gives you a real cash eligibility, ability to pay back not on one-year-old record, but at the point of the underwriting and Bureau gives the behavioral analysis, it's just not a cut off of his score, but it gives you a behavioral analysis of how this customer would behave. So we have evolved this tripod of data and matured it and actually our results are coming out well, both in terms of portfolio quality and also our underwriting. And our statistical scorecard, we have evolved into what we call GRO Score 2, which has now the ability of also forecasting the future cash flow by combining the bureau in the banking data and we are adding GST and also being able to segregate customers into different categories A, B, C, D and E. In last seven eight months of our data analytics shows that whatever is our statistical scorecard defines A in terms of the portfolio performance, actually the portfolio performance, the bounce rate, the collection efficiency for those customers actually are very different or very superior to E-classified customer. So, I think that these are the changes which we have brought in and which are making sure that we are confident of the scale which we can get now. Second is that India is very large country, SMEs are in different pocket, we call it vast geography, varying need and multiple sources of origination. So, we have multiple types of small businesses and most of them are still private, some of them are now coming in public market, but there are people who serve the micro MSME segment, sub 25 lakh in a particular state, there are people who serve machinery finance business, people who serve supply chain, people who do buy now pay later, Merchant Financing. We have tried to build because we said that our aspiration is to dig 1% market share of outstanding credit, 1 million customers and that's why we decided to build their distribution franchise, which has the ability to serve right from one lakh rupee borrowing customer to three crore borrowing customer and we have done this in four ways. So, I think so one of the advantages of pandemic for us that we had the time to continuously build our infrastructure. While we are a highly digital company, you can call us as the FinTech as well, but our belief is that any digitization without the support of physical infrastructure in India doesn't work. And that's why we have taken a four pronged strategy in terms of our distribution channel. Branch led, wherein we have physical branches. Ecosystem, wherein we look at a particular ecosystem and finance. We have a platform wherein we are bringing multiple types of partners with whom we lend. And in the last quarter this year, we will launch a full digital platform as well.

In terms of our branch led channel, we have two parts. One, what we call the prime branches where we are at around 14 odd locations and we will take it to 25 locations. We have micro branches where we are expanding rapidly. So today we have 41 plus branches, we will take it to roughly around 100 by this end year and we'll take it to around 250 in next few years. So, these are the two types of the branches. The reason why they are segregated is the kind of product we do. In our prime branches we serve a prime customer. The definition of a prime customer is it a customer between 50 lakhs to three odd crore by defining by three different products. They are prime because both on the rating curve, they are either in the bureau CMR one to seven customer. Their type of collateral is prime and reported, and their payment behavior is all formal. And most of these businesses are done through intermediated, which means that there is a point of intermediation or a partner. We're in our underwriting risk collection all of that is in-house, but the customer is being brought to us in the main prime location by somebody. Second is the micro segment, which is the tier two, tier three, tier four, we have taken the call that we will operate in five or six states wherein our data shows that there is the resilience of portfolio which can be generated, and these are the customer which is retail trade, small wholesale trade for up to 25 lakh rupees of borrowing and there are different price curve. So, not only we serve customer from one lakh to three crores, we also today serve customer with the borrowing needs between the price range of 9% to 18 odd percent. So, that is the universe which we started operating in our branch led channel.

Second is our supply chain. India has around 100 billion dollar of credit gap just in supply chain itself. We think that, this is what would take collateral to cash flow based financing. So, we've invested very heavily in our entire supply chain framework, we are now going live on creds, we have built the entire Gem Sahaya platform, and we look at supply chain in both, we do it through an anchor led, wherein we do vendor financing distributor dealer, we go right up to the last mile value chain, we can also do a non-anchor led. So if you are a supplier of a honey to Dabur, we don't need Dabur to confirm anything. Our data analytics platform can look at the periodicity of your invoice and the payment periodicity and bases that can discount the invoice. So that's our second channel of ecosystem which we call supply chain. Why we call it an ecosystem? Because we rely not just on the customer data, which is his turnover and cash flow, but we also look an ecosystem through which he operates. And as we said that we have anchor plus we have FinTech partners to do that. We have built India's first prototype fully integrated OCEN network platform on Gem Sahaya, we are integrated probably we are the largest lender on Gem Sahay. Roughly around 700,000 plus sellers are there. We have done large number of transaction and it is growing there.

Second part of our ecosystem is, what we call the productive asset financing which is Machinery. In India, we have companies like Electronica and Siemens who do machinery finance. The advantage of machinery led secured financing is that, when you lend against the property, sometimes the money can flow out of the business of SME, it is not used for generation of productive asset, versus a machine has a productive revenue attached to that. So, we are embedding ourselves with roughly around 150 plus of OEMs in their point of distribution and originate and finance a machinery and this base of MSME customer is potentially available for us for cross sell, the term loan, the working capital, plus others. So that's our second channel.

The third is we have built an actually we have evolved this as the India's probably largest platform of supporting and reaching to the last mile. So as you know that there are a large number of merchant ecosystem emerging out of Amazon, Flipkart, Zomato, you know, many of them. There are two ways to reach and service those customer, we go and integrate with them directly, which we are also doing that. But the challenge there is that mostly these portfolios are generated at a 20, 25% yield rate, but have a potential loss ratio of 3 to 5%. We've taken this call that reaching to that last mile, the massive FinTech ecosystem and a small NBFC ecosystem, our cost of capital can support going through them. So it’s an API box platform where in our score, underwriting combines with a partner score underwriting and we service the last mile customer. So if the customer is at a 25% yield, we might be doing at 15% with our partner, but the partner would give us the first loss cover, which means that our portfolio would not have the same level of delinquency which is potentially there in that segment of the market. So that is the way we have evolved this and on the same this is the platform called GRO-Xstream. On the other side of the platform, we have large banking partners coming. So we are live with Bank of Baroda, we would be live with IDBI soon we should be live with another large bank. Eventually these banks are co lending on the portfolio generated by us, but banks would have an opportunity also through our platform to do co-lending to all of our underlying partners. So this can eventually become a very large marketplace. Co-lending is future so this can become eventually very large marketplace for large liability providers to become a co-lender to not just to us but many of our partners.

And as we said that last quarter of this year given all of what we have done, we have now ability to launch a digital product. I think so by the end of the next quarter we will come with full flow of what digital program and how our customers can reach to us directly and can take an on-tap financing. This is our platform what we have developed over a period of time, our platforms are fully integrated. I think so is one of the only platform in India which has an ability to lend with or approve a loan within the first 60 minutes without the physical touch and then supported by underwriting team. How we are funding our customers? So, as you know that this company it's an institutional platform, we are driven by large number of institutional capital provider and we continue to diversify and grow our capital base and we divide our liability side in three parts balance sheet led, co-lending and securitization.

