21st November 2022

BSE Limited
25th floor, Phiroze Towers,
Dalal Street,
Fort, Mumbai- 400001

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

Subject: Transcript of the Earnings Call with Analysts/Investors held on 11th November, 2022

Dear Sir/ Madam,

In furtherance to our letter dated 17th November, 2022 pertaining to the captioned subject, please find enclosed herewith the revised transcript amending the following typographical error in the transcript file on 17th November, 2022.

In the following sentence in para 4, 70% to be read as ***17%***:

"On the bounce rate fronts also we have seen a steady decline in bounce rates now at an overall portfolio level, they are at around 70%".

The revised 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

NAMRATA SAJNANI
Digitally signed by NAMRATA SAJNANI
Date: 2022.11.21 11:41:04 +05'30'

Namrata Sajnani
Company Secretary and Compliance Officer

Encl:a/a

Kaitav Shah: Good afternoon, everyone. My name is Kaitav Shah, and I am a BFSI specialist with Anand Rathi Institutional Equities. Today, we have the pleasure of hosting an MSME finance focused company in its high growth phase namely UGRO Capital. I welcome the top management of UGRO, Mr. Anuj Pandey, Chief Risk Officer; Mr. Amit Mande, Chief Revenue Officer; Mr. Kishore Lodha, Chief Financial Officer and Mr. Nirav Shah, Chief Strategy Officer and Head of Investor relations. The format for the calls will be as follows:

We will hear brief comments about the result from the management, their respective areas of expertise; post which we will be open for Q&A. I am handing over the call now to Mr. Kishore Lodha. Over to you sir.

Kishore Lodha: Good afternoon, everyone. This is Kishore Lodha, CFO of the company. I on behalf of the UGRO Capital welcome you on the call. Unfortunately, Mr. Nath is not here because of some personal commitments. We have shared the presentation yesterday and hope you have gone through the same. Along with me our Chief Risk Officer Mr. Anuj Pandey is there, our Chief Revenue Officer Mr. Amit Mande is there, our Chief Strategy Officer Mr. Nirav Shah is there, and we will be covering the entire portion of the results in the respective areas. As far as this quarter is concerned, the growth momentum continues. Over the previous quarter, quarter-on-quarter growth on AUM has been 20%. We have closed the quarter with 4,375 crore AUM which is 126% over the same period last year. We recorded highest disbursement during this quarter, which stood at 1,653 crores, 110% growth over year-on-year. Overall, loan originated during H1 stood at 3,011 crores, vis-à-vis 1,123 crores in the previous year in the same period. The yield have improved, not only the business has grown significantly during the quarter, the yield has also gone up from 16.7% to 17.2%. That is an increase by two factor One is the that the main story is changing little bit where we are going for the high yield portfolio as well as due to increase in the market interest rate, we have also increased our lending rate to our customers. Total net income has increased by 87 crores, 24% higher compared to the previous quarter. Opex ratio continues to improve where while in the last quarter it was close to 73% and now it has come down to 62%. On PBT, we have closed the quarter at 17.6-crore whereas last quarter, we closed around 10 crores, so there is almost 70% growth quarter-on-quarter as far as PPT is concerned; however, the PAT has gone down from 7 crore to 5 crore, and it is largely because of we have taken the reversal of deferred tax asset of 7.19 crore during the quarter. So had that not been there, the PAT would have been 70% higher compared to the previous quarter. During the quarter, we have added six more lender in our lending books so now there are more than 65 lenders, which is quite diverse so almost every lender you can name is there in our boring book now. Some of the impact funds we have added during the quarter, some of the large NBFCS and banks we have added during the quarter. Overall though the aggressive scenario is looking difficult. Overall, repo rate have gone up from 4% to 5.9% in the market but our rates have gone up by only 20 basis points during the first half. It is because of the efficiency that we are raking in and with the seasoning, with the lenders that is coming in. Our rates are remaining more-or-less flat-ish during the quarter. So, as we discussed in our earlier calls that we will be doing more of co-lending, increasing our exposure in co-lending and co-origination book and we have continued with that strategy where co-origination book has increased from 21% to 29% and our endeavor would be take it up to 35% till March 2023, which will land to the ROAs and ROEs as we have deliberated in our earlier discussions. Now I will hand over to our colleague, Mr. Anuj Pandey to talk about the asset qualities and the collection for the quarter and for the half year ended 30th September.

