

**Strong quarter led by portfolio shift and improving profitability**

**CMP: INR 112**

**Rating: BUY**

**Target: INR 190**

**Stock Info**

BSE	511742
NSE	UGROCAP
Sector	NBFC
Face Value (INR)	10
Equity Capital (INR Mn)	153
Mkt Cap (INR Mn)	17,600
52w H/L (INR)	195 / 80.0
Avg Daily Vol (in 000')	539.78

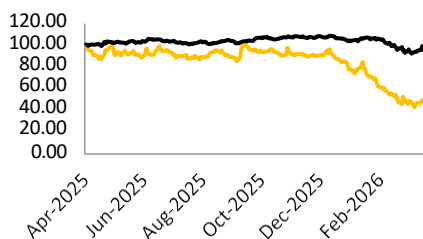
**Shareholding Pattern %**

(As on Dec, 2025)

Promoters	1.99%
Public & Others	98.01%

Stock Performance (%)	1m	6m	12m
Ugro Capital Ltd	30.75	(35.89)	(39.98)
Nifty 50	8.43	(5.72)	1.01

**Ugro Capital Ltd Vs Nifty 50**



— UGROCAP — NIFTY\_50

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The company reported a net profit of INR 0.51 bn, compared with INR 0.46 bn in Q3FY26 and INR 0.41 bn in Q4FY25, up 26% YoY and 10% QoQ. Net Total Income stood at INR 3.48 bn, up 51% YoY and 34% QoQ. PPOP came in at INR 1.43 bn vs INR 1.09 bn in Q3FY26 and INR 1.12 bn in Q4FY25, while PBT increased to INR 0.71 bn from INR 0.63 bn in Q3FY26 and INR 0.57 bn in Q4FY25. The loan book (AUM) came in at INR 153.34 bn, down 1% QoQ, but up 28% YoY. Full year FY26 PAT came in at INR 1.75 bn, up 21% YoY, with ROA of 2.1% and ROE of 7.4%.

**Execution of Strategic Realignment Drives Performance:** The company delivered a solid Q4FY26, with PAT growing 10% QoQ to INR 0.51 bn, taking FY26 PAT to INR 1.75 bn, up 21% YoY. The performance was driven by a decisive shift in the portfolio mix towards focused verticals (Emerging Market and Embedded Merchant Finance), which rapidly moved to 38% of total AUM. While reported ROA and ROE included a one-time exit cost, the ex-exit cost ROA stood at 2.8% and ROE at 9.6%, indicating a clear trajectory toward the steady-state targets. Asset quality remained stable with GNPA at 2.5%, in line with the planned mix shift, while cost realignment is actively underway, targeting annualized savings of INR 2.00 to 2.20 bn.

**Strengthened Capital Position Provides Runway for Growth:** The company's capital position was further bolstered, with the Capital Adequacy Ratio (CAR) improving to 21.2% in Q4FY26 versus 20.8% in Q3FY26. Total net worth stands at a robust INR 29.06 bn. Leverage remains well-managed at 3.7x. In alignment with its strategic ideology, the company has reiterated that it requires no incremental equity raise over the next three years, relying instead on self-funding via annuity-led cash ROA. The liability mix remains highly diversified, with total debt of INR 107.82 bn supported by a vast network of public and private banks, NBFCs, and financial institutions.

**Focus Verticals Deepen with Strong Sourcing Network:** Emerging Market (EM) and Embedded Merchant Finance remain the core growth engines, now accounting for 38% of total AUM. EM AUM grew 12% QoQ to INR 35.81 bn, supported by a mature pan-India network of 317 branches. Branch productivity is hitting an inflection point, with vintaged branches (over 12 months) generating INR 6.8 mn per month. Embedded Merchant Finance AUM scaled sharply by 27% QoQ to INR 22.80 bn, catering to approximately 250k active customers with a robust, tech-backed approach ensuring tight control over fund reconciliations and early warning signals. Simultaneously, the legacy prime intermediated portfolio is being intentionally run down to prioritize these high-yield segments.

