"U GRO Capital Limited
Q2 FY2020 Earnings Conference Call"

November 13, 2019

ANALYST:	**MR. SHREEPAL DOSHI - EQUIRUS SECURITIES PRIVATE LIMITED**
MANAGEMENT:	**MR. SHACHINDRA NATH – MANAGING DIRECTOR & CHAIRMAN - UGRO CAPITAL LIMITED** **MR. ABHIJIT GHOSH – CHIEF EXECUTIVE OFFICER & WHOLE TIME DIRECTOR - UGRO CAPITAL LIMITED** **MR. KALPESH OJHA – CHIEF FINANCIAL OFFICER - UGRO CAPITAL LIMITED** **MR. VIVEK SESHADRI - HEAD OF STRATEGY AND IR - UGRO CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the U GRO Capital Limited Q2 FY2020 Earnings Conference Call hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. Before we begin, I would like to mention a short cautionary statement; some of the statements made into this conference call may be forward looking in nature, such forward looking statements are subject to risks and uncertainties which could cause actual results to defer from those anticipated. Such statements are based on the management beliefs as well as assumptions made by information currently available to the management. Audiences are cautioned not to place undue reliance on those forward-looking statements in making any investment decision. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review. With this, I now hand the conference over to Mr. Shreepal Doshi from Equirus Securities. Thank you and over to you Mr. Doshi.

Shreepal Doshi: Thank you Karuna. Good afternoon everyone and a warm welcome to you all. My name is Shreepal Doshi from Equirus Securities. We thank the management of U GRO Capital for allowing us to host their Q2 FY2020 results update call. On behalf of the company and Equirus Securities, I would like to thank you all for participating in the company's earnings conference call. On the call from U GRO management, we have Mr. Shachindra Nath – Executive Chairman & MD, Mr. Abhijit Ghosh – CEO & Director, Mr. Kalpesh Ojha – CFO and Mr. Vivek Seshadri – Head of Strategy & Investor Relations. We will start with the opening remarks from the management followed by a question and answer session. Over to you, Sir!

Shachindra Nath: Thank you, Mr. Doshi. Good afternoon everyone. Q2 FY2020 has seen a continuation of the broader macro challenges for NBFCs since IL&FS with significant troubles identified in DHFL and Altico to name a few. While it has been a challenging time for the sector, we at U GRO are proud to inform that we have been able to continue our growth journey. Our philosophy from inception has been to build a tech-enabled specialized SME focused lending platform and I am pleased to be able to say today that this quarter has seen us take significant strides towards making this a reality. This quarter has seen broad spectrum increases in disbursal culminating in our surging past $100 million of disbursals. We have also vastly expanded our technology aspirations to target a full suite of lending options within our mandate. As you know, our disbursal strategies are four-pronged with the channels being traditional branch-led intermediary channel, ecosystem-led channel, BFSI partner-led channel, and direct to customer channel. Of these, we have commenced all but our direct to customer channel which we expect to launch in December 2019 as scheduled. Our disbursals increased from 218 Crores in Q1 to 402 Crores this quarter, equivalent to an exit run rate of 1600 plus Crores. This has resulted in our assets under management more than doubling from last quarter, and it stands at 575 Crores as of end of September. It is spread out over 6,395 loans for a highly granular average loan size of Rs.9 lakhs. Our disbursals have now crossed 700 Crores, which is a figure we are proud to have reached in a just few months from commencement of disbursal. For the traditional intermediated and branch-led channel, we have increased our GRO partner network by 68% in Q2 for a total of 232 spread through the key SME clusters across the country. Our GRO partners are integrated into our system using our proprietary GRO-Plus module that allows for any qualified individual to source known for us. Q2 saw the inauguration of our ninth branch in Pune and our branch productivities were maintained at industry leading standards. Our ecosystem channel saw significant growth with four anchors and 65 vendors newly signed, leading to an incremental 49 Crores of supply chain financing. We are developing architecture for our supply chain financing to allow integration of vendors and distributors, thus leading to a seamless underwriting and disbursal process.

Our direct-to-customer channel will launch in December 2019. It will allow prospective customer within our mandate to directly request loans from us using a chatbot enabled journey given that it is a novel sourcing channel within the SME lending. We will have a testing phase focusing on two subsectors within healthcare, pharmacies, and doctors.

