12th August 2026

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai 400 001

Scrip Code: 511742

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
G Block, Bandra - Kurla Complex,
Bandra (E), Mumbai - 400 051

NSE Symbol: UGROCAP

Sub: Transcript of the Earnings Call with Analysts/Investors held on 5th August 2026

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held on 5th August 2026 to discuss the unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter ended on 30th June 2026.

The said transcript is also being uploaded on the website of the Company.

This is for your information and records.

Thanking You,

Yours Faithfully,

For UGRO Capital Limited,

SATISH KUMAR CHELLADURAI
Digitally signed by SATISH KUMAR CHELLADURAI
Date: 2026.08.12 15:20:53 +05'30'

Satish Kumar
Company Secretary and Compliance Officer
Encl: a/a

"UGRO Capital Limited
Q1'FY27 Earnings Conference Call"
August 05, 2026

MANAGEMENT: **MR. SHACHINDRA NATH – FOUNDER AND MANAGING DIRECTOR**
MR. ANUJ PANDEY – CHIEF EXECUTIVE OFFICER
MS. SHILPA BHATTER – CHIEF FINANCIAL OFFICER
MR. SIDDHARTH RAJAN – HEAD OF STRATEGY AND INVESTOR RELATIONS

MODERATOR: **MS. JUHI MANWANI - ARIHANT CAPITAL MARKETS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q1'FY27 Earnings Conference Call of UGRO Capital Limited. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Juhi Manwani from Arihant Capital Markets Limited. Thank you, and over to you.

Juhi Manwani: Hello, and good afternoon to everyone. On behalf of Arihant Capital Markets, I thank you all for joining in to the Q1'FY27 earnings conference call of UGRO Capital Limited. Today, from the management, we have Mr. Shachindra Nath, Founder and Managing Director; Mr. Anuj Pandey, Chief Executive Officer; Ms. Shilpa Bhatter, Chief Financial Officer; Mr. Siddharth Rajan, Head of Strategy and Investor Relations.

So, without any further delay, I will hand over the call to Mr. Shachindra Nath for his opening remarks. Over to you, Sir.

Siddharth Rajan: Thank you, Juhi. This is Siddharth Rajan, Head of Investor Relations. Good evening, everyone, and welcome to UGRO Capital's Q1'FY27 earnings call. On behalf of the management team, thank you for joining us today.

Before we begin, a brief note on the basis of comparison. The financial results for Q1'FY27 and Q4'FY26 are presented on a consolidated basis and include results of its subsidiaries, Profectus Capital, and GROx Technologies, previously DataSigns Technologies. The corresponding Q1'FY26 numbers were reported on a standalone UGRO Capital basis. All year-on-year comparisons discussed today, therefore be read in this context.

The financial results and investor presentation are available on the stock exchanges and on the Company's website. Certain statements made during today's call may be forward-looking and should be read together with the safe harbour statement contained in the investor presentation.

I will now hand the call over to Mr. Shachindra Nath, Founder and Managing Director. Over to you, Sir.

Shachindra Nath: Thank you, Siddharth. Good evening, everyone, and thank you for joining us. I would like to begin by recapitulation of strategic direction of the Company and the structural realignment of UGRO's business we had announced on February 7, 2026, why we undertook the business realignment and how we believe this transition would strengthen earnings, capital generation and create long-term shareholder value.

Over the preceding years and with the acquisition of Profectus Capital and MyShubhLife, now GROx, we invested significantly in building the institutional infrastructure required to serve India's MSME market, covering a large spectrum of customer segments. Along with our strong presence in Prime Customer segment, we created pan-India Emerging Market branch network, partnered with multiple ecosystem players, built a formidable Embedded Merchant financing platform, well supported by state-of-the-art proprietary data and underwriting capabilities.

One of the most encouraging outcome of this transformation has already became visible. In July 2026, the combined momentum of our Emerging Market branch network and GROx platform enabled UGRO to cross INR 1,000 crores of monthly disbursement for the first time in our history. The milestone reinforces our conviction that the new UGRO, powered by two complementary growth engines, is structurally better positioned to scale substantially.

The length and breadth of this infrastructure in past had helped us to achieve our targeted AUM of INR 15,000 crores plus, and we are now well poised to concentrate capital, management attention and operating resources on the two business segments where we possess tremendous potential to generate structural superior economics: Emerging Market secured lending and Embedded Merchant Finance and discontinued incremental origination in the lower yield intermediated Prime businesses. This has led to reset of our operating cost base, and we decided to reduce dependence on income from co-lending and direct assignment and move towards more recurring cash generative and capital accretive earning model.

Q1’FY27 provides the first meaningful evidence that this transition is taking shape. The combined contribution of Emerging Market and Embedded Merchant Finance increased from 32% of total asset under management in December '25 to 46% in June '26. The duo will scale to 85% of our AUM by FY29. The operating cost reset has been substantially completed. Our plan to take out approximately INR 220 crores of annualized operating cost is already in place.

At the same time, income from co-lending and direct assignment declined materially. Despite this reduction, the Company maintained a resilient level of profit before tax. A faster rundown of Prime Intermediate portfolio has moderated the reported AUM trajectory in the near term, but it is simultaneously accelerating the intended transition towards directly originated higher-yielding businesses.