Anuj Pandey: Thank you, Kishore. Good evening, everyone before I take you through the asset quality for the first half of the year, I would like to recap our underwriting approach and model. So, we use what we call Gro Score 2.0 which is a statistical based underwriting template, which has been developed inhouse and the idea was to look at the chosen sectors of ours which are nine of them and develop models for customers basis their banking behavior and repayment behavior. We have been using this since our inception. We are currently on the version 2 of that score. When we started, we were only using the repayment-based scoring and we have seen tremendous efficiencies because of that both in terms of very predictable portfolio performance and giving a very good turnaround time as far as underwriting decisions are concerned. So, our approach on a scientific templated underwriting model is well underway and we are quite happy with the progress. In fact, now we are upgrading our Gro Score template to the version 3 where the plan is to also include the GST data in using and predicting the repayment behavior and in future, we would like to forecast the cash flows by customer for each of the sectors which you have chosen and also get some estimates on the eligibility itself from this. So overall from the robustness and from the results of scorecard perspective, we are quite happy with the progress. Now coming to the portfolio performance, the gross NPA at the end of September 30th is a little less than 1.7%, quite stable. We were at 1.7% in previous quarter as well. The net NPA stands at around 1.2%. Our overall approach on the portfolio mix has been quite clear from the start. We would like approximately 70% of the portfolio to always be secured either by collateral or by some kind of trade enhancement, so we continue to do that. The portfolio at the end of September 30th is also in the same ratio 70:30. Some of investors and analysts keep asking us about the portfolio performance in the light of less seasoning of the book and I would like to touch upon this topic, and this is something which we closely monitor. The approach which we have adopted because the true tests actually will come post the portfolio gets seasoned for a few more years but now with the scientific tools available to us, we keep tracking the early portfolio indicators. Also, if you recall, when we had started our focus was to garner more of secured assets at a relatively lower yields, which historically have proven and given lower NPAs. So, the philosophy is to build up slowly, to lend to customers who have very good repayment track record we don't lend to new to credit and keep tracking the early portfolio indicators. So far, we have seen that all of them are tracking quite well. We also every quarter do a proof of concept of our Gro Score and in that we widened the neck, and we keep also assessing the customers who were scored by us but were not given a loan for variety of other reasons but we keep tracking their portfolio performance for their repayment behavior in other loans and we find that indeed the risk ranking which is coming out of our internal Gro Score is stacking up. On the collection efficiencies front, the collection efficiencies on overall portfolio level remains stable. They are at around 94% and this has been the number for last two-three quarters. In fact, our estimates are that they will steadily improve with overall Improvement in the macro economy. On the bounce rate fronts also we have seen a steady decline in bounce rates now at an overall portfolio level, they are at around 17%. A little bit on the restructured book in the portfolio when we started at the end of pandemic 2 the total restructured book was around 7% of the portfolio, now it has got reduced to 2.6%. So, in absolute terms about 113 crores of the portfolio which was restructured is on books, about 95% of those restructured customers, the repayment period has started and now we have a very good fix and hand on how the portfolio under restructuring is behaving and we are quite happy with that progress as well. In terms of overall provisioning, our provision coverage ratio for stage 3 has improved by more than 200 basis points and now it is around 30%. Our overall stage one contribution has seen a lot of improvement and it has gone up now to 96.4% from 94.6% in last quarter. So, on an average and on whole this has been quite a good quarter as far as portfolio performance is concerned. Now I'll hand over to Mr. Amit for his views on business.

Amit Mande: So, a quick in fact wrap up of whatever Kishore and Anuj spoke. Kishore spoke about our achievements on disbursements and AUM, Anuj first spoke on the hold of portfolio. I would like to only add a couple of points in fact wanted to add that we have now made strong inroads in every type of distribution, which essentially means there are strong inroads in the intermediary leg, the direct distribution, the ecosystem the distribution and the Fintech and digital origination. What is important to note is that all our production and our underwriting framework is now acceptable in all the banks on the co-lending piece which means now we have the confidence to sweat out our infrastructure and people to build that we've built over the last two years. What we are very excited about is that we've built a very robust distribution with a granular portfolio and the average ticket size keeps going down from the current 16.5 lakh rupees. The mix of the unsecured and secured remains also very healthy as Anuj spoke. So, we will continue to build efficiencies to fuel our growth trajectory on the disbursements on the AUM to touch the 7000 crore AUM by end of this financial year and across all parameters as the guidance that is provided in our presentation, so having said that Nirav you want to do the closing comment.

Nirav Shah. Thanks Amit. So, most of it has been covered by my dear colleagues Kishore, Anuj and Amit. What is important for you know all of us is to note that we were very bold in terms of releasing what we will achieve in FY-23 going towards FY-25. When we did that a lot of questions had come to us saying it is it is too futuristic number for you guys to kind of deliver and you know you lot of the sell side and buy side will actually time and say that you know you have not been able to achieve or try and compare yourself with your achievements. You know we were actually very bold at that time but what we are now doing is we have spent the very good amount of time ensuring that each of the line items when it comes to yields, when it comes to interest costs, when it comes to employee expenses etc. we are tracking it you know very granularly on a month-on-month basis and we believe now that what we have set out we are there to achieve it. I think that is the only thing I wanted to convey to the to the community that yes, it is difficult for us to kind of achieve the bold numbers that we have given out, but I think we are very well on track to achieve those numbers. I think with that I will hand it over to Kaitav and Kaitav may want to open the floor for questions.