**Valuation and View:** The company delivered a resilient Q4FY26, with PAT up 10% QoQ and 26% YoY, supported by a rapid transition toward high-yield verticals and disciplined balance sheet management. FY26 was a transformational year as the company successfully completed the first full quarter of its structural realignment. For the medium term (FY29), the company targets a focus mix of 85% of AUM and a steady-state ROA of 3.0 to 3.5%. The strategy to run down defocused products while scaling high-yield segments and sweating branch productivity positions the company well to scale sustainably without fresh equity dilution. **At the CMP of INR 112 per share, we maintain our "BUY" rating and value the stock at 0.9x its FY29E ABV of INR 211, and arrive at a price objective of INR 189.85, an upside of 69.5%.**

**Exhibit 1: Financial Summary**

Y/E Mar (INR Bn)	FY24	FY25	FY26	FY27E	FY28E	FY29E
NII	2.62	3.75	4.16	5.28	6.66	8.74
PAT	1.19	1.44	1.75	2.22	2.74	3.55
Networth	14.39	20.46	29.06	30.44	32.54	35.62
Diluted BVPS (INR)	156.4	222.4	190.1	199.1	212.8	233.0
Diluted EPS (INR)	13.0	15.6	11.4	14.5	17.9	23.2
P/E (x)	8.6	7.2	9.8	7.7	6.2	4.8
P/Adj BV (x)	0.8	0.5	0.6	0.6	0.6	0.5

**Exhibit 2: Quarterly Performance (Standalone Basis) - Standalone profitability bears the brunt of the strategic realignment, absorbing elevated finance and transition costs**

Quarterly Result Update (INR Mn)	Q4FY26	Q3FY26	Q4FY25	Q-o-Q	Y-o-Y
Interest Income	3,357.9	3,105.5	2,644.3	8.13%	27%
Interest Expended	2,420.7	2,365.5	1,812.1	100.00%	33.58%
<b>Net Interest Income</b>	<b>937.2</b>	<b>740.0</b>	<b>832.1</b>	<b>26.65%</b>	<b>12.62%</b>
Other Income	1,732.6	1,377.9	1,480.1	25.75%	17.06%
<b>Operating Income</b>	<b>2,669.8</b>	<b>2,117.9</b>	<b>2,312.3</b>	<b>26.06%</b>	<b>15.46%</b>
<b>Operating Expenses</b>	<b>2,252.9</b>	<b>2,021.0</b>	<b>1,740.2</b>	<b>11.48%</b>	<b>29.46%</b>
Employee Expenses	757.1	713.5	547.8	6.12%	38.21%
Other Operating Expenses	1,495.8	1,307.5	1,192.3	14.40%	25.45%
<b>PPOP</b>	<b>416.9</b>	<b>96.9</b>	<b>572.1</b>	<b>330.25%</b>	<b>-27.13%</b>
Provisions	-	(0.7)	-	-100.00%	
<b>PBT</b>	<b>416.9</b>	<b>97.6</b>	<b>572.1</b>	<b>326.97%</b>	<b>-27.13%</b>
Tax Expenses	121.4	33.9	166.6	258.28%	-27.14%
<b>Net Income</b>	<b>295.5</b>	<b>63.8</b>	<b>405.5</b>	<b>363.47%</b>	<b>-27.12%</b>

**Exhibit 3: Quarterly Performance (Consolidated Basis) - Consolidated metrics demonstrate immediate top-line benefits as Emerging Market and Embedded Merchant Finance scale to 38% of AUM**

