31st October 2023

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001

Scrip Code: 511742

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

NSE Symbol: UGROCAP

Sub: Transcript of the Earnings Call with Analysts/Investors held on 27th October 2023

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on 27th October 2023 to discuss the unaudited financial results of the Company for the quarter and half year ended on 30th September 2023.

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

This is for your information and records.

Thanking You,

Yours Faithfully,

For UGRO Capital Limited,
NAMRATA SAJNANI
Digitally signed by NAMRATA SAJNANI
Date: 2023.10.31 16:19:12 +05'30'
Namrata Sajnani
Company Secretary and Compliance Officer
Encl: a/a

"UGRO Capital Limited Q2'FY24 Earnings Conference Call"

October 27, 2023

MANAGEMENT: **MR. SHACHINDRA NATH – VICE CHAIRMAN AND MANAGING DIRECTOR – UGRO CAPITAL LIMITED**
MR. AMIT MANDE – CHIEF REVENUE OFFICER – UGRO CAPITAL LIMITED
MR. ANUJ PANDEY – CHIEF RISK OFFICER – UGRO CAPITAL LIMITED
MR. KISHORE LODHA – CHIEF FINANCIAL OFFICER – UGRO CAPITAL LIMITED
MR. OM SHARMA – CHIEF OPERATING OFFICER – UGRO CAPITAL LIMITED

MODERATOR: **MR. AVINASH SINGH – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, welcome to the Q2'FY24 Results Conference Call of U GRO Capital hosted by Emkay Global Financial Services. We have with us today, Mr. Shachindra Nath sir, Vice Chairman and MD; Mr. Anuj Pandey, Chief Risk Officer; Mr. Amit Mande, Chief Revenue Officer; Mr. Kishore Lodha, Chief Financial Officer; Mr. Om Sharma, Chief Operating Officer.

As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of todays presentation. Should you need assistance during the conference, please signal an operator by pressing star then zero on a touch tone phone. Please note that the conference is being recorded.

I now like to hand the conference over to Mr. Avinash Singh from Emkay Global Financial Services. Thank you, and over to you, sir.

Avinash Singh: Thank you, Akshay. Good afternoon, everyone. On behalf of Emkay Global, I welcome you all to the Q2'FY24 Earnings Call of UGRO Capital. I would like to thank UGRO management for giving us this opportunity to host the call.

Without taking much of your time, I would like to hand over the call to Shachindra Nath to discuss the results, followed by Q&A. Over to you, Mr. Nath. Thank you.

Shachindra Nath: Thank you, Avinash. Good evening. I'm Shachindra Nath, Founder and Managing Director of UGRO Capital Limited. I'm joined by the management team of UGRO, and let me take a few minutes to introduce them to you. Mr. Kishore Lodha, our CFO; Mr. Anuj Pandey, our Chief Risk Officer; Mr. Amit Mande, our Chief Revenue Officer; and Mr. Om Sharma, our Chief Operating Officer, are joining me in this call.

They and the management teams below them are the real strength of this company. We have all shared vision to make U GRO to grow as the India's largest small business financing company in years to come.

This would be my 15th Earnings Call since we started in July 2018. With every passing quarter, when we reflect on our journey, we get more and more convinced that India needs a large small business credit institution, and we are in the right path to be that institution.

Our investor presentation is already uploaded, and I would be referring to the investor presentation during this conversation with you. Most of you are always keen to understand the number and then our story.

We have now constantly delivered to the promise we have made to ourselves. Our quarterly results are a reflection of starting with a large capital, reinvesting in data analytics, technology, liability and distribution infrastructure.

At the end of FY23, we decided to leverage the established operating infrastructure and deliver growth and bottom line. Our current quarter reflects the same. I'm on Slide 3 of our presentation. In H1'FY24, we have delivered 2.2% return on assets and 9.2% return on equity. Slide 4 in the presentation details our key parameters of our business metrics in more details and articulate our expected delivery on the sale on a sustainable basis beyond 2025.

Our business now being set to deliver an AUM growth on 30% plus, cost-to-income ratio of sub 45%. Credit costs sub 2%, which would bring closer to our estimation target, targeted ROA of 4% and ROE of 18% on a steady state basis beyond the next two years. Most of the mainline lenders in India, which are vintage with a large parent or group had benefited of higher rating and higher leverage, which leads to better ROE.

We have been able to establish in India the alternative of high leverage in form of co-lending, and this continues to be the key part of our business strategy, and we would be at an off book of 50% or higher sooner than expected. If you refer to Slide 5 now, while the credit gap for a small business and the opportunity is always well understood. The most intriguing part has been that within that set, where is the biggest credit gap and how data can solve that faster.

Our targeted customers is the underserved Indian registered MSME customers in the turnover range of INR 15 lakhs to INR 15 crores. The studies have shown that out of total INR 85 trillion credit gap, around 95% is within these set of customers. These customer set are fast adapting to digitization, driven by adoption of GST, digital payments, digital banking and high existing credit history.

Over the last five years, we have mastered the art of addressing the credit for this segment to existing data lens and not necessarily relying on documented financial record. We have segmented this addressable market through our 5 broad verticals.

Our philosophy had been and would remain to built a long-term sustainable portfolio, which can deliver sub-2% credit cost, which we believe is a function of leading to loss ratio curve. Within our segment, we are one of those unique companies which addresses the credit rate of customers in the yield band of 12% to 18% with credit cost estimation from 0.5% to 4% and an asset composition, which delivers mandate portfolio level targeted credit cost of less than 2%.

On Slide 6, we have explained on how we address the need of this diverse set of customers from 6 different channels. These channels operate like a set of companies within U GRO framework. Customers and business turnover of INR 1 crore to INR 15 crores range are served through our prime branches, which are present in metros, Tier 1 and Tier 2 cities. We offer prime secured and unsecured product to this set of customers and underwrite them by assessing their GST banking and cash flow statement of their business.

In case of prime secured products, prime property of customer forms the collaterals. The overall prime segment constitutes nearly 60% of our assets under management. These customers come to us through our 25 branches supported by more than 500 GRO partners. We target lended yield on secured loans in the range of 13% and unsecured in the yield band of 18%.

Micro businesses in Tier 3 to 6 cities with an annual turnover of less than INR 1 crore are served through our micro branches lined in the vicinity of such enterprises. The loan requirement of such customers is typically less than INR 10 lakhs. Cash flow of these businesses has to be assessed through a predefined calculated by credit officers. We believe these customers are fast adopting to the digital ecosystem and potentially would be upside in the future.

These loans are secured by business property of the bank moreover. The target of 20% for this channel. Microchannel constitute 8% of our overall AUM. We have currently 75 branches in five states. And in the next two quarters, we are opening additional 75 branches. We are adding UP, MP, Andhra as new states besides the existing states of Tamil Nadu, Karnataka, Telangana, Rajasthan and Gujarat.

