"U GRO Capital Limited
Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q4 FY2020 Investor Call for U GRO Capital Limited hosted by Equirus Securities Private Limited. Before we begin, I would like to mention a short cautionary statement; some of the statements made in today's con-call may be forward looking in nature, such forward looking statements are subject to risks and uncertainties which would cause actual results to defer from those anticipated. Such statements are based on management beliefs as well as assumptions made by the information currently available to the management. Audiences are cautioned not to place undue reliance on these 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. 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 call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shreepal Doshi from Equirus Securities. Thank you and over to you Sir!

Shreepal Doshi: Thank you Nirav. Good morning everyone and a warm welcome to you all. My name is Shreepal Doshi, I am from Equirus Securities. We thank the management of U GRO Capital for allowing us to host their 4Q FY2020 result 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 the 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. We will start with the opening remarks from the management followed by the question and answer. Over to you, Sir!

Shachindra Nath: Good afternoon everyone and many thanks for joining us for our Q4 FY2020 earning call. FY2020 was our first full year of lending operation post the change of ownership and new capital raise and the story of this financial year for NBFC has undoubtedly being adaptability in the phase of adversity. The industry has faced a series of daunting challenges culminating in the COVID 2019 crisis and it is time such as these that the metal of firm is tested.

I believe that we have performed admirably given the macroeconomic conditions particularly given our youth as an organization. We have launched four distinct distribution channels through which we can serve a broad range of SMEs within our sectors of specialization. The portfolio we have built in short-term is sizable at well over a $100 million USD but more importantly is of a high quality due to our conservative risk management framework. However before speaking on business metrics, I would like to start by speaking on COVID19 crisis and how we have responded as a company.

We have taken the unequivocal view that it is our duty to prioritize the long-term well being of our work force and our customers during this crisis. We swiftly transitioned our employees to work from home to ensure their safety and we have not reopened any branches that are not in green zones till date. The transition to working from home has been commendably undertaken and our employees remain highly engaged through the commencement of a range of strategic projects that will add long-term value to U GRO.

As for our customers, we have granted all of them a three-month EMI moratorium with a default opt in approach to reduce the financial pressure on them during this period which has already been so difficult for a small businesses. Over 80% of our customers by loan volume have availed this moratorium. We have simultaneously taken steps to preserve the strength of our business at this time. We have taken stringent cost optimization measures such as renegotiation of leases which will lead to significant savings during the lockdown period, additionally we have postponed bonuses for FY2020 companywide with me and our C level officers voluntarily foregoing our variable pay for FY2020 altogether. Our independent directors have likewise voluntarily taking a 12.5% reduction in their sitting fees for FY2021.

Lastly, our mid and senior level executives have had short term adjustments of remuneration through the end of FY2021. Our provisioning has also been liberal in the phase of COVID-19 uncertainty and we have proactively provision a total of Rs.10.5 Crores for FY2021 of which Rs.3.3 Crores is specifically for the loan impairment resulting from Coronavirus impact.

Moving onto the business metrics, as of end of FY2020 U GRO has Rs.1366 Crores of total disbursals of which Rs.1284 Crores were achieved in FY2020. We disbursed Rs.290 Crores in Q4 itself despite the COVID-19 lockdown which made us lose a full month of sales productivity, our asset under management as of end of FY2020 stood at Rs.861 Crores with blended yield of 14.3% and unprecedented figure in the first year re-inauguration of the business. This becomes more impressive still when considering our credit policy which is very conservative by design. Our portfolio is well diversified by sector and geography and is nearly 70% secured in nature. Our AUM is spread across 7764 customers for an average ticket size of a highly granular Rs.11.1 lakhs which leaves us minimally exposed to concentration risk. Our GNPA and NNPA figures stand at 0.9% and 0.5% respectively both being comfortable figures given that our book is now starting to show some vintage.

Our distribution channels have seen further growth in Q4 despite the widespread disruption, our GRO partner network has increased 14% from last quarter to 355 in total is spread across the nations key SME clusters. Our ecosystem channel has added five anchor partners and 40 new vendors receiving sanctions from Rs.34 Crores of incremental supply chain financing sanctions. We have not disbursed loans in March, April and May 2020 but we expect to resume disbursing from June 2020.

