"U GRO Capital
Q2 FY2021 Earnings Conference Call"

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ANALYST: **MS. MONA KETAN - DOLAT CAPITAL**

MANAGEMENT: **MR. SHACHINDRA NATH – MANAGING DIRECTOR & CHAIRMAN - U GRO CAPITAL LIMITED**
MR. SANDEEP ZANVAR – CHIEF FINANCIAL OFFICER- U GRO CAPITAL LIMITED
MR. VIVEK SESHADRI – STRATEGY HEAD - U GRO CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2021 Earnings Conference Call of the U GRO Capital hosted by Dolat Capital. 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 Ms. Mona Ketan from Dolat Capital. Thank you and over to you, Madam!

Mona Ketan: Thanks Sujitha. Good morning everyone and welcome to U GRO Capital Q2 FY2021 earnings call. We have with us the senior management from U GRO Capital including Mr. Shachindra Nath – Chairman & MD, Mr. Sandeep Zanvar – CFO, and Mr. Vivek Seshadri – Strategy Head. Some of the statements made in today's call may be forward-looking in nature and are subject to risks and uncertainty, which could cause actual results to defer from those anticipated. Such statements are based on the management beliefs and assumptions based on currently available information. Audiences are cautioned not to place undue reliance on these forward-looking statements in making their investment decision. I now handover to Mr. Shachindra Nath for his opening remarks and key highlights for the quarter post which we can open the floor for questions. Over to you, Sir!

Shachindra Nath: Thank you. Good morning everyone and many thanks from all of us at U GRO for joining us for our Q2 FY2021 earnings call. As MSMEs have started resuming their operation across the country, we have seen our lending operations revert as close to normal as is possible given the coronavirus situation. While we remain highly vigilant about the portfolio quality in these turbulent times, we also see the great opportunity in front of us. Fundamentally strong Indian MSMEs require capital backing now more than ever, and we are determined to answer their call and to expand our reach so that we can satisfy the requirement of the maximum number of MSMEs.

Our mission statement is to solve India's MSME credit gap and we have been working tirelessly in this coronavirus period to develop new product and distribution strategies. The major theme for this is expanding our target demographic to focus keenly on microenterprises. These bottom-of-the-pyramid firms provide livelihoods and employment to millions across the country and present a real pathway to beat the poverty trap. We will be catering to these microenterprises primarily through our new Saathi program and the launch of our direct distribution branches in Q3.

Saathi refers to our range of secured microenterprises loans, which are smaller ticket, higher yield, and shorter tenor than our traditional secured loans. We launched this program in

October and it has already seen great traction as the market demand for such microenterprises loans is self-evident. Our direct distribution branches will be opening across 5 states in December, and unlike our intermediated distribution in our existing branches, these branches will feature U GRO sales personnel originating loans. These branches will be spread across the tier 2 and tier 3 semi-urban locations and this allows us to greatly expand our potential customer base without cannibalizing any of our existing business lines.

In terms of our existing distribution, we have further expanded our GRO partner network to 518, which is a 32% increase in our Q1 figure. Our short-term emphasis is on disbursing via our Sanjeevani program and ECLGS as these represent the highest value propositions currently. To date, we have already disbursed over 100 Crores through Sanjeevani and over 35 Crores through ECLGS. As a nimble organization, we will always look to pivot to address the most pressing market needs as they arise. Our branch and ecosystem channels have fully reached their pre-COVID levels and we are in the process of rapidly operationalizing our many corporate partnerships.

We have had several of these partnerships go live on our proprietary partnership platform GRO-XStream and we are excited to fully explore all opportunities to create value alongside our partners. With regards to disbursal numbers, Q2 has seen a recovery to pre-COVID levels of disbursals despite many limitations still caused by the COVID. We have disbursed approximately 300 Crores in Q2 including 116 Crores in September, which is on par with our pre-COVID numbers. We fully expect to continue our positive disbursal trajectory beyond our pre-COVID levels as we expand our branch network, introduce new products, and create many more partnerships.

We have reached a total of 1697 Crores disbursal as of the end of Q2 and our AUM stood at 978 Crores with a blended yield of 14.4%. Our AUM is spread across 7734 live customers for a highly granular average ticket size of 13 lakhs. Our portfolio remains well diversified by sector and geography and our book is roughly two-thirds secured. Our portfolio has a GNPA of 1.9% and an NNPA of 1.2%, both of which are reasonable figures as our book has started showing some vintage. We have also maintained our conservative course when it comes to provisioning. We have increased it to 3.8 Crores of COVID-19 provisioning and 11.8 Crores of total provisioning, and this has led to our having a large provisioning expense of 3.93 Crores in Q2 FY2021.

