"U GRO Capital
Q3 FY2021 Earnings Conference Call"

February 10, 2021

ANALYST: **MR. PRABAL GANDHI – ANTIQUE STOCK BROKING**

MANAGEMENT: **MR. SHACHINDRA NATH – MANAGING DIRECTOR & CHAIRMAN - U GRO CAPITAL LIMITED**
MR. ABHIJIT GHOSH – CHIEF EXECUTIVE OFFICER & DIRECTOR - U GRO CAPITAL LIMITED
MR. SANDEEP KUMAR ZANVAR – CHIEF FINANCIAL OFFICER- U GRO CAPITAL LIMITED
MR. HIRAL SHAH – STRATEGY HEAD - U GRO CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of U GRO Capital hosted by Antique Stock Broking. 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. Prabal Gandhi from Antique Stock Broking. Thank you and over to you, Sir!

Prabal Gandhi: Thank you. Good afternoon everyone and welcome to U GRO Capital Q3 FY2021 earnings call. We have with us the senior management from U GRO Capital including Mr. Shachindra Nath – Chairman & MD, Mr. Abhijit Ghosh – Chief Executive Officer and Director, Mr. Sandeep Kumar Jhanwar – Chief Financial Officer, and Mr. Nirav Shah – Head of Strategy and Investor Relation. Without further ado, I will hand over the call to Chairman Sir for his opening remarks and key highlights for the quarter post which we can open the floor for the questions. Over to you, Sir!

Shachindra Nath: Thanks, Prabal. Good morning everyone and many thanks from all of us at U GRO for joining us for our Q3 FY2021 earnings call. As vaccines arrive and the nation moves to rebuild after these trying times, the nation's financial institutions need to come together and ensure that the hard-hit MSME sector has sufficient liquidity to not only achieve full business recovery but to perceive onwards towards the growth in the post COVID world. The sector has largely absorbed the majority of the damage to the portfolio of lenders to date and we believe that the worst is now behind us. Our desire to build U GRO as India's largest small business financing platform got reinforced during the pandemic and given the resilience of our portfolio, we were able to utilize the downtime to expand our reach, accelerate the buildup of our full technology architecture, and set the foundation for its sustainable liability franchise. Our five-year goals remain to take 1% market share of small business financing in India and to further that objective we launched our micro enterprises lending vertical in Q3. We will be catering to these micro enterprises primarily through our new Saathi Program and the launch of Gro micro branches, these Gro micro branches will cater primarily to the bottom of the pyramid small businesses providing livelihood and employment to millions across the country and thus present a real pathway for improvise to beat the poverty. We have commenced our direct distribution channel across five states, Karnataka, Tamil Nadu, Gujarat, Telangana, and Rajasthan with five branches opening each of this state through mid-January 2021. This has been a highly successful rollout of our direct distribution channel with all 25 branches in our pilot program inaugurated and operationalized as per schedule. This has been a very large undertaking for us. As these 25 branches have come with a large growth in overall headcount but we feel that this is the perfect time for us to target calibrated but aggressive growth and demonstrate our long-term commitment to micro-enterprises and financial infusion in general. These branches are spread across tier 2 and 3 locations and will allow us to greatly expand both the breadth and the depth of our distribution without cannibalizing any existing business lines. Aside from commencing the new business lines, we have also been targeting growth across our existing business lines. Our Gro partner network continues to grow with 603 onboarded as of the end of Q3 which is a 16.4% increase on the Q2 figure. On the partnership side, we continue to expand on both the number of partnerships we have signed as well as the partnership operationalized across both ecosystem and partnership and alliance channels. While we are seeing some of the fruits of such expansion already, we will surely see much more in FY2022. Our overall monthly disbursals have now surpassed pre-COVID levels with 140 Crores disburse in December 2020, we have disbursed approximately 368 Crores in total in Q3. We fully expect this positive trend to continue as our Gro micro branches start disbursing loans. We have reached a total of 2065 Crores of disbursal as of the end of Q3 and our asset under management stood at 1127 Crores with a blended yield of 14.8%. Our AUM is spread across 8429 live customers for a highly granular average ticket size of 15 lakh. Our portfolio remains well diversified by sector and geography and our book is 70% secure. Our portfolio is holding up well from the stress that is to be expected from a black swan event like COVID-19. Our collection efficiency remains high at 96% for secured loans and 92% for the unsecured loan which is the monthly collection efficiency as of December 2020 and we are in close contact with our partners or customers whose business may be seeing stress at this time. We have also accepted selectively the restructuring request of our portfolio to work with our customers with fundamentally sound businesses who are facing short term cash flow challenges. Our portfolio has a GNP of 2.3% and MMP of 1.4% both of which are reasonable figures as our book has started showing some growth. We have also maintained our conservative course when it comes to provisioning and we have increased it to 21.43 Crores in total provisioning and this has led to our having a large provisioning expense of 5.86 Crores in Q3 FY2021. This quarter we have made great progress on two technology initiatives we had announced in Q2, we have completed integration on our side with GeM Sahay making one of the first lenders to do so and we are fully prepared for the expected launch in February 2021 by the Government. Also, our highly wanted upcoming digital supply chain financing platform growth chain has completed its first two phases of development and we will go live in February 2021.