A key part of this resumption will be our Sanjeevani Program, which will be rolled out in two phases. The first phase will target those SMEs that provide essential goods and services while the second phase will focus on those that have been maintained robust cash flow through the lockdown. We are excited to roll out these programs as we feel this will provide an excellent path for fundamentally strong small businesses to get back on track as the nation's economy reopens.

On the liability side we have a total sanction of Rs.300 Crores as of the end of the Q4 FY2020. This combined with our large equity base from inception has allowed us to maintain a comfortable position in terms of liquidity which is not a claim that most lenders can make at this time. We maintain immediate liquidity of over Rs.200 Crores which includes Rs.127.5 Crores of sanction liability that we have not yet drawn on. The RBI's TLTRO scheme is also likely to lead to a good deal of comfort for high quality lenders such as U GRO as if promises the reduction in the liability in the months ahead. Our high liquidity during this time of crisis is a real boon in terms of flexibility it allows us as an organization and we are confident that we can parlay this into a growth in our market share in the coming months.

Our financial performance has been good with us declaring a profit after tax of Rs.20.4 Crores for the quarter and 19.5 Crores for the financial year. This has been largely a result of the efficiency of our tech focussed approach to lending which has allowed us to garner large disbursal volumes while keeping operational costs relatively low. We have recorded a 30% increase in our net income quarter on quarter with our Q4 figure standing at Rs.30.7 Crores.

Our networth as March 31, 2020 stood at Rs.922 Crores. Overall, FY2020 has undoubtedly been a tough year for financial services in India. However, as the saying goes, pressure make diamonds and I firmly believe that the lessons we have learnt this year have led us to becoming a far more mature as an organization then would be expected by our age. Our success in the face of the many obstacles we have faced this year have primed us to grow into a larger player in the Indian SME lending space and we hope that you will keep faith with us on our journey to future successes.

The full impact of the COVID-19 moratorium opted by borrowers across lenders in the mortality of the small and micro businesses is still unknown. Given our deep understanding of our selected sector and our digitized platform combined with analytical capabilities we believe that we are at much better standing vis-à-vis our peer set. There are not many NBFCs in the current environment which have a capital adequacy ratio of more than 85%, virtually no liability side problems with a gradual increase in the debt facility coming from a diversified set of lenders. These factors lead us to believe that we will restart the business with more vigor than most other lenders and we will continue to work towards our mission of solving the credit gap of small businesses in India.

Thank you all and over to Equirus team, Shreepal.

Shreepal Doshi: The forum now is now open for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Prashanth Sridhar from SBI Mutual Fund. Please go ahead.

Prashanth Sridhar: Sir education I think would be one of your larger sector looking at presentation, but schools probably be one of the last things to reopen so could you just throw some light on sort of what is the feedback you are getting from customers and what is the situation on ground in the education part?

Shachindra Nath: Prashanth, you are right that schools would be the last one to open but the majority of our education sector comprises K-12 and play schools which are in the prime segment in the market and largely these are the schools which have very long vintage and high residual cash flows and most of them have while availed the moratorium. Fundamentally, we still believe that healthcare and education are more resilient as sectors – especially K-12 school in the tier 1, tier II, tier III town would basically resume and their cash flows will restart.

Prashanth Sridhar: The cash position as such you do not see a deteriorating because of the lack of income or something?

Shachindra Nath: Normally the K-12 sector is a little cyclical because most of them receive their first tranche of cash when the new admission and the results happen, so largest volume of cash which these schools normally receives in the month of March and then when the next season starts. Unfortunately, this March has been a year wherein most of them would have not received cash or received less cash, but as I said that you should divide the K-12 school segment between prime schools to APCs which is affordable private schools, the majority of the cash flow stress is an affordable private school mainlines metro K-12 school are still receiving large portion of their fee income because they have gone digital and they continue to impart education through digital mode. We do not see schools as a business permanently shutting down and going out of business, but they may have temporary cash flow mismatches.

Prashanth Sridhar: Thanks, so much Sir and just one last thing if you could just give your views on the various measures announced by the government for the MSME sector? That is it from my side.