The BFSI-channel is where we have set our sights highest from a technology standpoint. GRO-Xstream is a one stop technology platform for all our financial partners, the other NBFCs, Fintechs, banks, DFIs, insurance companies, mutual funds, etc. It is designed to enable a broad range of transaction including co-origination, direct assignment, and securitization. We are very proud to have already secured five partnerships that we will be working towards onboarding on the GRO-Xstream platform. On the asset side, we have entered into co-origination partnerships with three leading SME lenders: KNAB Finance, Capital India, and LivFin. Through these three partnerships, we will be disbursing secured loans, unsecured loans, and supply chain financing thus empowering yet more Indian SMEs. However, our larger success this quarter has been on the liability side where we have signed two landmark partnerships with Bank of Baroda and State Bank of India. These are the two largest and most trusted public sector banks in India and their decisions to partner with us is tangible proof of our underwriting being highly regarded in the broader market. Co-lending with Bank of Baroda and SBI also provides us with a significant source of quasi liability, a great boom in the current liquidity strained market. We are confident in deepening our strategic partnership with BOB and SBI as integration into GRO-Xstream will allow for them to work with us and other integrated BFSI partners on numerous transaction types.

With regards to raising debt, we have had success in building up our liability book with incremental Rs.139 Crores of sanctions from four parties including Poonawalla Finance, part of the $5 billion Cyrus Poonawalla Group, and Sachin Bansal, ex co-founder of Flipkart. We have been building a diverse and granular liability book despite having cash on hand with the intention of building relationships and demonstrating a track record of borrowing. We have incurred borrowing costs of Rs.1.2 Crores this quarter as a result. Our current borrowing costs are higher than expected, but we anticipate that these costs will subside as our track record is established and market conditions rationalize. Our portfolio of Rs.575 Crores is a very high-quality book with 30+ DPD standing comfortably under 1%. We have also maintained good diversification across sectors and geographies with our maximum sectoral exposure being education at 19% and geography being Delhi at 23%. Our book is also 67% secured. Our company capital structure has seen no major change in Q2, only the conversion of 2 Crores of compulsorily convertible instruments. There remain 87 lakhs plus warrants outstanding which are to be exercised by December 2019. Upon exercise of these, the company will receive an equity infusion of Rs.98 Crores. Our financial performance in Q2 FY2020 reflects our expansionary growth. The company's net worth stands at Rs.827 Crores and net income for Q2 has increased to Rs.20.5 Crores. Q2 PBT stood at negative of Rs.6.1 Crores this was largely driven by exceptional items summing to Rs.2.64 Crores and increased technology costs as a result of scaling up development efforts this quarter. The current market conditions have demanded a conservative disbursal strategy and we have thus pivoted to accelerating our tech timeline. We remain highly liquid, a necessity in these times of constrained and expensive liquidity, and we're building a high quality and granular loan book. Overall, we are comfortable with our current position and look forward to continuing our quest to solve India's SME financing gap. Thank you all and over to you Equirus team.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Neerav Desai, an Individual Investor. Please go ahead.

Neerav Desai: Sir my question is like what the average term of the loan which has been disbursed under the secured and unsecured loans and supply chain financing during the quarter and what are the losses expected to be coming in this half-yearly?

Abhijit Ghosh: As on date we have four years on book as the average total loan door to door tenor, secured and unsecured put together.

Neerav Desai: Okay Sir please highlight something on the tie-up with Sunvest because looking at the finances, there are internal losses, the state DISCOMs are in the losses and not able to make payments on time so capital that you have tied-up so how are you looking at go ahead in future?

Abhijit Ghosh: Our strategy is to solve the credit problem first, the small businesses in India and this strategy is within our sector to solve multiple capital need for SMEs. That capital need can come from buy equipment and machinery, upgrading their facility, working capital, term loan, so Sunvest partnership is in that and for that besides reaching out to those customers directly, one of our core strategy is to partner with people who have deep expertise of a particular subsegment within our segment, so as you know that solar rooftop requirements for most of the SME is ongoing need, the way we look at it there is a partner who has deep expertise around the implementation and understanding the solar part of the business and we as a financier are partnering with them to look at providing financing need for implementation of solar rooftop. It does not change or move us from our core underwriting parameter wherein we evaluate each of those SMEs who have this need on the basis of our underwriting parameters, only the difference being that the end use for this is the clean energy asset which we are financing.