Kaitav Shah: Thank You Nirav. We can open the floor for questions. I would like to request the participants to raise your hands and to introduce yourself before taking a question. Thank you so much. I think there is a question from Anil Tulsiram. Maybe Anil, please go ahead and ask the question.

Anil Tulsiram: Yeah, thanks for taking my question. This is Anil Tulsiram from Contrarian Value Edge. My first question is on the capital raise, so I want to understand how important it's for you to raise the funds in the next 12 to 18 months and in the unfortunate case that you're not able to raise the funds then what is the maximum leverage credit trading agencies and lenders will allow us?

Nirav Shah: Sure, so we had during a last call we had given a guidance that we would be doing an equity fundraising process and you know by end of this financial year and that process is something that is currently on. Even in case where we are still not able to achieve or being able to raise that equity, we will still believe that with our co-lending approach, we should be good enough for the next 12 to 18 months timeframe and still be able to achieve the same numbers. With respect to your question on the leverage, we have always believed that we would cap our leverage at four times debt-to-equity ratio and there is still a long way you know from the current 2.85x leverage that we have at this point in time.

Kishor Lodha: To add to what my colleague had said that if you look at our capital structure as of now, we are entirely relying on Equity Capital whereas and we have the option to raise Tier-2 capital up to 50% of the Tier-1 capital which we have so that option we have not explored till now but that option is also available if the need arises.

Anil Tulsiram: There are many microfinance companies which give the guidance that they are comfortable with five times leverage being unsecured they are comfortable with five times and their credit rating agencies are comfortable then why do we want to restrict ourselves to only four times means what is the rationale behind it.

Nirav Shah: So, I think Anil there is no real as such rational, I think we just wanted to make sure that we are able to weather any kind of a storm that you know comes in future. So, by restricting us there is no hard coded 4x debt-to-equity ratio that you know we are saying. What we are saying is that once we achieved that or we approach to that number then we should be looking at other avenues of fundraising, it could be equity as Kishore said it could be Tier-2 debt etc. etc. While with our vintage we are pretty much sure that we can still reach five to five and half times debt to equity ratio but just to be within our limits and to have a very clear visibility, we are saying we will preferably not want to go beyond 4x at this point in time. That also leaves something what we call as is a confidence capital on table for the other large debt you know participants like Public Sector Banks etc. who would become very comfortable when it is sub 4x leverage.

Anil Tulsiram: Okay. Sir, and my next question is on the account aggregator. I think it is going to get implemented from the early next year and once it gets implemented, what they are trying to do with the growth rate that any bank will be able to do it means collecting the account statements and the GST data, so in what way it will be difficult for them to replicate what we are doing or means how the underwriting is much more beyond just this bank statement and GST that is what basically I want to understand?

Anuj Pandey: I will pick it up. In fact, account aggregation and the account aggregated model is already live and there are about 10 banks which are already live and what it does is basically on one consent of the customer it allows the financier to fetch all its bank accounts. Eventually, all its financial assets will get added in this network, that is the broad plan. Now to your question of whether this will truly democratize the banking data and hence how we are different if I understood you correctly to tell you the banking data is still available to all including the banks themselves. The point is whether you are able to apply them in a smart way in a statistical model to your chosen target segment that is where a proprietary work and insight-based work comes upon. Now today our underwriting is primarily based on GST, banking and repayment. Now these are things which are available to all for last five years, but still basis the application of a machine learning algorithm on our chosen target segment we have been evolving the underwriting model and that is something which takes time and hence whosoever chooses to do that of course can do for their own chosen target segment but in that journey, we think we would be always two to three years ahead.

Anil Tulsiram: And sir one last question is on the collection efficiency of the restructured assets that's it with that I am done?

Anuj Pandey: So currently about 66% of the restructured assets is current and the rest are in delinquencies, about 25%of total restructured assets have actually flown into NPA which has already got reported in our total NPA figure. We have now got a sense of what more can come in and it seems that maybe about 3 to 4% more from restructured assets we estimate more NPAs to come in.

Anil Tulsiram: That is, it sir, I am done.

Kaitav Shah: Thank you Anil. I think Mr. Wayne D'mello can go next.

Wayne D'Mello: Hi! Yes, so congrats on good set of numbers. My first question was on the co-lending side specifically on you know our GRO-extreme platform. So, we have you know a partners fintech NBFCs that we've partnered with who also have their own platforms, like you have lending cart which has that together platform, you have Yubi with co-lend platform. So, my question on GRO-Extreme is you've said that you want to grow it to be the biggest platform for co-lending in India where you know even the smallest of the NBFCs can get in touch with the largest of banks. So, my question is one what do you see as the USP of our platform when compared to the other platforms that exist and what are your goals you know how do you see the progress and what's the timeline on that, that is the first question?