Capital adequacy remained comfortable, liquidity remains strong and the Company continued to have access to diversified long-term institutional funding. Basis this strategy, we are confident that UGRO can achieve its planned growth without incremental equity through FY29.

I would also like to address the performance of our share price. We recognize that the share price has not reflected the progress being made in the underlying business. We believe that as growth trajectory of Emerging Market and Embedded Merchant Finance becomes more established, the portfolio transition progresses and the Company demonstrates sustainable improvement in recurring profitability, cash generation, ROA and ROE, the true value of UGRO franchise should become increasingly evident.

The most effective way for management to address the present valuation is through execution. Our focus will remain on disciplined execution of our stated commitments. We are deeply thankful to all shareholders who continue to place their faith in UGRO and in the institution we are building. We remain fully aligned with them. Our objective is to create durable long-term value through consistent operating performance.

During the quarter, we also received the requisite stock exchange approval and observation letters for the merger of Profectus Capital into UGRO. The scheme has now been filed with

NCLT. Upon effectiveness, the scheme provides for setoff of the goodwill arising from the acquisition and reassessment of the carrying value of future spread asset, predominantly our co-lending and direct assignment portfolio based on the behavioural tenure of the underlying portfolio against the reserves.

Consequently, our reported net worth may reduce. This would be a non-cash accounting adjustment and would not impact capital adequacy as these amounts are already deducted while computing the regulatory capital. At the same time, aligning the spread asset with behavioural repayment pattern should materially reduce future income reversal arising from foreclosure and portfolio run-off, improve earning predictability and support a stronger ROE.

The above is, of course, subject to NCLT approval. Hence, we will provide further details closer to the approval itself. This is an important step towards completing the legal and operational integration of the two entities and simplifying the overall corporate structure.

I will now hand over the call to Anuj, who will discuss the operating performance and growth potential of the two origination engines that we have built. Anuj, over to you.

Anuj Pandey: Thank you, Shachin. Good evening, everyone. The central operating message for Q1’FY27 is that both our focus engines are gaining momentum: our Emerging Market secured lending and our Embedded Merchant Finance via GROx.

Total AUM at the end of the quarter stood at INR 15,013 crores, while net disbursements during the quarter were INR 2,551 crores, representing growth of approximately 59% year-on-year. Together, Emerging Market LAP and Embedded Merchant Finance now have AUM of approximately INR 6,899 crores and represents 46% of our total AUM compared to 32% in December '25.

With a distribution network of 317 branches spanning 13 states, Emerging Market LAP AUM has increased from INR 3,581 crores in March to INR 3,896 crores in June, representing a quarter-on-quarter growth of approximately 9%. The business disbursed INR 592 crores in first quarter.

Portfolio yield was approximately 18.5%, while GNPA remained at approximately 2.1%. With the branch built-out complete, our operating focus has now shifted from branch expansion to productivity, throughput and operating leverage.

Blended monthly productivity across the network increased from approximately INR 48 lakhs per branch during FY26 to INR 62 lakhs per branch per month in Q1’FY27. Branches older than 12 months are already producing approximately INR 81 lakhs per month. This is within the lower end of our target of INR 80 lakh to INR 85 lakhs. The number of branches in this mature cohort increased from 81 in March to 96 in June.

At the same time, approximately 145 branches are less than 6 months old. These branches are still at an early stage of their productivity journey. As this cohort moves through the 6-month and 12-month vintage milestones, the productivity metrics indicates that the network can become a significantly large engine of secured loan disbursement without a corresponding increase in the number of branches.

As branch productivity rises and the product suite expands selectively, we believe that the Emerging Market network can become one of the UGRO's largest and most durable engines of secured lending disbursement and annuity income.

Our second origination engine is Embedded Merchant Finance, now operating under the GROx brand. GROx AUM increased from INR 2,280 crores in March to INR 3,003 crores in June '26, representing growth of approximately 32% quarter-on-quarter. The portfolio has grown about 4x in the last 5 quarters.

The business disbursed INR 1,853 crores during this quarter and is now disbursing more than 60,000 loans every month. The platform currently serves approximately 3.4 lakh active customers. Portfolio yield was approximately 26%, while GNPA remained at 2.1%.

The strategic strength of GROx comes from the combination of two highly complementary capabilities. The first is UGRO's data analytics and underwriting platform, including GRO score, our proprietary risk architecture and our experience in underwriting MSMEs through bureau.

The second is a technology embedded customer journey and partner integration capability built by GROx. By combining UGRO’s data-science and credit capabilities with GROx’s technology platform, automated loan journey and ecosystem integrations, we have created a highly scalable embedded-lending business.

Accumulation of proprietary customer level performance data improves our ability to distinguish credit risk more accurately, offer repeat loans more efficiently, increase limits for well-performing customers, price by risk and partner cohort, and identify early signs of stress, reducing customer acquisition costs and improving the lifetime economics of our relationship.

Our priorities for GROx are clear. We will continue adding customers to the existing partner ecosystem, deepen the share of eligible merchants within each partner platform, improve repeat customer conversion and increase the lifetime value. We will also add selected commerce, distribution and merchant ecosystem where transaction data is available and customer acquisition can remain efficient.

