5th May, 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
Symbol: UGROCAP

Sub: Intimation of Rating of Commercial papers

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, we would like to inform that the Company has received a copy of letter from CRISIL Ratings Limited pronouncing as "CRISIL A 1" rating for the Rs. 200 Crore Commercial Paper. The copy of the same is attached herewith.

This is for your information and record.

Thanking you,

Yours faithfully

For UGRO Capital Limited

Aniket Karandikar
Company Secretary

Rating Rationale

May 04, 2022 | Mumbai

Ugro Capital Limited

'CRISIL A1' assigned to Commercial Paper

Rating Action

Rs.200 Crore Commercial Paper	**CRISIL A1 (Assigned)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL A1'** rating to the Rs 200 crore commercial paper programme of Ugro Capital Limited (UGRO).

The rating reflects the company's comfortable capitalisation metrics and its diversified and customised product offerings across the MSME segment. These strengths are partially offset by modest earnings due to high operating expenses, and limited track-record of operations.

UGRO is a non-banking finance company (NBFC) focusing on meeting the credit needs of the micro, small and medium enterprises (MSME) segment. It had assets under management (AUM) of Rs 2,589 crore as on December 31, 2021, of which Rs 2,370 crore was on-balance sheet lending as per INDAS. The company aims to provide a complete financing suite to its MSME borrowers for their various needs including financing for machinery and raw materials, loan against property for business expansion, working capital requirements, etc. The company has identified four channels for the sourcing of loans: Branch led model (both own and direct-sales-agent sourced; 63% of AUM as on December 2021), ecosystem channel (17% of AUM), partnerships and alliances channel (20% of AUM), and direct digital (in a nascent stage).

Out of the total AUM of Rs 2,589 crore as on December 31, 2021, ~8.5%% was off-book mainly in the form of co-lending partnerships and direct assignment transactions. The company has identified this partnership model as a central growth driver of business over the medium term and is targeting a significantly higher proportion of its AUM by way of such partnerships. Currently, the company has 4 co-lending partnerships with banks and NBFCs and is in advanced stages of increasing the same to more than 12-15 over the next few months. For raising resources, the company has relationships with a number of banks and financial institutions. For the first nine months ended December 31, 2021, the company has been able to raise resources worth ~Rs 2,000 crore of which the bank loan facilities were mainly within the interest rate range of 9.3%-11%. The company's ability to form strong co-lending partnerships with other lenders and raise on-balance sheet funding at competitive interest rates will remain monitorables.

UGRO has made significant investments in putting in place systems and processes for underwriting, collections and risk management of loans. Many of these processes have a high degree of digitization.

From an asset quality perspective, UGRO has seen impact of the challenging macro-environment on their core borrower segment MSMEs. While 90+ days-past-due (dpd)[1] decreased to 1.7% as on December 31, 2021 from 2.3% as on March 31, 2021, this has been supported by Rs 44 core (1.9% of / of the book) of sale to asset reconstruction companies (ARCs). Further, as part of the one-time restructuring as allowed by the Reserve Bank of India, the company has restructured 5.3% of the AUM as on December 31, 2021. The company's ability to maintain asset quality as the portfolio scales up will be a monitorable.

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[1] *Delinquencies mentioned in the rationale are based on the on-book AUM*

Analytical Approach

For arriving at the rating, CRISIL Ratings has analysed the standalone business and financial risk profiles of UGRO.

Key Rating Drivers & Detailed Description

Strengths:

- **Comfortable capitalization**
  Capitalisation metrics are comfortable, supported by the initial large capital infusion. The company has, since 2018, raised a total equity capital of ~Rs 900 crore, from investors such Newquest Asia Investments, Clearsky Investment

holdings (ADV Partners), Samena Capital and DBZ Cyprus (PAG), most of which was raised upfront, before the commencement of operations in 2019.