Anuj Pandey: Okay, so, overall, the difference is in the concept because we are a large lender ourselves so when a balance sheet provider makes a platform which can be integrated with other lenders and other partners are then the Insight which it brings for example, we have a proprietary GRO score which is already developed and now is getting proved quarter-on-quarter on our chosen MSME segment. Now if someone, if a partner wants to use that for their data that would be available to us but our approach has always been complementing and not competing so for example we are integrating with the Yubi's of the world and other such platforms are typically what happens is in a PSU Bank especially on one or it is very difficult for them to integrate with many platforms and it might so happen that one of these platforms get integrated first. Our approach has been to either integrate directly or integrate via these platforms so that overall, we are able to serve the needs of the ecosystem

Wayne D'Mello: Okay, that makes sense.

Amit Mande: One more thing on that is GRO score being, so one more thing is the ability on the smaller NBFCs model, your smaller NBFCs also the larger banks and the NBFCs to use the proprietary GRO score which is the real value add so, one is the platform; two is the intellectual property value and of the GRO score for each of these partners to access and evaluate the portfolio; and third of course is the ability to be a lender to the smaller NBFCs. So, it is little different than with a platform like a Yubi which is only a platform that connects multiple partners.

Wayne D'Mello: Yeah, understood, thanks for the reply. So, yeah on co-lending again by 2025 we've guided for you know 50% of our book to be off book off that I think you said around 20-23% will be through co-lending, right?

Amit Mande: That is correct.

Wayne D'Mello: Yeah. So, what are your thoughts on you know increasing that percentage because it's obviously better for us on the ROEs and on those metrics and we have peers that are already you know doing up to 90% off book. So, do you have any thoughts on, are you flexible with taking it up from the 50% that you've guided for?

Amit Mande: So, at this point of time the guidance is 50% and there is an opportunity to further increase it to higher percentages. There are two things that we are currently look at it. (A just being a platform has to be acceptable because then we are just 10%, we are just a platform and so whether the people whom we are co-lending with they don't find skin in the game and so that acceptance has to yet be proved. So, the opportunity still rests but we don't just want to be a passive platform and a lender, we want to know how our skin in the games are. At this point of time, we exercise 50 if the opportunity permits, we could further take it up as we as time goes by. At the current point in time, we anyways on month-on-month are of booking 50% of our disbursement you would have seen our off-book AUM now at 29% of the total AUM, which has moved from 21% in the last quarter. So. it's moving very rapidly, so like you said there is opportunity, but we would like to keep skin in the game, you would like to give that confidence to our co-lenders and so 50% is what we believe is the right number to reach by 2025.

Wane D'Mello: Okay, thank you. And one last question is just for the sake of investors like how do you guys define collection efficiency so we are at 94%. So, you know what comprises the rest of the 6%?

Anuj Pandey: So, we define connection efficiency by current collection divided by current demand. Typically, in other Financial Services Industry a lot of people give collection efficiency by dividing the total collection by current due, if we do that, our connection efficiency would be closer to 99%. So, this rest 6% is what flows into what we call buckets. The first bucket is called bucket X, typically in that bucket X our resolution rates are around 97-98%.

Wayne D'Mello: Okay that's all from my side, thank you for the detailed replies and all the best for the future.

Amit Mande: Thank you.

Kaitav Shah: If there are any questions, please raise your hands. in the meantime, we have a question that has come up on the chat, terms of portfolio, concentration of top three states are Tamil Nadu Gujarat and Karnataka. In which regions are we focused primarily is it larger cities or the Tier 2 and 3 markets. Over to management.

Anuj Pandey: So, we have two distinct branch led channels; one is what we call Prime Channels which is now in the top 25 locations spread across nine states and these typically are locations where the concentration of our targeted sectors is higher. For our micro enterprises distribution, we had chosen five states to invest in. So, today we have about 75 branches in Tamil Nadu, Telangana, Karnataka, Rajasthan and Gujarat. We chose these five states basis a thorough statistical analysis by PIN codes across the country for our kind of ticket sizes, the health of micro enterprises and the portfolio performance and we found that these five states were cut above the rest so our district solution strategy in micro going forward also would be focused on these five states.

Kaitav Shah: Sure, thank you. Sir, if I may slip in a couple of questions, could you talk about more on the competition in the market that you're seeing given that we are seeing Banks also growing in the PL space, in the lab space and small ticket size loans are we seeing the competition shaping in?