Our portfolio is holding up well from the stress that is to be expected from an event like COVID. Our collection efficiencies remain high and we are in close contact with our partners and customers whose business may be seeing stress at these times. We are also looking at opportunities to selectively restructure and would do so wherever prudent. This quarter, we have started to see some early fruits of the strategic and operational improvement that we have been working towards since the start of the pandemic.

One very exciting development has been that we are one of the first lenders to be integrated on the government's GeM Sahay platform. GeM Sahay is an online end-to-end marketplace for open, efficient, and transparent procurement of goods and services by central and state government organizations. Through our integration, we will be gaining access to well over 2 lakh sole proprietorships and a vendor ecosystem that supplies a total value of nearly 20000 Crores, and we expect to see results from this integration from Q3 FY2021 itself. We will also soon be rolling out new IP of our GRO-Chain platform, which we have built as a proprietary supply chain financing platform.

On the liability side of things, we have continued to take great strides. The alleviation of the long-term liquidity crunch triggered by IL&FS continues through the government-driven scheme as PGC scheme and TLTRO 2.0. For well-run NBFCs, this has been a huge boom, it has allowed us to secure our liquidity position for the foreseeable future while borrowing costs have come down significantly solidified margins across the industry. This is excellent timing for us as we will be able to leverage the large volume of liquidity that is now available to target aggressive growth both organic and inorganically. As of the end of Q2, we had a total of 578 Crores of sanction liability lines, nearly 200 Crores of which we have yet to draw. Our liability book continues to become yet more diverse and we have 16 active lenders including PSU banks, private sector banks, foreign banks, and other financial institutions. 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 has meant that we have a CAGR of 86%, far higher than the industry average.

Our liability pipeline is also very strong for the foreseeable future and we are confident in significantly expanding our borrowing book as per our needs through the end of FY2021. 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 17.18 Crores for Q2 with a total income of 34.82 Crores. Our net worth as of September 30, 2020, stood at 943.9 Crores with our book value per share being roughly around Rs.134. In closing, we believe that from a business perspective, the biggest challenge posed by the coronavirus had been successfully dealt with. Despite the continuing disruptions, we have proven our adaptability as an organization and re-attained our pre-COVID status quo in terms of distribution far sooner than anybody could have reasonably expected.

We have spoken at length about our commitment to Indian MSMEs and our founding vision of solving the unsolved. As the great Mahatma Gandhi once said, "an ounce of practice is worth a thousand words." We have already added significant value to the MSME space through our innovation and we fully expect that the coming months will see us double and triple down on this impact once our direction distribution branches go live. I hope that you will stay with us as we continue our journey. Thank you and over to you for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dinesh Kotecha from KRIC. Please go ahead.

Dinesh Kotecha: Good morning to all of you, Mr. Shachindra Nath, and the entire team. Sir, my question relates to only two things, number one is that if we come to slide #11, we had added some corporate clients, I would like to know basically, what is the commitment amount and what is the mean and the max amount by the corporate clients, which you had added. Also, we reduced the ecosystem partners, they have gone down by two, now any specific rationale for why that ecosystem partners have reduced, any hit from the eco partners I would like to know that. Sir, I would like to know the delinquent account the Q2 because 391 customers have been added, any customers who had not paid a single paisa and other than that whatever efforts you are taking to set up, which was offset in the Q1 you have been setting it up in a proper manner in the Q2 onwards, I think things seem to be improving, results are good, the deferred tax provision has added to the profit, I am happy about it and the only thing is the moratorium those all that was set up by you for our clients and all that again, is tit restructured or is there any changes at moratorium period and the amount and all that, can you explain a little bit so that more clarity will be appreciated, thank you?

Shachindra Nath: So, if I understand, let me answers whatever I had understood in form of questions, the ecosystem partners represent supply chain financing business, in our supply chain financing business, these are the partners through whom we finance the vendor, distributor, dealer ecosystem and during this period we have gone on a process of complete digitization wherein we pick up the data from GST and banking and in that process, some of our anchor partners have decided not to participate and provide the data as per our norms and those partners have exited. In terms of questions around moratorium restructuring, as we had said in our opening commentary as of today we have not restructured much of any amount, you can see in our financial disclosures we have restructured roughly around 7 Crores worth of loans, but as you know that pandemic and its impact is an on-going impact and wherever there is a request from a customer there is a complete re-credit exercise, which we do philosophically wherein we think that there is a need for a customer to reduce cash flow we have to match up the EMI and we do it accordingly. We just make sure that the restructuring is not used for purposes of deferring the loans of businesses, which are not in revival mode, so that broadly is a commentary, anything else.