GRO score and partner-specific models will continue to be used to improve risk selection, pricing and credit limits, while fraud control, early warning systems and collection performance will be strengthened as performance scales. The opportunity is substantial because the digitally transacting merchant base across the payment and commerce platforms is very large, while formal credit penetration remains limited.

Our objective is to make GROx the preferred lending infrastructure for platforms that want to offer credit to their merchant ecosystems without building a lending balance sheet, underwriting capability and collection architecture themselves. As we scale, our focus on maintaining robust asset quality remains. The next phase is about converting these operating strengths into sustained AUM growth, recurring income and higher productivity.

I will now hand over the call to Shilpa to discuss financial performance, liquidity and liability profile, and capital positions. Shilpa, over to you.

Shilpa Bhatter: Thank you, Anuj, and good evening, everyone. Please allow me to take you through the numbers. Interest income was INR 363 crores, up 19% year-over-year, though this was down 13% quarter-over-quarter. The sequential decline is a base and volume effect. On-book interest income is earned only on the on-book portfolio. Therefore, this quarter, foreclosures of the Prime Intermediated DSA-led vertical was higher, leading to increased DSA cost. This cost was earlier amortized over the loan tenure, now being recognized upfront on the foreclosure of these loans.

Crucially, portfolio yield rose to 18.1%. Now this was up 63 bps quarter-over-quarter as the mix shifted to high-yield Emerging Markets and GROx. Co-lending and direct assignment income was INR 75 crores. This was down from INR 155 crores in Q4. Income from co-lending and direct assignment is now about 14% of total income as against 24% in Q4'FY26, and this is actually as planned.

Other income was INR 97 crores. This largely consists of fee and commission income and net gain on fair value changes. Total income achieved was INR 535 crores, which was up 27% year-over-year.

Finance costs stood at INR289 crores. Our cost of borrowing was down 41 bps year-over-year and stood at 10.14%. This is our 7th consecutive quarterly improvement on our cost of borrowing. Our total debt stood at INR 10,793 crores. I'm happy to inform you that about 66% of borrowings are now beyond 3 years tenure and our incremental long-term borrowing also came at about 9.8% in this quarter.

In line with our strategic alignment plan, our quarterly operating expenses have now reduced to approximately INR 119 crores from INR 217 crores in Q4'FY26. This represents an annualized run rate near our FY27 guidance of about INR 490 crores of opex. Total opex was down 42% quarter-over-quarter and 2% year-over-year.

Credit cost was at INR 66 crores. This is contained at 1.7% of average AUM. GNPA on AUM was a healthy 2.6% versus 2.5% at March '26. As we have flagged before, this is largely a denominator effect. Defocused book carrying 3.1% GNPA is fast running down, while incremental focused book sits at 2.1% GNPA. Stage 1 on the book is 92.5% of exposure. Stage 2 is 4.9% and our provision coverage on Stage 3 is 45%. Net NPA is accordingly at 1.9%.

The total collection efficiency was 98% for this quarter. Over the quarter, we also migrated to the new tax regime, resulting in a one-time deferred tax adjustment. And accordingly, investors should evaluate the underlying operating performance primarily through profit before tax and pre-tax ROA. Our pre-tax ROA, which stood at 2.6% and the reported PAT basis, ROA is 2.8%, with the difference driven by the one-time reversal. ROE stood at 9.2%.

We closed the quarter with a strong liquidity position of about INR 1,864 crores, providing adequate financial flexibility to support future growth. Net worth is at INR 2,976 crores, and our leverage stood at 3.6x. Capital adequacy on UGRO standalone basis is at 21%.

Thank you. We will now open up for the question-and-answer.

Moderator: The first question is from the line of Amit Mehendale from Robo Capital.

Amit Mehendale: My first question is on AUM. So, what do you expect our closing AUM to be by FY27 and '28? And also, do we have any ROE -- what type of ROE do we expect this year-end?

Shachindra Nath: You are asking the closing AUM for the current financial year or for next financial year?

Amit Mehendale: Yes, '27 and '28, correct. Current and next financial year.

Shachindra Nath: We expect the current financial year the AUM to remain flat. Even if you look at the current quarter AUM, what you have seen the AUM has declined, but on-balance sheet assets have gradually increased a little bit because the runoff which we are seeing is largely in our Prime lending space on which we have exited. Majority of that assets continue to be off-balance sheet, and that's why they are declining.

Why they don't impact the financial is because anything which is off-balance sheet, that is not interest earning because the NPV value of those assets have already been recognized in our balance sheet. We see reversal of income once they run off. So, we expect given the growth which we are getting on our GROx platform and also our second engine, which is our Emerging Market has now picked up the pace, we expect the AUM to remain flat, what we have -- where we have started, but on-balance sheet asset to grow a little bit from the last pace.

Next year, as our guidance, we are not guiding on a year-on-year basis. We have given a full guidance up to year FY29. If you look at FY29, what we have said that our Emerging Market asset would grow roughly at around 25% CAGR. They are actually right now growing faster than that. We have also guided that our GROx platform, which is merchant lending, would also grow at 25% CAGR. That is also growing at much faster pace. And we have said that our defocused portfolio, which is the Prime business, would run down at 20%. That is actually running down at 25%.