Amit Mande: So, two ways to look at it. One, the competition has always been there. The MSME segment has always been a hot segment where the banks always wanted to build their portfolios in there, not only the banks or the institutional push but there is a larger strategic approach from the government itself towards the NBFCs. So, the competition is there in that segment. On one side, there is competition, Banks, and liquidity on the other side people talk about the credit Gap that is there in the MSME segment. So, between these two things one would have realized that delivery of credit to the MSME is an extremely difficult subject that people thought it was and large focus has always been on the consumer segment like the personal loans or the vehicle loans, etc. what we've been able to do is really focus by sector and by geographies into the MSME segment so our dedicated and committed Focus has also led us to build a risk model that is unique and can scale up. So, in that sense we have a better risk and underwriting model and that is why our turnaround times to the customers and ability to assess and understand customers is better and so while we appreciate and we really respect the competition that is there in the market, we believe that we have a unique proposition because of which we will stay ahead of the competition. So, whether it is the segment that we are, whether it is the micro enterprises segment, or the machinery finance segment or for that matter the business loan secure and unsecure, our proposition is to work on data and technology and give fast turnaround time versus the customer right and that has helped us, that has been the real driver of our growth in last three quarters.

Kaitav Shah: Sure, thank you next question is from Mr. Chinmaya Bhargava.

Chinmaya Bhargva: Hi all! Congrats on an excellent quarter. I just have a simple question today on the deferred tax that we had to pay out. I just wanted to ask why we chose to recognize it this quarter whether we expect to recover any of the amount and whether there's anything more that needs to be set off in the future.

Kishor Lodha: So, the reason of taking it in this quarter is that as per the income tax act, it collapses so that period is over so that is how it has to be taken into this quarter. So, this is by law where we have to take 7.19 crore as creditor in this quarter; however, there are there will be further impact on future it is difficult to state at this moment because it will depend upon our future profitability whether we will be able to absorb the carry forward losses or not depending upon that further we may or may not come.

Chinmaya Bhargava: Sure, but I just meant in terms of the structure we inherited right like this happened eight years ago I just wanted to ask whether there's anything else from you know pre FY19 that needs to be set off.

Kishore Lodha: No, this entire loss came because of merger, which happened in 2019 and where we have recognized this asset and once the period for this particular segment is over we had to reverse it. There is another set of then forward loss which is there and whether we will be able to utilize it in future or not or whether we will have to reverse it will depend upon the profitability as we move forward.

Chinmaya Bhargava: Okay, thank you all the best.

Kaitav Shah: Mr. Anil Tulsiram.

Anil Tulsiram: Yeah, sir we started some micro branches I think some 12 months or 18 months back. So can you uh elaborate upon the journey and how the progress has been what has been our experience, credit cost, successes, failures, whatever how it is shipping up basically micro branches.

Amit Mande: So, it's been up an extremely good question and I appreciate this question because micro enterprises branches is going to be a focus area for us, an area of growth. We started about 75 branches in Q3 and 25 branches in Q1 Q2 and then you reached about 75 branches in Q3 and Q4. The learning curve has been, we always believed that there would be a learning curve and so this year we decided to not expand and see how these branches become profitable so that it really powers our growth going forward. What we've seen is today as we speak from the 75 branches that we have 31 branches that have already broken even, and we will see the entire set of 75 branches breaking even by end of this year which means that the break-even period of between 12 to 15 months that we expected, and the model is working. Once all these branches have broken even is when we set up to expand our distribution to 50 more branches in the in the first two quarters of the next year. On credit process, Anuj you want to take the credit process.

Anuj Pandey: Yeah, so overall uh we have about uh a little over 12 to 15 months of experience of the book and the gross NPAs there in our micro book are little less than 1%. So, from the underwriting perspective and choosing of locations perspective and the target segment, we are quite happy with the progress.

Amit Mande: To add to what Anuj says, given that the portfolio and the target segment is right and portfolio, we would want to also note that why is this a focus area is because this is (A secured product that we do on the micro enterprise launches, (B, the yields are in the range of 20 to 22% and given our roadmap of 250 branches in the next three years this is going to be a large portion of our growth strategy.

Anil Tulsiram: And sir, just one thing I think micro branches does only unsecured loans right, unsecured loans of 5 lakhs and not secured loans. Is my understanding, right?

Amit Mande: In fact, it is not. Micro secure branches primarily do secured micro loans. So, our loan ticket size, secured ticket sizes, average ticket size ranges between, the loans are between 1 lakh to 25 lakh, our average ticket sizes are at a 7.5 lakh at this point in time and 85% of the loans that we originate are secured loans from the micro enterprises branches.

Anil Tulsiram: Sir and just one clarification the loans which we do through our fintech partnership, when they represent it here in presentation, we showed it under secured loans or under unsecured loans how do we represent that?

Anuj Pandey: So, they are secured by FLDG. So, in our representation we show it under secured loans.

Anil Tulsiram: Okay thank you sir that's it. Thank you.

Kaitav Shah: Mr. Jaydev Trivedi.

Jaydev Trivedi: Hello, am I audible.

Kaitav Shah: Yes, go ahead.

Jaydev Trivedi: Thank you for the opportunity. Congratulations to the management for the impressive set of numbers. What I understand from the shared PPT is that we are targeting AUM of around 7000 crore and loan book of 4500 crore, right by the end of FY23. So, for that currently we have CAR 28% and D/E of around 2.9. So, during in near future, we are going to have some Capital inclusion to support the growth.