As on December 31, 2021, reported net worth of the company stood at Rs 959 crore with an adjusted gearing of 2.0 times as against Rs 952 crore and 0.9 times, respectively, as on March 31, 2021. The company is expected to follow an asset light model over time with a significant proportion of the AUM being off-balance sheet in the form of co-lending or direct assignment transactions, which should reduce the capital requirement for the business. Further, the company is also in a process to raise ~Rs 500 crore of capital over the next few quarters, which should support the capitalization for the planned growth. While gearing is expected to increase from current levels, on-balance sheet gearing is expected to remain below 3.8 times on a steady-state basis.

- **Diversified product offerings across the MSME segment with presence across multiple geographies**
  The company started its operations in January 2019 with a prime product offering for the MSME segment and has over a period of time, diversified into other product offerings catering to the overall MSME ecosystem. UGRO has a presence across secured and unsecured segments. It has products with average ticket sizes ranging from Rs 3 lakh to Rs 1.5 crore, with interest rates varying from ~9% to ~25%. The company offers financing solutions to MSME borrowers to cater to their various needs. Additionally, the company has independent verticals and product teams to manage their different product lines. The company has, as on December 31, 2021, a presence across 8 states with 82 branches, 231 active direct selling agents (DSAs), 944 employees (including 675+ sales staff). Further, the company has also partnered with new age technology companies for the sourcing of loans via a co-lending model, wherein it does not have a physical presence. For the machinery loans, the company has built partnership with 15 original equipment manufacturers (OEMs) and for supply chain finance, the company has built relationships with 50+ anchors as on December 31, 2021. UGRO has also attempted to customize its product offerings to meet the demands of its borrower segments and has built in a high degree of digitization into its business processes.

Weaknesses:

- **Modest earnings on account of high operating expenses**
  On account of the company still being in a build-out stage, its operating expenses have remained high due to large investments in setting up branch network, technology infrastructure, and hiring of employees at senior management level. Consequently, operating expenses as a percentage of average assets remained high at 4.7% (annualized) for the first nine months ended fiscal 2022 as against 5.1% for fiscal 2021 and 7.4% for fiscal 2020. Hence, the pre-provisioning operating profits has remained muted at 1.9% (annualized) of average assets for the first nine months ended fiscal 2022 as against 2.1% of average assets for fiscal 2021 and 1.3% of average assets for fiscal 2020. However, with the scale-up of operations, the operating efficiencies are expected to kick in and improve the pre-provisioning operating profits.

  While UGRO has been profitable since the commencement of operations, some of this has been contributed by the tax write-back in last two fiscals. The company reported a PAT of Rs 8.4 crore with a return of assets of 0.5% for the first nine months ended fiscal 2022 as against Rs 28.7 crore and 2.1%, respectively, for fiscal 2021 (Rs 20 crore and 1.3%, respectively, for fiscal 2020). Profit before tax (as a percentage of average assets) was at 0.7% for the first nine months ended fiscal 2022 as against 0.8% for in fiscal 2021. The company did not benefit from tax write-backs in fiscal 2022.

  While the company's credit costs have remained range-bound at 1.2% of average assets for first nine months ended fiscal 2022 as against 1.3% for fiscal 2021 and 1.0% for fiscal 2020, the loan book is not yet fully seasoned. Therefore, ability of the company to scale up the book profitably while maintaining adequate performance will remain a key monitorable.

- **Limited track-record of operations**
  UGRO commenced its lending operations in January 2019. It witnessed a year-to-date growth of ~97% and reached an AUM of Rs 2,589 crore as on December 31, 2021 from Rs 1,317 crore as on March 31, 2021 (and Rs 861 crore as on March 31, 2020). While, the company has invested significantly to build up infrastructure in place to ramp up disbursements from a current run rate of ~Rs 300 crore per month to over Rs 700+ crore per month, ability to do so successfully will need to be seen.

  Also, given the rapid scale-up in loan book in recent years, portfolio seasoning remains limited. Given the challenging macro environment, UGRO witnessed an increase in the 90+ dpd to Rs ~40 crore (1.7% of loans) as on December 31, 2021 from ~Rs 29 crore (2.3%) as on March 31, 2021 (and Rs 8 crore (0.9%) as on March 31, 2020). Further, the company has also sold to ARCs loans worth ~Rs 44 crore during the first nine months ended fiscal 2022. Additionally, the company has restructured accounts worth Rs 136 crore (5.3%) as on December 31, 2021; performance of this portfolio will be a key monitorable going forward.