In terms of the balance sheet side, I think so we feel very happy that over a period of last three quarters, the large number of financial institutions have now started relationship with us. Almost the entire universe of public, private sector bank SFBs and NBFCs are now with us. We have done multiple capital market trade. And now we have the DFIs are coming to us. They would realize that all of our portfolio, out of the total SDG goal, our portfolio qualifies for five of the SDG goals, we are an ESG compliant company, and the kind of impact which we are creating we are now being able to attract multiple small to large DFIs. So as a source of capital, this would become a permanent source. But more so our belief is that banks term lending to NBFC would continue to evaporate because banks are not comfortable taking exposure onto the NBFC, but they are happier to take exposure of the end client. Now it's a very complicated process. It is evolving as securitization has evolved 10 years back co lending is now evolving, but we are at the forefront of it. Our two year of effort both on the technology side and also on the underwriting and understanding in bringing the bridge, we have large partnerships which are now emerged. Bank of Baroda, IDBI and State Bank should happen soon, we are already signed partner with them. But under the revised guidelines, we will start soon. But that gives us an ability to become really in lending as a service, originate and automatically sell wherein we focus on the core which is distribution, underwriting and servicing the customer and liability flow keep coming to us. And also it eliminates the need of constantly raising capital and this is very efficient to use. The ROE creation through a co-leading model is very, very superior. So hopefully like it has happened in US, it should happen in India as well and this should become permanent structural change for NBFCs in India.

In terms of our governance and team I think so this is a company which is completely driven by its board. Any shareholder which has more than 10% of our company have automatic right to get a board seat. Our entire board is supervised by a set of majority independent directors. We have brought people from multiple domains in financial services industry, besides our management team, which is here with you, we have made sure that our initial period of time we invest heavily in all of our three layer of organization. So this company is not driven by one or two people the 700 people are driven by a very high quality, very experienced, you know, 75 plus management team, which is what we call L1 and L2.

In terms of the portfolio view, most of this data is already reported. So our largest channel continues to be a branch led prime channel which contributes 62 odd percent and all of our channel have now started growing. Our headcount is growing in our micro business and because most of our branches are three to four months old, the real result of that would start happening in next financial year. By the end of this year, we should be exiting at a good run rate, but the high yield portfolio which will come in our micro business would start happening in next year. This is our sectoral portfolio snapshot, regional portfolio snapshot. Last but not the least I think so in terms of this there is lot of noise around portfolio quality. Obviously pandemic was not in anyone's control. We didn't design anything for that. But fortunately, because in our pre pandemic period, we had focused largely on low yield secured business, our portfolio quality have remained stable and it has come back very strongly. All of our stage one asset are more than 95%. In terms of our restructured portfolio, we are at 7% which is much lower than the industry peer set. And within that the largest contribution is obviously hospitality and education. Education is coming back very strongly. None of our restructuring is wherein we have created a terming out which means that we have delayed the problem for a long period of time most of our restructuring is EMI reset. I was paying in 10 lakh rupees of EMI my cash flow has now become half. So, we have reduced the EMI five years and we have increase the tenure. So, that is the kind of restructuring which we have done. In terms of the financial so I think so we have done relatively well. I think our base effect of a AUM built out is now resulting in our profit to increase over a period of time, but it's structurally where quarter two we did a PBT of Rs 4.7 core, but we genuinely believe that every passing quarter because of our AUM is growing and opex is not growing in the same sense where our headcount is growing exponentially, but not in terms of that absolute cost, our profitability would start tracking towards an upward trajectory. And this is how we want to build on asset side, we continued to open our physical branches and mature our prime branches and invest heavily in our digital infrastructure. Liability side, we are now targeting DFIs to come and co-lending to become functional. And this is what we will do in next few years is given. So, I'll pause here and wait for questions. I along with the entire management team would be very happy to answer any questions. We have actually 95 people so we'll take questions, right away.

**Nirav Shah:** Shachin, just try for video rights once again. We'll try and have the management team video switched on.

**Shachindra Nath:** Well, I would do that.

**Moderator:** Thank you sir for that detail backdrop. And I think now everybody can start their video. We'll begin with Q&A now. I request participants if you want to ask a question, please click on the raise hand icon to ask a question. We'll wait for a minute before which we start with Q&A. So to begin with, we request Anil to please go ahead with your question.

**Anil Tulsiram:** Yeah, thanks for the opportunity, and let me tell you, sir, your presentation is very detailed, and I will rank it among the best among all the NBFC and banks. So thanks for excellent disclosures. You've already touched about the co-lending in your presentation, but I have a few more questions on that just to understand it better. Sir you have a product called Pratham under which you are lending at less than 10%. So what I want to understand is I think it is under co-lending. So because of co-lending do you get any cost advantage because of which you will be able to compete better with the larger NBFCs and banks. That is the first question on NBFC. And the second related question on co-lending is your ROAs will it be same under co-lending versus if you take directly term loan from the bank? So these are the two questions on the co-lending.

**Shachindra Nath:** Yeah, I would take a step and Amit Gupta can add on to that. First and foremost, sir, we would have not been present in that segment of the market had it not been a co-lending, because our cost of borrowing today is roughly around 10.4% So logically, we logically we cannot lend a customer at 9%. The reason why we are being able to do is because when I lend to a customer at 9%, 80% of my book get transferred to the bank, post disbursement, and on that 80% I get a fees. And that's why my blended return on my 20% is higher than my cost of borrowing. And that's why we are being able to do that business. Second, in lending business, if you lend or if you have an outstanding book of 100, for our size of NBFC you have to need at least 30 rupees of capital to earn your spread of 3-5 percent. In co-lending actually, you earn the same spread, but you don't have to provide capital because it's an off balance sheet asset, and you have no capital charge and it is a Pari-Passu transfer of assets so we don't provide any kind of credit support as well. Amit, if you want to add something.

**Amit Gupta:** Mr. Nath, you have actually explained most of the advantages. The one another thing which basically co-lending brings to the table for an NBFC like ours, you know, most of our secured term loans are actually done door to door of 10 years or maybe sometimes higher. So when you do co-lending, your average tenure on the secured portfolio, because most of our co-lending is actually being done for our prime secured products where our door to door tenure is 10 to 12 years. When you do co-lending immediately your 80% of that book actually gets transferred to the bank with whom you are doing the co-lending. So your duration on the asset side actually comes down, which ensures that by doing the co-lending, you are also able to do your asset liability management in an efficient manner because on your liability side, it's very difficult to get liabilities which would be matching this kind of tenure.