On the liability side of things, we have continued to take great strides. The elevation of the long-term liquidity crunch that was triggered by ILFS continues, but fundamentally stronger NBFCs like U GRO are gaining increasing access to relatively less cost of liabilities. For well-run and governed NBFCs, this has been a huge boom as it has allowed us to secure our liquidity position for the foreseeable future while borrowing costs have come down significantly, solidifying margin across the industry. This is excellent timing for us, and we will be able to leverage the large volume of liquidity that are now available to achieve our growth aspirations. We have now built a distribution footprint that services ticket size ranging from Rs.5 lakhs to 2.5 Crores by our four-prong distribution channels and continues to remain focused on building businesses across our eight sector pillars with the addition of micro-enterprises loans below Rs.25 lakhs being sectored. As of the end of January 2021, we had a total of 756 Crores of sanctioned liabilities, 194 Crores of which we have yet to draw out. Our liability book continues to become yet more diverse and we now have 22 active lenders including PSU banks, private sector banks, foreign banks, and other financial institutions. As of the end of January, we have added 8 additional lenders to our book. We maintain an extremely healthy liquidity position at present with nearly 300 Crores of immediate liquidity on the balance sheet, not including our undrawn sanctions. This is meant that we have a CRAR of 78% far higher than industry averages. Our liability pipeline is also very strong for the foreseeable future and we are confident in significantly expanding our borrowing book as per the asset side needs through the end of FY2021 and going forward.

Our financial performance continues to be strong. We have notably recorded profits throughout this Coronavirus period. Despite our highly conservative approach to provisioning, we have declared a profit after tax of 6.27 Crores in Q3 with a total income of 39.08 Crores. Our net worth as of December 31, 2020, stood at 950.5 Crores with our book value per share being roughly around Rs.135.

In closing, the commencement of mass vaccination shall hopefully signal the curtain for this dark period for humanity. As small businesses across the nation reopen, there is a strong sense of hunger for growth to make up for the time lost during COVID. We have been hard at work throughout this year to expand our distribution and underwriting, capabilities to match the ambition of the nation’s best and brightest entrepreneurs. With the commencement of Gro micro branches as well as continued technology innovation, we feel ideally equipped to grow alongside them in the coming months and years. It is often said that the night is darker just before the dawn and I believe the end of the COVID-19 era will assure a period of great prosperity for the MSME space. We are working hard to be part of that growth and we hope that you will maintain faith with us on our journey. Thank you all of you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mehul Soni, an individual investor. Please go ahead.

Mehul Soni: Thank you Sir for the opportunity. Firstly, congratulations on the performance even during the time of COVID, and good to see that you are coming back to the pre-COVID levels, just a couple of questions from my end. One is you know that now the business is back to pre-COVID levels and is being aggressive in expansion mode just wanted to understand what is the number of branches that you are looking to add in FY2022 and how do you look at the disbursals coming across?

Shachindra Nath: Both are very forward-looking questions. As per the principle, we do not give forward looking numbers, but directionally we can tell you that we aspire to create U GRO as a platform that has to achieve 1% of the market share of the outstanding credit of MSME in the next five years. To build that kind of scale we believe that MSMEs which are disburse set of customers and whose need has to be serviced from a multi-prong channel rather than one channel and we have now build our footprint across that, so in our four distribution channels which is our branch led distribution, we have now the capability to service loans starting from 5 lakh to 2.5 Crores and that is divided into the branches which we are building for our sub-Rs. 15 lakh loan which is direct distribution branches and our core branches are continued through intermediatory or Gro partners which services what we call prime lending market and the mid prime lending market. On the supply of what we call ecosystem financing which is supply-side financing we have built both digital technology and distribution platform and we have made great strides in creating integration to a large platform like GeM Sahay so that we can be one of the four front leaders in cash flow based financing. Third, we have this distribution channel which we call GRO-Xstream which is a core lending platform wherein during the quarter we have operationalize six partnership with smaller NBFCs and Fintech partner and we are seeing an average disbursement of around 15 Crores a month and fourth is digital which we are starting next financial year. As you would have seen that for the whole year of which was our first operational year for FY2019-2020, we had a total disbursement of around 850 odd Crores. For FY2020-2021 we disbursed around 850 Crores while we were operational technically only for six months, but if you do on a run-rate basis, we doubled our disbursement from year 1 to year 2 and we think that we will continue to do that trend or even surpass that, so that would give you directionally where we are headed to.

Mehul Soni: Nice, thank you so much, Sir. The second thing was on the NPA level, I understand now that the book has started going vintage, so are these NPA levels mainly due to COVID and could we see them coming down in the coming quarters?

Shachindra Nath: I think our current NPA levels which are there obviously it takes into account the impact of the COVID and the heightened stress and also it is because out of our sectors, there are some sectors especially the hospitality which is a small portion of our overall outstanding book have seen much more cash flow issues than any other sector. I will not be able to comment on whether it should come down or not, but I think we are now running at a vintage level wherein these are very tolerable GNPA numbers and this is what we had always expected. Had the COVID not been there, probably this would have been a little lower, but I think the current range is a completely tolerable range for us.

Mehul Soni: Right and Sir, one more thing I just want the presentation of the restructuring of the portfolio in the opening statement when you mentioned and we also see that even the bounce rate for December had been close to about 14% for secured and 20% for unsecured, so could we see some more restructuring happening in the coming quarter?

Shachindra Nath: At the beginning of the pandemic itself, given our sharp data analytics capability, digital technology, how we look at the bureau and being in the prime market, we had a full view of what would be the total stress and about book and requirement of or the request of the restructuring has come near to roughly around 60% of what we have expected. We continue to evaluate each of the restructuring requests, the underline customer goes through their complete recredit exercise and we accept those restructuring stress wherein we feel that the customers need cash flow relief for a temporary period. I believe that most of our restructuring stress which was there has already been undertaken with roughly around 15%-20% more to happen and not beyond that.