So basis that, we expect sequentially the FY27, '28 to see the uptick of the on-balance sheet asset as well as the AUM. However, given that this is a transition phase and we cannot actually determine the run-off rate, we can determine the rate of the growth for our two balance sheets.

It is hard to actually give a predictable number for next one year forward. But I think that we are very confident that this growth rate and the decline in the portfolio would be achieved very easily.

Amit Mehendale: And talking about FY29, I mean do you have AUM number? Because I'm tracking the Company

Shachindra Nath: Yes. Sir, the way to calculate the AUM number, we don't want to put a number exactly, if you go to Slide 8 of our presentation, we did this realignment in month of February when our total assets on the Emerging Market LAP business was INR 3,199 crores, and we have said that that would grow to 25% CAGR. Then our merchant lending business was INR 1,798 crores, we said that that would grow to 25%. And the balance portfolio was to run down at 20%.

You can take these 3 numbers and broadly calculate. But we are telling you that both Emerging Market and Embedded Financing is growing faster right now. But simultaneously, the rundown of portfolio is also a little faster. I think so we should be at around 15% growth.

Moderator: Sorry to interrupt. The line for the participant has dropped. We move on to the next participant.

The next question is from the line of Neel Advani from Pico Capital.

Neel Advani: Congrats on the opex delivery. Sir, my first question is with respect to the sequential interest income decline. Sir, how much of this is reversal on the old book? And how much of this is, let me say, the mid-quarter timing of the disbursements? Can you bifurcate the 2?

Shilpa Bhatter: We can get back to you, Neel, on the exact numbers specifically.

Neel Advani: I mean I'll make this question simpler. I mean, when do you see the interest income to drop and then turn sequentially positive? As in which quarter would we see interest income going back to the Q4 levels and then eventually turn positive?

Shachindra Nath: Yes. Okay. Let me explain a little bit how the numbers are designed, right? So, when the book run-off, obviously a certain portion of that runoff book is on our balance sheet and certain portion of our book is off-balance sheet. When the book which runs off off-balance sheet, that comes as a reversal of income. So, if you look at Slide 15, income on co-lending and direct assignment, that also embeds reversal of that income.

So, suppose we added INR 100 of total book off-balance sheet. And of that INR 100, we have recognized interest income upfront for the loan tenure. Now that book runs off faster than this contracted period income, but that impacts income on co-lending and direct assignment. The interest income is purely on the reduction of the on-balance sheet asset. Reduction of roughly around INR 30 crores is on account of predominantly the reduced AUM.

With respect to your question on when we would be at the same level of interest income. So, this should be the base, right. So, I think, you should look at current quarter interest income as the base. And with every quarter-on-quarter, you see this increasing because our on-balance sheet assets are now growing. That's why in terms of the ROE guidance. So, for 3 things. One, Opex will now be flat. All the Opex action is now fully played out and what you are seeing in the Q1 Opex would be broadly the Q4 Opex. Obviously, the inflation-related increase would come. So opex remaining flat, interest income would continue to grow from here, the income on co-lending for the current transition year would also remain in the same range and that's why we think there is a bottom-line better delivery, which will keep happening. I hope it is clear to you.

Neel Advani: Yes, Sir. Just to clarify, the DA income for this quarter would be the run rate for this year?

Anuj Pandey: Yes, broadly, that would be the run rate, but it is also a function of how much foreclosures happen on our off book. Sometimes if it is a little higher, then there is an impact. So, this is actually income, which is there on this slide, which is the net income that we book, the total gain minus the total reversal due to foreclosure. In case foreclosures are a little higher, then this might be a little lesser. If they are a little lesser, then this might be a little higher. But broadly, this is the benchmark.

Shachindra Nath: And as we have guided after February results that our objective is -- if you look at Q4 results, the percentage of income from co-lending and direct assignment was roughly around 24% and we would like this to be 4% in the end of the next 12 quarters or now 11 quarters.

Neel Advani: Understood. And Sir, with respect to the ROA that we are projecting, I mean if I normalize this to the 25% rate, I mean our ROA would roughly be at 1.9% for this quarter. So, when we are projecting 3% to 3.5%, I mean how do we then see that trajectory in the sense that are we projecting it on the reported one or the normalized one?

Anuj Pandey: So, you are normalizing the ROA for what?

Neel Advani: For the tax rate that we got. So, I mean I'm normalizing it for 25% rate, and then INR 46 crores of PAT would [inaudible].

Shachindra Nath: Okay. So, the ROA for the current quarter is because of the reversal of the tax you are saying, right? So, as we adjust for that, the ROA would be how much?

Siddharth Rajan: Over 2.1.

Shachindra Nath: 2.1, yes. So obviously, that's the base, and it has to increase from here.

Neel Advani: Yes. I mean the path that you are projecting at 3% to 3.5%, which is from the 2.1?

Anuj Pandey: Yes, of course. You're absolutely right.

Neel Advani: Okay. And Sir, one question on the yield. I think the last quarter, we were at the gross NPA were at 2%

Shachindra Nath: Sorry, your voice is breaking up. Can you be a little closer to the mic or the speaker?