Anuj Pandey: Yes, we will have. So, we are in a process of an equity raise but strictly from calculation purposes we don't need that. We will be able to meet our AUM targets both on book and off book without the equity raise as well but, in our plans, we had planned to raise equity in this financial year and we are working on it.

Jaydev Trivedi: And sir one more follows up on the same topic. We have some of the very known investors on our investor list but as of now we have not seen any follow-up around from them. So, is it expected to come again or if you can disclose anything on that if it is at all possible?

Anuj: So, I mean basically the idea of I mean we know why a couple of our investors already own about 21 odd percent in the company and they have been supporting us all throughout we would want to have investors now who are more granular in terms of their ticket size of Investments, okay. Either it would be them or it would be somebody who is coming in with a fresh capital now and has a horizon of staying on for the next 7 to 10 years you know as a shareholder and hence we believe that then you want the new set of investors to be either somebody who can stay with us for 7-10 years or more like a capital market investor right who are more granular in nature. But if needed then they will definitely support us.

Jaydev Trivedi: Understood, and sir one more thing they have been with us like for a few years now and is it possible they are looking for any exit any of them due to the tenure of their fund or anything?

Anuj Pandey: So, see by its very nature every private equity fund has a fund life right, but the fact is out of our four years of operations two years of it has been Covid and most of the private equity funds actually do understand that and support us on that front. There is currently no exit pressure from any of the funds at this point in time, but they will eventually look at an exit over the next two-to-four-year time frame. One of the private Equity Fund PAG has brought down the shareholding from you know to about 9% from their original about you know 19%. They have been able to get the liquidity directly from the market itself but having said that for the existing 9 odd percent that they have again there is no pressure on them to kind of sell because most of capital has been returned back right. So, there is no current imminent pressure from any of the private equity funds.

Jaydev Trivedi: Right sir and is it Samina Capital has increased their holding? Is it so from the current open market or anything else, if it is the case?

Anuj Pandey: No that is actually not the case. Samina has been an original investor in the company since the time we raised our money in 2018. They haven't really increased or decreased their holding.

Jaydev Trivedi: Okay sir. Thank you thank you for the answers, sir. Again, congratulations for the members. Thank you.

Kaitav Shah: Sir, Nikhil Agarwal. I think he's dropped out of the queue. Mr. Sanjay Kumar. Yes Mr. Sanjay, please introduce yourself and go ahead.

Sanjay Kumar: Sanjay from I thought PMS, my first question is on collection efficiency you know it's around uh 93-94%, which means on average 6% of customers are not paying. So our slippage ratio or credit cost ratio should be close to this number but that's not the case so I know Collection efficiency is not a rolling number as in customer who didn't pay in August, would have paid in September and would have dropped off the bucket but there is this huge gap so and if I see your 30-day past due 30 DPD is around 5-6% and then there is a drop off in the 90 day pass due to 1 – 2 %. So, can you explain this client behavior. Are they always you know they pass their due for a few days and then when they get their cash, they pay it back.

Anuj Pandey: Okay two things, one the understanding of how the flow rates works. So, typically whatever is bounced will move into DPDs or what we call collection buckets. Typically, there are four collection buckets between 0 to 30 days past due 30 to 60, 60 to 90 and 90 and beyond, which basically means whether you have one EMI due, two EMIs due, 3 EMIs due or more EMIs than 3 which are due. For our kind of target segment typically in the first bucket the resolution rates are closer to 95, 96, 97% because this is a function of the nature of the target segment this is an SME, he may not have the money on the due date, but he is fine paying the amount in that calendar month. Then if there is more than one EMI due then typically the resolution rates are between 70 to 80%. If there are more than 2 EMIs dues, the resolution rates will fall obviously, and it is around 50 to 60% and then the case becomes NPA and then the recovery rate depending on the product which is about 20 to 25%. So, when you multiply all of them together you get a number which is called Product of flows that is the number which gives an indication of how much of your current asset is likely to become NPA in the subsequent three months. That number for us is between 0.1 to 0.15% and this is the number we keep tracking regularly. The number which you quoted for 30+ and 90 + I think we're a little different our 30 + number end of September is 3.5%. So, there are 3.5% of the portfolio where the customers have not paid more than one EMI.

Sanjay Kumar: Got it got it sir. So, if you could more of a request, if you could give the 30 DPD day of as of September 30 because you've given it for the previous period.

Kaitav Shah: Mr. Sanjay Kumar, you will have to mute your line.

Anuj Pandey: There was lot of disturbance, can you come again?

Amit Mande: 30+ numbers September ending.

Sanjay Kumar: So, if you can give the breakthrough of slippages, recoveries and upgrades and if you could give the latest DPD numbers in the PPD that will be helpful. So, second question, so there was increase in the credit cost. So any color on that and for this segment that you have cater to the MSME sector, is 1.5% build cost the right number or is it slightly on the lower side compared to the other banks, because even the banks that are your co-lending partners they have credit cost almost 2% or upwards, so any insights on this credit cost piece and why there was an increase in this?