Mehul Soni: Okay. I think that was very helpful and just one last question if I can squeeze in over here on the liability side, now that we have started taking liability also, we have deepened the size of liability on the books, so how do we look at leveraging up the book from year onwards and what is the current rate of borrowing that we are looking at and is it coming down with the book getting older?

Shachindra Nath: If we look at the presentation, we have already given that our cost of borrowing from its peak in Q3 FY2020 of 12% has already come down to 10.12% but some of this is because of the liquidity push which the government has given through PCG and TLTRO scheme, so our liability cost would be the range-bound within this mode itself. Our strategy on the liability side has been to increase the funnel and create more and more partnership as many partnerships with different kind of financial institutions, so today if you look at slide 21, we have almost out of 12, 7 of the public sector bank, we have five private sector bank, we have SIDBI, we have DFIs, we have big NBFCs every lending type of institution which you can think of is already there, so it is a sheer achievement within last six months, we have been able to expand our lender universe from 3 to 22, so specific to your question I think our liability cost would remain where they are I think for next two-three quarters because we do not see that to dramatically go down but our yields on the book are also increasing because we are going more micro in terms of our asset profile, so our NIM would expand from where they are. Number 2, in terms of your leverage, fundamentally we believe that going forward if the conventional business models of NBFC which was done primarily on leverage and asset-liability mismatch is not coming back at all, so our long tenure we would like our leverage to remain between 3.5x to 4x and not go beyond that and that is why we are very focused on both co-lending and asset securitization and constantly working on some of those assets.

Mehul Soni: Thank you Sir that was helpful and looking forward to the coming quarters as well and good luck with it.

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

Shanay: There were some rumors about U GRO acquiring Religare Finvest, so I am sure you cannot comment on the particulars, are we looking at inorganic opportunities arising because of COVID?

Shachindra Nath: Our business is dedicated to building entire franchise organically, when I said about five years goal is to take 1% of the market share of outstanding credit of MSME, that does not entail any inorganic opportunity, but given the size of our balance sheet kind of our investor base and change of our governance and boards, we genuinely believe that as a listed company, we believe that always a market opportunity for consolidation, but we are very focused that our consolidation effort would be only for the segment of the markets which is purely MSME and for the product line which we do not do today. Once you try finding inorganic opportunities on those filters, they are going to be very few, but I am quite confident that given that large number of small business financing NBFCs which are invested by private equity and others there would be eventually opportunity of consolidation, so to answer your question, we are open for that but that is not something actively we pursue.

Shanay: Just one more thing, we did a capital before two years of around 900 Crores and we are doing quarterly run rate of around 38 Crores revenue, so when we see like I am sure there is huge growth so when can we see the numbers scaling up?

Shachindra Nath: You are right, capital raise was completed in July 2018, we took time to set up the platform, it became operational in April 2019, we piloted it in January 2019, but we became fully operational in April 2019. We completed our first full 11.5 months of operation in March of 2020 and pandemic hit afterwards then obviously we have come back, we had to take a pause of almost six months and we have come back and if you are seeing that lending businesses would normally scale up in this gradual fashion because lending is a business of three spectrum, the liability side spectrum, the platform in between and the asset side spectrum and you have to make sure that you are aligned to all of it, so yet we are at our base we are growing exponentially as I answered in last question we have doubled our AUM growth, disbursement of our asset side from first year to second year on a run rate basis while asset size disbursement is like to like 800 Crores to 800 odd Crores but if you would have been operational full year then it would have been 1600 Crores and we intend to double it again because underlying we have the advantage of liability side, we have the advantage of fully build out distribution, we have advantage of building one of the best technology platform in the country, so all of that has played out well and in next few years, you should continue seeing us as a growing platform.

Shanay: Thank you.

Moderator: Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: I am looking at this company maybe for the first time, so pardon me if I ask some basic questions. I just wanted to understand what is the space that you are working on and who would your relevant competition been and how do you see yourself differentiating in a crowded market like the one we have currently, especially you have a higher cost of funds, I just wanted to understand you are seeing even some of the traditional banks also entering spaces where you are and how you are seeing that and number two was despite your portfolio being relatively new, you are already seeing some sorts of concerns on the correction front, so I just wanted to understand how technology is helping you or is it more than the technology that what you will require to build this as a durable business?