**Anil Tulsiram:** Got it. And sir second question I'm sure many people must have already asked you this question. We have target to reach 1% of MSME market which means we need to double our balance sheet every 12 to 18 months. So definitely our processes and others are lot superior to other NBFCs, but in the past whenever any NBFC or bank has tried to grow at these rates, they have faced some problems. So, what are we doing so, that we don't face any such problems?

**Shachindra Nath:** So, this is a very difficult question to answer, but I think you have to contextualize in this way. One, size of the market second, our capital support and the kind of distribution infrastructure which we are building. You are right we have said by 2025 we would have an AUM of 20,000 odd crores, but remember that large portion of that business is coming from our prime segment and an average ticket size of around 2 odd crores but going largely So, we have set that of the 20,000 crore almost 50% of our business is our balance sheet is through securitization and co-lending model. Second the number of asset channels which now we have built. So, U GRO for MSME segment within our defined eight sectors and micro has six verticals through which the asset are being originated. And there is both management capability, technology infrastructure, protection mitigation infrastructure has been already built. So prime wherein our prime business under Mr. Mande is managed by three national sales head, and then by multiple structure of regional head city's infrastructure in 25 odd locations. Our micro business is headed by a Chief Business Officer and then two national credit heads and then a large number of branch infrastructure. Our supply chain business is headed by a very experienced business head who has done the same business for last 20 to 25 years and then a full infrastructure around that. Our machinery business is headed by a person who has done machinery business for almost 25 years, and building full infrastructure around himself. Our partnership and alliances channel is a completely digital channel wherein we have invested very heavily in building an API box, which has inability to integrate with our underline partner and digital would be a digital infrastructure.

Why people falter and I have no way to figure that out is because when you try to do first you have to keep your portfolio granular. Second, you have to have a philosophy of risk curve. So today this company can actually generate double of its profitability by just taking our 30% unsecured portfolio to 60% unsecured portfolio. So we balanced that. We believe that the yield to loss ratio curve is very defined in India. And the breakout of that would happen over a period of time. And that's why today a large portion of our portfolio, we keep in prime secured lower yield, and we optimize on the other side by doing other product. So I think so we have to constantly match this business with capital, people infrastructure and technology infrastructure. It's half glass full half glass empty story, sir. When you start with the 1000 crore of capital, and in seven, eight years, if you can't go up to 20,000 crores and this would happen through multiple rounds of capital raise. I don't think so the market opportunity is so less that you can't build it. What you think is a very hyper growth, we believe that given the kind of infrastructure which we build, it’s not a hyper growth. Once you reach to that level after that, obviously, you cannot continue growing or doubling your AUM every year, then you get to what we call 10 to 15 17% growth rate. So an HDFC or a Kotak would not double their AUM every year, but would do 10 to 15 or 20% growth after maturity. But in initial period, because of the base effect, they will go up to that hockey stick curve and then stabilize from there. Anuj, Amit and Pandey anyone want to add.

**Amit Gupta:** Just one more point, which I thought I should basically cover here. You know, one of the very important aspect of basically ensuring that we continue to grow as per our business plan is the availability of capital. You know, that is where our unique business model actually comes in very, very handy. And I think maybe even when we were designing this business model, we were probably not really focusing on that this has actually come by accident. Our sectoral approach has actually helped us in ensuring that access to capital is much more efficient. Why I am saying that if you look as an example, on seventh of May 2021, RBI actually announced a scheme of on-tap liquidity for banks, which was to be deployed for healthcare services, that is a 50,000 crore scheme where banks were actually given double advantage. One is basically those assets which are basically getting created through this liquidity scheme gets classified as PSL, which is an normal advantage. Then second one was, you know, in today's world, the banks are actually awash with liquidity, that liquidity can actually be passed with RBI at a rate which is 40 basis points higher than repo to the extent they deploy that much in the healthcare scheme. So because of that thing, because we have got health care as a focus area, Industry Focus Area, we could convince these lenders that they can lend to us for on lending to healthcare activities, and they can take advantage of this line. Similar to this food processing industry, which is also another focus area, we have actually been able to mobilize certain credit lines, which will actually go for these kinds of industry sectors. So availability of capital also is something which is given our business model, we are able to address that very, very efficiently and effectively.

**Anil Tulsiram:** Yeah, thank you, sir. I will join back in the queue.

**Amit Mande:** I would like to add to the hyper growth story. Can you hear me?

**Shachindra Nath:** Yeah, Amit very well.

**Amit Mande:** So I would like to add to the hyper growth story, and just add towards what Shachin said, I think, to summarize the last three years and last, in fact, essentially one and a half years, we've got our risk models right, we've got our risk model right across all our five pillars of business, that's one. Two, now is we are at a phase where we've got talent on board, which has tremendous execution capabilities, whether it is distribution, whether it is technology, or whether it is being able to mine alternate data. And so risk models there, we've got talent on board, we have the people who have done these execution skills and have a proven track record. The next path is all about execution and with that kind of people on board and with that kind of talent, I think we are pretty much confident that we are going to move this book size in a prudent manner and at the pace that which we want. So there is no question that we are worried that whether this hyper growth is going to add incremental risk, the answer is no. And are we confident? The answer is yes.

**Anil Tulsiram:** Thank you, sir. I will join back in the queue.

**Shachindra Nath:** I would just take few questions which are on the chat. Is that okay?

**Nirav Shah:** You should do that. I think they have been posted some time back.

**Shachindra Nath:** I just will take very quickly. So, there is a question why new investors are not buying your idea of growth rather existing investors are exiting at almost entry costs unable to recover even their financial cost.

So, there are two parts of it one, this company if you look at this capital structure, so when we raised our capital, our capital was raised from three sets of investor, four PE investors who came along with me and invested capital, which is ABV, which owns 21% of the company, Nucleus which owns 21%, Sameena 13 and PAG Asia 19%. And three of them are now on our board. And then we had done a QIP of 120 core allotted equity to large number of individual investor family offices and others. Other than our private equity investors, most of other investors came from a short term gain benefit because at the pricing at which we were allotting equity was very cheap at that point of time. And those investors in my personal view came with a one or a two-year view, and now given the price attraction, most of them would like to take the liquidity back. So, as I said there is a small set of investors and as you know, some of our QIP came through investors which are funds, which are time driven, for example, one of our investors which used to own around 4 odd percent of our equity, had a fund life of three years, his fund life is over. So, they have no choice but to exit, but most of those exits have happened clearly. Also for a company of our nature, we keep hearing this all the time from most of the institutional investor, that the company is doing so well but there is no liquidity. Markets are all built around buying and selling at some point in time somebody would sell and somebody would buy and then only the liquidity would happen. We can continue doing very well but if there is no availability of liquidity or quantity, then obviously there is no float which comes into the company. So that has started happening.