Neerav Desai: Okay Sir, these were just two of my questions Sir. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Ishan Daga from Real & Sons. Please go ahead.

Ishan Daga: Thanks for the opportunity. My question is regarding the demand scenario, we are present in auto component sector, light engineering and electronic equipment sector. Auto sector is currently facing some kind of slowdown, so how we are seeing these, the loan demand in these three segments as they are representing 43% of our book?

Shachindra Nath: I will come to electrical component sector first and then I will talk about the other sectors. As a broader strategy, as you know at the time of inception itself, we had evaluated more than 180 sectors of SME market basis broad long-term macro fundamentals. We filtered it down to eight sectors and then we sub-filtered down roughly around 90 plus subsectors of which we have built proprietary expert scorecards for around 30 odd subsectors, so that continues to be our stated universe of operation. On top of that, on a quarterly and half yearly basis we review each of those sectors. We review based on whether there is any fundamental shift which has happened and whether there is a need for either growing faster or slower in a particular sector or subsector. Most of the stress in auto components or auto sector which you are saying is largely at the manufacturing level, but we are in the auto component sector. Auto components can be component player to two-wheeler manufacturer, it can also be a trader in an auto sector so on so forth, but just to be cautious and prudent in the market, we have stopped taking fresh exposure in the auto and auto component sector for now, but as far as our current book is concerned, we see no challenges at all, these continues to be very granular and generate cash flows. With respect to the other two sectors they continue to operate seamlessly, we do not see any problem in any of our eight sectors. Generally, NBFCs are not being able to lend and given the liquidity crisis sometimes portfolio performance can deteriorate as well. We are generally cautious in terms of accelerating our disbursement and we continue to pick and choose and build very high quality granular top quartile book. 85% plus of our book into the top quartile rating parameters and that continues to be our strategy.

Ishan Daga: Okay and what about the outlook on the loan growth scenario, how we are seeing this loan growth in terms of medium term and long term basically in the next six months and beyond that?

Shachindra Nath: If you refer back to in my opening remarks, we said that we are, on an exit run rate basis, at a yearend total gross disbursement of around Rs.1400 Crores odd to Rs.1500 Crores. Our base is very small compared to large players in the market and at that base we do not see a challenge, but we continue to be extremely cautious and depending upon how market performs and behaves, we will operate within that trajectory.

Ishan Daga: So what are current net interest margins basically I know it is too early but what a kind of net interest margin and spread is kind of 2.9% our yield is 14.4% and the funding which we are turning is only 11.5% so the main scenario how it is likely to pan out when we become more mature?

Shachindra Nath: Today our entire book is funded by our equity capital, so the cost of borrowing which you are seeing is voluntary. We have taken that borrowing only to establish our track record in the borrowing market, so actually main calculation for us is not a realistic calculation. As we mature and as liquidity continues to improve, and especially given the high quality of portfolio, I think so we will see gradual decrease in our cost of borrowing. As I said before, our core focus is to build a technology platform which seamlessly integrates multiple options of liquidity to us. Co-lending is something for which we have built India's probably first and most evolved technology platform called GRO-Xstream. In this platform we have already seen the two largest banks in India come and onboard with us, which are State Bank of India and Bank of Baroda. We are in discussions with other partners and if that starts getting operationalized, the NIM calculation for NBFCs or technology enabled players like us will has a very different context because of our earning would become fee based.

Ishan Daga: My last question is on the arrangement which we have with Bank of Baroda and State Bank of India basically these are on-book loans or off book proportion key based arrangement kind of?

Shachindra Nath: So, as you know, the RBI last year came out with their guideline on co-lending. As per this guideline, in a co-lending proposal, a bank and an NBFC can partner to originate a loan and disburse to an end customer, these are not typical old generation BC arrangement, so we are not just an originator and so banks partners with us where in a portion of the loan is funded by us and a portion of the loan is funded by the bank and we continue to own and manage the customer, we continue to service the customer, we continue to collect everything and a fee is paid on the portion which is disbursed by bank.

Ishan Daga: Okay so how much roughly is portion which is reflected in our current book of these loans?

Shachindra Nath: These partnerships have been signed now. We expect this to get operationalized by end of this quarter.