Our ecosystem channel taps in the opportunity of different of OEMs for machinery manufacturers. Business turnover of this segment largely ranges between INR 1 crore to INR 10 crores range. We believe that this is an excellent white space, which can be expanded quite well and also gives us opportunity to add on cross-sell multiple other loan products to these set of customers in future.

In addition to this, more than 20 million retailers in India, which are associated with brands and large corporate ecosystem to struggle for their working capital base to buy and stock material. We offer supply chain financing across the ecosystem value chain, ranging from suppliers of raw material to retailers selling final products. For underwriting, GST and banking records of the businesses are assessed, while machine are disabled from the collateral for machinery and supply chain financing expected.

Our GRO-Xstream platform provides support to other NBFCs and fintech to serve the MSME, which are located in remote areas outside the ambit of our prime and micro branches and our targeted Indian credit risk plan. Annual turnover of such businesses is typically lower than oneself to our branches. Our partner source and carry out joint underwriting of such customer. Our portfolio act as quasi-secured owing to FLDG that we collect from our partners.

Finally, to serve the working capital lines of small kirana shops and other such enterprises who need instant collateral free credit, we launched GRO X app last year. These are small loans with ticket sizes of like INR1 lakh. If you look at Slide 8, you will be able to appreciate that our early investment into data plus technology, distribution and liability engine have been able to propel our net loan origination, which has grown from INR 642 crores in Q2 FY '22 to approximately INR 1,450 crores in Q4’FY23. In the quarter, it was at INR 1,476 crores.

Our origination engine is stable at this range of disbursement, and we will now gradually gear up to increase it to keep in mind the aspiration we have for FY25 without sacrificing on the bottom-line performance. The disbursable funnel has taken us to INR 7,592 crores of AUM at the end of first half of current financial year from approximately INR 2,000 crores seven quarters back.

Slide 10 and 11 gives you description of our path breaking credit engine, with a combination of GST plus banking plus bureau, its performance continues to make us belief that the future of India's MSME credit now is in the heart of data analytics.

We continue to mature our platform with every passing days. While everyone likes the growth, but in credit industry, people also worry about portfolio performance in future for lending companies growing at a fast pace. We continue to believe that given our approval rate still below 30%, our portfolio construct of lower to median yield and balancing between secured and unsecured would keep our portfolio quality stable. So most of our product lines, we have seen the full cycle, and they are behaving on the expected line.

Slide 12 and 13 are reflective of our overall portfolio quality. We are diversified and granular distribution. In summary, we have a collection efficiency of around 99%, gross NPA of 1.9%, net NPA of 1.1%, provisional coverage ratio of 49% and a Stage 1 asset of 95%.

We feel confident to maintain these numbers even going forward. Finally, lending business is more of a liability than asset in India. The asset performance to some extent, is a function of liability infrastructure. On Slide 16 and 17 details of our liability infrastructure, the most important pillar of our strategy has been to build a large partnership model and the full lending framework.

Today, we have more demand than supply. And over last 1 year, almost all of our products are now getting accepted in the co-lending models in the bank. Of the total AUM to date, we have INR 3,405 crores in the form of off-balance sheet assets. Co-origination was primarily with large NBFCs but now gradually moving with banks under co-origination model and co-lending continues with some of the large banks in India.

On our on-balance sheet liability engine, it is now benefiting from having a large number of diversified set of domestic banks, global DFIs, capital markets and large NBFCs. Now we are seeing existing lenders increases their ticket size with us and the cost of borrowing has remained stable. Our constant endeavor is now to reduce on-balance sheet liability cost, which we believe is a real possibility as we gain more vintage.

In summary, we have proven our growth engine. We have delivered healthy bottom line. We are maintaining credit quality. And now getting ready to be the large player for credit to small businesses in India. Thank you so much. The management team of U GRO is here to answer any questions. Operator, you may open it for question-and-answer please.

Moderator: Thank you very much. The first question is from the line of Nirvana Laha, an individual investor. Please go ahead.

Nirvana Laha: Congrats on another great quarter. My first question is on co-lending. So we have different products within co-lending, like unsecured loans we're doing now. We're doing machinery financing. My question is what are the unit economics within co-lending? Is there a particular product that has a higher delta for us? For example, how does it differ between these products within co-lending?

Shachindra Nath: So I think we don't disclose the product levels in unit economics, but I can give you a broad guidance. If you look at our on-balance sheet cost of borrowing is roughly around 10.5%. On most of our co-lending products, except the unsecured business loan, that spread to us is superior to our on-balance sheet cost of borrowing.

The reason for that and the way it is beneficial for the company is that earn the spread of let's say 5%, 6% on-balance sheet, while we have to provide for at least 20% of the capital. On the co-lending side, you are more or less paying spread or loan spread without providing the capital. That's why it's very capital efficiency in this model.

The reason why the spread from the co-lending are superior because for banks the risk rate lend to an NBFC for our rating band, let's say 100% or 50%, while the risk rate for underlying customer segment of our is far lower. So the credit cost adjusted opex zero, banks having the cost of capital of less than 5%, actually it is far more attractive than lending to an NBFC. So the core hypothesis of co-lending in India is that banks can undertake and originate investor segment without recurring opex.

Nirvana Laha: Got it. My second question is with a deal with SBI. I believe in the starting stages, there were some dealing issues. And I heard from them that they've onboarded a tech partner to sort of help with integration. Could you give us an update on how things are moving now compared to where things were a couple of months ago?

Shachindra Nath: So I think whereas Nirvana, you should look at co-lending, I will not like to comment any specific bank partner or their technology provider or a vendor of that. But I think you should look at in the context of this. The securitization industry in India started in 1982. The first securitization transaction was done between Shriram Finance and Citibank way back '82 and for it to reach to INR4 lakh crores, it has taken almost four decades. While the co-lending in the first 3 or 4 years have reached about INR75,000 crores in aggregate in the US bank.

So I think the speed at which the co-lending is growing in India is still exceptional. Obviously, as the originator of asset and bank as a buyer of this asset, we all would like to say, this heart desire more. But -- and the second is that you should look at it in this way; the co-lending and its progression in this way.

The banks understanding of the customer segment which we serve and to begin with was their underwriting, while we do it in a very different way. So to bring into the alignment there in the banks should understand our credit at which the product, the policy and philosophy and bring it that far had been a journey. It has taken us 2 to 3 years.

But I would say at different banks are at a different level, but some of the large banks, some of them which you have names have accepted new growth credit methodology, all I would say, up to 95%. Second is the technology aspect. So as you know, the banks have their technology engine and we have our technology engine, and they are intermediary platform in between which are integrated with two of the partners.

And that, again, is at this point in time is an evolution of journey. I think some of the technology players are working very hard to create this as a, I would say, 100% smooth journey, today it's more or less in a hybrid form. But each bank and each partner are progressing fairly well.