Neel Advani: Yes, Sir. So, my second question was on the LAP book.

Anuj Pandey: On the Emerging Market LAP book. What is the question?

Neel Advani: So, the Emerging Market LAP book GNPA from 1.2% to 2.1% from March to June. And again, on the Embedded Financing, it moved from 1.7% to 2.1%. So, I'm just trying to understand, I mean, we had scheduled for 3.5% and 4% on a steady state. But are we seeing that it is running ahead of our internal model in that sense? Or this is what we, I mean the projection is at path in that sense, we are 3.5% numbers that we were projecting.

Anuj Pandey: So, the projection is well within what we had anticipated as the book seasons. So, in the Emerging Market LAP business, the peak delinquencies are projected to be around 3.5%-4% when the average month on books starts actually crossing 18 months. So, we are today at around 15 months. So, as we move forward, it will keep inching upwards and then get steady around 3%-3.5%.

Same with Embedded Finance. While embedded finance already has kind of peaked, we expect it to not go beyond 3%. Because in a lot of cohorts, the full life cycle we have seen because the average tenure of these loans are around between 12 to 13 months. So now we have many cohorts which have completed that. We are quite confident that it will hold. It should not go beyond 3%, while we had projected higher.

Shachindra Nath: While also adding to what Anuj said, Neel, on the Emerging Market small ticket LAP, the earlier cohort, which is more than 18, 19, 20-odd months, we have seen the peak delinquency there to touch around 3%-odd. And that's why we're saying that it will be 3%, 3.5%. But as you know, it's a growth business because right now, more than 50% of our base branches are still yet to reach their full disbursement delivery. So obviously, once you are growing the book, the GNPA per se gets hidden in terms of the growth, which you are getting from the business. We just wanted to be very conservative when we are presenting to the market and what should be the peak delinquency.

And the delinquency that we have reiterated many times that when we were running a combined model of Prime business, the difference between the Prime business to an EM LAP business, there the credit cost and the GNPA, their digression is not too much. So even if you have a 2.5% of GNPA, the credit cost would be roughly around 1% in total, in a secured business. In Emerging Market LAP, while GNPA may go all the way up 3.5%, it does not mean the credit cost also actually goes that much.

But finally, there is a recovery which happens because it's still a secured asset. And our secured asset, our micro-LAP business is not that INR 3 lakhs, INR 5 lakh ticket size, we are between INR 7.5 lakhs and INR 50 lakhs, average ticket size of INR 17 lakhs, a very formal customer. And normally, at a lag effect of around 18 months, you get a full recovery of the portfolio.

Neel Advani: Understood. And so, we are holding for the EM LAP, we are holding the 1.5% to 2% credit cost guidance that you have given?

Shachindra Nath: Yes. Yes, that's true.

Neel Advani: And Sir, one last question on the merger. What is the timeline from here with respect to the NCLT? What are we expecting in terms of number of months? And just to confirm, post the merger, we would come back to our capital adequacy around 27%, 28%, right?

Shachindra Nath: So first, the timeline of the merger. I think on the timeline of the merger, on the outer side, we expect the merger to get completed by the month of Feb. Some of this is not completely in our hand, but we'll try to achieve it by end of the third quarter itself, if we are lucky. But otherwise, prior to the fourth quarter, it would definitely get completed. With respect to the capital adequacy, the capital adequacy which we are now projecting is on a merged basis or standalone.

Shilpa Bhatter: This is standalone, 21% is standalone. On a merged basis, we should be about 23%, 24%.

Neel Advani: Okay. So that would give us room of another INR 1,500-odd crores of AUM growth. And what beyond that then?

Shachindra Nath: No, that's actually not necessarily only INR1,500-odd crores. There are multiple levers, right? One, the profitability which you are seeing now in UGRO is predominantly of the cash profitability in FY27, '28. So, our net worth is accreting from there. So, what Shilpa just told you is the net worth at the time of the merger. But after that, there will be a capital accretion which is happening in the balance sheet itself. That gets the growth potential.

Second is that we still have a lever of continue doing off-balance sheet. In fact, on our GROx platform, which is growing fast, we have now started onboarding other lenders as well. We have SIDBI as a co-lending partner and a few other banks are also coming and also large NBFCs are also partnering there. So, what the AUM guidance, which we gave in the last question, we would be able to achieve without incremental capital raise. We feel very confident about it.

Moderator: The next question is from the line of Rishi, an individual investor.

Rishi: I have a couple of questions. One is on the DSA-led business that we are trying to wean off. Is there a possibility that the management is considering selling it out as one whole business chunk, like how we bought Profectus? Is this something that is in the charge? Like, are you looking at selling that whole business one shot so that all these explanations can be avoided instead of going for 12 quarters.

Anuj Pandey: Rishi, no, we are not considering selling off that completely as a portfolio. There are 2 reasons for that. One, as you know, selling portfolio require a minimum 6 months of vintage. Some of that portfolio may not have that vintage and then you have to sell it in parts. If you do that, the collection infrastructure attached to that portfolio would become disproportionately uneconomical because today, there is a large collection infrastructure, which is engaged in collecting that portfolio.