Anuj Pandey: Okay, so the credit cost increased primarily because the disbursals increased. So, the way credit costs are done, whatever you have disbursed newly. You assign a provision which used to be called good book provisioning or standard provisioning. So, because our disbursals in this quarter has gone up that's why the credit cost has gone up that typically is about 1% off of the new business generated. As far as your comparative credit costs are concerned, yes, we are a little lower and we would like to remain that way because our underwriting is very different than a typical SME lender underwriting. We have been using our SME GRO score database underwriting in a very different way so our estimates are that it will always be little lower than what our peers are.

Sanjay Kumar: That's good to hear sir. So, in that case our BOB, or SBI or even Central Bank are they increasing their the limits that they want to lend through your platform month on month or are we still yet to hit the targets that was in the original MOU?

Amit Mande: So, I will take this question. So, at this point of time whether it is State Bank of India or Central Bank or Bank of Baroda or PSB, the limits allocated are way higher than what we have for co-lend with them today. So at this point of time we do see any reason why we should go back to even change the limits we will come to this question maybe another year down the line or six-eight months down the line having said this some of the banks that we are the largest co-lending partners there our co-lending book with the banks is now upwards of 600 crores and we are seeing more and more demand and more and more push from these public sector banks to co-lenders and so at this point of time we do not have problems with the limits.

Sanjay Kumar: Okay sir, third on the provision coverage so we are at I think 30% now how comfortable are we with this 30% what has been the recovery that we've been able to do in the recent past and will this number be settled here or do you want to take it higher because even a CV Financial would be at 35-40%, yeah I think even other secured guys would be at those levels. So, something on this any insights?

Anuj Pandey: So typically, the provision coverage ratios for stage 3 asset keep going up as the vintage of portfolio keeps going up and it is also should be seen in light of your absolute gross NPAs and net NPS. So, what one wants to balance out is that the uncovered portion of your NPAs should not be very high. So today our net NPA is only about 1.2% and hence at this point of time we are very comfortable with 30% provision coverage ratio but as our portfolio matures, as the book size increases this provision coverage will also keep increasing gradually.

Sanjay Kumar: Okay sir. Thank you that's it from my side.

Kaitav Shah: Mr. Nikhil Kumar Agarwal if you can ask your questions.

Nikhil Kumar Agarwal: Am I audible.

Kaitav Shah: Yes, Nikhil you are audible, please introduce yourself and ask your questions.

Nikhil Kumar Agarwal: Hi good evening! My name is Nikhil Agarwal, I am from BT Capital. So, sir first of all congratulations on the successful set of results. I just have a couple of questions. First about the FLDG model, so I just wanted to get it clear view on how FLDG works because uh so there was this regulation that Banks and NBFCs cannot do FLDG together. So NBFCs and NBFCs have to do together something like that so if you could give me a clear view on how FLDG works and how we are doing it in the correct way so if you could just explain that and my second question is about credit cost that sir you say that with this disbursals are provisions are going up and although we are comfortable at the 30% level right now with the increase in vintage, assets provision will go up and at the same time it seems that our credit cost will remain under the current levels of 1.5-1.6%. So, is this going to be true because with increasing provisions and the increasing disbursements and AUM targets that we have I think there could be a further increase in credit cost. So can you please explain these two things.

Anuj Pandey: So, I'll answer the second question first. While we are talking about the provision coverage ratio, we were talking about the provision coverage on stage 3 assets or NPA assets and then we are talking about the total credit cost, we are talking about the total credit cost on the overall book. So, they are two different things, although they are related in an indirect way but should not be seen together the way you have interpreted. The more disbursals we do, the stage 1 provision, which is the book which is correct that will keep going up. As our NPAs go up and the vintage of the NPAs within the stage 3 goes up, the provision coverage will keep increasing for stage 3. So, they both can exist together. Overall, in our calculation and in our annual plans and for the plans up to 2025, we see that overall combined both stage 1, stage 2, and stage 3, the credit cost should remain in the vicinity of 1.5-1.6%. Within this the stage 3 provision coverage ratio will keep going up.

Nikhil Kumar Agarwal: Sr, just one follow up regarding this. So, I was not confused between the stage 1 provision and the stage 2 provision. I just wanted to know that from the incremental Provisions flowing through P&L major part of it would be for the NPA Provisions because vintage would go up, is that a fair assumption or please correct me if I'm wrong?