  Nevertheless, the company has made significant investments in systems and processes for underwriting and risk management practices with a strong focus on technology enabled solutions. Additionally, the company has well diversified portfolio across the states (with no state contributing more than 17% of the portfolio) and presence across the MSME segments with ticket sizes ranging from Rs 3 lakh to Rs 1.5 crore.

Ability of the company to manage its collections as well as asset quality metrics as the portfolio scales up will remain key monitorables.

Liquidity: Adequate

Asset liability maturity profile as on December 31, 2021 had positive cumulative mismatches for all the buckets upto one year. As on April 11, 2022, the company had a liquidity of Rs 225 crore (Rs 97 crore of cash and cash equivalents, Rs 108 crore of liquid investments and Rs 20 crore of unutilized bank lines) as against total debt repayment Rs 268 crore till June 30, 2022. In addition, the company has committed funding lines of Rs 295 crore from various financial institutions.

Rating Sensitivity factors

Upward factors

- Significant improvement in the market position, while improving asset quality
- Improvement in profitability, with return on managed assets beyond 2% on a sustained basis

Downward factors

- Leverage going beyond 4 times on sustained basis
- Significant and sustained weakening in asset quality leading to adverse impact on profitability

About the Company

UGRO is a systemically important NBFC engaged in financing secured and unsecured loans to MSMEs. It was incorporated in 1993 as Chokhani Securities Limited and was acquired and renamed as UGRO Capital Limited in 2018 by Mr. Shachindra Nath (Executive Chairman and Managing Director). The company is publicly listed on the Bombay Stock Exchange since 1995 and got listed on the National Stock Exchange in August 2021. Mr. Shachindra Nath is supported by seasoned key management personnel each having expertise of over a decade in their respective functional domains.

The company has raised capital from marquee private equity investors namely Newquest Asia Investments, Clearsky Investment holdings (ADV), Samena and DBZ Cyprus (PAG) who invested in the initial phase of UGRO's evolution along with Mr. Shachindra Nath. The four investors together hold 69% as on December 31, 2021.

The company commenced its operation in January 2019 and had an AUM of Rs 2,589 crore as on December 31, 2021. of which Rs 2,370 crore was on-book. The company has diversified presence across 8 states with 82 branches as on December 31, 2021, with none of the states contributing more than 17% of the AUM as on December 31, 2021.

The company reported a PAT of Rs 8 crore on the total income (net of interest expense) of Rs 112 crore for the first nine months ended fiscal 2022 as against Rs 27 crore and Rs 76 crore, respectively, for the corresponding period in the previous fiscal.

Key Financial Indicators

As on/for the period ending	Unit	Dec 2021 (9MFY22)	Mar 2021 (FY21)	Mar 2020 (FY20)
Total assets	Rs crore	2776	1751	1213
Total assets under management *(including off balance sheet)*	Rs crore	2589	1317	861
Total income	Rs crore	199	153	105
Profit before tax	Rs crore	12.1	12.1	3.32
Profit after tax	Rs crore	8	29	20
90+ dpd of on-balance sheet portfolio	%	1.7	2.3	0.9
Adjusted gearing*	Times	2.0	0.9	0.3
Return on assets	%	0.5	1.9	1.9

**Gearing is adjusted for the intangible assets on the balance sheet.*

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating outstanding with outlook
NA	Commercial Paper	NA	NA	7 to 365 Days	200	Simple	CRISIL A1

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating

		Amount										
Commercial Paper	ST	200.0	CRISIL A1		--		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
[Rating Criteria for Finance Companies]()
[CRISILs Bank Loan Ratings - process, scale and default recognition]()
[CRISILs Criteria for rating short term debt]()

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Note for Media:

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