Management Discussion

Juhi Manwani - Analyst, Arihant Capital Markets Limited
Hello and good afternoon to everyone. On behalf of Arian Capital Markets, I thank you all for joining the Q2 FY27 earnings conference call of Ugro Capital Limited. Today, from the management, we have Mr. Sachindra Nath, Founder and Managing Director. Mr. Anuj Pandey, Chief Executive Officer. Ms. Shilpa Bhatter, Chief Financial Officer. And Mr. Siddharth Rajan, Head of Strategy and Investor Relations. So without any further delay, I will hand over the call to Mr. Sachindra Nath for his opening remarks.

Over to you, sir.

Siddharth Rajan - Head of Strategy and Investor Relations, UGRO Capital Limited
Thank you, Juhi. Good evening, everyone, and welcome to UGRO Capital's earnings call for the 2nd quarter of FY27. On behalf of the management team, thank you for joining us today. Mr. Shachindra Nath, our Founder and Managing Director, will take you through the highlights of the quarter and the journey that brought us here. Mr. Anuj Pandey, our Chief Executive Officer, will cover our 2 growth businesses, and Ms. Shilpa Bhatter, our Chief Financial Officer, will take you through the financials and the accounting effect of the Profectus merger.

We will then open the floor for questions. Our investor presentation has been filed with the stock exchanges and is available on our website. The results for Q2 FY27 and Q1 FY27 are consolidated and include our subsidiaries Profectus Capital and GROx Technologies. The Q2 FY26 figures were reported on a standalone basis, and year-on-year comparisons should be read in that context. Management will also refer to pro forma figures that reflect the accounting to be adopted on the merger of Profectus Capital into UGRO.

These are management estimates and remain subject to NCLT sanction of scheme and auditor review. Certain statements on today's call may be forward-looking and should be read with the safe harbor statement in our investor presentation. I will now hand over to Mr. Shachindra Nath. Over to you, sir.

Sachindra Nath - Founder Managing Director, UGRO Capital Limited
Thank you, Siddharth. Good evening everyone, and thank you for joining us. Let me start with one message. We made the pivot in February 26th and we are progressing well. For the first time in our history, UGRO disbursed more than Rs 1,000 crore in every single month of the quarter- Rs 1,057 crore in July, Rs 1,010 crore in August, and Rs 1,092 crore in September. Net disbursement for the quarter was Rs 3,159 crore, up 77% from a year ago and 24% from the previous quarter. Our 2 focus businesses, Emerging Market LAP and GROx, now account for Rs 7,929 crores, or 53% of our asset under management of Rs 15,019 crores.

9 months ago, they were at 32%. Profit out before tax was Rs 68.3 crores, up 12% from a year ago and 11% from the previous quarter, profit after tax was Rs 50.7 crores, up 17% year-on-year. And for the half year, profit after tax rose to 53% to Rs 118.6 crores. Our quarterly operating cost is down by more than 2 quarters, and portfolio yield has risen 108 basis points over the year to 18.7%. Asset quality was stable with gross NPA of 2.7% and collection efficiency of 97%. And the merger of Profectus Capital into UGRO, approved by shareholders and creditors on 22nd September, has its NCLT final hearing on 20th November.

Before we go further, I would like to step back for a moment and recall our journey because the

significance of this quarter is clearer When you see where we have come from, some of you have followed and are UGRO shareholders since we listed in 2018. Some of you are hearing from us maybe for the first time. UGRO is a lender to India's small businesses. We serve them through 2 businesses. The first is Emerging Market LAP, the small-ticket loans against property to small businesses owners in Tier 2 towns and beyond.

Made through 317 of our own branches across 13 states. The second is GROx loans to small merchants made inside the payment apps they already use, such as PhonePe, Paytm, BharatPe, and also multiple other market ecosystems, where about 4.1 lakh merchants and customers are active borrowers with us today. But that is not how we grew. As explained in slide 5 of our investor presentation, Between FY22 and FY26, we built an asset engine that grew our AUM fivefold from about Rs 3,000 crore to more than Rs 15,000 crore.

Much of that growth came from intermediated lower-yielding lending- prime LAP, business loan, machinery loans- sourced through intermediaries, ESAs, and shared with partner banks and NBFCs through co-lending and direct assignment. At its peak, 45% of our AUM sat off our balance sheet with 9 banks and 7 NBFCs. In 2027, the board took a hard look at the model and found 2 weaknesses that we chose to fix. The first, which we set out in slide 6 and 7 of our investor presentation, was income volatility.