Shachindra Nath: We would be happy to do longer conservation for this, but I will try giving you a broad overall summary of how we are building this business, so number 1, I think the space of MSME given that the under penetration of credit for MSME and SME in India is very significant. On any rough estimate, the under-penetrated size of the market is roughly around $300 odd million. So, space while what you see is a highly comparative segment depending upon what spectrum you are looking at it it is an underpenetrated segment. The outstanding credit for MSME in India is roughly around 17 lakh Crores and grows around 10% to 12% on an average basis and as I said that we want to take 1% of the market share which means that by 2025, it should be 25 lakh odd Crores that would give you the size explanation. Number two when we started and this was India's largest-ever capital raise technically an early-stage startup in 2018, the reason why we could do that with some of the best financial institutions in the world because of our unique strategy of building a sector focus orientation, our view is that the SMEs are not homogenous as a borrower class, mainline lender when they look at underlying credit they do not differentiate between one type of customers to other types of customers, to give you an example a dentist and IVF clinic are both doctors, but very different to each other in terms of their cash flow profiles and underlying customer they serve. We felt that the only way to create that differentiation is by being focused on certain select sectors and we believe in unique underwriting capability around that. We did three years of research with Crisil and came out with our all eight-focus sector which contributes roughly around 40% to 50% of the SME market. Then we built what we call our center of the pillar which is our data analytics and underwriting platform which is a hybrid model looking at the conventional underwriting parameters and using both analytics and what kind of data can be utilized and how can you improve the origination ease of collection, ease of doing business and we invested a very significant amount of both human capital as well as financial capital. The third is distribution, to service this market, there are many niche player who is there, but niche players have their unique disadvantages, so while we are niche to an extent that we are only dedicated to small business but in our distribution architecture, we look at customers who have different and varied needs. So our four channels which are our branch-led and intermediatory channel which services our secured and unsecured financing that is the footprint business wherein we have started with nine locations, we have expanded to now another 25 and we keep expanding that channel. That services anything from 5 lakh to 2.5 Crores of the loan secured and unsecured. Second is our view is that roughly around 100 Crores of the working capital gap is there around cashflow-led financing, this is called working capital financing which is linked to supply chain financing. Government has a huge focus around that and that is why most of the innovation which is whether it is traded, whether it is GeM, whether it is another platform all of that is around cashflow base financing and we are right at the center of those. Third, we believe that they are roughly 100+ market intermediatory which are small NBFCs and Fintech and payment platform who have access to the smallest micro-credit platform, but they need access to the liquidity and that is why we have built this platform called Gro Xstream which partners with them and co lend and eventually fourth is our digital direct which will start next year which allows the ability to customers to come to us directly, on the asset side that is the broad picture. About unique differentiation is our ability to look at the customer in a template fashion and correlate with what sector and sub-sector it belongs and bring a unique credit solution without too much judgment or intervention from the frontline team and that has been done by historical knowledge plus technology plus ability. On the liability side, our belief has always been that the biggest barrier is your size of the capital and that is why we started with large capital. The second is the quality of the governance and the third is the way you think about liabilities. Most of them we have seen in the past era has created both ROA and ROE return on the back of liability mismatch and high leverage on the balance sheet which is globally not the model for alternative lenders. Our uniqueness is being able to originate underwrite and hold a book which otherwise for the traditional lender or large lender is not what their names stake is and that is why we divide our liability side, and our asset things are created which attracts all form of liabilities. 100% of our book is a priority sector and that is why for all public sector banks we are attracted. We are attracted to all of the DFIs in the world and third, we are very focused on co-lending because we believe that the future collaboration between the large liquidity holder which are the banks, and the NBFC can only succeed when they start partnering with each other. So, as we know that we have four co-lending partnership which is SBI, Bank of Baroda, ICICI, and Kotak and we are hopeful that in next quarter at least one of them after the revised guideline would get become operational and provide massive liquidity and that would elevate the need of leveraging the balance sheet too much. Second is that we have to keep flipping our assets and that is why our Gro Xstream platform is a platform that allows lenders to pick and choose the kind of asset depending upon their need, they can take off from our balance sheet and third is the leverage of the balance sheet when we can go technically up to six times, but we think that we will never go beyond four times on the balance sheet. If you put all of this together, it is a hard build business, but you have to remain sharply focused on that I think we can build India's largest small business financing platform. In terms of your other question, in terms of the portfolio quality stress, I think the bounce rate which you are seeing I think it is between our pre-COVID bounce rate to post-COVID bounce rate, this is not much of a difference, obviously, at this point, the underlying customer's cash flow are not that stable and that is why you will see volatile bounce rate but I think it is very controllable. We are not typical Fintech which does not have the physical infrastructure, so all our physical locations are distributed underwriting and full fledge collection and this is a collection intensive business and we continue to do that and as you know we are growing business as our portfolio which more vintage I think so we are in all targeted zones. In terms of long-term value creation and our targeted ROE and ROA return I think so we are in the range and we have more absorption capacity than anybody else.

Mithun Aswath: Thank you so much for that detail explanation. All the best.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda: Thank you for the opportunity. My question is on the cost of operation, they think we are high probably because you are in the initial phase of business, so where do you think this would stabilize around as percentage of asset deployed?

Shachindra Nath: You are right, the way you should look at us that we are technically in our first one and a half year of operation and unlike because we started with a large capital pool, we build all our infrastructure upfront. People infrastructure, distribution infrastructure, and technology infrastructure, so we have taken that load upfront so that when we scale, we do not have the challenge to then match up with the growth, so obviously is our initial cost of operation would be higher than what our vintage lending institution would be. We believe that that we would generate over three years to four years where we are headed to, our return on equity and return on asset for our segment of the market would be best in class and we should be comparable or compete with any other lender in the country and the reason why we say that one we are a mix of both conventional and digital business, which means our cost to income ratio should be lower than any other player in the market. Our general productivity per person is already showing at least 50% - 60% improvement than what any other conventional lender would be. So, that is the broad guidance I can give you on this.

Tushar Sarda: No, but you are at almost 7% -8% in terms of your operating cost so I would like to understand whether it will settle around 1% - 1.5%, 2% or you think it will be higher because I think you have the opportunity to grow around 4x, 5x with this cost. So, if you can through some light on that that will be very helpful?

Shachindra Nath: Yes, you are right, I think that is I do not what is the guidance we would have and depending upon what time frame we are looking at. Because as management our view is to build this business and deliver superior performance over some time right, this cannot be done. But if you have to generate in ranges of to 15% to 20% return on equity then we have to match that kind of cost of operations.

Tushar Sarda: No Sir, but you cannot give a specific number as to what you are aiming for in terms of the cost by assets?

Shachindra Nath: We can take that offline at some point in time and directionally we can tell you how this will be done.

Tushar Sarda: Sure, yes. Okay, thank you and all the best.