Second question is why CFO and directors have resigned on recent time. I think so CFO is not in recent time. I think so the stock exchange update is only about confirmation of that from our board. Sandeep who was our CFO came from ASK, which was an asset management company. He actually resigned around a month back and Amit Gupta who's on this call was our head of Treasury. We have bifurcated our treasury and finance function and Amit immediately took over as a CFO. Reason why Sandeep, for him lending industry was new, he did an experiment with himself but now you he to go back to asset management industry where he has spent almost 25 plus years. So that is the reason why this change. We think actually for company it is beneficial that the person who has to manage the frontend of the liability side also controlled our entire finance and management reporting structure. Yesterday we have one of the nominee of PAG, Mr. Kanak Kapoor resigned. Primary reason of his resignation is that once a private equity investor has a nominee on the board, they become privy to what we call price sensitive information, which enables them if they want or choose to provide some liquidity or take off some money from the market they cannot do it till the time they are on the board because our core process is every 15 days, we do some or other update and sometimes those updates may be forward looking information and may be price sensitive. And in order to avoid that conflict, Mr. Kanak Kapoor decided to stay away from the board and he is alternate director. So when the primary director goes, the alternate director goes automatically. That's the second question. Third is what is the maximum ticket size of lending and how many lenders falling in that bracket? I'm not very clear. We do as I said that multiple product and programme we do right from one lakh to three per ticket size.

Comparatively where you stand in industry in terms of NPA? I think that's for market to just we believe that we are far superior in terms of our gross NPA, net NPA performance post two round of pandemic, second, I think so next 12 to 24 month are the period of time when real NPAs would come because there's a lot of restructuring which has happened which is not showing true picture.

In term of last question what is your forecast of raising equity? This company at a rate which it is growing our belief is that it will depend upon how much of our balance sheet asset which is happening and how much of on balance sheet assets which is happening we have said that we would like to maintain debt equity ratio at roughly around 3.8 to 4%. If we start crossing that, we will raise more equity. Just now follow up question come that is PAG is looking to exit? Sir, we don't know that. I think so it's about not they wanting to exit they are fund, their process of buying and investing and they are mostly long term shareholders. But obviously, as a shareholder, there is an interest among our large shareholders also to provide liquidity as and when required to the market so that our shareholding base continue to get diversified. Given at the size at which we are growing and the visibility we are creating in the market we believe large number of institutional shareholders retain shareholder would continue to get attracted. So probably they will use that as an opportunity to provide liquidity. I think so that is one long question which I think so I've tried covering and answering most of the question, which were there. So can we go back to other questions.

**Moderator:** Sure, sir. We will take that up. Sure. Thank you for taking those questions sir. So now moving on to the question queue. We have the next question from Kushal Kasliwal. Khushal please go ahead with your question.

**Kushal Kasliwal:** Hi, sir, can you hear me?

**Shachindra Nath:** Yes, Khushal.

**Nirav Shah:** Khushal you are audible you just put yourself on mute.

**Kushal Kasliwal:** Yeah, firstly, I just wanted to understand the SFC financing space I see a lot of startups raising funds VC funds, how's the space looking to you and what is the kind of growth rate you can expect on that particular space? Like, I recently read that Procap raised capital for retailer financing market, how are we looking at that market?

**Shachindra Nath:** You are right sir. So, all payment platform, merchant platform, who have base of merchant flow are now adding credit to them. So Bharat Pay, Prop Cap, multiple of that. I think so we are also in the similar space except that the public market probably doesn’t understand the potential which this company showcase. We look at it two ways, as I said, the lending in India is moving from collateral to cash flow and cash flow attached to transaction flow, which will be driven by this whole OCEN network would automate credit in a very big way. And we are there but approach is that we are not just funded by VC and we are not burning cash for building a future, we are building a sustainable business model which generate cash flow, so that we make sure that we are not driven by only equity capital risks. But I think so structurally, we see that as a mega market opportunity and over a period of time, as we get more comfortable, we will do that. Almost all of these companies which are raising capital, they come to us and partner with us, and we integrate with them to provide the balance sheet support. So that is the way we look at the model and I think so as the last quarter of this year, we would also do some of the large partnership, and we'll start look at merchant financing, but we want to constrain the size of the portfolio currently, because remember, most of the VC funded businesses don't have to go to an SBI and PNB and Bank of Baroda and raise liability capital, because when you go to a large bank and when you have to raise liability, if your portfolio profile is contrarian to what they can absorb, your liability lines can get completely stopped. So, when you build your business, you have to build portfolio construct, which is sellable, both to your liability and both to your asset side. Anuj, Amit, you want to add something on that?

**Anuj Pandey:** So, I mean, from potential perspective, as Mr. Nath was saying earlier, the sky's the limit in the MSME lending space, and there are various formats which are available. Now, the space in which we are, we are maintaining a very fine balance, both from our liability stakeholders' perspective, and our assets ambitions., And we think this is a very sweet spot. And I would also like to explain how we are approaching this differently then, because somebody asked earlier, and the connotation was that if you press the pedal too fast, there's a chance of dilution of your risk framework., And how we are different than others in the sense that because we are focused on sectors and our eternal developing model are now proven through last three years of portfolio management. When we are expanding our rules are very clear of what we do and a lot of times the data science is directing those rules pan India versus any other format, where the expansion means more discretionary call. So, this is the major difference between any other player. So, we think we are at this point of time very suited to any kind of format because our end target segment and our ability to underwrite that segment is very clear and very scientific.

**Kushal Kasliwal:** Understood. Thank you, sir. Another question which I had is the India Stack 2.0, which is like the account aggregator we use a network, I understand it's sort of an open network which can be used by all the lenders. So, how do we differentiate why we use these networks? And how are we kind of beneficial versus other large lenders or other NBFCs who use this India Stack going forward.

**Shachindra Nath:** Kushal worldwide, I think so it is the story of incumbent versus the new entrant. The problem of the incumbent is that there is a legacy system, there is an embedded knowledge which you have to leave to transition to something right. So, it is not that why the FinTech's the players like us are gaining traction because we don't have a legacy to change. We can adopt faster, we can learn faster and we can automate credit versus for a legacy system, it has to change something. So that is the first one and that is not just in India, it's happening worldwide. Number two, I think so it is about where your focus is because we are a deeply focused player, because everything we have started with building knowledge around our sectors, sub sectors, we then build our capability around our data analytics and then we have built technology and physical infrastructure. So the data is commoditized right, it is a democratic data. Your ability to decipher that data and create decisioning system is what will differentiate us. So when I said that today, 100% of our underwriting is on the tripod of GST banking and Bureau, it is about our ability and one and a half year, two year of work, being able to pull the GST, pull the banking, pull the bureau and being able to come to an algorithm math of saying that this customer is eligible for 5 lakh or 50 lakh rupees and predict whether he will do a 1% loss or a 2% loss is what is differentiating. Fortunately, this was looked for us. Year back, when we talked about or one two years back when we talked about it was looked with great amount of skepticism but now pandemic has actually proven that an impact like that our data analytics progress our underwriting capability and the knowledge which we have build underlying that is coming out to be true. So think so that is the only differentiation, it is differentiation of being able to do differently than what legacy systems do. This is just not in India this is happening in US whether it's like Kabbage, lending circle, most of the neo banks, what that has happened it is happening in Europe it is happening by force in India. Because by that logic actually no neo bank should exist. by that logic no

BNPL player should exit by that logic, no other new generation player exists, I don't think so, that the difference is in terms of the capital capability or people capabilities it is about being deeply focused and use that data to your advantage.