When a loan is co-lent with a partner sold via direct assignment, Accounting standard requires the value of UGRO's future share of interest spread to be booked on the day the loan is co-lent or sold via direct assignment. At the time, with little repayment history of our own, we measured the value of the contractual life of the loan. Our borrowers repaid much earlier, very often because the lender with a lower cost of fund, having seen how well these loans were underwritten, and repaid, refinanced these loans at cheaper rates.

Each time a loan closed early, the income book for the year that would never come had to be reversed. But between FY22 and '26, those reversals added up to Rs 318 crores, equal to 44% of our cumulative profit before tax over those years. None of this was credit loss. Over the life of each loan, the income book equaled the cash reserves. But it made our reported profit volatile and hard to read, and that is the why the board acted. The second weakness was capital. The income booked upfront on co-lending and direct assignment did not count towards our regulatory capital until it was realized in cash.

So even as the book and reported profits grew, those profits did not add to our capital base at the same pace, and we had to raise significant capital over the years to support our growth. Taken together, the unit economics of the businesses were never going to deliver the return on asset we were targeting. And came the reset of February 2026. So in February 2026, the board approved a reset as explained in slide 8 of our investor presentation. We made 4 decisions. We stopped sourcing prime loans through intermediaries, and that book has since been running down through repayment and foreclosures.

We put our capital and our people behind the 2 businesses where we have a real edge- Emerging Market LAP and GROx. We committed to take out about Rs 220 crore of annual cost, and we committed to fund our growth without new equity for 3 years with a target return on asset of 3 to 3.5% by FY29. We set ourselves 5 measurable commitments and we report against them to our board and to you every quarter. The scorecard is in slide 9 of our investor presentation. 9 months on, on shifting the portfolio, the 2 focus businesses have risen from 32% of AUM in December 2025 to 53% today, against our FY29 objective of 85%.

On cost, quarterly operating cost has come down from Rs 205 crore in the 4th quarter of FY26 to Rs 127 crore this quarter, in line with our FY27 guidance of Rs 490 crore and above. On the rundown of the prime intermediated book, we guided 15 to 20% a year through repayments and foreclosure. The book fell 13% in this quarter alone and 32% over 9 months and is now 47% of AUM. On funding growth without new equity, Our capital adequacy standalone today is 18.8% and about 22% on the merged pro forma basis.

And on the move to an NUP-led return on asset, ROA was 2.1% in the quarter and 2.7% for the first half on pro forma basis, on the path to our FY29 objective. As explained in slide 10 of our investor presentation, in 9 months Emerging Market LAP has grown from Rs 3,199 crores to Rs 4,268 crores. GROx from Rs 1,798 crores to Rs 3,661 crores. And the Defocused book has come down from Rs 10,458 crores to Rs 7,090 crores. Our 2 growth engines now make up more than half of the loan book. This is the pivot we have made.

However, merger completes the transition and the shift. The last step is the merger of Profectus Capital into UGRO, which we have explained in slide 13 of our investor presentation. The merger does more than simplifying our structure. Under the scheme, the income on our co-lent and assigned loan is remeasured on the life over which those loans are actually run based on observed repayment behavior. Rather than on their contractual life. That adjustment, together with Profectus goodwill and acquisition cost, is made once against reserve and subject to the NCLT approval with no charge to profit.

Future co-lending and direct assignment income will be booked on conservative behavioral tenure so that volatility in our quarterly results due to the impact of reversal would be reduced. The effect on our equity is on slide 14. A pro forma net worth after the scheme is about Rs 2,454 crores, or about Rs 158 per share, against a reported book value of Rs 195 a share. Shilpa will take you through the bridge. The important point is this: our accounting net worth while falls, but our capital strength rises.

Goodwill and upfront spread were already deducted from our Tier 1 capital, so the reset does not reduce our regulatory capital. And on merger, our capital adequacy is rising from 18.8% to about 22% as the deduction for our investment in Profectus goes away. I would like to address, as I did in the last quarter, how the market values UGRO. At the end of October, Ugro's market value was Rs 1,130 crores. This is about 0.4 times of our reported book value and less than half of our adjusted net worth of Rs 2,450 crores, which already reflects every adjustment under the merger.

We believe the market is still pricing an old Ugro whose reported earnings carried the volatility of upfront income and its reversal. Our job is to show the market the new UGRO. As a business, we have made the pivot. Our task is now to explain this shift clearly so that UGRO earns the trust of all the investors afresh. Over the next 2 quarters, once the scheme is sanctioned, we will publish financials restated for the merger with income recognized on behavioral tenure and the equity base reset. For the first time, our reported number will show the business as it is.

And a high-yielding annuity-led lender with a built branch network and a scaled digital platform. As I said in the last quarter, the most effective answer management can give on valuation is execution, and that remains our approach. I will now hand over to Anuj, who will take you through our 2 growth engines. Anuj, over to you.