Quarterly Result Update (INR Mn)	Q4FY26	Q3FY26	Q4FY25	Q-o-Q	Y-o-Y
Interest Income	4152	3284	2,644.3	26.43%	57%
Interest Expended	2837	2467	1,812.1	15.00%	57%
<b>Net Interest Income</b>	<b>1,315.0</b>	<b>817.0</b>	<b>832.1</b>	<b>60.95%</b>	<b>58%</b>
Other Income	2,165.0	1,779.0	1,480.1	21.70%	46%
<b>Operating Income</b>	<b>3,480.0</b>	<b>2,596.0</b>	<b>2,312.3</b>	<b>34.05%</b>	<b>51%</b>
<b>Operating Expenses</b>	<b>2,053.0</b>	<b>1,509.0</b>	<b>1,740.2</b>	<b>36.05%</b>	<b>18%</b>
Employee Expenses	799	773.0	547.8	3.36%	46%
Other Operating Expenses	1,254.0	736.0	1,192.3	70.38%	5%
<b>PPOP</b>	<b>1,427.0</b>	<b>1,087.0</b>	<b>572.1</b>	<b>31.28%</b>	<b>149%</b>
Provisions	716.0	458.0	-	56.33%	
<b>PBT</b>	<b>711.0</b>	<b>629.0</b>	<b>572.1</b>	<b>13.04%</b>	<b>24%</b>
Tax Expenses	201.0	167.0	166.6	20.36%	21%
<b>Net Income</b>	<b>510.0</b>	<b>462.0</b>	<b>405.5</b>	<b>10.39%</b>	<b>25.78%</b>

**Concall KTAs :-**

Company did a major strategic pivot in Feb 2026. They have stopped doing the low yield DSA sourced prime LAP business which was yielding only 13 to 13.5% and made up nearly 70% of total AUM. The core problem was that cost of borrowing stayed stuck around 10% and lending at 13 to 14% to prime customers was simply not making money after factoring in opex and credit cost. Management realised two and a half years ago that without a structural cost of borrowing advantage they could not compete in this segment profitably. So they quietly spent three years building a 317 branch network in tier 2 to tier 4 towns and also built the embedded merchant lending platform through MyShubhLife. Now the company is focused entirely on two verticals. First is Emerging Market LAP which is secured small ticket lending through own branches. Second is Embedded Finance which is unsecured merchant lending at 24 to 26% yields done digitally through PhonePe and BharatPe. This is a deliberate shift from chasing AUM scale to chasing bottom line profitability. After one full quarter of execution all five commitments made in February are on track.

**Q4 Financials**

- Interest income was INR 415 Cr in Q4 which grew 57% YoY and 26% QoQ. PAT grew 26% YoY. Net total income grew 51% YoY and 34% QoQ. The quarter also carries a one time restructuring cost of about INR 25 Cr which was the cost of cleanly exiting the intermediated business vertical. Excluding this the underlying earnings trajectory is exactly where management said it would be.
- Cost of borrowing came down to 10.16% which is the fifth consecutive quarterly improvement and is down 45 bps YoY. At current AUM scale every 25 bps reduction in cost of borrowing is worth INR 35 to 40 Cr annually. Co lending and DA income was INR 155 Cr up 30% YoY but this line will intentionally reduce going forward as on book interest income replaces it.
- GNPA stands at 2.5% up from 2.2% in the previous quarter. Management clarified this is purely a denominator effect as the non focus book shrinks and not an actual deterioration in the incremental portfolio quality. NNPA is at 1.6% with coverage ratio at 45%. Stage 1 assets are at 93.1% of overall AUM and collection efficiency is at 98%. Credit cost was 1.9% of average AUM which is within the expected range.
- Capital adequacy is healthy at 21.2% up from 20.8% last quarter. Net worth stands at INR 2,906 Cr with leverage at 3.7x. Total debt is INR 10,782 Cr which is well diversified across banks, DFIs and debt capital markets. Cash balances of about INR 1,800 Cr held in Q4 are being deployed. No incremental equity will be required through FY29.