**Kushal Kasliwal:** Understood. Thank you so much, sir. If I can squeeze in a last question. In one of our slide, I think slide 26 we mentioned that post our score filter is applied, it becomes kind of more difficult to incrementally reduce risk by handpicking. So, do we completely rely on the score filter or is there some kind of hand handling after that score filtering which we do for MSME?

**Shachindra Nath:** Anuj can you answer that?

**Anuj Pandey:** Can you just repeat Khushal.

**Kushal Kasliwal:** Sure sir. I was just referring to your slide 26 in your investor presentation where you have mentioned that post your score filtering framework which is like a proprietary tool for your guys, it becomes more difficult to incrementally reduce risk by handpicking you know the MSMEs which you want to lend. So, my question is do you completely rely on the tech score filtering proprietary algorithm which you have and after once you are done with the score filtering, is there no hand holding which happens after that or how does it work? How does the actual lending work for you?

**Anuj Pandey:** Understood. So, what we have approached and we have to be practical and smart about this in India, in the SME ecosystem, although lot of data now is available through GST in banking, we also know that there are a lot of other data which still has to be gathered through reference. So we have a two stage approval process. In the first stage, when we gather all the data, which is GST banking and Bureau, the system gives an in-principle decision. And once the system says and in principle okay, then the transaction moves in a typical credit managers queue. And then he does the normal physical reference checks, does the personal discussion with the customer. And in case of a secured loan, the other due diligence, legal due diligence of the title, the technical evaluation of the property, the field investigation of his residence kicks in and then a final decision happens taking into account all these inputs. So, the first filter is what the machine is saying, the second filter is what the value addition, the credit manager has done through a physical meeting, and then a final call is taken. So we are not going solely at this point in time by machine. But eventually, as our algorithms are getting more and more evolved we are now in position to start experimenting completely digital flow as well, and we will very shortly start doing pilot on that.

**Kushal Kasliwal:** Great. Thank you so much for your time, sir. Thank you.

**Moderator:** Thank you. We'll take the next question from the line of Rishi. Rishi, please go ahead with your question.

**Shachindra Nath:** I would really appreciate if the people who are asking questions, if you can just tell who they are very briefly then it will be very helpful.

**Moderator:** Sure.

**Rishi:** Yes. Hi Mr. Nath. Can you hear me?

**Shachindra Nath:** Yes, Rishi.

**Rishi:** Yes. Hi. Thank you very much for sharing so much information. I mean, this is one of the very few calls where we get to hear so much information. And well, I'm Rishi, I’m a retail investor who is very keen on U GRO since recently, one of my closely followed leaders have joined U GRO that's how I got introduced to the company and I've been watching your YouTube videos and podcasts regularly. My question is, with regards to your platform the GRO-Xstream platform I just wanted to understand when you say you're onboarding either a bank or a FinTech, for example, Kinara Capital recently, what does that exactly mean? I mean, how long does it take to onboard start some sort of a discussion around each of your credit models, and what exactly is the USP of the GRO-Xstream platform? I mean, what sort of the mode you have around it, that other FinTech platforms or lending marketplaces can't take away from you?

**Shachindra Nath:** Absolutely. Rishi it's a very good question. Let me try attempt an answer to that. So look at this in terms of what we call the yield curve or the cost of borrowing curve. So today, U GRO because of its size of its capital, its portfolio quality and the universe of the lending institution coming to us have a cost of capital of 10.5%. Now think of a Kinara or any other partner, they have a cost of capital of 15.5%. The reason that is happening is because of the perceived risk on Kinara’s portfolio, and the size of the capital and their rating curve. Now, we also want to service that customer which Kinara is servicing, but we don't want to take the same amount of perceived risk. So the approach we find is that U GRO partner with Kinara, understand their credit policy, overlay our credit policy and score platform, and then agree that you would co-lend with them to their end customer. It's all very good till that point of time. But it's about bringing efficiency and that's where the platform come into play. It's an API driven platform, wherein once an end customer is originated on this system, it flows through API to our system, tested against the predefined credit policy, and all parameters and the end customer is funded. End Customer is funded at say same 22%, we would take 15% net rate to us, and there is some form of credit, you know, first loss cover is being given by our partner. So the portfolio being generated at the same level, but I think so the perceived loss risk in our portfolio is lesser, which means my lenders is still comfortable to continue giving me money at 10.5% without any Opex, I'm transferring that to a partner of ours, and that is a large ecosystem you can build. So that's one side what we call the asset spectrum.

Now look at the other side of that spectrum of UGRO Xstream platform, which is the large banks. So today, when the large banks, they are very comfortable sign a co-lending partnership with UGRO, integrate with an API and a branch lead channel secured business, they are co-lending in same 20:80 ratio, but those banks also at some point of time, want to go to likes of Kinara and others. But the difficulty is how do you understand for a large public sector or private sector bank to go right up to the bottom of the pyramid is very difficult, both technology wise, credit wise everything. So eventually GRO-Xstream platform would support our balance sheet capital to go to our partners without we taking the same level of risk and also eventually a large liability provider or a big bank, being able to do co lending with my partner through my platform. So that's why it becomes a virtual place. So you know, we don't talk too much about it but we think that GRO-Xstream platform can enable capital, from end to end from a very large institution to a very small entity through us. So that's our model. And obviously, it's a fee based platform. So it on fees on both sides of the spectrum.

**Rishi:** Thank you Mr. Nath. Just to understand in terms of competition for this marketplace, do you already have competitors in the market, who have a similar platform, and also the close knit platform like Mint by CRED, for example, that does allow the liability side to actually come from retail investors, for example, peer to peer lending that sort, do you think at some point in time, you would be interested at all to open that up?