I'm quite confident by end of this year and the next 2 quarters, the next financial year, you will see almost 70% to 80% efficiency rate when it comes to the technology integration. And after that, you should see even further explosion of co-lending industry in India.

Nirvana Laha: Okay. My last question is on the cost to income this year like we were hoping to see with no branch expansion this quarter that weekly operating leverage play out. But actually quarter-on-quarter, the cost income hasn't fallen. Could you tell us why this has happened and where we expect the end of the year to fall on?

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

Kishore Lodha: So cost to income ratio has been constantly reduced in the organization. So if you look at the past data, 2022, the cost-to-income ratio at 72%. Last year, it was for the full year, it was 64% and now we are closer to 55%, 56%. Though the cost-to-income ratio, we expected it to be slightly lower by first half, which is slightly 2%, 3% more than what we had expected. It is not because of any business concern or rate functions.

It is largely on the premise that for some time, we are holding on some amount of liquidity on our balance sheet, which obviously gives some comfort on the business line, some comfort on the lenders, but at the same time has a negative carry. So which has some impact on cost-to-income ratio because the net total income become lower compared to whatever negative carry is getting generated.

So what we have guided at the beginning of the year that we should be closer to 50% in terms of cost-to-income ratio, we'll see it would be still lower by almost 10%, 12% compared to previous year. We still believe that at the end of the year it will be closer to 50%, 52% kind of cost-to-income ratio.

Moderator: The next question is from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: Congratulations on a very good set of numbers. There are two questions. First one is actually just a continuation of the last one on the cost structure bid. We have seen an 18%, 20% absolute cost structure rise Q-on-Q. So,but you have already guided for a 50% to 52% kind of cost-to-income ratio depending upon the balance sheet size, but that is on the balance sheet angle point of view. The absolute number itself has grown at a 20% Q-on-Q or 18% Q-on-Q number. Some sense on that, sir?

Kishore Lodha: Again, I would like to take this question, Rahul. Thanks for asking this. Actually, if you look at our numbers, two places, you would see some rise compared to the previous quarter. One is on the employee cost, which was closer to INR 37 crores, which has moved to almost INR 46 crores this quarter and other operating expenses have moved by almost INR 3 crores from INR 25 crores to INR 28 crores this quarter.

So as far as the employee cost is concerned, there has been no addition on the employee cost or no increase in overall wage cost per se, but what has happened that in in last year, we have provisioned for almost INR 12 crores on the employee bonuses, actual bonuses which were distributed during the first quarter of the year for the last year performance was INR 7 crores.

So there was a saving of INR 5 crores; reversal of INR5 crores of bonus which has happened during the last quarter. And this quarter, we have made a provision of around INR 2.5 crores for this year bonus, which will be actually paid for during the next year. So if you take these numbers out, then we are slightly as far as employee cost is concerned. So there is no addition of manpower, neither there is addition of manpower, nor there is an increase in manpower cost per se.

On other operating costs, we are slightly more compared to the previous quarter by almost INR 3 crores. Most of it has come because of the GST reversal. And NBFC, now we are entitled for only 50% of GST, but 50% is the cash that comes from the well the P&L for whatever services we take. So this increase of almost INR 3 crores, INR 3.5 crores, 50% of that has been contributed by the GST reversal, which is a charge.

And on operating side, actually, there is no significant increase in operating costs. And whatever budget we have taken for the full year, we are fairly confident that on the operating cost side, we will be either same or lower compared to whatever we have guided for.

Rahul Bhangadia: Sorry, if I've understood it right. In Q1’FY24, there was a reversal of a bonus element which you would have accounted for in FY23. Is that understanding correct broadly? That's what you have done?

Kishore Lodha: No. So the FY23, yes, you're right. So FY'23, we have provide a provision of INR 12 crores for this year bonus, but actual bonus distribution was INR 7 crores.

Rahul Bhangadia: Right.. So that explains one part of it. Now two smaller questions, sir. Do youinitially, we were targeting an AUM broadly of about INR 10,000 crores as we end this year, we are on track for that?

Kishore Lodha: So I would let Amit to answer that question, Rahul, but one thing ,so we always put out a very high aspiration number. Our aspiration number continues to be INR 10,000-odd crores. But over the last 1.5, 2 quarters, we are focused, we are tightening the shift. We are keeping our operating costs flat. We are making sure that on every product line, our yield increases and even if we have to sacrifice INR 500, INR 600 crores of AUM on that, but we maintain/ improve the PAT by certain basis points, we would do that.

But broadly, we are in line with our aspiration target of INR 10,000 crores, guided by INR 500 crores. We are currently from our plan numbers, we are short by INR300 crores, but we are pushing all pedals to get to where we want to. Amit, do you add something?

Amit Mande: No sir. You put it very accurately that, we are about INR 260 crores, INR 280 crores short of our plan as of this quarter on a total AUM of INR 7,600 crores. However, in the next 2 quarters, we should be able to track as per plan, and we should there as close to INR 10,000 crores with a deviation of 3%, 4%.

Rahul Bhangadia: Great, sir. Just a small clarification. I need on your presentation, then I'll come back to the queue. Slide number 12, you generally give a product mix and the interest yields across the products. There seems to be a big drop in the partnership and alliances yield this quarter from what we have seen in the previous quarter. It's just a typo? Or should we understand something there?

Amit Mande: No, no. I think we used to give a gross fees. So if you look at the partnership alliances, our customer, obviously, when we lend to the end customer, there is a gross fee and then we pay a service fee or interest share with the partner. So I think this time, we have actually given the net yield, if I'm correct. Kishore, is that right?

Kishore Lodha: Yes sir.

Rahul Bhangadia: Okay. So the only difference is that in the partnership alliances yield, you just cut out the portion that the partner takes away.

Kishore Lodha: Yes.

Moderator: The next question is from the line of Nilesh Sahar from Julius Er. Please go ahead.

Nilesh Sahar: Okay. Yes. So I would like your help in understanding the go-to-market strategy that you have, I think you mentioned in your presentation that you have 95 branches and you are not looking to expand your branch footprint. Is that right?

Shachindra Nath: So we have. In my opening commentary, I said that today, we target the customer segment of INR 25 lakhs turnover to INR 15 crores turnover. We target the customer band between 12% yield to 18% yield. We maintain a healthy portfolio mix of secured to unsecured because we believe that, that delivers a defined credit cost. And when we go to these customers from five different distinct channels.

Branches divided in two parts, prime branches, which target the prime customer in top 25 cities, 81 branches for micro enterprises, which is direct distribution and in an ecosystem in which we do machinery to OEM. We do retailer financing through large anchors.

Then we have a partnership and alliance channel where we do partnerships along with other fintech and NBFCs, and we have a new channel, which is called GRO X, which is a direct digital distributing ecosystem. So that's what is the funnel is. With respect to branch infrastructure, we believe that in order to get the desired yield, the ROA to ROE, we have to expand our physical footprint. Our 75 branches which were started in '21, '22, we are now reaching this key productivity, almost INR70 lakhs, INR80 lakhs per branch.