Ishan Daga: Okay, so roughly how much of these loans which we will be giving in the future will be reflected in our like what is the proportion we can expect in our book for these arrangements?

Shachindra Nath: As I said that these are arrangements, co-lending in the Indian industry is fairly new. If you look on a comparable basis, we are one of the newest NBFCs and yet have been able to sign with two of the largest banks in India vis-à-vis lot of established players still not being able to get there. The reason why that has happened is because of the sheer appreciation with these banks for our technology led, highly specialized underwriting platform and they want to benefit from it. Now, the size of our future loan business that would be part of co-lending and how much will come to the balance sheet is something very difficult to predict. We do not make forward looking statements.

Ishan Daga: No sorry to interrupt but my question was that the loans, suppose we are giving 100 Crores through this arrangement, what would be the part of our book and would be the part of their book, the proportion I am asking about?

Shachindra Nath: I understand that, so as of today we have not disclosed the commercial elements of that. We have an understanding with these banks, signed agreements, and we do not have a problem with taking a higher portion as well. We will see what these banks are comfortable with and I think by end of next quarter, when this get operationalized it will start getting reflected in our numbers and we will show that.

Ishan Daga: Okay sure, thank you for taking questions. These were my questions. Thanks and all the best for the future.

Moderator: Thank you. The next question is from the line of Amit Jain, an Individual Investor. Please go ahead.

Amit Jain: Sir my question is regarding the split of business that we are acquiring though different channel, so as you mentioned earlier we have four channels out of which we are operational, so how much business are we acquiring though each of the three operational channels, the split?

Vivek Seshadri: We do not have the split at investor presentation but broadly it is even split between those three channels.

Amit Jain: So next question would be like Abhijit mentioned earlier that the average tenor of loan that we sanction is around four years but with the way the things are changing do we want to keep the tenor at four years or would we want to reduce it further because due to these changes MSME sectors is affected the most, so do you think the four year tenor is the right thing that we are doing or we can look at and review it?

Shachindra Nath: So, what Abhijit said to Mr. Jain is that on the blended portfolio the tenor is four years. The way we think about it is that we have desire to manage our asset liability in a very, very strong and prudent manner. Most of the NBFCs, historically in the last five years, their return creation was also a function of asset liability mismatch which inherently got created in their book. We do not want to ever be in that situation of creating any mismatch on our balance sheet. The way we think about it is that there are a few things which we have done from the start as per our board approved policy. Number one is that we have approved at the board level that any mismatch in our balance sheet which is beyond our equity capital and as you we have very strong equity capital would be compulsorily securitized. Number two, we balance our portfolio which is long tenor secured portfolio so while of the most of the SME loans till today also continues to be for a little longer tenor, if they are secured, but we compensate that by building a very small granular supply chain financing book. We are also building the co-lending and partnership so our objective is to manage our ALM at a portfolio level and also match our liability, so we are starting to have a discussion from long-term liabilities to short-term liability so we do not think so that we will never have the risk of creating a risk on our balance sheet which comes out of asset liabilities.

Amit Jain: My question was not regarding ALM it was more regarding the business risk. My question was with the way the economy is going and with the technology is creating changes in the industries, my question was four-year tenor loan do you think it is safe or should we focus on a smaller tenor loan?

Shachindra Nath: So, I will repeat what I said earlier. Secured loan for small businesses when I said secured so it can be secured, it varies from collateral types, so it secured by a residential property, commercial property secured by it would continue to how long the tenor, we end up doing cash flow analysis of each of our SME which is built through our tech platform and deep underwriting which we do through our physical offices, so for us it is the ability of SMEs to be able to pay, it is sustainability for that tenor of the loan period and if this type of collateral where residual value or life of the residual tenor of the asset itself smaller, the loan would be smaller so you cannot generalized that all SME loans has to be short tenor loan because quite a bit of capital expenditure of SME are longer tenor by nature and especially is what we have learn in our partnership with both the big large public sector bank that they are actually happy and willing to go much longer tenor secured loans than what most of the NBFCs do and we think that is a big competitive advantage to us by partnering with bank that we can actually solve the need of SME which is towards longer tenor loan because they cannot sustain short tenor loans because that is unviable for them.

Amit Jain: Understood. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Rishabh Sachdev, Individual Investor. Please go ahead.