**Shachindra Nath:** Yeah. So I think so it is a peer to peer lending platform, and the regulatory framework in India actually it curtails only up to one lakh rupees per borrower. We are building this platform largely from institutional capital flow to a B2B platform, but not to the end customer see, because our view is that if you're not a bank, regulators are not very comfortable with retail liability to flow to any institutional platform. So NBFCs are cap taking public deposit, it's only bank which is allowed to take public deposits. So any form of platform which will become scale wherein retail investors are deploying money for a credit product, and is not a bank, in some form or shape would continue to be curtailed. So our view is that this is largely institutional, a large bank being able to lend to an end customer through a partner platform of ours through our U GRO Xstream platform is our aspiration. As regulation evolve our technology capability is also to take it to a peer to peer platform at any point of time. Right now, I think so the risk reward ratio of investing our time of our amount of money to bring this to a retail investor is not positively poised.

**Rishi:** Thank you very much.

**Moderator:** Thank you, we have the next question from the line of Rishikesh from Robo Capital. Please go with your question Rishikesh.

**Rishikesh:** Am I audible? Hello.

**Shachindra Nath:** Yes, Rishikesh.

**Rishikesh:** Hi, sir. Sir my first question is, if you could share our disbursements for October month.

**Shachindra Nath:** We have not gone public on that. Hopefully we should do. We are doing monthly disclosures. We should be announcing that post Diwali. I'd say it should be in line with how you have seen in September.

**Rishikesh:** Okay. I saw in an interview where it was mentioned that U GRO will be touching 350 cores of disbursements very soon. So, just wanted to know how soon? Can we do it like next two months, three months, like how soon can we start this 350 crores?

**Shachindra Nath:** Sir, obviously, our interest is sir, we think so, that incrementally with every passing month you will see the growth. Where we are we think so, we will end exit every year more than double run rate is our view right now. But as you know that we are cautious, I think so given that 100 Cr mark which we have reached on vaccination, the risk on the third wave is receded quite a bit, we are waiting for Diwali festivity to be over and see that there is no comeback of the COVID in the same thing. As soon as we are comfortable with all of that I think so, we will continue to grow in the same pace.

**Moderator:** This is the operator so I just request the participant to please limit their question to two only. So moving on to the next question. So we have the next question from the line of Mr. Vinit. Vinit please go ahead with your question.

**Shachindra Nath:** So Vinit, if the question is what you have written on the chat I can very quickly response to that. Okay, let me respond I think so by the time he responds. Vinit question is isn't your loan tenure of 10 to 20 years is too long we're in the primary asset financed by you would have depreciated to scrap value? Sir our three product Pratham, Sanjivini and Sarathi, Pratham is at the tenure of 7 to 9, 10 years and so is Sanjivini. This security under this is a collateral which is self-occupied residential property, industrial property or a commercial property. They don't depreciate to scrap value. So the refinance the business, the working capital and term need for a small business but the collateral is the property which come from the entrepreneur itself and they don't depreciate to the scrap value at all.

**Vinit:** No, no, what I meant is if you finance machinery, does it not go…

**Shachindra Nath:** Machinery have a maximum tenure of three years.

**Vinit:** Three years and just one more thing like what is your total unsecured book size?

**Shachindra Nath:** So sir, we have disclosed that our unsecured book would be roughly around 30 odd percent of the total book size.

**Vinit:** No 30% I got but in figures?

**Shachindra Nath:** So 2000 crore, 30%.

**Vinit:** 2200 crores say 30% almost isn't it? Around 600 crores?

**Shachindra Nath:** Yeah, Anuj that would be right?

**Anuj Pandey:** Yeah, little less than that.

**Vinit:** 650 crores?

**Shachindra Nath:** Yeah.

**Vinit:** Okay. And what will be the average ticket size per customer in this unsecured portfolio?

**Shachindra Nath:** Around 17 lakhs.

**Anuj Pandey:** Yes, around 17 to 18 lakhs.

**Vinit:** 17 or 18 lakhs?

**Shachindra Nath:** Yes.

**Vinit:** Each individual borrower in unsecured portion.

**Shachindra Nath:** Yes, sir.

**Vinit:** And this are like doesn't have even the stocks or any such facilities?

**Shachindra Nath:** No, it doesn't have.

**Vinit:** There is no hypothecation of stock or any such thing.

**Shachindra Nath:** Unsecured loans are loans which has been given…

**Vinit:** It's all clean, it's all clean.

**Shachindra Nath:** Totally on the basis of the credit quality wherein we have analyzed the GST the banking the bureau and it's a small tenure less than two and a half years' tenure Working Capital Finance driven by that.

**Vinit:** Okay, and one more thing like I want to know what is the running facility that you give like cash credit and overdraft facilities that you give?

**Shachindra Nath:** Sir as an NBFC we can only do term loan, we can do differential tenure of term loan, we can do one-month tenure to long tenure term terminal, but we are not a bank, we cannot give a cash straight facility or an overdraft facility.

**Vinit:** So, not a single facility of running nature.

**Shachindra Nath:** NBFCs are not allowed to do that, we are not a bank.

**Vinit:** Thank you. That's clear. Thank you.

**Shachindra Nath:** Thank you.

**Moderator:** I request participant to please give their introduction while asking the question. Now, moving on to next question, sir just one question from one of the participants. So the question is there are a lot of new banks also doing SME financing, and they're able to offer payments, of payment accounting and other solutions given their comprehensive offering how would you be able to compete with them? That is the question sir.

**Shachindra Nath:** You don't need to compete with them. We are a partner to them. Because see that's why I said in the beginning there are people who have base of customer it can be a merchant base, it can be a base of small businesses, it can be coming through a payment platform accounting and other solution. What we have realized that most of the people who are in fee base or a service offering when it comes to the credit, it is very difficult. It's a completely different ballgame. Our approach is that we don't have to compete with any of them. We are integrating partner or provider of credit to all of those platform as long as those have data set, which we can use to underwrite that customer.

**Moderator:** Got it. Got it. Thank you, sir. Moving on to the next question. We have the next question from the line of Mr. Chirag Maroo. Chirag, please introduce yourself and go ahead with your question.

**Chirag Maroo:** Thank you for the opportunity I am from Keynote Capital. Shachin sir, I have two questions. One is like you have mentioned that you're going to be comfortable with the debt level debt to equity ratio level of 3-3.15x. So, should I expect that till this level is reached, we are not going to do any kind of QIP and no equity raise?

**Shachindra Nath:** Yes, I think so. So look you never take it to the brink and then think of it, but I think so that it is a function, that is the range we would like to maintain in our initial period of time before our liability side and the rating agencies start getting uncomfortable. But in that, one of the biggest moving part is how much of because as we said that we target 30 to 50% of our portfolio start beginning off balance sheet. So today we have a Pratham programme, which is with Bank of Baroda, which goes out of our balance sheet, but it's not a big volume generator right now it should become in next two quarters. Very soon, we will have a very large bank, which we'll start doing for our core product which is our Sanjivini, and if that gets operationalized, our leverage would come down but our AUM would keep going up. So it is very difficult to predict, when we will raise capital, but you're right. I think so whenever we will be nearing two over 4x or 3.8x of leverage, we will definitely start thinking about more capital raise.