Shachindra Nath: As you know they have multifold approach which has been adopted by both the central bank as a regulator and government in terms. I think within the alternative lending segment or the lending segment what you will appreciate that the largest focus or the support from the government when the Reserve Bank has come from SME and micro SME segment, and rightfully so because they are the backbone to economy. Now these measures started from providing additional liquidity by the RBI to the banks and motivating them to lend which on the ground has not seen much changes or much liquidity to come in the hands of the NBFC but the latest measures which is the Rs.30000 Crores of the emergency credit line or the partial guarantee scheme for SME and micro SME what was announced yesterday, fundamentally I believe that this would improve the health of SME and micro SME very dramatically but obviously there is a lag effect, so you should wait for two quarters for the bounce to happen. Obviously, the caveat is that we do not see a phase II of the COVID-19 pandemic coming in and by the July we should see the peak and then flattening of the curve.

Prashanth Sridhar: Great. Thank you so much Sir. Best of luck.

Moderator: Thank you. The next question is from the line of Anadi Kaistha from Vivriti Capital. Please go ahead.

Anadi Kaistha: Good morning Sir. Congratulations for the good set of numbers. We have few set of questions, firstly how much opex reduction is expected in percentage term, quarter on quarter? Next question is regarding this disbursement in March has declined more than 20% one month on month basis whereas lockdown was announced after March 28, 2020 so is there any specific reason whether you sense earlier that which is going to get worsened and continued with that disbursements were stopped or whether the disbursements have kept high towards the end of the month? That is the second question.

Shachindra Nath: I will take with the second one first, as you know normally in the lending cycle you see the majority of the volume of the disbursement happens by the end of the month and it obviously peaks at the end of the quarter and not at the beginning of the month so that is point number one. Number two, you are right we were early in terms of stopping the businesses and going work from home so transitioned and closed our offices by March 17, 2020 five days prior to the lockdown being announced and we closed our fresh disbursement, the last disbursement happened I think so on March 16, 2020 so that is the reason of what you see decline in the quarter on quarter numbers. Vivek do you want to take up the first question which is what the percentage opex reduction has happened?

Vivek Seshadri: I think we should look at opex reduction in three parts. One is salary related. Two being other opex that we have negotiated these vendors so on so forth and three is general process improvement. The first part of it we have created salaries option for all employees above 20 lakhs that salary reduction can be anywhere from 5% to 12.5% but on the blended basis I think the salary cost should come down at least 7%-8%. On the second point which is opex related we have essentially tried to renegotiate rental so on so forth and that saving would be anywhere Rs.75 lakhs to 1 Crores and obviously on the process improvements side, there has been a lot of changes that have been made to make the process more efficient and therefore cost plus, but that is something which is more fluid and more variability.

Anadi Kaistha: Sir, you mentioned that 80% of the customers have asked for moratorium so it has been golden terms, in value terms how much it would be Sir?

Shachindra Nath: No Sir, just to clarify unlike on the common practice adopted by the lenders we offer the moratorium because of the most NBFCs were not able to offer moratorium to all customers because they had their own liability side mismatches given that we did not have that problem we offered moratorium to all our customers, 20% of our customer voluntarily opted out wherein they said we do not need the moratorium and when we say this 80% and 20% this is by loan volume on the portfolio to value of loan outstanding.

Vivek Seshadri: Just one more point, unlike NBFCs there is very little distinction between I mean we do not have one loan Rs.200 Crores of one loan at Rs.1 lakh, right? The difference between number and values broadly are the same.

Anadi Kaistha: Okay right and in moratorium how many customers have been given moratorium Sir?

Shachindra Nath: In the moratorium II, our view is that the moratorium II we are not planning to offer it to all customers we are offering only to the customers who would opt in which means that they have to make a request and there is a re-credit exercise which should be done that whether the question has a real cash flow issue and we should be offer that or not so that is the process which we are starting now, our board has improved the policy and now we will start.

Anadi Kaistha: Sir since the moratorium has been given so the collection efficiency would be varying given this Q1 of the current financial year so how you are seeing the collection efficiency going forward, once this lockdown is being lifted and some parts of the country and it is in the process of getting lifted so how you are looking at collection efficiency at growth level?