Vivek Seshadri: I just want to add to that, corporates for us does not limit the partners, it is essentially an origination channel for us, a partnership based origination channel wherein essentially broken down to 3 parts, one is partnering with other NBFCs of co-lend through channels, two is partnering with many manufacturers so that you can provide service for their end customers, three is partnering with B2B aggregators and the Fintechs of the world to cater to their ecosystem, so this is not typical corporate lending that we are doing, this is essentially a channel for us wherein we are catering to the end MSME customer, B2B to C channel, so there is no problem because each of those cases is evaluated in its own merits.

Dinesh Kotecha: Sir, one more question to be added that you know, do we also provide finances to professionals I mean the doctors and chartered accountants?

Shachindra Nath: We are focused on our 8 specified sectors, you know that in that 8 sectors healthcare is one of the sectors and within that was a sector we do roughly around 75 to 100 subsector and we will look at the ecosystem around that, so we do provide financing to the doctors, but they have to specify to a certain segment of the doctors so we do for a dentist, we do for IVS clinic so on and so far.

Dinesh Kotecha: Thank you very much because I appreciate the effort you and your team have undertaken in Q2 and I hope that this goes on increasingly to do better performance in the Q3 and Q4 going ahead. Thank you very much.

Moderator: Thank you. The next question is from the line of Jainis Chheda from Dimensional Securities. Please go ahead.

Jainis Chheda: Good morning, Sir. There are few questions, one you said about your growth partner network and corporate partners where you do the co-lending and all, so I just wanted to know what are the key terms in those contracts, how you do the revenue sharing, and who bears the risks, secondly, you have 9 branches and 194 employees, so what are the number of employees per branch?

Vivek Seshadri: You need to look at the branch size of employees, it has been broken down into corporate and broken down into branches, right. Okay, first break it on into sales and then break it on into non-sales, so if you look at it of the 180 odd employees around 60 to 70 will be sales of which each of our branches will have around all the 9 branches have around 45 employees, the remaining are the business development team for our partnership led alliances, for our ecosystem base lending, each of the branches will have currently around 5 to 6 people in it.

Jainis Chheda: Sir, rest of them are the actual employees?

Vivek Seshadri: No, branch led is only one of the channels for us, there are 3 other channels that we operate in, one is the ecosystem lending channel, which is our supply chain wherein we cater to the distributors of mid corporates so there is a sales team dedicated to that and then there is a partnership based distribution channel that we have as I mentioned before we cater to larger machine manufactures to cater to their end customers and the FinTech companies to cater to their MSME clients for an instant if the payment gateway and there is merchants on the gateway we cater to them so the third team is for those kinds of work, so the total sales team will be around 70 to 80, of which 45 are branch sales.

Jainis Chheda: In terms of your terms with your network partners and corporate partners, what are the revenue sharing and key risks?

Shachindra Nath: It varies. If you look at you know what you call channels for partnership and alliances, now partnership and alliances this is a very small NBFC with who we are co-lending, so we do not lend to NBFC, we only co-lend with them or if there is payments network or there is fintech they each would be varying depending upon, so the role and the responsibility we expect the partner to do origination, do customers service and collection and depending upon they apply our risk framework and sometimes we do the assessment of their risk framework so it depends upon what kind risk-sharing arrangement is there and what is the role and responsibility and that varies, there is no uniform way is that I that can give it to you.

Vivek Seshadri: I think there are two broad metrics, one is with the partners involved only in disbursal, then the percentage of the disbursal amount that he gets varies depending on the type of loan that he has and of course if he is participating in the risk as well, which is essentially giving a risk clause cover then there is a certain interest sharing also that we do it that case, there are two broad types of partnership payouts, but then getting into the specifics of each would be going down into each of our four distribution channels and there are 5 variant each of those distributions channel.

Jainis Chheda: We will take it offline. Thank you so much.

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

Vikram Raina: Congratulations on a good quarter considering the current market environment. This is quick 2 to 3 questions what I had on the mind looking at the presentation one is with respect to the quality of the loan book, now the book is suddenly becoming vintage, the gross NPA specifically has increased from close to about 1% or 1.9%, so could you please throw some light on that about the increase in the gross NPA?