**Chirag Maroo:** Okay. Thank you for that. My another question that sir, as you have said that going forward, we would be increasing our unsecured base to have a better yield on portfolio, and we have done some restructuring. So what kind of NPAs are you comfortable with?

**Shachindra Nath:** I think so these are two different questions. So Chirag let me answer on the unsecured portion right. So unsecured as a connotation have different meanings to different people. So, today, if I go to a merchant platform or if I go to a payment bank, wherein I have an ability to analyze the cash flow data on the payment platform, and then I use my GST banking platform and then given a small loan of 50,000 or 1 lakh rupees to 5 lakh rupee. While categorization of that may be unsecured, but we have a very deep visibility of the underlying cash flow and that's why we are comfortable. Obviously, the pricing of a unlinked cash flow, unlinked loan is say 19% that would be at 60 odd percent. So, when we say that we would like to increase gradually our funnel for more on unsecured business, it is not it is blindsided that because the 19% portfolio we will just grow up. Because of we are integrating with multiple such platform and we will make calibrated move to grow our portfolio there I don't think so, that our profile of gross NPA actually changes a lot.

Second, in terms of I think so the tolerance not necessarily you know little bit of higher gross NPA means loss ratios. Because our gross NPA construct come from multiplicity of secured and unsecured bucket, and finally, it is gross NPA to loss ratio and how much of pre provisioning on the buffer at the balance sheet which we are creating.

Our view is that if we increase the portion of unsecured business by another 5%, we will create a pre buffer of incremental yield little bit of that we will use as a creating pre buffer so that if there is a delinquency, we can use that buffer to make sure that our balance sheet is resilient. So it's a little complex mix of how you operate at that. I think so when Anuj made that comment the comment was in the context that we are comfortable. Historically, we have done all of our business at 11.5% yield if look at our first year of portfolio, but now because of the level of digitization the success which we have received on our tripod of data we are getting comfortable to increase our funnel on those side as well, but it will be dependent upon the level of liability because if a bank cannot give me a liability for increase unsecured portfolio, we won't do that.

**Chirag Maroo:** Okay. Thank you so much sir. And if I can squeeze one last question, as we are in the initial phase of our growth, where we are expecting to reach a mark of 20,000 crores, I don't say that, let's it's going to happen, I just want to understand like, how are your internal targets getting it? Are you able to achieve it? Are you able to over-achieve it? Or is it under achieve?

**Shachindra Nath:** Sir we are there where we are. I think so look all our financial business models are built around people productivity, and efficiency around our technology and income to opex ratio. To give you a color today we have 50 people, front end sales people who are in our prime branches, which is the largest contributor of our asset, as of September and October end the entire 50 people actually have crossed peak productivity. So for example, in a secured relationship manager who's supposed to do three crores a month has done four crores a month. So that's why now we are doing two things, we are increasing people and we are increasing the footprint in our prime branches as well.

If you look at our micro branches, we will have around 70 Plus branches, and all of our branches are vintage of three to four months. Average time a micro branch takes to breakeven is nine months, I think so in next four or five months, those branches would mature, and then you'll see a flow of new asset at the micro secured lending at 18 to 22% start happening. So there is different line of asset vertical at different level of maturity. We are very happy with our prime business. We are very, very happy with our partnership and alliance channel. I think so next quarter, we will deeply focus on our micro, machinery and supply chain business and so to bring them at the level of productivity. Once they reach there, then we reinvest back in, you know, further infrastructure to grow again. So our growth model is driven by productivity plus infrastructure plus distribution.

**Chirag Maroo:** Got it. Thank you so much sir.

**Moderator:** Thank you. The next question is from the line of Chet. Chet, please go ahead with your question I request you to please give your introduction.

**Chet:** Hello.

**Shachindra Nath:** Yes, Chet. Go ahead with your question.

**Chet:** Thanks for your detailed presentation. I'm a HNI investor, and I stumbled upon U GRO after I had invested in another SME Finance. I have two questions. One about the disbursals growth, you know, you said that disbursals growth is going to increase faster. Can we expect that in the coming three, four quarters? You know, the kind of scale you were saying that the business is actually built for. What is the timeframe that kind of growth will kick in? And second was sector competition of the front book, you know, post COVID has the sector composition changed? And do you see yourself lending to sectors which post COVID ailments?

**Shachindra Nath:** Chet I will quickly answer; I think there are a lot of questions in the queue. One, as I said that our 2025 target is 20,000. We think so that the way it would get achieved exit run rate every year would double in terms of purely from AUM. I've already said that we expect whatever run rate on the disbursement you saw in September, we think by March exit run rate it would be double of that. Obviously month on month it may vary, but that's our target right now for the current year. You can calculate what the exit AUM would be and I think so we would be double of that in next year. In terms of the portfolio construct so two years back we had to stop auto component, we will now open that, we are still not doing much on hospitality, education is still coming back. I think so we are still long term, we are still comfortable with all of our sectors, I think incrementally because we are taking new types of liability under the RBI COVID scheme which has come to the bank. So we might have a little uptick in our healthcare financing, but there is nothing extraordinary to that.

**Chet:** Okay, understood. Thank you.

**Moderator:** Thank you. Sir, just one question, which is in the queue, which is with respect to the unsecured book. So, in the unsecured book, the ticket size is 17 lakhs and in the overall book we have 660 crores. So, the question is how much is originated directly by us and what would be the share of Kinara and who do you think we compete with?

**Shachindra Nath:** So, very quickly when we say talk about unsecured book that is completely originated by us, you know, the partnership alliances channel is explained separately. If you look at our asset book, all the four channels asset book are disclosed separately. So prime business, prime business is prime secured, prime unsecured and micro, that's our branch led channel. Then we have supply chain channel plus machinery and then partnership and alliances. Partnerships alliances we look at as one big channel underlying partner may be doing different kinds of products, some partners are doing unsecured, some partners are secured, some partners are other. Our relationship and credit metrics depending upon the credit behavior of the partner, the pricing and the first class covers and technology integration is defined on that basis.

**Moderator:** And sir who do we compete with in this segment, like in the unsecured segment?

**Shachindra Nath:** All prime banks, all prime large NBFCs or you know, anyone who is doing the top end credit for an unsecured loan everyone we compete. We compete on the basis of efficiency, turnaround time and our ability to access cash flow for the customer. Amit, Pandey, do you want to answer that very quickly?