Anuj Pandey: No, so it will be as long as our annual disbursals are contribution in the total AUM is higher in the vicinity of so today for example, we are at an AUM of 4400-crore with about 1300-crore getting disbursed in last quarter itself which basically means that 25 of the total book has been recently sourced. So, this figure will keep going as the portfolio keeps going up, this contribution of freshly sourced portfolio will keep coming down and that will have an impact but having said that the trade cost is also a function of our portfolio construct. We are very clear that 70% of the portfolio will remain secured and 30% can remain unsecured. Now in unsecured when it starts getting delinquent and start moving to stage 3 then the provision coverage on that part increases in an accelerated way. While in secured we have seen that the recoveries happen and hence one is able to pull it back. So, the approach is a twin. One is to keep steady on our portfolio design and also keep having a very close monitoring on the contribution of recently sourced portfolio to the overall portfolio.

Nikhil Kumar Agarwal: All right, thank you sir and FLDG please.

Anuj Pandey: I hope that answers your question.

Amit Mande: Let me take the first question and your question on the FLDG and is it allowed between the banks and the NBFCs or NBFCs to NBFCs. So, we do co-lending and co-origination as two sides of our business. One is with the banks for on the liability side as we call it. With the banks the FLDG, there is no FLDG that is allowed. Risk is on the pari passu basis which means that 20% risk is ours and 80% risk is with the bank that's one. Two, between the NBFCs to NBFCs which are both regulated entities FLDG is what we do as well as guided by the securitization compliance as a guidance and so on the asset side all our definitive partnerships and lending partnerships are regulated entities and we have we have our first loss coverage from them in accordance securitization guideline, have I been able to answer the question on what is the difference and with whom are we doing what?

Nikhil Kumar Agarwal: Yes, sir yes sir I got it sir thank you and sir what is the extent of the FLDG, is it 10% or is?

Amit Mande: So, we can take FLDG up to 20% depending upon what product and what kind of so every partner on the asset side we have a common lending policy that's one and basis the policy it could range anywhere between 10 to 20% depending upon the product, geographies, or the way the operations are evaluated by risk.

Nikhil Kumar Agarwal: All right thank you so much sir that's all and best of luck for future products.

Kaitav Shah: Next question from Mr. Nemin Doshi.

Nemin Doshi: Hello I'm Audible.

Amit Mande: Yes, please.

Nemin Doshi: So, my question was regarding how is the assignment income recognition different from the co-lending and how does that co-lending thing flow in our accounts and secondly can you just help me with the numbers with regards to co-lending from banks like SBI and BOB the numbers if it's possible for you.

Kishor Lodha: So, I will take this question. So, there are two sets of co-lending guidelines called, scheme 1 and scheme 2. Scheme 1, there you do co-lending on a pari passu basis where both the counterparties jointly lend to the customer so if customer is there willing to take 100-rupee loans based on the joint lending program both the parties are funding the ratio of the agreement. So, if the bank is taking 80% and the NBFC is taking 20% at the stage of origination both these party will evaluate the customer and if the customer they didn't fit on the escrow account proportionate funds will move and from there the disbursal will happen. Here uh the accounting would be like a normal lending accounting where 20% units recognize by interest and on the 80% where the bank is funding the differential interest if any is there has to be accounted in the books of the originators. In direct assignment where you first originate the customer in your book and then downsize it to the bank or the partner depending upon the co-lending program and the ratios so 80-20 is the most common practice. So, in that case the income is treated like direct assignment where you have to upfront the lifetime income of that particular loan converting into the deferred asset and recognizing your P&L.

Nemin Doshi: Okay, okay, got it thanks and with respect to numbers.

Kishor Lodha: On the co-lending side, on this quarter we have done close to 170-crore of co-lending which was about 125 crores in the previous quarter.

Nemin Doshi: Okay okay thank you.

Kaitav Shah: We'll take the last question due to time constraints, which is on chat what is the impact of digital lending guidelines on co-lending both partnership and alliance with banks. Thank you.

Amit Mande: So to answer I think first of all want us to understand the spirit of the guideline. The spirit of the guideline says that the lender cannot be a passive lender and so should take active part in the risk assessment and risk management so that's one. Two uh it also talks about regulated and non-regulated entities, or I partially answered this all our partners on the asset side where we do co-lending and co-origination are regulated entities, which means that where the FLDG and that is our opinion FLDG is not applicable to a partnership between a non-regulated and a regulated entity. We do not have such relationships. All our relationships are regulated and so FLDG continues to be a part of the agreement that's one. Two uh because these are all regulated entities all three important or rather four important parameters that are defined in the guidelines one is disbursement into the customer account, two repayments from the customer directly into an escrow or our own account, three the E-customer fact sheet and four the IP audit. All these have been carried out across all partnerships and we are compliant across all relationships so that has not impacted us at all. It is absolutely similar with the banks that we co-lend with and so we do not have any impact on the draft digital lending guidelines.

Kaitav Shah: Thank you ladies and gentlemen, this was the last question due to time constraints. We would like to thank the management of UGRO for taking the time out to address all of us. Thank you on behalf of Anand Rathi Institutional Equities.

Amit Mande: Thank you everyone.

Anuj Pandey: Thanks Kaitav for organizing this.

Kaitav Shah: My Pleasure.