**AUM and Mix**

- Total AUM is broadly flat QoQ which is by design. The non focus intermediated book is running down as planned while the focus verticals are growing strongly. The mix of focus verticals has moved from 33% to 38% of total AUM in a single quarter which is the fastest quarterly shift on record. By FY29 the target is to take this to 85%.
- Emerging Market LAP AUM reached INR 3,581 Cr with a GNPA of just 1.2%. These are 100% secured loans against self occupied residential or commercial property. Ticket sizes range from 7.5 lakhs to 50 lakhs. Target customers are micro SMEs with turnover below 3 Cr and median turnover of about 1 Cr sourced directly through the branch network in tier 2, 3 and 4 towns.
- Embedded Finance AUM reached INR 2,280 Cr growing 27% QoQ and 6x in just 15 months. GNPA is 1.7% which is significantly better than the 4 to 4.5% that was projected at the time of product design. Average ticket size is 1 lakh with 1 year tenor and daily repayment. Yields are 24 to 26%. Active merchant customers stand at approximately 2.5 lakhs. Credit is underwritten on merchant GMV and transaction data from PhonePe, BharatPe and similar payment ecosystems.
- Overall portfolio mix is 67% secured and the rest unsecured. Management has guided that unsecured exposure including embedded finance will be capped at 30 to 35% of total portfolio. Provisioning on unsecured is aggressive with Stage 1 at 30%, Stage 2 at 50 to 60% and Stage 3 at 75 to 80%.

**Branch Network**

- The branch network now stands at 317 branches across 13 states up from 127 in FY24. The build out phase is fully complete and no new branches are planned. Each branch has 5 to 6 direct sales staff, one credit person, one branch head, one operations head and one collection head. All sourcing is done directly with zero DSA dependency.
- Vintage branches which are older than 12 months are producing INR 68 lakhs per month in disbursements and are approaching the management target of INR 80 lakhs per month. Behind them there are about 156 branches which are less than 6 months old and these are queued as the next leg of AUM growth as they mature.
- School finance which came with the Profectus acquisition was originally a prime DSA sourced book at 13% average yield. This is being repurposed for smaller schools in tier 2, 3 and 4 towns at yields of 16 to 17%. Management also indicated that adjacent lending products will be funnelled through the branch network over time once the core LAP product reaches minimum productivity and maturity levels.

### Cost Program

- The combined OPEX base of Ugro and Perfectus was approximately INR 750 Cr last year. This will reduce to INR 490 to 500 Cr in FY27. The savings come from two sources. First is INR 120 Cr from removing duplicate workforce after the Perfectus acquisition since both companies were in the same MSME lending business. Second is INR 100 Cr from exiting the intermediated prime segment which included front end sales, credit and processing costs.
- All cost actions have been taken. Some employees are serving notice periods and the full impact will start flowing from Q1 and Q2 of FY27. The one time exit cost of INR 25 Cr has already been provisioned upfront in Q4. Management has been very clear that the OPEX journey is now over. There will be no new incremental OPEX. Operating leverage will come from the focus vertical AUM growing on the same fixed cost base.

### Capital and Dilution

- Fully diluted shares outstanding are 15.29 Cr with only 2 lakh shares pending conversion. All CCDs have been matured and converted. All warrants are done. There is no further dilution of any kind pending. The CCD interest component of 12.5% has already been paid in December and adjusted from capital reserves.
- No incremental equity is needed through FY29. All growth will be funded entirely from internal accruals. For the first time since inception the company is now generating capital rather than consuming it. ESOPs pool for employees is 3.3% with two tranches at grant prices of INR 200 and INR 130 split roughly half and half. The promoter is ineligible for ESOPs and holds approximately 2%.
- Perfectus was acquired for approximately INR 1,400 Cr in cash for a company with INR 1,200 Cr net worth. It is generating approximately INR 150 Cr of profitability in year one which works out to roughly 10% ROE and is accretive to the existing return profile. Perfectus had 28 branch locations all of which overlapped with Ugro branches and these have been consolidated to single branches in each location.