Shachindra Nath: As you rightly said that the book is now showing vintage and obviously the period has been very, very turbulent, we think this is coming to the normalcy curve, our general belief is that and what we are seeing in the portfolio in terms of collection efficiency, how our customer is responding, amount of emergency credit line availed by them and the moratorium data and that our portfolio is quite resilient at this point of time, so we are not seeing any surprises from where we are today.

Vivek Seshadri: A lot of it is due to COVID as well wherein the raw temporary delays in the cash book and therefore you will see delinquency going up a little, but the fundamental thing to notice a larger percentage of our portfolio has secured in nature, we are working with these customers, the customers are also slowly getting to normal, for instance just take a school for example, right, although schools are functioning now the amount of revenue that they are collecting has come down a lot because they are not collecting on any of the ancillary revenues, which is transportation, which is books, uniforms where the margins were larger, so we are in touch with each of our customers, we understand why each of them is struggling right now and based on that if there are customers we believe need that support we will provide them the support during this period of time.

Vikram Raina: Sure, I think that was pretty comprehensive and another thing I wanted to ask is basically I think you also mentioned in your presentation that the GRO-Xstream is something which is now become operational in multiple syntax and partners and I believe that is for the co-origination part of the business right and now given that pre-COVID we signed about 3 co-origination pacts with the banks has that started off now?

Shachindra Nath: We have five platforms, which we operate, so GRO-Protect is our central platform, so we do not fashion ourselves saying we are syntax because you know that term is not well understood, but our entire business is all about the digitalization and technology at the center of it and our rule engine on the underwriting is supported by four different products, one is GRO-Line, which is our supply chain platform, GRO-Plus, which is our intermediation platform, GRO-Direct, and GRO-Xstream. GRO-Xstream has both elements so it is an upward and downward co-lending module. On the upward side we have 4 banks actually, 3 banks and one NBFC, which is already, 3 of them have signed the partnership and one is getting integrated now, which is Bank of Baroda, ICICI, Kotak and Poonawalla Finance, so all of them are already there and on the downstream side obviously, there are many a number of fintech NBFC partners are coming. As you all of us probably know that the co-lending, which the RBI and banks are very keen that, that should start in India have been facing operational challenges for quite some time, last week RBI has revised the guideline on co-lending and we are very hopeful that under the revised guideline, which is like an on-tap direct assignment some of these banks would become functional. It is also a function that we have enough and more liquidity for ourselves to lend out of our own balance sheet itself, but it is still from a long-term strategic perspective we would like to know this partnership to become active now.

Vikram Raina: Right, thank you for that answer as well. Just one last thing as you mentioned in the opening statement also that the cost of borrowing now is coming down, just want to understand what will be the incremental cost of borrowing looking at a weighted average close to about 10.5%?

Shachindra Nath: The way you look at it that the current cost of borrowing is also a function of lot of liquidity measures, which has been used by RBI as well as Government of India, so the benefit of that, that pre-COVID we did not had single public sector bank or a large private sector bank as a financer to us, but during the COVID period because of our strong balance sheet and quality of portfolio governance management we saw all of these lenders to come to us, so today we have around 7 public sector banks, 2 large private sector banks, multiple small finance banks and foreign banks are already there, so the current cost of borrowing, which you see on the balance sheet is a function of this excessive liquidity, which had been provided, we do not know whether that would be the way going forward, but what we are seeing is that there is enough and more liquidity for good company and we will continue to draw liquidity for our current year and we do not see a challenge and it should be in the more or less same range is that what our target is.

Vikram Raina: Right, Sir, one last question if I can squeeze in, what is your target now for FY2021 looking at things that have started going back to pre-COVID levels to an extent, so maybe anything on that and how do we actually plan to reach that number?

Shachindra Nath: We do not give hard numbers; I can say that you can draw.

Vikram Raina: Some ballpark numbers.

Shachindra Nath: Absolutely, so what you should look at is that we have said in our opening commentary that we are not showing too much exuberance given where the markets are and underlying SME customer is still quite distressed, but the run rate disbursement, which we are seeing we will definitely maintain that disbursement and there should be at least some 10% to 20% incremental disbursement rate should come during this year.

Vikram Raina: Sure Sir. Thank you and wishing the whole team Happy Diwali.

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

Gauri Ahuja: Thanks for taking my question. As you are lending out to 8 different sectors I wanted to understand that what is the current exposure to all of these sectors especially hospitality and education there is stress right now, how will you kind of mitigate that risk and other certain sectors actually getting a higher level of moratorium coverage and certainly restructuring going forward?