**Amit Mande:** Absolutely. So Shachin like you rightly said, our competitions will be everybody from the large banks like HDFC going down to NBFCs is like the Fullerton's or Tata capital's, in this segment. Rightly so the question is whether such large competition how do we compete here, given our sectoral scorecards, given our tech that forms and our ability for not only customers, but also our partners to access this platform and give quick turnaround times on approvals and disbursals. I think that's how we've been able to set a footprint in this business. And given that our sector scorecards are behaving very well, that is where our confidence to continue this business and grow this comes from and so we will keep competing with the larger players and build our book.

**Moderator:** Got it. Sir just one thing. So what would be the yield bracket, because we are competing, right from the top of the pyramid to the bottom. So then what would be the yield bracket?

**Shachindra Nath:** No, company level, we have given. We are at 15.2% of a blended yield at portfolio level.

**Moderator:** And for this unsecured loan segment?

**Shachindra Nath:** Nirav have you disclosed that the product wise yield?

**Nirav Shah:** I think haven't disclosed, but we can obviously.

**Shachindra Nath:** 17.5% to 19.2% yield is what we do at.

**Nirav Shah:** That is only particularly for the prime loans, for the micro unsecured, the lending rate would be around 24%. So, 20 to 24%.

**Shachindra Nath:** Yeah, that is very small portion of our micro unsecured.

**Nirav Shah:** At this point in time. Yeah, I think.

**Moderator:** Got it. So, just squeezing in one more question there from one of the investors only. So how much of the book was restructured in OTR 1, and in OTR 2?

**Shachindra Nath:** Wow, that's a quite so our total restructured book is 7.2% of our AUM.

**Anuj Pandey:** Approximately half in the first scheme and the rest in the next scheme.

**Moderator:** Okay, Got it.

**Nirav Shah:** ShreePal we should just take the last question now from Saurabh Joshi you know, he has actually posted it on the Q&A this thing. I think he is one of the first leaders.

**Shachindra Nath:** Take just one more question which is on the management because I don't want people to feel that difficult questions we don't answer.

There's some question called some of the senior members have left the company recently I don't have the name it is concerning when the head of business keep leaving and can have an impact in the growth, what are the plans to reduce the likelihood of management changes in the future? So whosever it is here is the answer sir, this company is now in an existence of three years. We have seen in financial services, the core management teams evolved over a period of three to five years, and the reason for that is that there is a set of aspirations for which the company has been designed, U GRO has been designed to build scale platform for MSME financing, build deep data analytics and digitization and play on the technology and we needed a management team which come and embrace that. What we have realized in our first three year of operation, that most of our management team who came and who has left, we wanted to give people time to being able to work on this aspiration and when we realized that there is an issue of with respect to fitment in understanding the changing landscape, gradually we have brought people with caliber which is aligned to that. So there is nothing extraordinary about it.

Actually, the management team enhancement, which we have done is far, far superior. You know, today U GRO is the place attracting talent across the board. We were roughly around 150 people or 170 people last March, we were around 300 people in March 2021, we are 730 people as of today, there will be 1000 people by December and most probably 1,500 people by March. I think so U GRO has become a place of first choice for talented people who want to make a mark in financial services industry.

What are the plans to reduce the likelihood of management changes, as long as people perform the like our culture, it's in company which has an ownership which is our institutional by nature, our institutional shareholders and board like the people to benefit from what they create so management team which will have and when we say management team is not just switches here, but people even you know, three layers below them, people who would like to create a name for themselves and create a mock in financial services industry and build the, you know, largest small business financing platform would not leave this company. The level of freedom, autonomy and experimentation and innovation, which is available for management teams here is unparalleled to any other company in the country. Yeah, we can come to the last question.

**Nirav Shah:** Saurabh has written the company's become one of the first lenders to be integrated on Government GeM Sahay platform are there the any other lenders who have been integrated with GeM Sahay? What is the expected business of the company from GeM Sahay? How UGRO planning to compete with large lenders like SBI on the platform who have low cost of capital and provide finance at low costs? What's the threshold yield below which this business become unattractive for U GRO capital?

**Shachindra Nath:** Saurabh this is very excellent question. I think so our effort of doing the pilot with the high spirit and integrating as the first lender on GeM Sahay was not with an objective to make this as a volume leader for us, because we know that at some point in time, our cost of capital is uncompetitive for a platform like GeM Sahay because, you know, an SBI has an ability to lend sub 9% on a GeM Sahay platform, but they would take time because the level of data analytics which has to be used to do that it would take time for them.

In the interim, what we are trying to do is we are trying to attract a large bank to become a co lender with us, use our technology progress and provide us the cost of capital so that the time, effort and energy we have invested on GeM Sahay platform can be monetized. More so we did this is to showcase our ability of creating platform which can do what we call flow based transaction led financing. So this was the first full implementation of an open credit rail network in some form and shape, and the learning there, we can now replicate to multiple other platform, some of them which may not be as price sensitive, as GeM is. GeM is government initiative, government has an intention to bring down the cost of capital for MSMEs there, and in fact, some of the banks are talking to us on partnering with us, using our credit underwriting and technology to become a co lender on that.

**Shachindra Nath:** Anything any important question, you know, which we might have missed, which you want to take it so we can do that very quickly.

**Moderator:** No sir, so I've taken care of those questions also, like whatever was sent to me separately. So, broadly, we've covered all of it. So, with that, we conclude the 2QFY22 Earnings Call for U GRO Capital. Sir, any closing remarks if you want to have anything.

**Shachindra Nath:** On behalf of the management and my board I think so U GRO is a unique company. It is a creation of an early-stage startup in a listed domain. We have genuinely believed that most of the early-stage startups who are coming now to the public market at an very, very expensive valuation and all the public market buys the future. U GRO gives the similar opportunity. So we are on the both spectrum you can compare us with an existing not traditional lending institution, you can compare us to a next generation FinTech choose whatever you want, I think so we are very motivated, we are happy that the impact of pandemic is receding, we are happy that hopefully the third wave would not be here, we are happy that our management team, technology the amount of hard work which we have done is showcasing.

We are seeing the result of that number of public shareholders which are increasing in the company is of a different size and nature. We would continue to invest time to keep coming back to every quarter and explain what we are doing. Our intention is to build this company as an institutional platform, a board of 12 people of a size of our company is unheard of. So the quality of governance, the quality of technology and management team what we have invested and invested time is something we would like, you know, investors to watch out for, we would come back every quarter and tell what we are doing. Thank you very much.

**Moderator:** Thank you, sir. Thank you for that, and thank you for giving us the opportunity to host you. Thanks to all our participants. Wish you all a Happy Diwali in advance and have a prosperous new year. Thank you, sir, and thanks to all the participants.