Second, that portfolio, we have to build other earning asset to replace that asset. If we sell off all of that portfolio, we will sit on too much of cash unnecessarily and that would have a negative carry. Third is that there is an on-balance sheet asset component of that and an off-balance sheet asset component of that. If you sell all of that upfront, so there will be a large reversal of income which will happen for the off-balance sheet component of that. I understand that it looks a little complex for investors and market to understand, and we seem to be more defensive first explaining that. But I think it's another 1 or 2 quarters as the trajectory for our two engines, Emerging Market LAP and our Embedded Financing would continue to demonstrate and grow, the runoff would become a standard explanation. And over a period of time, you'll see, we will be focusing more on where we are getting the growth and its metrics rather than explaining more on the runoff of the business.

Rishi: Okay. Second question that I have is the recent shareholder voting that we had. A couple of resolutions were very close to not being approved and one was rejected as well, and this is probably the first time it's happening. Did you have a discussion with the institutional investors who are with us for several years who seem to have voted against it? Is there anything that you're doing about that currently?

Shachindra Nath: Yes. It was note which got created as a confusion and certain proxy advisory firms, which wrote against that without really understanding the depth of the resolution. There were 2 resolutions, one which was approved with respect to my reappointment and the [inaudible] to that. Because I'm defined as the promoter of the company, there is a limit in terms of the total compensation, which can be paid to me, which is 2.5% of the total profitability of the company because I'm defined as a promoter. So, my fixed compensation remained unchanged, and there was no increase in that, and that was moved as an ordinary resolution.

Second was a special resolution, which was moved as an enabling resolution for providing variable pay in future. What was designed in that special resolution that company may pay, or it was authorizing the Board of Directors to define a variable pay, which can be linked on the operating performance of the company and as well as increase in the value of the company through share price. It was only an enabling resolution, and nothing was defined and certain. But I think the proxy advisory firms felt that this is an uncapped variable pay structure being approved by the shareholder and they decided to write against it.

And some of the institutional investors who get bound by these proxy advisory firms decided to vote against the second resolution. Neither there was an intention to pay any huge variable pay to me nor I'm interested. But I think the appointment got approved.

But obviously, most the institutional investors who voted against that, we have engaged with them and their response was that given that it's more of an issue of governance and the process today, if the proxy advisory firms are saying certain things, then they have to vote against it. And also, they were confident that we had requisite majority for appointment to get approved and that's where the matter ended actually.

Rishi: I have another question. I mean I've been an investor for many years, so it might sound like a very silly question. But today, we are actually quoting at a market cap of what we paid as cash for Profectus, which is INR 1,400 crores. It's hard to imagine either we made a mistake and overpaid for Profectus, or the market thinks we overpaid for Profectus or if we had paid exactly correct amount, the previous UGRO all of it as worth exactly 0.

Shachindra Nath: Yes. I think you are right. I also sometimes think that what went wrong. Look, so sometimes with market pricing is a function of multiple things. And besides anything else, it is sometimes when we make a shift, then some of the investors don't like it. As you know, our shareholder register consists of one side, roughly around 50% is held by 4 or 5 long PE investors, 1 or 2 of them whose fund life is over and they are looking for exit and that's why they probably have no choice but to sell in the market. That's point number one.

Number two is that when we made this shift and that coincided with the war in Iran, market didn't like it and our price came down quite significantly. Third, with respect to question of whether we acquired a business of INR 1,400 crores, it means ourselves right now is INR 1,400 crores. Did we make a mistake? I think not. Our view, the pure reason for acquiring Profectus Capital was to acquire a book of roughly around INR 3,000 odd crores, to strip the Opex from that and gain cash profitability from that and then implement the same Opex reduction in UGRO and use that as our transition to a higher yielding business.

So, the Opex reduction and the profitability, so we are moving from more accrued income model wherein we are doing very high volume of co-lending, very high volume of NPV value recognition, and it was running on a treadmill engine, and we were simultaneously seeing foreclosure and reversal of the income. We wanted to move from there to more cash income generating business. So roughly around INR 130 crores of stripping of Opex, and that is adding purely to our profitability on a cash basis.

Second, stripping Opex from our business and adding that to our profitability is allowing us to go away from this very high volatile co-lending and direct assignment income model. If you look at this way, Profectus, we acquired for INR 1,400-odd crores. Net worth at that time was around INR 1,160-70 odd crores. We paid around INR 250 crores of premium and we would run that portfolio over life of the loan of that asset. We generate more than what we paid as a goodwill. So, it was not a bad buy. We bought it for roughly around 1.1x price to book value, and we retrieve more cash from them.

And I hope that market over a period of time would realize that and over a period of next few quarters, when we see the liquidity stress on the share price, which is largely driven less by fundamental, but more by less buyers, more sellers, would reset in a few coming quarters. So, we are fairly patient, and I understand that shareholders would feel very frustrated with that, but I continue to believe this is a matter of time.