### Borrowings and Rating

- ECBs are fully hedged for currency and interest rate risk. The landed cost in INR is approximately 9.5 to 10%. Hedge costs have recently gone up so the company is holding off on raising more ECBs for now. Current ECB lenders are DFI lenders who fund Ugro because of the MSME impact it creates rather than commercial banks. The DFI route also provides a longer tenor advantage which helps ALM profiling.
- Credit rating is currently A+ with a positive outlook which was updated about two quarters ago. Management's internal assessment is that if the FY27 plan is executed on track there is a very high chance of a rating upgrade next year. As the rating improves the company will also start attracting commercial ECB lenders which would further bring down cost of borrowing.

### Asset Recovery

- For secured loans above INR 20 lakh ticket size the company uses SARFAESI for recovery. The typical timeline is 12 to 15 months post NPA with about 3 months to get the SARFAESI order and then 3 to 6 months for a successful auction. In 40 to 50% of cases the customer comes to the table and settles once a definitive court order is obtained.
- So far in their recovery experience no principal has been lost. The only loss is time value of money due to the duration of the recovery process. The cost of recovery is approximately 1% of the asset value.

### Guidance

FY27 is a transition year. AUM will look flattish because the non focus book of approximately INR 10,000 Cr will run down at 15 to 20% annually while the focus verticals of approximately INR 5,500 Cr combined will grow at about 25% CAGR. The non focus book is all long tenure 10 year LAP so the rundown will be gradual and not sudden. Bottom line will be marginally better than FY26. The real jump will come in FY28. By FY29 the target is a steady state cash ROA of 3 to 3.5% with negligible contribution from co lending or direct assignment income. Credit cost is guided at around 2% and not more. EM LAP GNPA is expected to settle at 3 to 3.5% at full maturity but credit cost stays in a similar band because the book is 100% secured. Co lending income which is currently 25% of total income will taper down as cash interest income replaces it. Competition risk in the high yield segment is acknowledged but the 318 branch network in tier 2 to tier 4 towns is the moat and yield compression has been factored into the three year plan.

## Exhibit 4: Topline Growth Absorbs Transition Opex

Profit & Loss Statement (INR bn)	FY24A	FY25A	FY26A	FY27E	FY28E	FY29E
Interest Income	7.0	10.0	13.7	16.8	19.6	22.0
Interest Expended	4.4	6.2	9.5	11.5	13.0	13.2
<b>Net Interest Income</b>	<b>2.6</b>	<b>3.8</b>	<b>4.2</b>	<b>5.3</b>	<b>6.7</b>	<b>8.7</b>
Other Income	0.4	0.3	1.2	1.3	1.5	1.6
<b>Operating Income</b>	<b>6.4</b>	<b>8.2</b>	<b>10.7</b>	<b>13.1</b>	<b>15.4</b>	<b>18.8</b>
<b>Operating Expenses</b>	<b>3.4</b>	<b>4.5</b>	<b>6.1</b>	<b>7.5</b>	<b>8.9</b>	<b>10.6</b>
Employee Expenses	1.8	2.4	3.0	3.3	3.6	3.9
Other Operating Expenses	1.6	2.1	3.2	4.3	5.3	6.6
<b>PPOP</b>	<b>2.9</b>	<b>3.8</b>	<b>4.5</b>	<b>5.6</b>	<b>6.5</b>	<b>8.2</b>
Provisions	1.2	1.7	2.1	2.6	2.9	3.5
<b>PBT</b>	<b>1.8</b>	<b>2.0</b>	<b>2.4</b>	<b>3.0</b>	<b>3.7</b>	<b>4.7</b>
Tax Expenses	0.6	0.6	0.7	0.7	0.9	1.2
<b>Net Income</b>	<b>1.2</b>	<b>1.4</b>	<b>1.7</b>	<b>2.2</b>	<b>2.7</b>	<b>3.5</b>