And that's why next two quarters, we are adding another 75 branches and we've added three states. We believe that the incremental opex to that because most of these branches by the time they will come up, the year would be passed by. So the incremental opex to this year financial performance would not be there. And next year, our size would be larger enough, if you absorb this cost, but the benefit from a higher yielding secured product, which we want to expand now.

Nilesh Sahar: Got it. Just if you could describe right, how the structure of a branch looks, right? Because it seems to me that you guys are doing a lot both in terms of the number of industries, the number of products, how these products are funded, right? So what does a typical workforce in a branch look like? How many people are doing sourcing? How many people are doing collection? How many people are doing credit? Can you help us understand?

Shachindra Nath: It's a very long conversation, and we'll be happy to give a session with you separately as well. But it's a function of setting up for scale. As you said two quarters back, I was giving somebody this example that. If you started Jio Convention Centre in BKC, you will end up with a first event of five lakhs people versus starting boutique, hotel and having a 100 people. So that's our philosophy.

A company which started with INR 1,000 crores of equity capital, started one of the most established management team with the largest liability infrastructure and which has aspiration to build India's largest to small business financing company would on the face if I say it would look like it would be or not, but we are being able to do a lot because that's the infrastructure which we are putting in first place.

Philosophically, we drive our business through a data lens, which we call GRO Score. U GRO has India's one of the largest data analytics plus technology team of 275 people. Then we have a sectoral view that we look at the customer, we know our data engine through length of nine sector and 100 subsectors. That gives a templated method of underwriting for our different customer set and then we have these five different distribution channel run by the separate management team.

And there is a common liability infrastructure, which borrows on-balance sheet and some of our asset lines get funnelled into the bank. So in summary, this is what would drive or deliver what we call the 30% CAGR growth rate, cost-to-income ratio of less than 45%, ROA of 4%, return on equity of 17%, 18%. So, this is a five year of hard work through which this large format business has been established in India.

Nilesh Sahar: Just one last question is that from a collection point of view, how are you guys organized?

Shachindra Nath: Amit, you want to take this?

Amit Mande: Yes. So we have a large collection team, in-house team of approximately to 250 people, and it is organized broadly within two verticals. There's a large on-field collection team and then there's a large in parallel litigation team. And depending on the size of portfolio in each location, these collection teams are further subdivided by buckets and by product.

They are all headed by a very senior leadership, which you can call the Head of Collections and litigations. And under him, there are three national level provisions, National Collection Head for secured loans, National Collections Head for unsecured and a Head of Litigation. So most of it is done in-house.

Shachindra Nath: All of it is done in-house. But I think our collection infrastructure is a function of our choice of the customer profile. 100% of our customers are not new to credit customers, they are what we call the under-subsegment of the credit mark. They all have some kind of history of the credit and all of them come through the banking system. So 100% of our collection happens through banking systems.

And depending upon the product lines, and at different stages, different collection teams on ground do the collection. But our collection is also powered by what we call a very, very established early warning segment. So our data analytics team not only does the credit underwriting platforms at the point of origination, but also provide an EWS system which input to our collection so that we have a proactive collection system.

And our data analytics team also looking at cross-selling the products. So our collection will as it could be for any bank or for any last format NBFC, it's the combination of digital infrastructure, combination of physical footprint in our branches and automated collection engine through banking system.

Nilesh Sahar: Understood. And I will touch base with you guys separately for a deeper conversation. Thank you.

Shachindra Nath: Please do that.

Moderator: Thank you. The next question is from the line of M.B. Mahesh from Kotak Securities. Please go ahead.

M.B. Mahesh: Sir, just two questions. One is, how often do you scrub the data of your borrowers or they're taking any form of a fresh credit once they have been onboarded as a client?

Shachindra Nath: So for our existing customers, we do a scrub once a quarter.

M.B. Mahesh: And if you could just tell us what kind of trends are you seeing from the scrubs?

Shachindra Nath: So primarily, we use this scrub for two reasons. One is on our early warning signals, and we do an on book and off book comparison and try to asserting through machine learning platform, whether the overall leverage of the customer is going up or down.

And second, we use that scrub in ascertaining and refreshing the probability of default of the customer for the next 12 months. So what we are up to now is, overall, not much change, the turnovers of the customers have gone up in our chosen target segment. And the leverage overall is also going up around the same phase.

M.B. Mahesh: Okay. And you are seeing instances where multiple lending is becoming common or it still remains the same as what it was probably about a one year or two years back?

Shachindra Nath: We don't fund new to credit. So we always fund customers who already have a credit line. So in terms of number of trade lines, at the time of onboarding, we haven't seen too much of a change.

M.B. Mahesh: Okay. So you don't see this as a risk; you don't see the current set of developments that is coming in the media as a source of risk, where there seems to be a lot of multiple credit lines being issued by the customer?

Shachindra Nath: No, that is more for consumer loans. In MSME, we are not seeing any such trend.

M.B. Mahesh: Okay. Thank you.

Kishore Lodha: Mahesh, I'd like to add just one more thing, so the conventional way to look at anything credit versus the way we look at it is slightly different. As I said that, if you look at our slide, I think 12 or 13, you see there is proprietary tool of us what we call the GRO Score. Our GRO Score actually is built around the retailing capabilities of the customer, which also takes the tenacity of the turnover and cash flow, which comes out of the banking.

And then it categorize our customer in five different risk bands. We are on the version three of our GRO Score. We also show performance for both set of our customers. So while we scrub the bureau for our existing customer every quarter, but we also scrub for all the customers which we have not lent to. And then we compare that how the performance of our score has been.

And because we predominantly rely in the difference what you see the media noise around the unsecured loans versus small business loans, unsecured consumption loan doesn't take in account the repayment capability because you're funding predominantly a consumption purchase versus our lending is purely dependent upon the repayment capability.

So every time machine calculates the eligibility of the customer and if it is an unsecured loan, it discounts the cash flow, presuming that there'll be multiple lines of credit along with us or outside us would be coming to the customer.

M.B. Mahesh: All right. And sir, just to kind of explain that argument, given that the SME borrowers cash flow at the company level and at the individual level are largely interchangeable. You don't see it as a risk right now that while it will not be showing the corporate balance sheet or the SME balance sheet, it may be seen in the personal balance sheet of the consumer?

Shachindra Nath: I'll let Anuj give you the detailed answer, but I would say it depends upon, what's your target customer segment? What you are saying is for the SME, which are predominantly bank customers, the customers which are in the turnover range of say INR 25 crores to INR 100 crores per se.

In our customer segment, as you go much granular and deeper actually, most of our businesses are either proprietorship, from our partnership or a portion of that company, this interchangeability doesn't impact that much because our credit is depending upon the cash flow, which we are analysing through system for the business entity per se.