Shachindra Nath: It is given in our presentation, our sector exposure is quite well diversified, education consists of 19, light engine is 21 and electrical is 14, hospitality is 13, so your specific question to hospitality, in hospitality we finance multiple subsectors in hospitality, fast foods, and restaurants, small banking so on and so forth, except one or two odd cases of banks, withhold obviously there is a reduced tax flow in hospitality, but a majority of our portfolio remains secured and some of the customers have enjoyed the energy security line facility we do not see much of a problem, but we are cautious. In terms of our increment in disbursement, we are very cautious with respect to hospitality, but our existing portfolio is fine.

Gauri Ahuja: Follow up on that. What are the plans to expand lending in all these 8 sectors going forward?

Shachindra Nath: We are right, so we have started disbursement back, so as we had said that order completed about 4 to 5 quarters back we have got through very, very slow, hospitality we are very slow and on a long-term basis I think the post-COVID we are still positive on each of these sectors and you cannot generalize in hospitality or banks withhold today is more suffering than a fast food chain right, which is all doing home delivery, same way in order components four-wheelers are still waitlisted, but two-wheelers are doing fine and as you know we do the bottom of the pyramid of that, so we continue to disburse across our sectors and a sector, which definition which we have added is what we call micro lending sector, we are in a sub Rs.5 lakhs loan we do not think so that there is an homogeneous effect of a sectoral impact and then we treat that as a separate sector, so our program like Saathi and our direct distribution is designed for micro lending segment and we continue to grow in all of them.

Gauri Ahuja: Just wanted to see like this is expanded to Saathi and there are challenges. Congratulations on that and how are you adapting to new customers right now like what does the strategy remain there?

Shachindra Nath: I think one of the competitive advantages U GRO has is its centralized proprietary technology platform and data analytics unlike other conventional traditional vendors when they enter into the microlending segment they continue to start from a pure physical footprint of the branch, which we will also have, but they do not have the data analytical capability to benefit from what we have done, so when we started in our prime segment we invested heavily in our tech platform and those platforms are now being customized to look at microlending and obviously there is a re-fitting of the underwriting parameters because our prime segment underwriting was largely bureau driven and we have customized bureau data to a sector bureau's proprietary score called GRO score and then we have GRO expert, which is sub sector operational scorecard, so using combination all of that and using this thing to an underwriting filter, which fits into Saathi and our direct distribution program.

Gauri Ahuja: Thank you for answering that. Just one last thing, we understand you have different distribution channels around 3 to 4, what are the spreads that you are enjoying nowadays just for my knowledge?

Shachindra Nath: We do not spread by channels, we do spread by-product, we have given in our presentation you see our gross field across the secured and secure supply chain and that should be the best way to look at.

Vivek Seshadri: Let me just again say some incremental sites, so the way we should look at it is, we buy channels and buy a product within this channel. If you look at it once again, that is broken down into two parts. The branches that we have in tier 1 city, which have a 9 branch that we have right now and the direct branch that we are opening in tier 3, tier 4 kind of cities. In that, the tier 1 cities will obviously be secured that 12% to 12.5% and unsecured is around 18% to 19%, like that tier 3 or tier 4 cities, the secure and the unsecured 20 plus, right so the spread you can back-calculate from that. On the ecosystem channel again, no clutch there, vendor side financing is at 13% and 13.5%, and dealer distributor would be around 15.5% and 16%. Then you go to partnership led strategy there, there I think the rates are very different depending on the further participation from the partner's side as well for instance you are giving me x% of first loss and then obviously I am able to bring down the rates to that effect, and if there is no first loss then obviously our rating is 18% to 20%. Then the last one is the digital channel wherein the rates are again 20% plus but that channel for us is currently on pause given COVID.

Gauri Ahuja: Thank you so much to both of you and Happy Deepavali.

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

Shanay Kothari: Your AUM is around 950 Crores, 960 Crores, so how much of that is still moratorium and what percentage of that has not paid a single installment basically, and what do you expect going forward, how much of that book will go bad?

Shachindra Nath: Let me take that, in the first moratorium, I will just answer that question, I do not have the exact data point, but I think you will get the answer with this one. In the first moratorium, there was a 33% opt-out. The second was an opt-in about 61% to 62%, September and October have been no moratorium and almost the collection efficiency has been 90% to 95% plus, so there are very little late customers who have not paid a single EMI.

Shanay Kothari: Going forward, how much of that book do you expect to be bad?