Shachindra Nath: As we said that in the moratorium I when we offered the moratorium to all 100% of our customers, 20% of customers opted out and we saw 100% collection efficiency from them. Now going forward what would be the collection efficiency we will get to know only depending upon how many of our customers opt in for the next set of moratorium whether we offer them or not what is the re-credit exercise and basis that as you saw what is the actual collection efficiency would come we will get to know within a month or so but I would like to remind you that unlike NBFCs can be divided into the micro lending segment, SME, and micro SME, mid segment and the prime segment. Our portfolio largely belongs to the prime segment and as a sectoral focus so we think that barring few sectors majority of our sectors would reopen and there will be a bounce back which will happen.

Anadi Kaistha: Thank you. Wishing you all the luck in the next quarter.

Moderator: The next question is from the line of Dinesh Kotecha from KRIC Concepts Private Limited. Please go ahead.

Dinesh Kotecha: Sir good morning. I just wanted to know two things Sir any capital raising plans which were there and which have been shelved or delayed now?

Shachindra Nath: There is no capital raising plan which we have publically disclosed or we have shelved off and you would appreciate that we have a large capital cushion. We are at 85% plus capital adequacy so there is nothing which we have either planned or shelved off.

Dinesh Kotecha: Sir secondly, I wanted to know more about the Sanjeevani project which you just discussed and I was not able to catch that up what was that actually, the two projects which you mentioned the Sanjeevani projects can you elaborate a little bit more about it?

Shachindra Nath: The Sanjeevani project is when we restart, we intent to restart disbursements by two design element. It is a completely digitized product wherein first set of the customer which we have segregated is those who are involved in essential commodities and services and we are planning to do lending towards them and second, we are looking at the customers who during this period of crisis have maintained robust cash flow so these are different programs designed to serve the need of these two types of the customers.

Dinesh Kotecha: Are you ready with those I mean those schemes, are you ready with those alternatives?

Shachindra Nath: We are already ready. We have just waiting for some of the more liquidity because we want to maintain our existing liquidity on our balance sheet. So we are waiting for some of the TLTRO related and other emergency credit line guarantee scheme and some of the other liquidity to come into our balance sheet. We do not want to sacrifice the existing liquidity which is quite significant though and as soon as some of the liquidity would come we would start the disbursement on these programs.

Dinesh Kotecha: I also appreciate the sacrifice that you have made in terms of salary and for the excellent results I congratulate the entire management. Thank you Sir, keep it up.

Shachindra Nath: Thank you.

Moderator: Thank you. The next question is from the line of Gauri Sharma from Roha Asset Managers. Please go ahead.

Gauri Sharma: Sir my question was regarding the hospitality sector as in the last few months we have seen some sort of a stress due to COVID and we have a sizable exposure towards this sector, just your thoughts on how do you think the sector will perform and what are the opportunities or certain factors that person should be careful about? Thank you.

Shachindra Nath: Gauri, hospitality has one of our core part of the eight sector. Obviously when the sector selection was done there is no visibility of a pandemic like COVID in which whole world were come to a complete shutdown, was ever envisaged and that was more driven by the fundamental of the economy, which is disposable income increase and the consumer trend. Our view is that first also our hospitality sector a large portion roughly around 70% is a secured portfolio, secured by collateral which is physical mortgages. Second in select places we expect some of these hospitalities and we largely of the QSR and fine dining kind of platforms which are now gradually restarting home deliveries and other segment but we expect the bounce back of the hospitality to be the last one so we expect the delinquency to go up. What we call the full loss ratios to be still lower given that sizeable portfolio and secured portfolio and as depending upon how the different parts of the country moves and how they go back to normalcy we will see the sector. As of today in our restart, hospitality as a sector has been stopped as we have stopped outer component around three quarters back so hospitality will remain stopped and we will take a fundamental view of when to restart after our full review of all our sector and subsector.

Gauri Sharma: Thank you so much.

Moderator: Thank you. The next question is from the line of Gaurav Agarwal from Real Ispat and Power Limited. Please go ahead.

Gaurav Agarwal: Good morning Sir. Actually I did not catch up the first couple of minutes wherein what are the total disbursals in Q4?

Shachindra Nath: We have already given the full earnings presentation. You will be able to find all that numbers, but Vivek quickly can you give the numbers please?

Vivek Seshadri: The incremental disbursement Q4 was around Rs.300 or odd Crores.