And as long as we are more conservative to that extent, and if he is taking more credit at a personal level and then deploying in the business that get reflected in bureau because we search the bureau of the customer, we search the bureau of the entity, which search the bureau of the individual, which are associated with the entity. So our system to some extent undertake that as well. Anuj?

Anuj Pandey: Yes, you're right, Shachin. And just to add, and specifically in case of proprietorship, where the proprietor's personal consumption would get reflected in its consumer bureau, our GRO Score has been designed to take that input also into account. So when we are now scoring the customer, especially for proprietorships, we are also additionally looking at the proprietor consumer bureau as well. So we are in a way, we are taking into account any additional risk if it's taking at his personal level.

M.B. Mahesh: Perfect. Thanks a lot, Anuj.

Anuj Pandey: Thank you, Maheshji.

Moderator: Thank you. The next question is from the line of Omkar from Vasuki India Fund. Please go ahead.

Omkar: Yes. So I just wanted to go back to your guidance part. So for '24, you had a guidance of around 3% for ROA, right?

Shachindra Nath: Sorry, your voice is not very clear. Can you come back?

Omkar: Yes. I just wanted to confirm on the guidance part. So for FY '24, we had a guidance of ROA of around 3%. So are we maintaining that? Or is there any change?

Shachindra Nath: Kishore, are we maintaining that?

Kishore Lodha: Yes, we are reasonably confident that we would be able to achieve of 3% of ROA by the year-end. So there is no change in the guidance on that part because whatever we have as far as ROAs are concerned for first half, whatever we have planned for, we have achieved it. So at this moment, there are no indicators which led us to believe that there would any change in achieving that kind of ROA. So we certainly believe that, we should be able to achieve that kind of ROA.

Omkar: Yes. So I was saying, is there any update on the fundraise part on when it will be and how then?

Shachindra Nath: So we have answered this question as we are very well capitalized at this point of time. We have a 25% capital adequacy. We have multiple tools getting of our portfolio covered under the credit guarantee. We have not used any clear tools. Our stated objective is to make U GRO as a more well-diversified, well track listed public companies. And with that objective, we would like to tap public market for our next round of capital. We are in no hurry to do that.

For the first time, the management is putting an effort to explain our broader story to public market investors. And that journey we have started around two months back. And we will continue to do for next two quarters odd. And wherever we think that our existing shareholders in Board is comfortable with the price with the capital raise size and when the market is ready to provide us the capital, we'll do that.

Omkar: Okay. I'm sorry, I missed the branch expansion piece. 75 branches you are planning over how much time?

Shachindra Nath: So target is to get these branches more or less activated by end of this financial year. They will become productive gradually in Q1 next financial year. While we started the process, but we are making sure that they are not accelerated at a pace where they need to start working or it completes our bottom line.

But also we have an eye on how our FY25, 26, 27 would be and that's why we are feeding the investments gradually because as the micro branches is the highest yield generator and best portfolio quality creator for U GRO. So keeping that in mind, these branches, so should be at least at a stage of becoming productive by end of financial year.

Omkar: And how much time does the branch take to breakeven typically?

Shachindra Nath: Micro branches take between 12 to 16 months to breakeven. But the cost will be fairly low.

Moderator: The next question is from the line of Rahil Shah from Crown Capital.

Rahil Shah: Earlier to one of the participants, you mentioned who asked you about the AUM aspiration of INR 10,000 crores by year-end. And you said that you are ready to sacrifice the certain amount of AUM in order to achieve your certain PAT target. So have you given any guidance for the PAT for this year? Or would you like to repeat if you have?

Shachindra Nath: So actually, a lot of people keep advising us that we put hard numbers of what we would be doing in next year and year onwards. And most people say, you should always give a band, right? Because public market investors, if you don't give them a hard number, what they expect and you overachieve, they feel very happy. But if you give a hard -- aspirational hard number on some of easily achieve then they feel they don't like you. So I think that we are between gradually cautious around what we say. But as a team, as a management, we are motivated by the size of the opportunity which we have in front of us.

We always believe that the only way to capture that opportunity wherein we publicly commit what we want to build, and that's why we put those hard numbers. But what I was referring to that you don't hold us to the last seat if we miss 5% or 10% because these businesses are being built for generation, not for a quarter or two quarters or a year or so. So our guidance to the total bottom lines would be;we have done around INR 55 crores, INR 56 crores for the half year and should be doing more than that if you multiply it for next half, we should be at least 20% above that is our guidance.

On the AUM side, we are still saying that we will target to achieve what aspiration number we have put out, but if you have to make sure that, in order to get the gross AUM number, if we have to take the reduction a little bit on the yield and the profitability, we won't do that. So that's the guidance. We are still targeting that number, but if we miss INR 400, INR 500 crores, but we maintain our profitability, we are okay with that.

Rahil Shah: Got it. Got it. So like 20% more than what you have already done in the first half. Is that correct to understand, is something you're targeting?

Shachindra Nath: Yes sir.

Rahil Shah: Okay. And lastly, just you've given other guidances for the year as well. I just want to know your advances growth. What do you expect to close this year? And that will be my last question.

Shachindra Nath: We've answered just that as we have said that aur AUM volume be in the range of between very close or near to INR 10,000 odd crores, anywhere between INR 9,000 to INR 10,000 crores, it should be there.

Moderator: Our next question is from the line of Pruthul Shah from Anubhuti Advisors.

Pruthul Shah: My question is with respect to the collection efficiency ratio of the current amount that we brought in the presentation slide 13. So if you see last one year, that has gone to 92% to 94%. So we just wanted to know that what is the comfortable level for us as a company for a current month ratio?

And also in that context because currently, the companies are going on with respect to the unsecured or the lower ticket size loan. So what is our view on that aspect because we have that lower ticket size loan book and we basically catered to the retail or smaller businessmen as a company. So what are the benefits we are looking on?

Shachindra Nath: So I'll take that. So collection efficiency in isolation actually doesn't give the full picture. For the correct perspective on the portfolio, one should look at collection efficiency in tandem with the bucket revolution rates. So a 92% on current efficient -- collection efficiency is fine if bucket x resolution rate and bucket one evolution rates are in accordance to what the plan is. So if in our case, the bucket x resolution rate is 95% plus and the bucket one resolution rate is 80% plus. That around -- along with the 92% collection efficiency is what is quite decent.

On the second question, especially on the smaller ticket unsecured loans, while our GRO Score is packing up quite well, additionally from last quarter, we have decided that we will take the credit guarantee coverage offered from the government through SIDBI. So you might be aware that all loans under INR 10 lakhs, if they're unsecured, they qualify additionally for a Mudra Guarantee Scheme from the government, and all our loans are eligible.

So then you pay a premium of approximately 1% of the loan amount, you get a guarantee coverage, which is almost unlimited. So in addition to what our GRO Score is doing and our overall collection and EWS strategy, we are now also covering the unsecured loans through the central guarantee.