Shachindra Nath: We said in our statement as well that the COVID-related provisions, which we had done what we look at data today, seems to be more than enough for covering any form of, so obviously some of our customers would undergo restructuring. as of today what we have said that during this quarter we have restructured roughly around 7 Crores outstanding loans and restructuring does not mean that the customers have gone bad, these are the customer whose cash flows have got reduced and we are just adjusted for their cash flow and increased their tenure or reduced their EMI and we think so the process has continued till March 2021, but we do not expect that our total outstanding portfolio we should go through restructuring would be more than 6% to 7% of our outstanding pause as of September and the provisioning required for that would be sufficient vis-à-vis our COVID provisioning.

Vivek Seshadri: The other things are note about restructure that we are doing is we not offering anybody a moratorium receivable, what we are trying to do is make sure that the customers are paying so that the habit maintains but if the EMIs were there, maybe they are paying 0.7% of EMI so that is the only change that they are bringing into our portfolio.

Shanay Kothari: Thank you.

Moderator: Thank you. The next question is from the line of Mona Ketan from Dolat Capital. Please go ahead.

Mona Ketan: Sir, on this unsecured portfolio, which is about one-third of your loan, could you throw some light as to how you manage risk in this book and are we incrementally also lending to the sector?

Shachindra Nath: Looking at our unsecured business is a combination of many things, when we look at MSME customers across our distribution channel we do both secured and unsecured kind financing, and all our loans whether they have secured or unsecured base is under, underlying cash flow. The assessment of cash flow, the most of our unsecured business go for prime customer wherein at a filtration level we filter these customers on bureau then this gets tested on our proprietary scorecard, which is in a modification of bureau sector then it is done cash flow underwriting is done by underwriting teams using our data analytics tool under the underwriting method and that is the reason that while our portfolio has not yet shown the same level of increase but it is better than that.

Mona Ketan: Portfolio collection efficiency is more than 95%, if I am not wrong?

Shachindra Nath: Second in terms of ever we are incrementally doing that we should, the answer is yes. We have not stopped lines in secured and unsecured, **(audio cut) 36:37**. We are gradually having collaterals, residential mortgages and commercial mortgages, we are also starting machinery led mortgages and so forth and given the current time, we are trying to restrict unsecured gold disbursement across our total disbursement pool which is not that look of.

Mona Ketan: Will it be fair to say that the gross NPA levels are similar across both secured and unsecured books?

Shachindra Nath: I would presume that the unsecured, which is lesser.

Vivek Seshadri: Most of the delinquencies that you see is like the confidence that we will be able to easily make it up is in the partnership led channel and ecosystem is the channels a lot of whom have FLD those kind protections as well, right so in our traditional secured and unsecured channels, the delinquency almost is expensed out

Mona Ketan: And we when what new banking because you are using?

Shachindra Nath: As of what portfolio you are seeing today have no banking customer, but when we start our direct distribution branches we start 25 branches in the next we will complete on that basis are being started on 5 states and just we are already present there we are building up for 10 lakhs and some of them would be neutral.

Mona Ketan: And the collection efficiency number of 95% that you mentioned for the unsecured portfolio will include the past arrears as well.

Vivek Seshadri: Only for the month.

Mona Ketan: What would the overall collection efficiency be for your portfolio?

Vivek Seshadri: I think that will be in the 90% kind of range, I do not have the exact numbers with me.

Mona Ketan: This is again excluding the arrear, basically the collection efficiency lower for the secure portfolio what is unsecured?

Vivek Seshadri: No, as I said before, their different channels, the branch-led channel have some very, very high collection efficiency, north of 95%. It is the other two channels wherein there is some delay, those again that is the reason we are very confident that we can rectify this. For instance, supply chain, wherein there is certain delinquency that is coming because of late payments so on and so forth, which anyway the large anchors will remain therefore they are confident of the cash flow receivables.

Mona Ketan: Under the ESLGS scheme, how much had been sanctioned and disbursed so far?

Shachindra Nath: It is there in the presentation.

Vivek Seshadri: 38 Crores as of September, after that we have done incremental about 10 Crores.

Mona Ketan: Lately also on the educational portfolio, which is about 19% of your loan, you did throw some light previous question, but just wanted to understand a little more about how this portfolio is behaving and given that schools may not open for the longer period related to the rest of the economy, what is your take there?

Shachindra Nath: Sorry, I did not get you.

Mona Ketan: The educational institution is about 19% of your loans if I could see in one of the slides. Just wanted to get some color on the debt book because I may take longer than the rest of the economy to open it, my understanding is correct.