Anuj Pandey - Chief Executive Officer, UGRO Capital Limited
Thank you, Shachin, and good evening everyone. The operating message for this quarter is simple:

the infrastructure is built and both our growth engines are now compounding on it. As shown in slide 24 of our investor presentation, net disbursements for the quarter were Rs 3,159 crores, highest in our history. Total AUM stood at Rs 15,019 crores, up 23% year-on-year. It was flat quarter on quarter by design. The defocused book ran off faster than planned, while the book we want- then the book we wanted to grow.

On-book loans rose from Rs 9,519 crores in June to Rs 9,693 crores in September, with Emerging Market LAP up 10% and GROx up 22% in quarter. Our 2 businesses are compared side by side in Slides 11 and 12 of our investor presentation. They are deliberately different, and together they make a stronger balance sheet than either would alone. Coming to Emerging Market LAPs, uh, as you know, Emerging Market LAP gives small business owners in smaller towns a loan against their property, typically with an average ticket size of Rs 17 to Rs 19 lakh.

Secured at a loan-to-value up to 75%. In this business, AUM has now grown to Rs 4,268 crores, up 10% in the quarter and 42% over the year. We disbursed Rs 692 crore in the quarter against Rs 592 crore in the previous quarter. Portfolio yield is about 18.4% and gross NPA is 2%. We have 317 branches across 13 states, more than 1,800 sales executives, and over 500 field collection officers. The built-out is complete. We do not need new branches to grow, and our focus on productivity, which we have explained in slide 32 of our investor presentation- average monthly disbursements per branch rose to about Rs 73 lakh per month this quarter from Rs 62 lakh in the previous quarter and Rs 48 lakhs in FY26.

Branches older than 12 months disbursed about Rs 86 lakhs in a month, and mature branches grew, grew from 81 branches in March to 107 in September. Behind them are 200 branches which are about a year old, including 138 branches which are less than 6 months, which disburse about Rs 60 lakhs in a month. The arithmetic is simple. If every branch reached out what our mature branches already achieve, the network would disburse about Rs 3,300 crores a year against a run rate of about Rs 2,800 crore this quarter, with little, with little addition to fixed cost.

Our target is to take the average productivity to 80 to 85 lakhs per month disbursement per branch in a month over the next few months. Collections in this business run through 4 lines of defense explained in Slide 33 of our investor presentation, with a large in-house field team and about 99% of collections received digitally. Now coming to our other business vertical, GROx Embedded Merchant Finance. Which we have explained in slides 34 to 36 of our investor presentation. A merchant applies for a loan inside the partner's app.

Our models decide in minutes using live transaction data, and about 95% of repayments are collected daily at source. The typical loan is just under Rs 1 lakh with a tenure of about 13 months. GROx AUM has has grown to Rs 3,661 crores, up 22% in the quarter and from Rs 1,270 crores, uh, 12 months ago. We disbursed Rs 2,253 crores in the quarter against Rs 1,853 crores in the previous quarter and now disburse about Rs 750 crores or roughly 83,000 loans every month. Active merchants have risen from 1.5 lakhs a year ago to about 4.1 lakhs as of September.

Portfolio yield is about 26% and gross NPA is 1.4%. We are now expanding our partner base. More importantly, our technology and data analytics stack is increasingly embedded within these platforms, which gives us access to merchants' transaction data and that data forms the basis of our underwriting. Every new decision also draws on the repayment history of more than 7 lakh loans. Our focus remains largely on short-tenor loans with daily and weekly repayments. 3 features make this a platform rather than a product.

First, reach costs us very little to add. A new partner brings its merchants to us without a branch.

Second, the headroom is very large. The merchants which we lend today are a small fraction of those active on our partner platforms. And third, the data compounds. Every loan repaid sharpens the next decision on the risk pricing and limits. The risk architecture is built for a short-tenor book. Partners provide default loss guarantees within the RBI limit and separately their collection-linked payouts of 5 to 7% are tied to their portfolio performance.

We reconcile settlements daily, watch each merchant's transactions trend from early warning and escalate in a calibrated way from digital reminders to calling, field visits, and where needed, legal action. Because the book turns over in 9 to 10 months, we can reprice and tighten credit quickly. So there are 2 engines with 2 different jobs. To sum up the 2 businesses as set out in slide 12 of our investor presentation, Emerging Market LAP is long-tenured and secured with credit cost of 1.5% to 2% in a year.

Its cost sits in a network already built and its maturities sit against our long-term borrowings. GROx is short-tenured and higher yielding. With operating cost of about 1% of AUM. Its credit cost is higher, of to about 3.5 to 4%, and is shared with our partners. Both earn interest month by month on our balance sheet. That is the business we have built- growth that adds to recurring earnings going forward. As indicated in slide 10 of our investor presentation, we are guiding annual growth of 20 to 30% for Emerging Market LAP and 35-40% for GROx, with GROx earlier growth have come off of a low base.