Pruthul Shah: Okay. Okay. Got it. I take this offline. And also one another question with respect to the yield that we have provided in the presentation. For actual, we have provided 17.4% is that the realize yield or EBITDA blended on the outstanding book as on September '23?

Shachindra Nath: So this is blended yield on the AUM. So I didn't get the question. So the realized yield and the blended yield of the year would be same. So what exactly is the question?

Pruthul Shah: I'm just asking that 17.4% EBITDA is the yield that you have realized in first half of '24 or this is the rate that we have calculated on the outstanding your H1 '23?

Shachindra Nath: Yes. So it is calculated on the outstanding AUM as on 30th September. So various products have various rates. So SME would be the range of 13%, 13.5%, and unsecured would be in the range of 18% and 18.5%. So put together, the weighted average realized yield would be 16.2% for net basis. While reducing the partner's margin. And if we take partner's gross margin, it's closer to 17.3%.

Pruthul Shah: Yes. My question is with respect to the ESOP cost. So for H1 '24, what is the total amount of cost?

Shachindra Nath: So we saw as far as ESOPs are concerned, we have two schemes which are running now. Most of the people which are now are on that. One for one, which will be vesting in 2025 for which the entire charge of roughly around INR 25 crores was taken in the hidden in capital in the last year itself when we created the ESOP trust where we purchase the sales. So there is no fresh hit on account of direct portion. And on the other side, it is as per the model, which will follow. So every quarter, the model is refresh and whatever the charge comes in, it is being taken in the P&L.

Pruthul Shah: Sir, can you provide that number? What was the changing cost are?

Shachindra Nath: It should be around INR 2.5 crores it should be in that range for the first half.

Moderator: Our next question is from Nirvana Laha, an individual investor.

Nirvana Laha: Okay. My question is on co-origination versus co-lending. So Mr. Nath, you said that withsome banks who are also now doing co-origination. So I just want to understand how is this decided like; is it on a partnership basis that a partnership will be completely co-lending or completely co-origination? Or can it be on a loan portfolio to loan portfolio basis? So how has this decided and who decides it?

Shachindra Nath: We decided, and it is basis how the entire understanding of a partner or resolution of a partner happens, right? So if you look at our co-origination portfolio, which we largely do with the NBFC, so most of it, I would say, 80%, 90% of that is what we call that unsecured business loan segment. Why it has happened that, that started largely with NBFC and now gradually moving towards bank is for two reasons. First, banks when they started co-lending in India, they were more motivated to undertake because they don't do what an NBFC does underlying customer segment. We are more tuned to take only what we call the loans backed by physical collateral.

And as we have progressed with them our relationship and also one big change happened that the credit guarantee scheme was extended for co-lending, banks are also now accepting the business loan segment also under co-lending arrangements. Why were the NBFCs because they are more or less in the same segment of the market, they could appreciate and understand our underlying business loan segment, and they were also driven by the fact that we could provide them some kind of a first lot cover, which we felt is a good way to attract capital for that segment of the market.

Third, last but not least is that co-lending is also driven by technology integration infrastructure because under the co-lending arrangement, wherein I go source the customer disburse 100%, then that loan file through a technology platform moved to the bank, bank on every agreed parameter basis check the file and then disburse it back or reimburse the 80% of the customer. So the customer is fully reimbursed in the first hand. Versus under co-origination, the bank and NBFC had to lend together. Now that is a very cumbersome process of a large bank and NBFC doing it together.

But we are gradually given the advancement in technology, the integration and understanding. We are now building towards then ever, even bank and NBFC would be able to do co-origination together. So the choice of the partner is their understanding of a product. We decide where we get the best price and which partners can do it more efficiently.

And eventually, so as we progress and as our portfolio performance, the customer segment, the product is understood by the bank, most of our asset engine would funnel to banks, but there is a certain product which banks would still take time, and we will continue to do with partner NBFC, which understand those product segments better than what banks understand.

Nirvana Laha: Got it. So from UGROs point of view, for a particular relationship with a bank or an NBFC depending on profitability, you would want want the loan to go under a certain model, if it's acceptable to the counterparty. Is that understanding correct?

Shachindra Nath: Yes, to some extent.

Nirvana Laha: Okay. All right. Next question is on the collection efficiency. So the numbers for the last three months have been around 92%. I'm talking about the same period. So that means that 8% slips through the bucket. But when we look at Stage two plus Stage three that combined is around 5%. So from what I can understand about 3% is getting resolved within the first 30 days. Correct me if the understanding is wrong.

But if that understanding is correct, then my question is, isn't the customer taking a hit on his or her CIBIL score due to this delay whereas he's paying, but paying quite soon, but still it's overdue, right? And is UGRO doing anything to change this customer behaviour? Because when I look at your peers who are -- may not be exactly handling to the same cohort, but they are MSME lenders like Five Star or HDFC, they have much higher same period collection efficiencies. And this behaviour of a slightly delayed payment doesn't seem to be there.

So I've been trying to understand what is causing this for UGRO, if you have any insights? And whether it actually affects the customer's CIBIL or not?

Shachindra Nath: So you asked many things, so I'll attempt one by one. First, it is not a simple algebraic addition of correspondence between the collection efficiency number and the Stage 2 and Stage 3 assets. Because in Stage 2 and Stage 3, there are more than one EMI pending. So even if you collect one EMI from its Stage 2, let us say, there is a Stage 3 assets, where there are four EMI spending and you collect one EMI, then the customer continues to remain in Stage 3, but the collection efficiency on current dues will go up.

And vice v`ersa, logic is also equally applicable. So one would not simply add and see, but broadly, your point is right for an MSME customer, typically, and it is a function of business cycle and we also keep doing that as a lender, we need to educate him. But in his mind, the month of payment is important, not the date of payment, typically for micro customers.

So if a due date is, let us say, 3rd of every month or 7th of every month, then as per the new regulatory guidelines on it 8th, the DPD will start running. And in case it is becoming a Stage 2 or a Stage 3 asset, it will get tagged that way. But in the customer's mind, it is a month of October, and he has to pay that money in the month of October. So at times, his CIBIL report will also be accordingly, which is a large exercise, which we need to do across all lending institutions, who are focusing on MSME to educate the customer.

But it is also a function of his cash flows. A lot of times, the cash flows are not predictable enough for him to be ready on the due date. But as long as he is paying in the due month, it is okay.

Nirvana Laha: Okay. Got it. And if I may, just one last question from my side. I heard you saying that you're also thinking of availing the Mudra Guarantee Scheme for customers less than INR10 lakh lending ticket size. What percentage of AUM would that constitute as of today for you? And would you be doing that for all customers under the unsecured business loan in that segment, all of them, or only selectively?

Shachindra Nath: So last quarter was the first quarter when we started this and the intention is to cover from now onwards, 100% of our unsecured portfolio under this.

Nirvana Laha: Okay. And what percentage would that as total AUM?