Vivek Seshadri: Correct, as I told before, but there are, our schools are not afforded, the schools that we have are not afforded private schools, right these are schools within Tier I cities. These are not operational in the tradition itself that in physical schools are not opened, but everybody is doing online classes, so the schools have shutdowns. So there is payment coming from them maybe as I said before instead of maybe collecting the entire payment we may be collecting some part of it, but payments are still coming. All the loans in the educational sector are completely secured so would be a comfort that we have, so education as such we do not expect too much of a problem.

Shachindra Nath: I was just adding that the K12 schools in Tier I towns, there is a marginal decrease in their income because the allied line of fee income has reduced, but the core line of educational fees are still coming to them and that is why we are seeing collections happening.

Mona Ketan: Thank you. That is from my side.

Moderator: Thank you. The next question is from the line of Sumit Bhalotia from Emkay Ventures. Please go ahead.

Sumit Bhalotia: I have a few questions, is it possible for you to share SMA 0, 1, 2, numbers to have a better understanding of the collecting efficiency trend in October?

Shachindra Nath: SME 0 and 1 we do have that offline, I do not think so we publish that.

Sumit Bhalotia: Ballpark figure is just for understanding like you have mentioned that less than a percent collection efficiency, it would be less than 1% something on those lines. What I am saying is to understand the calculation of collection efficiency better, if we get some ballpark figure of overdue amounts in SMA0, 1, 2, that will be helpful, some ballpark figures will also do?

Shachindra Nath: Let us come back offline on this because we do not hand the number with us right now.

Sumit Bhalotia: The second question is on PSLGC insurance which the government has announced yesterday, so we have disbursed 38 Crores as of now with the expansion of the timeline as well as the turnover limits would that affect our portfolio?

Shachindra Nath: Most of our customers do not belong to that category because that extension is fine but the extension to 50 to 700 Crores our customer does not belong to that segment.

Sumit Bhalotia: But those in extension even for loans which can overdue or SMA 0 till February 2020, would that again impact us?

Shachindra Nath: Some customers may become eligible because of that, but as we said that we use an emergency credit line with recredit exercise, so yes, some customers would become manageable, but a very small portion.

Sumit Bhalotia: Because delinquencies are very, very low at that point in time so I do not think there are too many excluded, the reason why the entire set of customers have not taken up emergency credit line is one they did not want it, two after looking at their numbers we felt we should not give it to them, so we have almost covered all our customer base through that exercise, so I do not think there is going to be any incremental maybe a very, very small amount, but nothing increase. Thirdly on the liquidity that we are carrying on our books, which is 300

Crores now as a percentage of AUM, I would say if among the highest, within the NBFC space much higher within the NBFCs space, much higher than what others are carrying, typically from earlier NBFCs they are about 15% to 20% and everybody has now brought it down, so what is our strategy going forward on this liquidity that we carry on our books?

Shachindra Nath: As a younger institution our view is that even at the expense of carrying negative cost we are in the build-out phase, we are building relationships within the liability side, and once you are in that mood you do not say whenever a new large bank comes in and gives a sanction that is point number one. Number two, if you look at our stated policies that we carry two months of forwarding disbursals on to our book all the time and I think so for the current year we will continue to look at that obviously the cost is roughly around 18 Crores odd of negative carry for the year, but we think post FY2021 when we get to the scale the lending relationship, which we are now creating with some of the largest institutions in the country would help us to scale far are better and that is why we are taking this costs right now.

Sumit Bhalotia: Lastly on this co-lending model, maybe I missed out if this is already discussed, but just wanted an update on where we are, what is the progress, and what kind of monthly numbers we are doing currently if we are doing it, and how do you see changing going forward?

Shachindra Nath: The co-lending GRO-Xstream downward and upward, upward is the 3 partnership with the banks, which we have ICICI, Bank of Baroda, and State Bank of India. In last pre-COVID we were about to start with Bank of Baroda, but because of COVID it got stopped again, now we have reworked with the programs and technology is getting integrated the recent change done by RBI actually and hopefully should up co-lending big time because now they have divided the coal ending into 2 parts committed and non-committed and it has become kind of on-time direct assignment, so let us see, we continue to deploy a dedicated team to service the large banks and work very cautiously, but as the strategy, we are not engaging new lending institution on co-lending because they are 4 of the largest bank of the country already signed a partnership with us, so our aim is that we activate that as soon as possible. On the downward side of this, we have now a live relationship with 4 or 5 small NBFCs treated payment platforms in 2 to 3 marketplaces and hopefully, in the next few months we should see a run rate of around 15 Crores to 20 Crores a month is our gut feel.