Gaurav Agarwal: Going forward what do you expect of the disbursal and what do you think of the credit strategy that will deploy now since the equity that we have raised and how much debt do you have in mind and also any average yield that you have in mind? Also there is one more question, what do you think of the secured and unsecured percentage in the book? Currently see it as two-third and one-third so going forward where do you see your comfort line goes COVID situation?

Shachindra Nath: Fundamentally, we have not yet taken call to make any strategic shift to our business. As you know that our business is designed around serving the need of SME and micro SMEs in India we specialize in eight sector and roughly around 40 plus subsectors so and we continue to believe in those and we think that pandemic is an unknown which has come to the humanity at one go. For now, obviously there are certain sectors which we will not start wherein we think that pandemic effect is very severe and in terms of our restart of the business as I said that we are starting the program called Sanjeevani wherein first we will start supporting small businesses which are an essential services and commodities. Second, we are starting the business for SMEs and micro SMEs within our existing portfolio and the new customer who have maintained cash flow through this pandemic cycle and have been able to remain active in the business and by that time we think that the normalization curve would start and we will restart the business. So fundamentally the way you are seeing our business we are not seeing any dramatic shift as of now. As you know these times are very different times and we have utilized last 100 days in evaluating all of these things and we have undertaken one large number of strategic projects including complete digitization of the physical underwriting PD exercises, all loan management cycles so on so forth that is where we are I think so it is very difficult for anyone to tell you exact number how much of disbursement which will happen this year what I would like to say that we think that we have a better competitive position or strength vis-à-vis other peers at NBFCs because majority of the NBFC post COVID-19 crisis would require at least 12 month of period stabilization, wherein they have to manage their large portfolios and the impact in the impairment coming from that they have to then manage the liquidity because it is a cascading effect once your portfolio goes little bad then your liability get constraint so the ability of the other peer set to start disbursement again would be constraint vis-à-vis we would not have that constraint and that is why we think we will be able to restart in the growth mode very quickly but simultaneously we are optimistically cautious we do not want to make hasty decisions. These businesses are businesses built for long-term so we will calibrate our approach and just because other lenders do not have ability to lend we would not jump into the well too fast too soon but we are making calibrated approach to restart and get back to regular business as soon as possible.

Gaurav Agarwal: One followup question to this in the current scenario you have exposure to primarily 8 to 10 sectors which are majorly exposed so amongst that what do you think the sectors that will post COVID situation which will be affected the most and where do you see the numbers lying in terms of the NPAs or any kind of impairment coming in the current book?

Shachindra Nath: You could see from our financial result presentation that we have done accelerated additional provisioning for the COVID impact. We followed the RBI guidelines as well as because we are in Ind-AS accounting norms so we also followed Institute of Chartered Accountants COVID-19 advisory, which required us to undertake all probable scenarios and estimate the COVID-19 impact while that is in we have taken deep exercise of contact doing survey across all over customer segments, three rounds of customer contacts have been done, we estimated their cash flow and based on that we have done the provisioning but the real provisioning would come out only whilst we see the next quarter ending and how many of them would be able to restart. Within the sectors except hospitality which we think so that will take a little more while to bounce back rest of the other sectors are more resilient and would bounce back very quickly is our estimation. Giving you a number estimate of what would be that requirement of the delinquency is very hard but I must say that look this is now market of relativity all lenders which are whether they are in consumer finance or whether they are into microfinance or whether they are into SME and micro SME finance or whether they are banks have to take additional provisioning and hit on to their balance sheets but U GRO is in this enviable position because of our capital cushion. First, we believe that relative provision in our books would be lesser than the other lenders just because of the nature of the secured book, prime book but whatever it would be our ability to observe and bounce back is much stronger vis-à-vis any other lenders.

Gaurav Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Suhani Saha an individual investor. Please go ahead.

Suhani Saha: Sir I wanted to ask this quarter we see whether disbursal amount, the number of loan disbursals have increased the total amount of disbursals; however, the number of customers have not increased to a significant extent so is it that we are cross selling our products amongst the existing customers or other more bigger ticket size disbursals that have happened during this quarter. Can you just throw some light on that please?