Rishi: I mean if I can just add one more observation on that. I know that there are probably people in the queue. But what I wanted to say is this, I mean, usually companies have some heavy investors who don't have a problem of buying. Currently, we are having 50% with PE investors either they are in the end of cycle and no matter what the price falls to, they are not willing to support the price. On the other extreme, we have people who are fully invested like they cannot go higher. For example, the institution around 5%, even they had to sell at about INR 90 recently. And we have Samena who is already at 10%, and they cannot go higher. I see that you are organizing these events where large mutual fund houses come and go. Why do you think they are not impressed by the story yet? I mean I can see competitors like Aye Finance, which just recently listed twice the market cap with way poorer numbers, to be honest. What is it that markets are not happy with? And not like the entire industry is doing bad. I mean it is bad considerably from before. But in terms of price to book, we are at 0.5 or even less right now after this profit. What do you think is missing?

Shachindra Nath: You are absolutely right. The companies have different types of problems. I don't think so in microfinance industry, we saw share prices of a large number of microfinance companies coming below book value and trading for a very long period of time, subpar at the same rate. That was predominantly because there was a large portion of portfolio risk, which was not yet fully provided for. UGRO doesn't have any of that problem. It has fundamentally 3 sets of problem.

UGRO never had an IPO of itself. That's why its shareholder register doesn't have long-only domestic or foreign institutional investors. We have 15.5% of Denmark government, which is IFU, is a long shareholder. We have 12.7% of Samena, which is also a long shareholder. We have TPG NewQuest, which is 8.9%, they have sold off 1% because it seems that their fund life is over. There is ADV, they sit on our Board, we don't see a reason why they will exit in the market. But obviously, they are also an old investor. At some point in time, their fund life would be over. Then we have Patni family and Aregence and then there is a large tail of retail shareholder.

While I won't comment on the any competitor and its performance, but obviously, what we have learned from the public market, especially domestic institutional investors, that the threshold cap for domestic mutual fund entry is roughly around INR 4,000 crores to INR 5,000 crore market cap. Anything below that becomes extremely difficult for fund managers to give entry to a new stock in their portfolio. Oddly enough, that threshold is not applied when companies are going an IPO because mutual fund industry or other investors are looking at an IPO-related upside or pop. And that's why even if the market cap is a lower threshold, they end up getting IPO-ed.

It's a little odd. We also feel very bad and pained about it. But let me assure you, there is no lack of effort of continuously going and presenting ourselves in front of the domestic investors, a few large investors who might be interested. Feedback which we have got that since we have just done this transition, everyone has liked it. People want to see 1, 2 or maximum 3 quarters of execution of this new strategy and we are hopeful after that; you'll see an entry of some new shareholders and change in the capital register. I can be as much candid I can as I have been here.

Rishi: I mean that's much appreciated, Mr. Nath. Final one question. What are the guidelines from RBI for share repurchase for NBFCs? Because I mean, we have a lot of cash. You just mentioned that we have INR 1,800. I mean if we are investing in somebody else's business we could invest in our own. We could actually buy 20% of the share back easily.

Shachindra Nath: Yes. Unfortunately, for NBFCs...

Rishi: If I may add just one more thing. I'll just add one last part of the question. Sorry about it. So, the other thing that I was wondering is this year, we are roughly going to do about INR 300 crores of profit, mostly cash profit. Would the management consider at this market cap, it would be like 5x PE. Would you consider giving a bonus, sorry, not a bonus, I meant a dividend which also reduces your equity and increases your return on equity what many companies do in terms of giving out cash to increase their outlook in that market.

Shachindra Nath: You have given this suggestion earlier as well. And obviously, we've worked very seriously on that. With respect to buyback, unfortunately, buyback for NBFCs is not possible at all. The regulation, not the RBI regulation, but the Companies Act regulation says any company to do buyback cannot have leverage of more than 2x. Now any NBFC in India cannot do buyback from that regulation perspective.

With respect to dividend, so this year, the profitability is a combination of both cash profitability and income from assignment and co-lending. And next year, it would largely transition to cash profitability because we are still in transition phase. The dividend policy is also regulated by RBI and for us to execute dividend, we have to change that policy, which will require again the shareholder approval. I know there is one side of the pain on the shareholder price and return on equity, but we also want to be conscious of the fact that next year, we have to augment growth and which will require more capital. We don't want to be a situation that we pay a hefty dividend and go down in our capital adequacy and then we look for capital again, which is very dilutive. First one is ruled out. The second one is in our mind, in our agenda. It was discussed in our Board meetings as well. But as we come near to our quarter 3, quarter 4, we will take a final call that whether we can change the dividend policy and can we look at some nominal dividend to the shareholders or not. Most likely, it looks like that the growth momentum which we are getting, we would need to preserve more capital for augmenting our growth versus taking out the cash. But definitely, we will keep it considering.

Moderator: The next question is from the line of Ritesh Khandelwal, a Retail Investor.

Ritesh Khandelwal: So firstly, thank you so much for a good set of numbers and your focus. Just a request before my question comes up is please don't focus on the market share price or dividend at this moment. I request you to focus on continuing to build the right business set. I think the market will take care of its own. So, you don't need to be under any pressure is what I want to say.

My question is basically on risk perspective, Shachin. So, what are the top 3 major risks that your team is currently looking forward to or working on and how you are taking care of those?