Moderator: Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni: I just wanted some more color on our asset quality. The reported numbers of 2% include some proforma NPAs and all these things?

Shachindra Nath: Sorry, what do you mean that proforma NPA Sir?

Mangesh Kulkarni: Does that mean the status quo on the NPA recognition because of the Supreme Court orders?

Shachindra Nath: No, this is as per 90 day we take it.

Mangesh Kulkarni: If we include that then what will be the number?

Shachindra Nath: The number shown to you here is and Supreme Court's direction is not to report customer as NPA. But what number you are saying as if those have become NPA so, we are not taking the shelter of Supreme Court restriction. So, we cannot report those customers as NPA's but the number shown here is not behind those numbers.

Mangesh Kulkarni: So, that means this 2.3% are proforma NPA's whatever the slipped after 90 days we have shown it as NPA's, right?

Shachindra Nath: Yes.

Mangesh Kulkarni: Okay and all these we have carried only a very small provision for COVID what is our total provision for COVID?

Shachindra Nath: Now we are not carrying small provision if you go back two quarters, we had a large provision concerning the COVID, so we have roughly around Rs.3.8 Crores of provisioning towards COVID and now because some portion of the portfolio which got re-structured additional provisioning of re-structuring has been set off against the COVID provisioning. So, COVID provisioning is done only for the track itself. So, that is why the provision of COVID is very small.

Mangesh Kulkarni: Okay, so we said out of Rs.21 Crores of total provision we are carrying, right. On some slide, we had cumulative provisions around Rs.21 Crores. So, those include COVID related provisions?

Shachindra Nath: Yes, towards COVID-related provisions all provision is there.

Mangesh Kulkarni: Okay, thank you.

Shachindra Nath: Nirav, if anywhere I am wrong please correct me.

Nirav Shah: You are right Sir.

Moderator: Thank you. The next question is from the line of Samir Thakkar an Individual Investor. Please go ahead.

Samir Thakkar: Can you update on the credit side that has seen any deterioration or stress on it from the agency and also do you expect any further increase in re-structuring of loans in the coming quarters?

Shachindra Nath: On the restructuring of the loan, I have already answered that question to the two questions back but just to repeat at the beginning of the pandemic given our data and capability, we have asset stress on the book, our re-structuring request has come out roughly around 60% so that perceive our ability to assess the predictable future flows is very strong. The re-structuring which has been done we expect in terms of the pending request and what is we are seeing roughly around another 15% - 20% to 25% which we should come in the next quarter and not beyond that. Our rating has remained stable wherever they are as you know we generally believe that for the size of our company and when we got our ratings we did not have even an Rs.100 Crores of lending book, we had no liability franchise, we have a distribution which has just started and we took rating right at the beginning of our initial journey. Unfortunately, as you know that we will be after that we have series of crises in the lending industry ILFS, YES Bank so on and so forth and to those extent rating agencies difficult for them to revive their review upwards. So, there has no negative surprise on the size of the rating, but I do not know, and we have even not tried because we have not felt the need of that as well because our liability side is coming on the existence little very easily, but we cannot predict when the upward review for us would happen.

Samir Thakkar: Right Okay, so lastly if you could share any light on the conditions of the sector that you lend to like how are the sectors performing and do we see a rise or fall in lending in any of these sectors or any plans on changing our strategy to add or stop lending to any sectors from the core?

Shachindra Nath: So even pre-pandemic I think mid of last financial year we had stopped auto component as now a sector we are doing the formal review of that sector in the current quarter as you know for us any sector review goes through a very rigorous process, so we have an external agency which does for us, it goes to our board and our risk committee. So, we are doing auto component we believe that auto component sectors stress is now is on the verge of revival and once that exercise gets completed, we might just open that again. Second, as I said in my opening remarks that, we believe in the homogeneity around sectors and that is why we build a sectorial focused platform. But over the last two years what we have experienced when it comes to sub-Rs. 25 Lakh of loan which very small micro-enterprises businesses it hardly matters whether the business is a pharmacy or a Kirana store. So, applying the sectoral scorecard to sectoral underwriting parameters becomes unviable and that is why we created what we call the microlending sector as a homogenous sector and for that, we do not apply the sectoral approach we use that we created a new micro-enterprises loan scorecard on basis that we that. So, that is where we believe and continue to be there.

Samir Thakkar: Okay, thank you so much for the opportunity. Thank you.

Moderator: Thank you. The next question is from the line of Anil Tulsiram an Individual Investor. Please go ahead.

Anil Tulsiram: Hi! Thank you for the opportunity. I have three questions, first Sir you mentioned the Okane and the other platform which are coming up, so we have two platforms from which Okane is an account aggregator. So, can you elaborate to what extent it will help the NBFC's and hurt the NBFC's that is the first question. The second is over five years you want to reach 1% of the MSME loan book.

Shachindra Nath: Outstanding credit.

Anil Tulsiram: Yes, the outstanding credit. So, to what extent it will be like your on-book loans and what percentage will be co-lending, and third and the last question what is the total technology spend till now?

