CareEdge Global assigned 'CareEdge B+/Stable' rating to Ugro Capital Limited

USD 50 million External Commercial Borrowing	**CareEdge B+/Stable**

CareEdge Global has assigned a Long-Term Foreign Currency rating of **'CareEdge B+/Stable'** to External Commercial Borrowings (ECB) of Ugro Capital Limited (Ugro/company).

Rationale

The rating reflects Ugro's strong business profile, supported by a sizeable and predominantly secured asset class, along with healthy diversification across products, geographies and sectors. As of September 30, 2025, the company's asset under management (AUM) stood at Rs 12,226 crore (USD 1.4 billion), of which nearly 70% comprises secured products such as loan against property (LAP) and machinery loans. The secured business loan segment alone accounts for a significant portion of the portfolio, providing stability and reducing credit risk. Ugro's product suite caters to nine MSME segments, and its geographic diversification remains robust, with the top six states accounting for around 65% of AUM. The company intends to maintain similar levels of diversification going forward.

These strengths are partially offset by moderate asset quality metrics, with GNPA and NNPA at 3.0% and 1.7%, respectively, as of September 30, 2025. The 2-year lagged GNPA (a better indicator of asset quality given the book's low seasoning) stands at 4.0% as of September 30, 2025, compared to 3.1% as of March 2025. This, coupled with elevated operating costs and relatively high borrowing costs, kept profitability subdued, with ROA of 1.9% and ROE of 8.7% for FY25. Sustained improvement in asset quality and profitability will remain key monitorables.

Ugro completed the acquisition of Profectus Capital Private Limited (Profectus) on December 08, 2025. Profectus had a loan book of ~Rs 3,400 crore, and a net worth of ~Rs 1,200 crore, which was acquired at a cost of ~Rs 1,400 crore. Management expects synergies arising out of branch rationalisation and a more secured product portfolio, with school loans and machinery loans. The actual benefits from this acquisition need to be assessed over the next 12-18 months.

Outlook

The stable outlook reflects CareEdge Global's view that Ugro Capital will largely maintain its current financial and operational profile over the medium term along with consistent growth in scale of operations.

Rating Sensitivities

Upward factors

- Gearing (Debt/Equity) of less than 3x (on-book) on a sustained basis
- RoA exceeding 2% annually on a sustained basis as a result of improvement in opex and credit costs

Downward factors

- Gearing crossing 4x (on-book) on a sustained basis
- Credit costs exceeding 4.5% indicating deterioration in asset quality

Analytical Approach

CareEdge Global has assessed Ugro Capital Limited's business and financial risk profile on a consolidated basis.

Key Rating Drivers

Strengths

High product and geographical diversification

Ugro initially focused on Tamil Nadu, Telangana, Gujarat, Maharashtra, and Rajasthan and has since expanded across multiple states. The portfolio remains well-diversified, with the top five states contributing around 55% of AUM - Maharashtra (13%), Tamil Nadu (13%), Gujarat (10%), Telangana (10%), and Rajasthan (9%), while other states collectively account for the remaining 45%. This distribution has largely remained stable from FY21 to H1FY26, ensuring no excessive concentration risk.

Ugro has a highly diversified product portfolio, offering various solutions for MSME borrowers with loan requirements up to Rs 5 crore. Business loans comprise a major portion of the portfolio (incl. co-lending), accounting for ~66% of the AUM. The rest of the portfolio consists of various products, such as machinery financing (~11%) and embedded finance (~10%). With the acquisition of Profectus, the company is planning to further diversify into school financing. In addition to product diversification, it also serves nine MSME sectors: auto components, chemicals, education, electrical equipment, food processing, healthcare, hospitality, and light engineering.

Strong growth, along with a high proportion of Secured portfolio

Ugro has delivered exceptional growth, with AUM increasing from about Rs 1,300 crore in FY21 to over Rs 12,200 crore by H1FY26, representing a CAGR of nearly 56%. Ugro began operations in 2019 with secured loans against property and unsecured business loans for MSMEs, later expanding into machinery loans and other offerings such as supply chain financing. Its AUM grew 33% in FY25 to Rs 12,003 crore from Rs 9,047 crore in FY24, driven by strong MSME financing and expansion in the branch network. AUM didn't grow much during H1FY26 as the company limited its disbursements to preserve liquidity for the planned acquisition of Profectus. Post completion of acquisition in December 2025, Ugro's combined AUM stands at ~Rs 15,500 crore, enhancing diversification with school financing and strengthening prime LAP and machinery finance.