Anuj Pandey: So broadly from the credit risk perspective, it continues to be the biggest risk which we are cognizant about. Both our focused verticals are to the relatively smaller size customers and hence we have to be very, very careful on monitoring the early warning signals. Thankfully for the last 1 or 2 years, we have been building this portfolio, carefully calibrating all the parameters and revising our business rule engines accordingly.

For example, post the Middle East war breaking out, we were very, very careful in monitoring our Embedded Finance portfolio, especially the end customers who were part of food and beverages business. And we have started monitoring their daily revenues, which is possible today through the GROx engine, which we have. We'll continue to do that on early warning signals and continue to monitor while we don't foresee any large trend on risk coming in on both our businesses, but smaller concentrated, state, geography, sector-wise risk, we keep monitoring.

The second actually is not actually a risk, but a focus area is on cost of borrowing. The whole premise is that as our AUM increases, our profitability increases, it would reflect on our cost of borrowing. While we have not taken that into account when we have been projecting our next 2 to 3 years, but at the back of our mind we hope that it will keep coming down. We have already seen some progress. Our long-term tenure loans' share has increased. It has helped us a lot in asset liability. But on cost of borrowing itself, we expect to do better.

Moderator: The last question is from the line of Kamal, an individual investor.

Kamal: I have only one question, and that is about execution risk. So, the management's thesis for whatever you mentioned in this call and before for self-funding the AUM growth relies on mainly 3 aspects, right? One is keeping the new book GNPA below 2%. One is the opex rationalization as a result of Profectus acquisition and generating enough net profit for the operations so that you can fund your growth without raising fresh capital. So, these are 3 pretty strong assumptions. What are the main execution risks that you see beyond the current and next quarter that can maybe create an operational bottleneck or a structural execution risk to achieving the long-term goals?

Shachindra Nath: This is the kind of thing which is keeping us on the toes. If you look at the slide on how it is getting executed on the Emerging Market side, I would request you to look at Slide 21, wherein we say Emerging Market productivity inflection has begun.

The premise of this portfolio shift is that the branches which crosses 12 months get to a certain level of volumes. What we are seeing that, that's happening. Actually, the month of July was actually where almost it looks like on a combined basis, all branches achieved that. But we have to make sure that all the grey 145 branches which are less than 6 months old as they cross 12 months, get to roughly around INR 75 lakh to INR 80 lakhs of monthly disbursement volume because that would help us to rebalance the portfolio and offset the runoff. That's part one.

Now second, on our embedded merchant lending side, while we have large volumes coming through that, obviously, that doesn't grow AUM. So, we are now looking to partner with more platforms wherein we can embed and that is beyond the payment rails.

Today, we are highly deeply specialized in underwriting small ticket customers with high velocity loans, give it a little higher yield and collect back daily. But gradually, we are looking at, let's say, longer tenure loans with different types of ecosystem, say, marketplaces and a few others, wherein the tenure would go up and ticket size would go up.

Whenever you do that, there is a potential of credit risk going up and that's why we have to be a little tight and make sure that while we do that and increase our volume on the Embedded Finance side, we don't see big impact on the credit side. So, these 2 are execution-related risk, which we have to monitor and be at our toes.

Third technically is the runoff. We have presumed runoff of roughly around 20% odd. But since we have exited fresh disbursement, the competitive intensity, large lenders, given the quality of our book find our portfolio as a target portfolio and obviously, they are taking it away from us. We don't mind that. But obviously, if the runoff is very, very fast, then as I explained earlier, the reversal of income is also much higher, and that put pressure on our total P&L. We can do as much as to retain the customer, but we hope that that runoff doesn't become too large. We have taken multiple actions on that, including, for example, reducing the rates, if required, doing more things to the customer. But we have to just carefully watch that. And if that too happen, then we have to accelerate our disbursement to offset for that, while which is not very easy task, but we will surely calibrate that as we go forward.

I think so besides these, we are fairly comfortable in where we are. As I said, that market being market, that puts in more emotional pressure on us. It's not to be in a very happy state that you are valued at half time of your net worth. But we are confident that with continuous execution, delivery of performance of two channels, which we have now built, and being consistent about what we are doing, that also would get taken care of itself. Anuj, if you want to add anything?

Anuj Pandey: No, I think this is broadly there.

Moderator: Thank you. We take that as the last question of the day. I now hand the conference over to Ms. Juhi Manwani for closing comments.

Shachindra Nath: Thank you very much. Let me conclude today's investor call with one central message. The strategic realignment is intended to create a more focused, recurring and capital accretive UGRO. The operating infrastructure has been built. The branch network is maturing. GROx is scaling rapidly and adding customer at a significant velocity. The cost base has been reset. Liquidity and capital remain comfortable and incremental long-term funding is being raised at cost below the average cost of our existing liability book.

The value of this transition will now be demonstrated through consistent performance over the coming quarters. Management priorities remain clear, execute the portfolio transition, scale the two focused businesses with disciplined asset quality, improve recurring profitability and cash generation, reduce the cost of borrowing, preserve capital and fund growth without repeated equity dilution. We remain deeply thankful to our shareholders, lenders, partners and employees for their continued confidence in the UGRO franchise.

Thank you, everyone, for attending the call and listening to us patiently, and thanks for all the support.

Juhi Manwani: On behalf of Arihant Capital Markets Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.