Rishabh Sachdev: Hi good afternoon Sir, so I just have a one question that if you see the economy is getting slowed down and especially the SMEs are going through a rough time so what will be the strategy of the company to protect the quality of the loan book in the tough market?

Shachindra Nath: So look, whatever be the state of the economy and whether it is on the path of revival or path of decline, U Gro’s strategy with respect to its credit quality has from day one have been very stable and our risk mitigation strategy is three fold. First at a portfolio level, second is type of loan and the collateral and third is the sector and subsectors in which we operate. As I stated earlier, we do not operate across every sector of SME market in India, we have done a 10-year analysis at the time of our inception itself to decide within the boarder 180 sectors which are the sectors in which we will operate. The objective of doing that was to protect us against the macro risk of different sectors and that is why we came down to the strategy of only 8 sectors. Then we did further subsector analysis and then we started some subsector. We feel confident that irrespective of the state of economy, these sectors and subsectors would continue to deliver growth and would not come under serious trouble at all - that is at a macro level. Number two, in terms of our stated portfolio type and quality, we largely want to build a portfolio in our initial journey which is secured by mortgages and then we are moving towards the other assets classes as well which I talked about solar and some of the assets classes. Third, we continue to deeply analyze the cash flows of these businesses and our analysis of cash flow is combination of a very deep tech which we have built through a proprietary algorithm based statistical score card which take in account past five years of data analytics of bureau record and an expert score card. I think that in these kinds of markets, we should not show exuberance to grow very fast and we should grow with a deliberate sense of caution - which we are doing. I would still say that SMEs in India continue to contribute roughly 30% of the GDP and they are the most important component of our economy. This is my personal belief that there is more broader noise than what is actual, the SMEs are in stress for sure but within those there are definitely large portion of businesses that continue to do fairly well and as a financier or as a lender we have to make sure we are partnering we are financing those SMEs versus who are in serious trouble.

Rishabh Sachdev: Okay Sir thank you so much Sir.

Moderator: Thank you. The next question is from the line of Akshay Khatriwal, an Individual Investor. Please go ahead.

Akshay Khatriwal: Thank you for the opportunity, Sir I have couple of questions, so what is the average approval rate for the files received?

Shachindra Nath: I heard the question. I will just think of how to answer that. As we said that we have a technology platform which is called GRO-Plus. Our technology platform is one of India's leading tech enabled platforms, which seamlessly integrate our entire intermediated channel, which we call GRO Partners. The in principal approval is done within first few hours itself once the documentation get completed and then depending upon type of the loan and kind of things which need to get involved which is valuation and all of that there are different turnaround time. Our aspiration is to reach a milestone where in our total end to end turnaround time is at least 50% better than anyone else in the industry.

Akshay Khatriwal: Right got it Sir and second question is what was the reason behind having a rating from Acuite and not from agencies like Care or Crisil.

Shachindra Nath: What is the difference? Anyways, the reason for going to Acuite is twofold. One when we started the rating process, most of the other rating agencies were quite distracted with was going on in the broader market, we needed an rating agency which has first very evolved understanding of SME market, as you know Acuite is the rating agency which had been earlier called SMERA so we felt that their understanding of SME market is quite evolved. Second we wanted a rating agency which can devote time on to us and given that we did not have a portfolio track record and we had no legacy, somebody who can appreciate our process, technology our strong capital base and the depth of the management and grant us rating on that basis versus being impacted by what is happening within their rating universe of other players in the market and that was the reason why we went and the acceptance of Acuite versus area of the other rating agency which you have mentioned we have not faced any challenge and that is why we continue to be with them. But over a period of time our intention is to go to other rating agencies as well, but only when the market is in a normalized state rather than in this disrupted state.

Akshay Khatriwal: Right, Sir I got you point, Sir Thanks for the explanation and thanks for taking my questions. Wish you a very successful future.

Moderator: Thank you. There are no further questions. You may go ahead with your closing comments please.

Shachindra Nath: Thank you very much for all of you who have joined our Q2 earnings call. If you have any further question or clarification which is needed, you may reach out to Mr. Vivek Seshadri, who is our Head of Strategy and Investor Relation Team and we hope to hear back from each one of you on our next earning call. Thank you very much and have a good day.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Equirus Securities Private Limited, this concludes the conference. Thank you for joining us. You may now disconnect your lines.