Shachindra Nath: So as of September 30, we have covered 10% of our total portfolio.

Nirvana Laha: Okay. And all the customers who don't go through the GRO Score model, are they all now covered under the scheme because that was a gap right?

Shachindra Nath: That was a gap, this is primarily the micro customers unsecured bid. So they will also get 100% covered. Yes.

Moderator: Thank you. The next question is from the line of Sanjay Kumar from iThought PMS. Please go ahead.

Sanjay Kumar: First one, just a clarification. Why is the ticket size in supply chain financing drop from INR 1 crores to INR 50 lakhs in just one quarter? Is it because of the say onward large anchor?

Amit Mande: So let me take this question. On supply chain, we have been constantly evolving towards two things. One, more granular supply chain business; second, higher yielding supply chain business that is there with the opportunity that there is some anchors. It is full-fledged to make it granular and to ensure that we do better quality portfolios.

We've migrated towards newer set of anchors, which we are servicing. Apart from that, we are also now building our last mile retailer financing solution, which is also leading to the ticket size drop. So you're right. It's moved toward that because the number of customers on retailer financing and the granular financing is certainly double, the ticket size has dropped on supply chain.

And it's only in the interest of a better portfolio, which helps us manage the granular portfolio better and have a better read on the supply chain that we're migrating towards a granular and high-yielding portfolio.

Sanjay Kumar: Perfect. Thanks for that. And second, on prime unsecured. I don't know if you addressed this in the opening commentary. The GNPA in prime unsecured has jumped from 3% to 3.5% Q-on-Q and the same with even micro enterprise loans from 1.1% to 1.7%. What is driving this? I know at least the micro enterprise is covered under Mudra to that extent, it will be secured. But what is revenue jump in GNPAs?

Shachindra Nath: So- the jump in GNPA actually has been planned. It is a function of the seasonal portfolios contribution in the total portfolio. So overall, when we do a lifetime budgeting of NPAs for unsecured, our budgets for lifetime is around 4.5% to 5%, which roughly translates to about 1.5% of an annualized credit cost. So we are now slowly reaching there. We expect the unsecured GNPAs to stabilize between 3.5% to 4% going forward.

Sanjay Kumar: Okay. And on micro enterprise, sir?

Shachindra Nath: On micro enterprise, a lot of that is actually secured by property, and so currently, that cycle of recovering and repossessing the property and then selling it off is now in action. So you will see that it will also stabilize at around 2% in next one year. The unsecured portion of micro as I was telling earlier, is now getting covered under Mudra.

Sanjay Kumar: Okay. And how much of the micro enterprises...

Moderator: Sorry for the interruption. Mr. Sanjay Kumar, sir, may we request that you return to the question queue for follow-up questions.

Shachindra Nath: Sanjay, we can take up your question separately as well if you want.

Moderator: The next question is from the line of Akash Jain from Ajcon Global Services Limited. Please go ahead.

Akash Jain: Congratulations, sir, on a very good set of numbers. My question is regarding credit costs. We have given our guidance of around on sub-2%. So I wanted to understand, as the Stage 3 provisioning coverage is around 49% on book AUM. And once the portfolio gets seasonal route, especially in the unsecured book. Would there be any provisioning requirement going forward because if the provisioning requirement goes up, then the credit cost may not come down?

Shachindra Nath: So out of our 49%, approximately 49% provisioning coverage on Stage 3, the Stage 3 consists of all kinds of assets, including secured and unsecured only or unsecured, the broad guidance, which we are following is to cover at about 65%, and we will continue in that way. So all our credit cost budgeting estimates have been done accordingly.

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

Anil Tulsiram: Sir, my first question is, over the last eight quarters, our co-origination book is growing relatively faster compared to co-lending. So will the mix between the two will impact your ROA and the fee income? So actually, what I'm trying to understand is the product, whether you do on a co-lending or co-origination, will the ROA will be the same? And the related question is, can the banks also can do the co-origination? Yes, that's the first question.

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

Kishore Lodha: So in absolute terms, say in co-lending the ROA would be higher because as per the new accounting standards, it is reckoning to DA, where the lifetime income at NPV you have to account for. But we are very focused that we should have significant amount of annuity income. We are co-origination really help. So we are quite comfortable at this level of co-origination as well because co-origination you get an annuity income for the life cycle of that loan while in co-lending, you have to apprehend the life cycle lifetime income at NPV.

So it is in a healthy mix, which is there, and we will like to continue to have this way, only change where the thing was relating to is that we would like to move it from NBFC to a bank gradually. Initially banks were not ready for changing model where they would simultaneously co-originate with NBFC and it is because of two reasons: one is on that tech readiness and second is on the mindset issue.

But now both the things are getting resolved by banks, especially the public sector banks are getting ready for doing CLM1 as well. And now they don't have this innovation that CLM doing,CLM2 is anyway superior compared to CLM1. So they understand that it is all the time whether you do CLM1 or CLM2.

So both the things are getting addressed. So now we have to tie-ups with banks where we are doing CLM1. So gradually, going forward, we'd like to see that we move this portfolio of co-origination to some extent to banks. So that is the only change we are taking. Otherwise, we are quite comfortable with the mix which we have on co-origination and co-lending, Anil.

Anil Tulsiram: Sir, my last question, and then I'll join the queue. See, our target is to reach INR 20,000 crores a year. I'm not bothered if it gets delayed by a year or two. Actually, what worried more is whether the PSU banks can give us enough limit on your co-lending or the co-origination. So how the management thinks about this risk internal? That's my last question.

Shachindra Nath: So sir, if you look today, actually, we have at least for next many number of years, we have more capacity than what we can service it. So if you look at the entire banking industry in India, we have 12 public sector banks, and we have around seven or eight private sector banks, which are quasi-public sector banks which are largely south and then the private sector banks.

We targeted first with the large banks, so likes of The State Bank of India, the Bank of Baroda and others, which capacity is actually mammoth. So for a State Bank of India has stated objective, last year was to do INR 10,000 crores of co-lending, but they hardly achieve INR 1,000-odd crores.

Actually, they have huge capacity, so of the INR 56 lakh crores of a State Bank of India, their capacity with a good partner is more than INR 10,000 crores, INR 20,000 crores as well, right? So then the other public sector banks and the newer banks which are in the private sector. I think banks has now come to realization that besides the priority sector requirement and fulfillment, co-lending for the bank is also a great ROA generator at their level credit existed basis have 5% NIM, for a cost of capital of 5% from a bank and a leverage of 12% to 15%, this is a very great product line. So banks are now actually chasing more co-lending partners than what is today.

So by that logical securitization volume in India have never dropped, it has always been there. It is some form of securitization; it is getting replaced from a below portfolio breaking acquisition to an on-tap acquisition. So I think for our size up to INR 30,000 crores, INR 40,000 crores, I don't see this as a challenge. And we are diversifying to more banks. That's why we are not trying to be depending on just one.