## Exhibit 5: Well-Capitalized to Support AUM Expansion

Balance Sheet (in INR Bn)	FY24A	FY25A	FY26A	FY27E	FY28E	FY29E
<b>Equity &amp; Liabilities</b>						
Share Capital	0.9	0.9	1.5	1.5	1.5	1.5
Net worth	14.4	20.5	29.1	30.4	32.5	35.6
Borrowings	46.5	69.6	107.8	111.7	117.5	132.2
Other liabilities	2.0	2.2	3.9	3.6	3.6	3.6
<b>Total Capital &amp; Liabilities</b>	<b>62.9</b>	<b>92.3</b>	<b>140.7</b>	<b>145.7</b>	<b>153.6</b>	<b>171.3</b>
<b>Assets</b>						
Loans and advances	54.3	79.4	102.9	124.8	131.0	146.3
Cash and bank balances	4.5	5.7	18.2	7.7	7.7	7.7
Fixed assets (including intangibles)	1.3	1.6	1.9	2.4	2.8	3.1
Goodwill	0.0	0.0	3.4	2.6	2.6	2.6
Other assets	2.7	5.5	14.2	8.2	9.6	11.7
<b>Total Assets</b>	<b>62.9</b>	<b>92.3</b>	<b>140.8</b>	<b>145.7</b>	<b>153.6</b>	<b>171.3</b>

## Exhibit 6: Margin Profile Reflects Near-Term Strategic Shift

Ratios	FY24A	FY25A	FY26A	FY27E	FY28E	FY29E
<b>Growth rates</b>						
Advances (%)	0.0%	46.2%	29.6%	21.2%	5.0%	11.7%
Deposits (%)	0.0%	49.6%	54.9%	3.6%	5.2%	12.5%
Total assets (%)	0.0%	46.8%	52.5%	3.5%	5.4%	11.6%
NII (%)	0.0%	43.5%	10.8%	27.0%	26.1%	31.2%
Pre-provisioning profit (%)	0.0%	27.7%	20.2%	22.9%	17.4%	25.8%
PAT (%)	0.0%	20.7%	21.4%	27.2%	23.3%	29.4%
<b>Balance sheet ratios</b>						
CASA (%)	-	-	-	-	-	-
Advances/Total assets (%)	86.4%	86.1%	73.1%	85.7%	85.3%	85.4%
Leverage (x) (Asset/Shareholder's Fund)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CAR (%)	20.8%	19.4%	21.1%	20.0%	19.9%	19.6%
CAR - Tier I (%)	19.5%	18.6%	19.2%	18.3%	18.2%	15.9%
<b>Operating efficiency</b>						
Cost/income (%)	53.8%	54.2%	57.5%	57.6%	57.6%	56.3%
Opex/total assets (%)	5.5%	4.8%	4.4%	5.2%	5.8%	6.2%
Opex/total interest earning assets	6.3%	5.6%	6.0%	6.0%	6.8%	7.2%
<b>Profitability</b>						
NIM (%)	0.0%	5.2%	4.0%	4.2%	4.9%	6.0%
RoA (%)	1.9%	1.6%	1.2%	1.5%	1.8%	2.1%
RoE (%)	8.3%	7.0%	6.0%	7.3%	8.4%	10.0%
<b>Asset quality</b>						
Gross NPA (%)	3.2%	2.4%	2.5%	2.5%	2.5%	2.5%
Net NPA (%)	1.6%	1.3%	1.4%	1.5%	1.5%	1.4%
PCR (%)	48.0%	44.8%	45.0%	46.5%	47.1%	48.8%
<b>Per share data / Valuation</b>						
EPS (INR)	13.0	15.6	11.4	14.5	17.9	23.2
BVPS (INR)	156	222	190	199	213	233
ABVPS (INR)	147	211	176	182	193	211
P/E (x)	7.8	6.5	8.8	6.9	5.6	4.4
P/BV (x)	0.6	0.5	0.5	0.5	0.5	0.4
P/ABV (x)	0.7	0.5	0.6	0.6	0.5	0.5

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### Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

### Absolute Return

#### Research Analyst Registration No.

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