Shachindra Nath: Okay, on account aggregation is part of Okane is a common set as we have seen the UPI changed the payment industry not just in India but globally our view is that we go to the LinkedIn page of UGRO today we are hosting a worldwide conference on India's track 2.0 which is being done between UGRO, ESPRIT and IFC and all the DFI's of the world the panel which is hosted by UGRO wherein you have DSP, CBC, ADB, Kotak Bank, and worldwide domestic financial institutions would be joining and that we are presenting to all over the world that how India's development of Okane would revolutionize the entire credit as it has done for the payment platform. So, we should remember for this what we believe is a transformation that is happening for a credit. Okane as a layer of the platform would allow one of the biggest challenges for lenders has been and that is why lending to MSME has become only purely collateral-based lending because most of the small businesses they have reported cash flows, or a balance sheet does not give comfort to lenders to understand whether they can extend credit or not. The combination of account aggregation means every borrower would be able to give access to two things, the entire set of the banking and the entire sector of the GST with one single OTP which means that lenders have data analytical capability to look at these two sets of data. Bank cash flow and GST and be able to create an algorithm around understanding the cash would be able to lend on the fly to the customer, right so, that is what it would change dramatically. Second, Okane is a platform that has a concept wherein a lot of people who have customer basis will need credit but there is no method to provide that which is our loan service provider so think of a large corporation that has 20,000 distributors or 50,000 distributors then large corporates would become a loan service providers it would allow its transaction data, the GST and banking of their distributors and the other side of that lender can use all of this data and be able to lend. The first experimentation of that is the GeM Sahay which is India's government marketplace for procurement by all public sector enterprises by MSME's and they have created the financing platforms and which we integrated ourselves and in fact, the entire GeM Sahay is hosted with UGRO. Every lender in the country is now going through UGRO pipe to pilot the GeM Sahay where you think of this Indian railway giving a stationery order to a small shop owner as soon as that order is placed basis the MSME's rating lenders can lend to the shop owner to buy material and then supply to Indian Railways as soon as Indian Railways would receive the order it would pay the money to the GeM Sahay portal and automatically vendors would get paid back. So, this one used case of how this can transform the entire credits in the lending industry for MSME.

Anil Tulsiram: Correct, Sir that second question how much will be in the on the book and how much you want to keep the co-lending part?

Shachindra Nath: Look this is very fluid at this point of time, as I said we believe that the NBFC's should not go beyond 3.5 or 4 times leverage so the conventional models of creating return on asset and return on equities to high leverage and asset side liability mismatch are no longer valid and should not be valid. Aspirationally we think that our asset book should be split 1/3rd, 1/3rd, 1/3rd. 1.3rd of it on the book, 1/3rd is to co-lending and 1/3rd to securitization and asset sales. But that is aspirational. It depends on how the entire liability universe evolves in the next year or two years. There are four stages, it is the regulator, the government, and the bank systems working towards it, but any transformation change of this nature takes few years to set in. You saw that the first co-lending circular came two years back we did not see more than Rs.25 Crores of total lending on co-lending. The second circular which has come now our view is that can open up the entire co-lending universe and let us see how it progresses.

Anil Tulsiram: Correct, and Sir can you quantify your total technology spend to date?

Shachindra Nath: I do not know that whether we have publicly disclosed that figure or not.

Anil Tulsiram: Okay, so, is my understanding right your entire technology is on the cloud right from day one?

Shachindra Nath: Absolutely.

Anil Tulsiram: Yes, and Sir just one last question you have entered into this micro revenue segment below Rs.25 Lakhs and there is one model market with the Shriram City Union. So, how your underwriting means the process will be different from them because if I understand theirs is like they run at 24% and most of the customers are non-credit bureau customers and you do not have any data, most of these people do not have any books of account and other things. So, can you broadly help us understand how the underwriting will be for these micro-enterprises?

Shachindra Nath: Yes, there are two things. One, if you have to be an inclusive lending platform we have to. To date, we have done NPC customers at all so, we do only all customers who have bureau footprint and customers who have bureau footprint within high threshold cut off all our customers today belongs to high threshold cut off when we underwrite. But this segment of the market as at least 30% of our portfolio would be NPC customers but that will start only once we have run two-quarters of business without them. Second, as I would not like to comment on any other player in the market I think some sets of players service these markets and these markets and this underwriting is to create a very unique platform wherein you understand the minutest subsegment of type of customers and you can assess the cash flow and that is what we are working upon. We are learning from multiple other platforms, which are there in the market, and then it is a question reach, and then how do you collect and do all of that. I think one of the big advantages which we have is one, our entire digital technology platform for onboarding and underwriting which we have experimented and now perfected is now being rolled over to this segment of the market which means that our ability to do the same business with more efficiency is already inbuilt. Number two, most of the lenders when it comes to micro-lending are very geographically focused because somebody who has started in the South would remain in the South because market opportunity is there across. We were national footprints and we started and that is why we are rolling out our microlending in all our five states and five locations and we will keep expanding. So, our microlending business will be probably one of the largest ones vis-à-vis other players.

Anil Tulsiram: Got it. Sir, I have one follow up question can I ask if there is time.

Shachindra Nath: Yes Sir, please ask.

Anil Tulsiram: Yes, Sir regarding coming back to my Okane question of if it is helping NBFC or hurting NBFC. What I meant is once this platform is active there will be a lot of loan service providers like say Swiggy, Zomato, and a lot of techno also can become the loan service providers, and then NBFC will be competing with them. So, my understanding was that anyone who has the lowest cost of the fund?

Shachindra Nath: Sorry. They will not be lending.

Anil Tulsiram: Yes, they would not be lending they will be loan service providers only?

Shachindra Nath: Yes.

Anil Tulsiram: So, then how that will change the scenario for us?