Moderator: Thank you. The next question is from the line of Amit Parik, an individual investor. Please go ahead.

Amit Parik: I have a question regarding PAT-to-AUM ratio, sir. Our PAT-to-AUM ratio seems very low as compared to comparable NBFCs. Why is it so?

Shachindra Nath: Sir, who you will think is a comparable NBFC for us?

Amit Parik: Sir, take, for instance, I had compared with Five Star Business Finance and also with Bajaj Finance Limited.

Shachindra Nath: Of course. Bajaj the has been in existing for almost 40-plus years and Five Star has been existence for 16-plus years. We have been in existence for five years, of which 2.5 years were lost between the COVID crisis and DHFL and credit crisis, right? So we have early invested heavily in our operating infrastructure, and that is paying you off over a period of time. So these are not apple-to-apple comparison.

And that's why a company which delivered INR7 crores PAT in '22, INR40 crores in '23 and now delivered almost INR56 crores in the first half and would grow. I think we are the fastest both AUM creator and in terms of the absolute profitability by vintage, if you compare, we are delivering an exceptional performance.

Amit Parik: Sir, take for instance, as and when Bajaj Finance had same comparable AUM as compared to UGRO, okay. It was in financial year '10, '11, okay? When it closed its AUM book at INR7,573 crores, that time -- even at that time it used to do INR250 crores, INR300 crores of PAT sir and we are nowhere at that numbers. And on a recent TV interview also you have said that you will be doing approximately INR120 crores, INR125 crores of PAT this year. And for next year, you have guided doubling the profitability, right?

Shachindra Nath: Yes. So sir, I think, these questions actually, every company has its own journey and every company has its own growth path absolute profitability and comparable with other established player, I don't think it's a fair comparison. Our aspiration is to deliver top quartile performance in given our vintage. We have said very clearly by end of 2025, we would be a top quartile performance with 30% AUM growth in the band of 16% to 18% of ROE for 4% of ROA, and we are gradually establishing that.

They are a different time and there are cost of capital, vintage, some are advantages. So you cannot compare the two things by that logic. There are other companies which have no profitability, but actually are doing fairly value in terms of the enterprise value. So that's why I think that it's an incompatibility. I think where we are, we seem very satisfied that we are delivering to what we have targeted for ourselves.

Amit Parik: Sir, previously you've said that the target AUM size of INR 20,000 crores by FY '25, right? Now recently, you've trimmed-out your guidance to approximately INR 17,000 crores to INR 18,000 crores. And on that also, what I mean to understand is, is operating leverage not working for us, even though we scale up at as very speedy payers, but operating leverage is not working for us, sir.

Shachindra Nath: I think, operating leverage for us working and what we believe. The target of INR 10,000 crores or INR 20,000 crores is an aspirational target. We might achieve that as well. But as a publicly listed company, we have to deliver comparable performance from a very established set of players. What we were asking here for set of questions. So in order to achieve that aspect, if we were to sacrifice AUM growth to a profitability, we'll do that. But our operating leverage has kicked in, and that's why from a INR 40 crores of PAT last year, we have a INR 56 crores of PAT in first half itself. This is a sheer function of an operating leverage.

Amit Parik: Just last question I would like to ask. Just last question, sir.

Moderator: No, sir, please can you return to the question queue.

Amit Parik: A follow-up question on what sir has said. I would just like to ask sir. No different question from this, sir, okay? Recently, in a TV interview, you have also said that there will come a time when you will enjoy a valuation, which would be north of Bajaj Finance valuation itself also, sir. So what might you deliver that kind of statement then?

Shachindra Nath: I have not said this. I don't compare valuation from that company.

Amit Parik: Sir, you have said it in your recent TV interview, sir wherein you said that you'll produce such kind of cash flow that is 7x, 8x price-to-book also will not be a valuation to compare to UGRO, sir. What made you deliver that kind of statement then, sir?

Shachindra Nath: So let me clarify, if I said in a media interview, you said different things. I said, the best performing company which are liked by public market investors have delivered three things, very predictable growth rate, predictable credit cost and a sustainable business model. If you deliver predictable growth rate, predictable credit cost and a sustainable business model, which can attract capital, you can enjoy the best multiple of EBITDA. I said, Bajaj has achieved that. That's why it creates at a very high multiple. Our aspiration definitely would be to be in that peer set. So once we achieve that in the next few years, we should command that value is our aspiration.

Moderator: Thank you. The next question is from the line of Rucheeta Kadge from iWealth. Please go ahead.

Rucheeta Kadge: Congratulations on a good set of numbers. Sir, my question was mostly on the credit quality. So currently, our gross NPAs are at around 2.85% on our on-book AUM. So where do we see this going ahead? Let's say, for this year and next financial year, if you can give some kind of clarity on that?

Shachindra Nath: So overall, on an AUM basis, our models and our plan is to be around 2% on a steady-state basis. Now on a steady-state basis, we have also said that 50% of our AUM would be off book. So that would roughly translate to 3% to 3.5% of GNPAs on book on a steady-state basis.

Moderator: Thank you. The next question is from the line of Rohit Shah, an individual investor. Please go ahead.

Rohit Shah: I just had a quick question. What is the total number of active customers currently?

Shachindra Nath: Close to 62,000.

Rohit Shah: Close to 62,000. And how many have been added in the quarter?

Shachindra Nath: So roughly, we are adding 15,000, 16,000 every quarter.

Rohit Shah: Okay. Got it. And the last question I had, I mean, this is more just to understand the collections. So when you have, in the machinery finance business, when you have your collateralized machinery. Can you talk about your experiences and actually collecting in case of non-payment? I mean how liquid is this collateral? How good is this collateral? And what the strategy used on the machinery loan?

Shachindra Nath: So as a strategy, when we started the productive asset business or what we call machinery loan business, we said we will only fund machineries which can be sold in isolation individually. We will not fund a part of a large machinery set. And typically, the machineries are categorized by the categories of OEMs and we only fund the top quality, the top standard OEMs. So our experience, a very limited experience so far because the portfolio is behaving very well. But if you look at our customers, where we had to pick-up the machinery and resell it, the experience have been quite decent. Our relationship with the OEM has also helped and informally, they help us find a buyer.

Rohit Shah: Because when is there a target LTV usually in such kind of loans?

Shachindra Nath: Typically, the LTVs are up to 80%, 85%, but we also built as a pilot a portfolio where we gave an LTV of around 100%, and that is the best performing portfolio so far.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Shachindra Nath for closing comments.

Shachindra Nath: Thank you very much. I know a lot of you had follow-up questions, so as management team, we will be happy to answer them bilaterally as well. Our Investor Relationship led by Sneha and Jainam would be happy to answer any questions. Please feel free to write to us or send us any communication in any form and we'll be happy to answer. Thank you all for joining this call and listening to us patiently.

Moderator: Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.