The portfolio remains well-balanced, with secured loans consistently accounting for 65–70% of the book. These secured exposures span property-backed loans and machinery finance. The remaining share comprises unsecured loans, partly supported by credit guarantee schemes. Management expects the secured share to remain high on steady-state and a consolidated basis, while continuing product diversification with a sharper focus on embedded finance. School loans will also form a meaningful portion of AUM in the future (through the acquisition of Profectus), reinforcing UGRO's strategy of maintaining a strong, diversified, and risk-mitigated portfolio.

Weaknesses

High opex and modest profitability

Ugro's profitability has remained modest, primarily due to significant upfront investments in branch infrastructure, human capital, and technology. The company reported a profit after tax (PAT) of Rs 144 crore in FY25, up from Rs 119 crore in FY24, while H1FY26 PAT stood at Rs 77 crore. Despite this growth in absolute profits, profitability ratios remain modest.

Operating cost remains high at 3.4% on average managed assets for H1FY26 and 3.6% in FY25, despite moderating from 4.1% in FY24. This is owing to Ugro's aggressive expansion strategy, including the establishment of micro-branches to augment portfolio growth. The branch network grew from 34 branches in fiscal 2021 to more than 300 branches by September 2025. The opex is expected to decline from FY27, as management has decided not to add more branches and to focus on improving branch-level productivity, which will, in turn, improve profitability by 40-50 bps.

Profitability is also moderated by borrowing costs of ~10.3%, which are comparatively higher than those of peers in the same segment. Ugro's ability to enhance NIMs and capitalise on operating leverage post-merger will be a key monitorable. The Return on managed assets (RoMA) stood at 1.0% in H1FY26, versus 1.2% in FY25 and 1.4% in FY24, due to higher operating costs and borrowing rates. Going forward, profitability improvement hinges on scale-led efficiencies, lower cost of funds, and stable credit costs.

High leverage and limited capital buffer

Ugro's capitalisation, while above regulatory norms, offers a modest cushion over covenant-linked thresholds. The company has consistently maintained a Capital Adequacy Ratio (CAR) above the regulatory requirement of 15%; however, several debt covenants are pegged at 20%, leaving only a limited buffer. CAR has declined from a high of ~65% in FY21 to 25.4% in H1FY26 and was at 19.4% as of March 31, 2025, reflecting rapid portfolio growth and capital deployment.

Leverage remains elevated, with the debt-to-equity ratio consistently in the 3–4x range and expected to remain within this band. Including off-book exposures, leverage is ~5.5x.

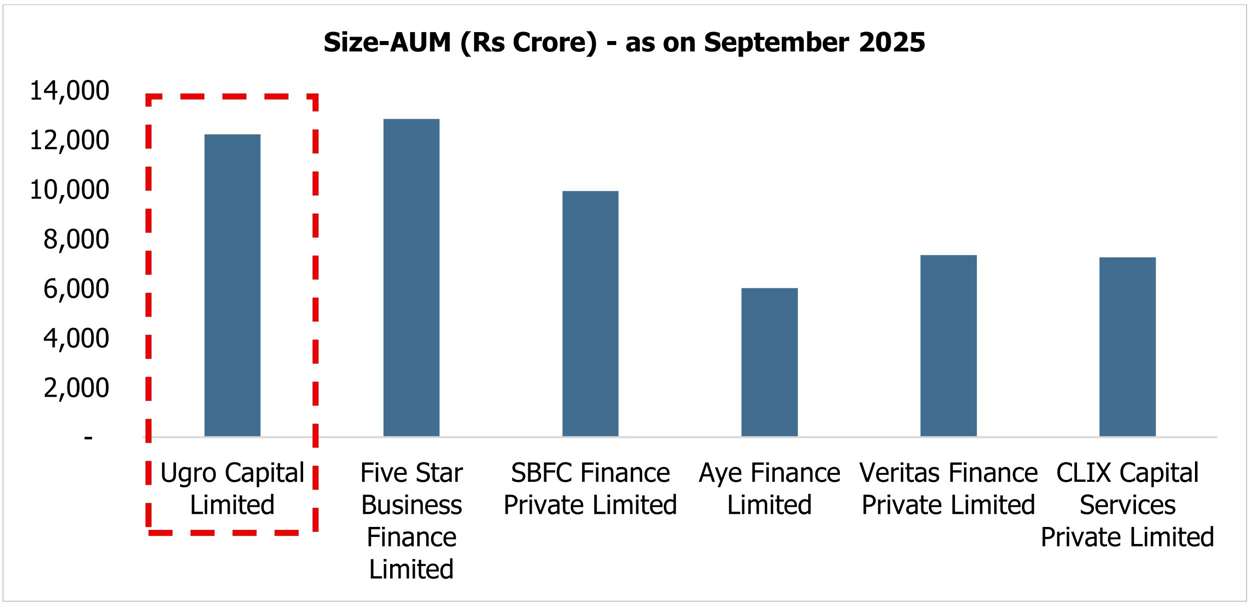
To fund the acquisition of Profectus Capital, Ugro raised Rs 900 crore through Compulsorily Convertible Debentures (CCDs) and rights issues, which are treated as quasi-equity and will not materially impact long-term gearing. Maintaining 20% of CAR and a leverage of 3.5x–4x with similar AUM growth could be a challenge for the company at current profitability levels. However, growth could also be funded by additional equity infusion, as seen in the past. That said, managing the thin buffer for capitalisation will remain a key monitorable.