Shachindra Nath: Sir, we have to presume that technology can only support to an extent at the end of the day, right somebody should have the ability to use the technology and underwrite a customer. So, today also the GST and banking data are available while it is not difficult to take that data. But it is not that every bank will be able to use that data and create an underwriting basis for these two data points themselves. It is always the fight in ways of this is an intellectual capability business so, the platform is only facilitating that intellectual capital to underwrite banks have the power to underwrite customers at much lower threshold pricing, but their priorities are much broader versus like our priorities are much focused and second somebody like us we see a bank to be a partner in that journey so once we are going on GeM Sahay we have integrated we have now built algorithm to underwrite. We would expect some of the large banks to partner with us and provide that financing at a lower cost. So, that is the way it would evolve.

Anil Tulsiram: Got it. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Avinash Tanawade from Dalal and Broacha. Please go ahead.

Avinash Tanawade: Sir, first of all, just clarification. Do you have a re-structuring book of 3.9% which you said could go up to 5%?

Shachindra Nath: No, it is very hard to give a direction, but I said there is a little bit of more that is expected to happen.

Avinash Tanawade: Okay, and what kind of slippages you can see in that portfolio and what kind of schemes which we have provided to these re-structuring accounts. This means it is just a one-year kind of no principal payment or we have extended loan tenure. So, could you give some light on that?

Shachindra Nath: I think if you look at the slide that has been given. First and foremost, this general presumption re-structures means that the borrower has become the default and that is why that is not true. Re-structuring means that there is cash flow because of the pandemic which has got hurt somebody who was earning Rs.20 Lakhs a month has now earning Rs.10 Lakh a month but that would go back. The way even for the emergency credit line and for the restructuring we have a very highly sophisticated sector sub-sector predictable analysis of which sector in what time frame would come back, right. For example, in hospitality fast-food chains our view has been for the last four month that their uptake would be faster than a banquet hall, we created a mortality rate by sub-sector so we believe that banquet hall should have a 90% mortality rate versus a fast food would have only 10% mortality rate. So, when we do re-structuring when we see a re-structuring request the under-line customers go to a cash flow analysis. What were his pre-pandemic cash flow and we do with that all by the system, we take the banking and the GST and our system analyze and say what is the drop in the cash flow then apply what we call sector and sub-sector mortality rate and the future predictable cash flow and basis that we commit our system generates own analysis that when this particular customer would be back to the same normal cash flow and how his EMI burden has to be reduced, that is the approach of re-structuring. Wherever we think that a customer would not survive we would not do re-structuring because whether we do it today and negate the problem for the future it does not matter which would come automatically. In the slide, we have given that 55% of the portfolio which has been re-structured is only a one-year tenure which has been extended and above three years it is only 13% and this would be largely in the form of tenure extension so that EMI would come down or interest burden has come down. Abhijeet, you want to add something to that?

Abhijit Ghosh: Sachin, you are bang on, on the re-structuring part the second part is that we also have to see that these are customers where they originally had a very shorter tenure loan. So, when we are giving you the new tenure it is not about the extension so when we are saying that somebody will be three years plus repayment originally the customer was supposed to pay for say 30 months now, instead of 30 months, the customer will pay in 40 months. But we have shown it as 40 months loan so, that was one-piece Sachin, which I wanted to additionally add.

Avinash Tanawade: Okay, so our cheque bounce rate is around 15% for secure and 20% for unsecured. What are the normalized rates you could see in both portfolios?

Abhijit Ghosh: So, first of all, what we have to see is that the cash flows have changed and as Sachin had said in the previous point the cash flows have changed right number one. So, there will be stress on the customer hence the bouncing rate has gone up. Number two point on this is that look at the collection efficiency. So, the collection efficiency means that whatever cheque I am banking how much I am collecting back either through presentation or if the cheque has bounced and able to collect it back. So, for me both are important indicators which are collection efficiency and the cheque bouncing rate, we are, however, seen so for example the November numbers versus the December number we saw December number be lower than the November number, the November numbers were lower than October number and there is no reason to believe that why these numbers in future will not go back to the original stage. We are seeing that happen in the majority of these sub-sectors which Sachin spoke about except for the sectors which Sachin said have high mortality rate, the organization is not able to come out of that mortality rate and hence faces a consequence because the majority of our book is secured, our money to the customer and return on capital deployed to the customer as a debt, we feel pretty confident to get it back.

Avinash Tanawade: So, what is the normalized rate then?

Abhijit Ghosh: If you have seen our past numbers, we always had a number less than 12% cumulative which was there and which we feel should be back sooner than later for the overall piece.

Shachindra Nath: Also, let me add to this as there is a lot of the re-structuring means generally perception is that the bad loan which has got worse, and that is why that is being re-structured. Say in bouncing behaviorally lower the ticket size SME and micro-SME customers they do not understand the impact because it is the guy who always manages cash flow, money comes from here he will then pay EMI to somebody then use the money somewhere else. This whole evolution of small business is understanding that every cheque bounce deteriorates his credit behavior all of that is not there. So, a level of between 12% to 15% of cheque bouncing is a normalized case and that is why these businesses have collection intensive business. That is why the players or the market participants who do not have collection infrastructure suffer because you have to first call the customer tell them the importance of paying the EMI on time then send somebody to the customer, they pick up the cheque and get it deposited. So, I think so in a normalized circumstance between anything from 10% is exceptional, 15% is tolerable and beyond that is in little bit matter of concern which means that also you have to increase the intensity on collection. But the normalized range is between 10% to 15%.

Avinash Tanawade: Okay, and how much percentage of our customer is new to credit or we only provide?

Shachindra Nath: As of today, zero but that will increase as our microlending vertical starts as I said in the previous answer that probably after another two quarters when our entire micro-lending branches are fully set up, we expect 30% of the customers to be new to credit as well.

Avinash Tanawade: Okay, and when you say you want to target 1% of an outstanding rate of SME customers. So, what kind of return ratio you will see soon when the overall leverage will increase?