Sumit Bhalotia: Thank you.

Moderator: Thank you. The next question is from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Thanks for this opportunity. My question is with regards to the Jeevan Program do we have any target or guidance, etc., in terms of what kind of numbers we can look at?

Shachindra Nath: Sorry, which program?

Jigar Valia: GeM Sahay?

Shachindra Nath: I think we did mention that in terms of showcasing our technological progress because it is a very, very established large lending player we still were the first one who was able to integrate to a very complex technological solution, which is driven from the OKIN, which has been launched by Nandan Nilekani and has been part of that we would integrating with account aggregation, so point being that we want to do showcase that we are at the forefront of technological innovation and Fintech evolution if you may want to call in terms how we are operating today. In terms of the number actually, if you look at the reported number that GeM platform, the total procurement had been roughly around 300000 Crores or so, obviously we have devised the program it should go live by mid of next month or end of next month. In terms of volume, the reason I do not want to give you any number because it is early days, so we want to see it is completely operationalized and this first time a purchase based financing program is being run and also due to the matter of pricing because today as an NBFC we have integrated a partner, but our view is that government very soon would push some of the large public sector banks to integrate there, once they come at the price would drop dramatically, so obviously we do not want to do this business below at threshold price, so we will see some traction, but we did not say made that common thinking that, that would be a large portfolio in our current disbursement run rate, we are not dependent upon some of those things at all. If they happen then they are upside down to us.

Jigar Valia: My next question is on 500 plus U GRO Partners. What percentage of the overall business is sourced through these and if you give me color in terms of geographic profile or what kind of KRAs are there for these and profile for these partners?

Shachindra Nath: Yes, absolutely. We operate in 9 locations and we were operating 75-kilometer periphery from these 9 locations. We are present in Chennai, so we are operating a 75-kilometer periphery, post-COVID we have increased that penetration to 150 kilometers odd, so we have doubled up our geographical coverage area. The GRO partners are a combination of the way we say we want to uberize the intermediation channels in India, 80% of Indian prime lending is originated by traditional DSAs or connectors or few other sets of people, majority of our current GRO partners are people who are traditional DSAs or loan referrers, but given our platform because we to take our platform ticket that would go to customer upload banking and GST and can get a sanction in 60 minutes yes and no, we constantly increasing this channel to go to nontraditional intermediaries, people who otherwise have customer, but have not done lending intermediation business, but the current profile of these, focus around this 9 geographies 150 kilometer around that and people who have experience of doing loan intermediation most of these intermediates would not just be intermediate to us, but would be intermediates to the largest bank and other larger NBFCs as well, the reason why they do business and operate and come to us because of the efficiency, which they receive because this is completely digitized channel, our turnaround time is very fast, so it is beneficial for them though our approval rate continues to be quite low because we are still very conservative in terms of our underwriting process.

Jigar Valia: So, in terms of nine branches, these 500 plus partners are enough, or are there any targets to increase this number?

Shachindra Nath: As you say, that is a constant journey. We continue to increase, and we continue to flush out some of the partners, which are not active. The way we have seen that the intermediation they have certain, which is divided between large national aggregator, localized player, and referrers who refer it to either intermediately or a bank and the channel is then divided by secured, unsecured and also by product category, so for example, with the Saathi program, which is our sub 50 lakhs exercise program this is a completely a new set of intermediaries, which you have to bring on both, which we are doing, so I think our channel would expand to roughly around 700 plus and the additional new intermediaries which are coming are only for Saathi program versus our Sanjeevani program, which is our both secured and unsecured our existing channels are servicing that, so in summary, this a channel number of channels partners would continue to increase depending upon how you are expanding the portfolio and there can be variety kind of people who will come on that.

Jigar Valia: Broadly 2% that is sourced through partners.

Shachindra Nath: We have 4 channels, right, GRO+ or intermediated channels, our secured and unsecured business, 100% is an intermediated channel.

Jigar Valia: Thank you.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Mona Ketan for closing comments.

Mona Ketan: Thank you all for joining us for the call and the U GRO management for the opportunity to host this call. I hand it over to Mr. Shachindra Nath for his closing remarks.

Shachindra Nath: Thank you, Mona and thank you all of you for taking out time and listening to our quarterly results call and I wish you all a very, very happy Deepavali. Thank you.

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