Vivek Seshadri: I am not sure if you have had a chance to follow us over a period in time but we broadly have four distribution channels, one being branch-led wherein the ticket sizes are of the four channels higher, second being the supply chain part, third being the BFSI-partnership, and fourth being the digital and direct-to-customer module. Given our risk assessment of MSME related issues associated with them we have gone slow in the third and fourth distribution channels if you will and our focus on the first and second distribution channel for Q4 and therefore you would see that the relative number of customers has not gone up because in the third and fourth distribution channel which is the BFSI-partnership led and direct-to-customer channels are the ones wherein we have extremely low ticket size. It is a relative impact on the channel that we focused on in the last quarter.

Suhani Saha: Also another question I had regarding the ecosystem lending model so how does it work and who are some of these partners under this system for you all, if you could just throw some light on that?

Vivek Seshadri: In the ecosystem distribution for us you need to look it at as typical supply chain but not to AAA, AA corporate. We focus on the second tier of customers if you will so the entire strategy is anchor-led strategy. I will not be able to give you exact name of anchors given that that is sensitive information but the idea is to tie up with BBB plus, A minus kind of corporate in the eight sectors that we are a part of and create distribution strategies wherein we provide working capital facilities to their distributors, to their vendors, dealers, so on and so forth so it is the ecosystem strategies and outcome of that.

Suhani Saha: Just one last question, Sir how do you see the collection post the end of moratorium because I believe there would be still some sectors who would be going through stress for a longer duration post the moratorium, so how do you see the collections?

Vivek Seshadri: I think Shachindra also covered that in his previous question and we have a slide on that on eight as well so we have essentially done huge exercise wherein we have looked at each of the subsectors that we operate in and the relative impact that COVID will have basis that we have prioritized the sectors that we should lend to and also clearly called out the sector that we will not lend to. Second post that we will also do an assessment of the geography the customer is in plus the basic cash flow assessments will anyway be done. So based on that I think our lending profile will evolve over a period of time. The idea however is to be cautious in the next two to three months till the full impact of COVID is gone.

Suhani Saha: Sure. Thank you so much. That is all from my end. Thank you.

Moderator: Thank you. The next question is from the line of Anadi Kaistha from Vivriti Capital. Please go ahead.

Anadi Kaistha: Sir I noticed in the presentation that we do have the co-lending partners as well so how much is our balance sheet look as on today?

Vivek Seshadri: On co-lending side as you would be aware we have signed co-lending partnerships, three already signed, one in the works, these have all been signed with large public sector, large private sector banks. These partnerships got signed somewhere in November and December. We were in the process integrating with these partners because the entire process has to be an automated flow and therefore integration as such is still in works, the operational part of it is still in the works so there is nothing that we have done on the co-lending side as of now, we will start it as soon as most of that work is now complete and we should start it as soon as we start disbursals.

Anadi Kaistha: Second followup question is cost of funds in Q3, cost of funds are stalled around 11.5% and this time it is around 11.3% so how do you see the cost of funds going forward whether it will decrease or it will increase slightly in this current scenario?

Shachindra Nath: Look our ongoing premise is that given our sizeable capital, given our kind of portfolio on a sequential basis we should look at the cost of funds going down. So few quarters are quarters of aberration and we just do not know if the pricing of the debt is dependent upon the liquidity available. What we are seeing is lower cost of borrowing which are coming in these quarters but those are largely from the liquidity scheme launched by RBI and other schemes which banks are doing that they may not be good benchmark to see what would be our sequential cost of borrowing but in few quarter we expect our cost of borrowing to be little lower but let me also tell you that our approach at this point of time is to take liquidity on our balance sheets whenever they are coming in because liquidity is quite important for any NBFI to maintain but when we take that liquidity it comes with some negative carry cost because when you draw those facilities then cash hit on your balance sheet and it is carries, but we are prepared to take that because for us we think that having significant liquidity in the balance sheet allows you to go back to the business very quickly and much more stronger hand.

Anadi Kaistha: Sir because last time when easing was given that due to section 20, that is difficult to raise funds from PSU banks and SSB, so are we looking at PSUs and SSBs now or still we have some leeway there?

Shachindra Nath: I do not get your question.

Anadi Kaistha: During Q3, direction was given that cost of funds are high because of common directors between many PSUs and independent directors on U GRO board, so that is why we are not able to raise funds from PSU banks so are we looking towards those PSU banks now?