Shachindra Nath: As I said that I do not want to give you the numbers if think that be comparable to NBFC's except one which only in the consumer finance business I think so we aspire to outperform other NBFC's when it comes to ROA and ROE performance.

Avinash Tanawade: Okay, Sir thank you. That is, it from my side.

Moderator: Thank you. The next question is from the line of Vaibhav Kacholia from V K Capital. Please go ahead.

Vaibhav Kacholia: Hi! Sir, thanks for the opportunity. I wanted to know a little about the digital direct channel where do we get the leads for this channel and is it like places like Google and stuff?

Shachindra Nath: No, Sir, we have not yet started I think the digital direct is a channel that was supposed to start in May of last year, but when the pandemic hit, we did not go on that. Our digital direct strategy is not to advertise on Google it is a very directed program the way we look at it is because of our sectoral and cluster approach so think of this that within healthcare, pharmacy is a sector for us the way we do it that we look at a cluster we look at all the public data available for pharmacy in that particular cluster and which is available go to the MCI, go to different... you can scrub a lot of data, create a pre-approved program basis the public data and then directly reach out those pharmacy including the comparison of how does a particular neighborhood pharmacy is doing because having the availability of that and then offer for a loan and let that customer come directly to us, that is our strategy. But as you know digital businesses are more expensive to build contrary to public belief and that is why we have delayed and also, we know at this point of time without having the real feel of the business and because of the disruption in the market we have delayed the launch of our digital channel which as things get normalized, we will launch it for certain select sub-sectors in certain clusters.

Vaibhav Kacholia: So, this will be for an existing customer to go and approach us through that channel is it we will not be acquiring customers aggressively through that channel?

Shachindra Nath: No, not for existing customers it should customer who will be targeted by a sector, sub-sector in cluster approach wherein we have some data of them which can give them a pre-approved program basis if they will come and apply directly.

Vaibhav Kacholia: Okay, got that, and Sir, I wanted to understand a little about this co-lending thing also which you said with four banks. So, can you give some color on that, and typically in that system who will own the customer will the customer belong to both the parties jointly, and what stops the bank from approaching the customer directly in the longer-term?

Shachindra Nath: No, nothing stops them to do that. The co-lending which is as we said that co-lending is a concept was given by RBI in 2019 itself. Now, the first regulation while we were able to sign up with four of the largest banks but there was a lot of operational hassle because of which it has not become successful. Now, that guidelines have been revised and given that we have an existing relationship, we are trying to operationalize them. The way they have approached was that there are two options into that in this option the lending institution which for example, U GRO will go and lend to a customer on a lending program which is pre-approved which means that if we have a lending program called Sathi our co-lending banking partner would accept that program we would go and lend that customer they have to verify that the lending has been done as per that program and then that 80% of the portfolio is assigned to them. So, it is technically untapped securitization and to that extent the customer servicing and when you say ownership which is the customer servicing, collection everything would remain with UGRO that 80% of the cash flow of that particular customer would keep going to the bank nothing stops from the bank to go to that customer while contractually we have restricted there that banks will not be allowed to do that. But they can do that but that is not the worry because the size of the market continues to grow and if the bank would have the desire to that direction they would otherwise also do it directly. So, we cannot restrict the bank not to lend to a customer directly as well.

Vaibhav Kacholia: Right, got that and Sir, this digital lending in the future like three years or five years down the line also we are not expecting that to be a major percentage of what percentage of our loan book are we expecting to come from that direct digital channel?

Shachindra Nath: See all our businesses are digital to some extent right, but most of our digital is what you call assisted digital.

Vaibhav Kacholia: Right, in your presentation you mentioned those four sources so one is direct digital I think there is some name for that also?

Shachindra Nath: Right, that is what I was explaining so when we say direct digital it is an unassisted journey.

Vaibhav Kacholia: Right, I am exactly talking about un-assisted direct customers?

Shachindra Nath: Our view is that un-assisted digital will not be something that would become the largest portion of that. SME financing in India continues to remain supported by either a cash flow made mechanism which is a supply chain, treads platform all of these Okane platforms, or a physical infrastructure driven. Purely digital for the only high-end customer whose cash flow can be analyzed digitally can be anything from 10% to 15% of the overall portfolio, but not beyond that.

Vaibhav Kachollia: Okay, got that. Thank you so much.

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

Ayush Mujumdar: Hi! Sir, I just want to ask that you have a target of acquiring a 1% market share in MSME's any milestone for that?

Shachindra Nath: We are constantly on that journey I think initial years if you look at this as a five-year target year four and year five would give you the highest number of volumes because as the organization matures. But you have to be on that journey every year basis and directionally as I said the way to think about is that from the first year to the second year, we have doubled our disbursement and if you keep the same approach for next five years you will get there.

Ayush Mujumdar: Okay, and further growth in disbursement?

Shachindra Nath: If you have got a five-year mission it uses take 1% of outstanding credit MSME's in India if we have in year one which is 2019-2020 we did Rs.900 Crores disbursement, in year two 2020-2021 we did another Rs.900 Crores only for six months which will be technically we did Rs.1800 Crores of disbursement which we have doubled our disbursement capacity and if you maintain the same run rate of doubling your disbursement every year you will get there in five years.

Ayush Mujumdar: Okay, thank you.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for the day, I would now like to hand the conference over to the management for closing comments.

Nirav Shah: Thank you everyone and it has been a pleasure to understand the questions and present our thoughts around that. You are welcome if you have any further question to reach out to us. Thank you so much.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us and you may now disconnect your lines.