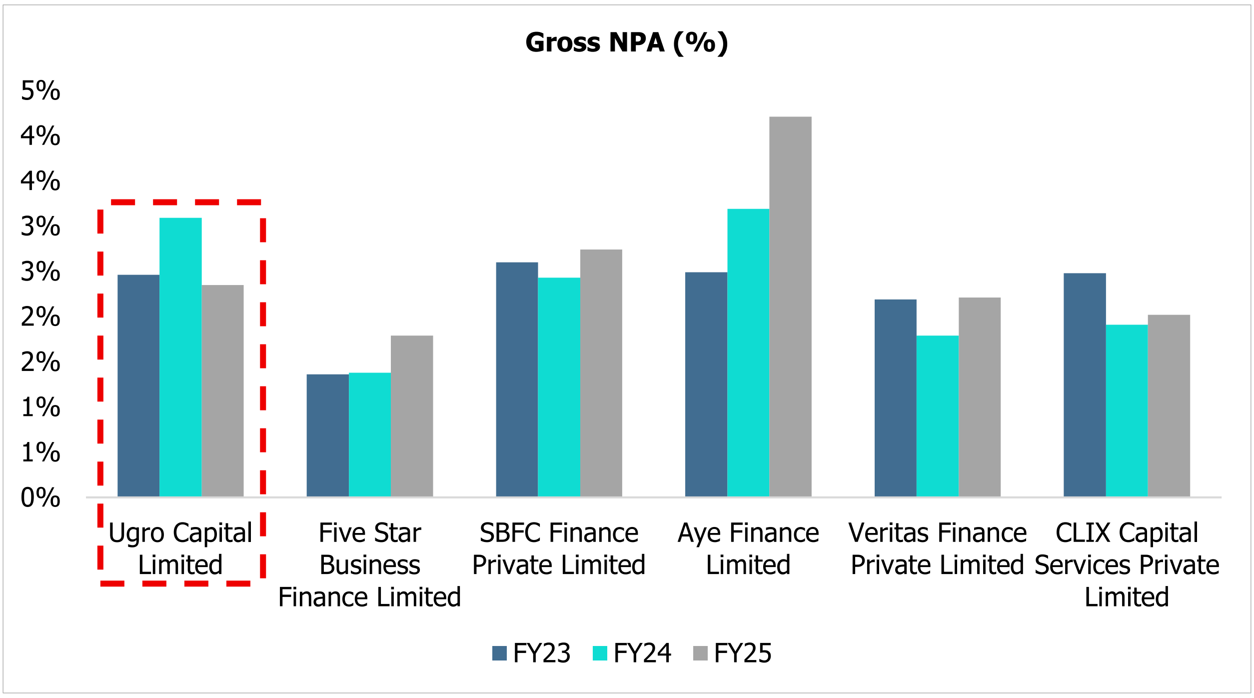
Liquidity

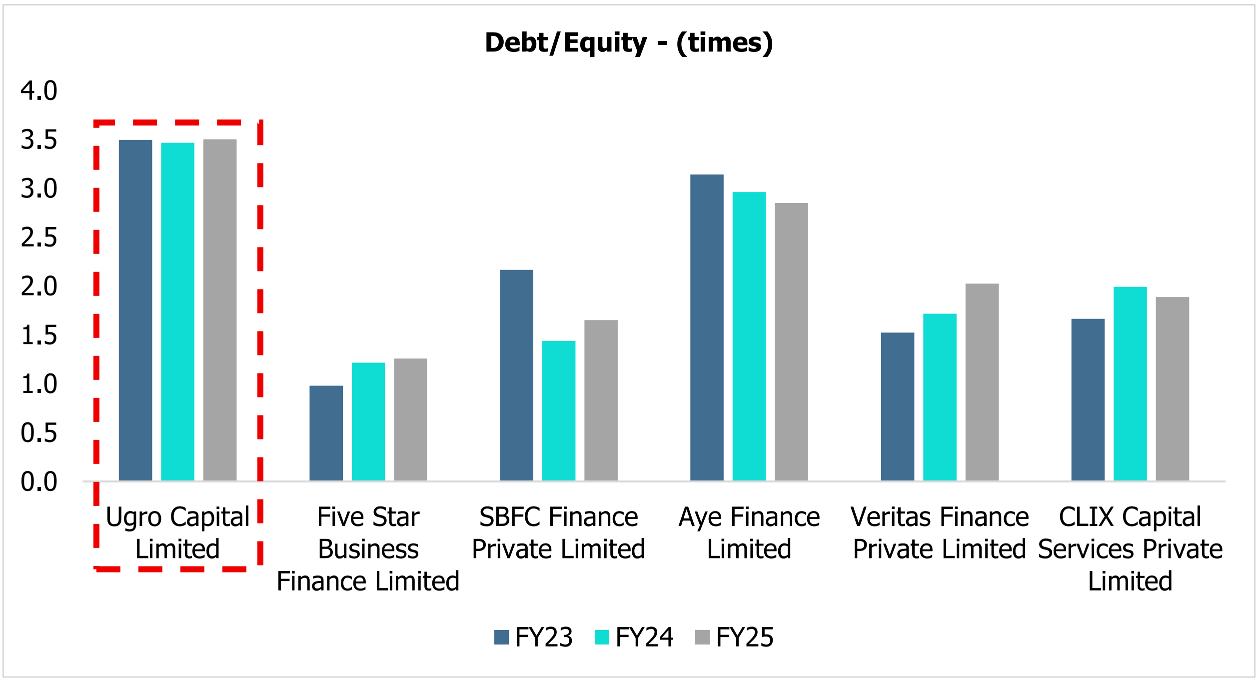
As of September 30, 2025, Ugro maintained an on-balance sheet liquidity buffer of approximately Rs 600–700 crore, sufficient to cover two months of interest and principal obligations. Company follows a policy of maintaining relatively low idle cash which is equivalent to its obligations for the next two months in order to support the rapid growth.