Shachindra Nath: I do not think there is a linkage as to cost of borrowing with being common directors. I think what we would have mentioned in our last quarter that it is taking us more time to get these sanctions from public sector and small finance banks or that matter any bank because the process for sanctioning for U GRO loan every bank is required to place our proposal to the minimum to the management committee of the board as per the RBI circular whenever there is an NBFC on whose board there is a board member which is on the board of other bank. Banks has to take the proposal to their management committee so obviously that takes more time but during this period of time we have seen incremental sanctions coming from public sector banks which are post the quarterly result and over a period of time I think most of the banks would undertake our proposal at the highest level I think the good part is that while initially it will just take little more time to get this sanction but having said that given that all large banks are there in board are approving sanctions to U GRO it also means that our loans, U GRO's credentials are being accepted by the large banks board. Over a period of time that is beneficial for the company.

Anadi Kaistha: Sir one last question from my side. So have you taken moratorium from our lenders during this period?

Shachindra Nath: No.

Anadi Kaistha: We are paying P plus lower to our lenders?

Shachindra Nath: Because as we said that our portfolio is largely funded by equity debt which we have had is just fixed on our balance sheet as liquidity. In fact we have prepaid some of the liabilities voluntarily because we felt that they are too expensive liability for us.

Anadi Kaistha: Thank you for clarification.

Moderator: Thank you. The next question is from the line of Shreepal Doshi from Equirus Securities. Please go ahead.

Shreepal Doshi: I just have a few questions that is although we are strong on balance sheet and we have very high capital adequacy ratio also but on the asset side when do we plan to start the new business sourcing some color on when do we start with fresh investments also?

Shachindra Nath: Shreepal, I think we covered this in our opening remarks. Mid of June we are planning to restart the business. Our restart of the business is a three phase approach we have launched program called Sanjeevani. This program is first designed to support SME and micro SME involved in essential commodities and services. Second is phase of the Sanjeevani program is to look at the SME and micro SMEs who have maintained cash flow and activity during the lockdown period and third would be the regular business and regular sourcing so we are incrementally seeing starting from mid of June some disbursement to start but we are balancing between first looking at the health of our existing portfolio, increasing the maximum collection efficiency and simultaneously starting full disbursement I think so by end of this quarter we are all praying to God that we have more normalcy then we can restart the business with full flow.

Shreepal Doshi: Okay by the end of this quarter what is our expectation broadly?

Shachindra Nath: To get back to the same level of activity where we ended in February end.

Shreepal Doshi: Sir as you have highlighted for a couple of quarter there could be increase in funding cost for the boarder NBFC space. Do we see the pricing on the loans also getting reflected like do you think there will be passing of that cost on the lending front also in the next couple of quarters?

Shachindra Nath: No Shreepal. Just to clarify we expect our cost of borrowing to go down but we simultaneously expect the other NBFCs cost of borrowing to go up. That is what I mentioned. Second, I think so that majority of the NBFC as an industry has to take a margin hit because there is very severe push from the public sector banks and the larger lenders to provide credit at a much more reasonable cost to the SME and micro SME borrowers rightfully so because their margin have crushed so much that they need borrowing at a much lower cost. So you will see incremental credit from the large banks especially public sector banks and if the NBFCs have to remain in that market there you will see the net interest margin for NBFCs to go down so hit off the profitability so and so forth and that is why I said that the broader NBFC segment for a foreseeable period of 12 months would have both asset side problem, margin related problem, capital adequacy, and liquidity problem. That is the way the whole but I think so post 12 months it should normalize.

Shreepal Doshi: Sir just last one question based on your interaction with your borrowers and also with other people some color on how geography wise there is some business wise the impact that you see wherein some particular states or say in some particular geography there is higher impact of COVID based on your interactions with your customers?

Shachindra Nath: Abhijit, you want to take that. I do not see any such data but unless you have very different view on this?

Abhijit Ghosh: First of all, we are presently broadening the SME hub. We are as on date presenting the nine locations, which are SME hub. Now in that this is broadly regulated by how the states are also being impacted. As on date for example we have seen normalcy broadly coming in all the location except for Maharashtra that also led by how the state government is leading it, but again as Shachindra spoke multiple times this is a first time we look it at as a black swan so we cannot predict much how are things going to be. For example today you might be in green zone tomorrow you might be in orange because you have containment zone within the green zone. It may move to red as well so this is the reality that is going to be there with all of us for sometime so making forward-looking statement for it now is little challenging is what we feel.