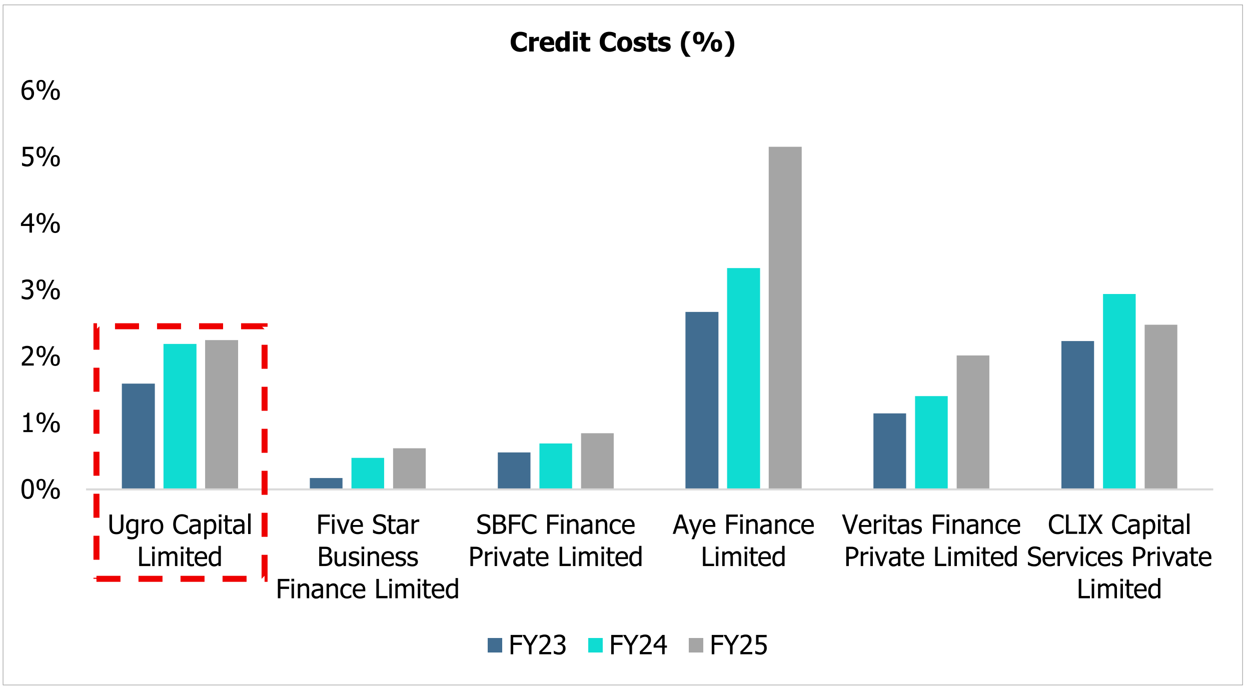
The asset-liability management (ALM) statement as of September 2025 shows no negative mismatch across all time buckets, supported by strong inflows from loan collections. Furthermore, the company has access to securitisation/DA transactions and benefits from institutional co-lending partnerships, which provide additional funding flexibility and off-balance sheet opportunities. These factors, combined with Ugro's diversified funding sources, indicate that liquidity stress is unlikely in the near term.

Peer Comparison




Gross NPA (%)
5%
4%
4%
3%
3%
2%
2%
1%
1%
0%
Ugro Capital Limited
Five Star Business Finance Limited
SBFC Finance Private Limited
Aye Finance Limited
Veritas Finance Private Limited
CLIX Capital Services Private Limited
FY23
FY24
FY25


Debt/Equity - (times)
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Ugro Capital Limited
Five Star Business Finance Limited
SBFC Finance Private Limited
Aye Finance Limited
Veritas Finance Private Limited
CLIX Capital Services Private Limited
FY23
FY24
FY25



About the company

Ugro Capital Limited, formerly Chokhani Securities Limited, was acquired in 2018 by Shachindra Nath, who serves as Executive Chairman and Managing Director. It is a publicly listed NBFC on both NSE and BSE, focusing on financing MSMEs through a diversified product suite of secured and unsecured loans with varying tenors and ticket sizes. The company commenced lending operations in January 2019 and has rapidly scaled its presence across India, operating through 325 branches (23 prime and 302 emerging).

As of September 30, 2025, Ugro's AUM stood at Rs 12,226 crore (USD 1.4 billion), with approximately 43% off-book portfolio through co-lending, direct assignment, and co-origination partnerships. The company maintains a strong geographic footprint and caters to nine MSME sectors, including auto components, chemicals, education, healthcare, and light engineering, among others. Ugro emphasises technology-driven underwriting and risk management, supported by an experienced leadership team.

Profectus Capital, founded in 2017 and acquired by Ugro in December 2025, complements Ugro's portfolio with secured MSME loans and operates across 14 states. It has strengthened Ugro's position in prime LAP and machinery financing while adding school loans for diversification.

Key Summary Financial Metrics

Particulars	Unit	March 31, 2023	March 31, 2024	March 31, 2025
AUM	Rs Crore	6,081	9,047	12,003
Net Interest Margin	%	10.3	11.6	10.0
Cost to Income	%	67.0	56.8	57.0
Gross Stage 3 assets	%	2.5	3.1	2.4
Return on Assets	%	1.1	2.3	1.9
CAR	%	20.2	20.8	19.4

Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

Details of the instrument

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size	Rating
External Commercial Borrowing Bonds	-	-	-	-	EUR 10 million	CareEdge B+/Stable
External Commercial Borrowing Bonds (proposed)	-	-	-	-	USD 38.2 million	CareEdge B+/Stable

Rating History

Instrument	Type	Rating	Date
External Commercial Borrowing	Long-Term Foreign Currency	CareEdge B+/Stable	January 29, 2026

Criteria Applied

CareEdge Global's Financial Institutions Rating Methodology

CareEdge Global's Consolidation Methodology

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