Shreepal Doshi: Thank you very much Sir.

Moderator: Thank you very much. The next question is from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

Kajal Gandhi: Good afternoon Sir. Just wanted to understand recently the Finance Minister made those changes in tenders and for TReDS platforms we can see volume increase so how we are we placed there and what do think the impact?

Shachindra Nath: Sorry can you repeat your question?

Kajal Gandhi: Sir, the TReDS platform, the changes on the tender that it can be opened for MSMEs and participation can grow higher so that way are we participating? You must be participating in that trending bill discounting?

Shachindra Nath: We are still waiting for the notification. As you know on the TReDS platform only factoring NBFCs can participate. There was a budget proposal that regular NBFCs would be allowed to participate on the TReDS platform but we have not seen that notification. So once we are notified that as a regular NBFC you can participate on the TReDS. We would participate but just so that you may probably have noticed that this moratorium which has been offered by

RBI that has not automatically got implemented on the TReDS platform so majority of the bill which has been discounted on the TReDS platform those moratorium benefit has not been availed by the customers. So there seems to be a little bit of a regulatory impasse or a problem there yet.

Kajal Gandhi: Are we seeing an impact of defaults there right now?

Shachindra Nath: I cannot comment on that. You have to look at TReDS and what is disclosure they are making, I can give you a general overview. We are not participating on TReDS as we are not allowed to that so I cannot comment on that.

Kajal Gandhi: Sir what will be your three year or five year guidance on anything on size or anything on the return ratios?

Shachindra Nath: We have mentioned this I think a few quarters back and I would repeat that. Our objective or our mission is to be a prime most player of SME and micro SME financing in India. We intent to solve the credit related problem which the SME, small businesses and micro businesses face. We think that we can solve that problem by creating a highly specialized platform driven by technology and analytics and we think that by doing all of that and creating distribution sizeable capital we should be 1% market share of the entire SME and micro SME in India in the next few years and we should be among those top performing return on equity and return on asset business.

Kajal Gandhi: Thank you.

Moderator: Thank you. The next question is from the line of Vivek Bhaskar from AU Small Finance Bank. Please go ahead.

Vivek Bhaskar: Good afternoon Sir. My question is on the NBFC book. So you have an onward lending book so what is the guidance of the book and how many of customers of that book would have taken moratorium and are there any asset quality issues which you intend to face in the future or you envisage?

Shachindra Nath: Vivek as you know you guys also know most of those lenders. First let me state that our onward lending book we do not see that as a standalone activity. We created our onward lending book with an objective of creating co-lending partnership and most of our selection criteria have been basis how we can serve a particular segment of the customer and basis that we have defined and selected our onward lending partners. I would not comment specifically to any particular underlying NBFC partner and how they will do but broadly except barring few we are seeing majority of them obviously all of them are challenged in terms of the liquidity mismatches, but majority of them have either an external investor, either it is a private equity fund or have access to liability and we are seeing sequential improvement in their liquidity especially from the TLTRO and some of the other measures which has come so as I said barring few we are not seeing a broad brush challenge to any of our onward lending partners as of now.

Vivek Bhaskar: Just followup, what percentage of that book would have taken moratorium?

Shachindra Nath: As we said we offered our moratorium to all our customers unlike most of the other lending institutions in the moratorium version 1 asked the customers to opt, to ask for moratorium, we offered moratorium to all and my presumption is that majority of our NBFC partners would have taken the moratorium, Vivek correct me if I am wrong?

Vivek Seshadri: Broadly in the same rate as the rest of the portfolio. It is not very different to that. One another point that I just want to make it is a very tiny percent of the book right now, it is less than 7% to 8% of the book, the BFSI channel altogether.

Vivek Bhaskar: Thank you Sir.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to Mr. Shreepal Doshi for closing comments. Over to you Sir!

Shreepal Doshi: Thank you so much to the U GRO management once again for giving us this opportunity and I thank all the participants for attending this call. Thank you.

Moderator: Thank you very much. On behalf of Equirus Securities Private Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.