As our newer loans season, our most important job is to keep credit cost within the lifetime expected losses we underwrite to. Gross NPA in the 2-focused business is 1.7% against 3.9% in the defocused book. I'll now hand over to Shilpa for the financials. Shilpa, over to you.

Shilpa Bhattair - Chief Financial Officer, UGRO Capital Limited
Thank you, Anuj, and good evening everyone. I will now take you through the quarter and then the accounting effect of the merger of Profectus Capital with us. Uh, we will then see how our capital and liquidity positions are. Now on the quarter update, the income statement for the quarter is present on our slide number 28. Interest income was 385.5 crores, up 20% year-on-year and 6% on the quarter. As on-book loans grew and the mix shifted further to emerging market LAP and our merchant lending platform, portfolio yield now was up to 18.7%, which is up 53 basis points on the quarter and 108 basis points on the year.

Net income from co-lending and direct assignment was Rs 109.1 crores. This is gross income of Rs 160.9 crores less reversals on early repayments of about Rs 51.8 crores. This reversal number for the previous quarter was about Rs 68.7 crores. Other income, which is income from insurance distribution, debt syndication, and Growx Technologies, was about Rs 83.8 crores. Our total income added up to Rs 578.4 crores, which was 25% up year over year and 8% on the quarter. Finance cost was Rs 296 crores. We have already explained in slides 26 and 27 of our investor presentation.

Our cost of borrowing was 10.19%, uh, on total debt of about Rs 10,973 crores. About 68% of our borrowings have now run beyond 3 years, and we raised about Rs 1,045 crores of new long-term borrowing in the quarter. Our net total income was Rs 282.4 crores. This is up about 16% year-on-year and 15% over the quarter. Operating expenses landed to Rs 127.2 crores, which was down 7% year-over-year, with employee cost down 35% to Rs 43.6 crores. It increased marginally by about 7% quarter-over-quarter mainly because other expenses rose to Rs 83.6 crores from Rs 70.7 crores.

This reflects volume-linked costs from higher GROx disbursements and a fair value loss. The run

rate remains in line with our FY27 guidance. Pre-provision operating profit was Rs 155.1 crores, which is up 22% on the quarter and 47% over the year. Credit cost inched up to about Rs 86.9 crores against Rs 65.6 crores in the previous quarter, or 3.6% of average on-book loans as against 2.8% earlier. The driver is largely seasoning of our newer emerging market Portfolio and the GROx loan portfolio. The credit cost as a percentage of average AUM is about 2% for the half year.

It remains well within the lifetime expected losses on the portfolio that we underwrite, and it is in line, uh, the, uh, and this is the line item which we will be monitoring more closely in the coming quarter. As shown in Slide 25 of our investor presentation, gross NPA and AUM was 2.7% against 2.6% in June. The defocused book with gross NPA of about 3.9% is shrinking, while gross NPA in the focused businesses is at 1.7%. 2% for the Emerging Market LAP and 1.4% for GROx. Our provisioning coverage is now at about 45%.

Our net NPA stands at 2% and collection efficiency is healthy at 97%. Our profit before tax is now landed to Rs 68.3 crores. This is up 12% year over year. The previous quarter included a one-time deferred tax credit, uh, from our move to the new tax regime. Uh, therefore, a quarter-over-quarter comparison of PAT, uh, did not seem meaningful, and therefore we have mentioned PBT numbers here. Uh, on the half-year basis, uh, profit after tax was Rs 118.6 crores, which was up 53%. Uh, we can now come to the accounting effect, uh, of the impending merger.

Uh, Sachin explained why the merger matters, and I can now elaborate to you what it does to our numbers, starting with the net worth bridge, which is already mentioned in slide 14 of our investor presentation. Now, under the scheme, the excess interest spread on our co-lent and assigned loans is remeasured on behavioral tenor using a well-observed prepayment curve rather than contractual tenor. Together with the Profectus goodwill and acquisition cost, these items are adjusted against our reserve- that is, general reserves and securities premium- with no charge to the profit and loss account.

The bridge is as follows: reported net worth of about Rs 3,029 crores less Rs 308 crores for the Profectus goodwill and acquisition cost put together. We further deduct Rs 266 crores for the remeasurement of excess interest spread. Now this gives us a pro forma net worth of about Rs 2,454 crores. That translates to about Rs 158 per share. Management's position is that these items are already well reflected in regulatory capital, so our capital adequacy remains unaffected negatively, subject to a final review, of course, of statutory auditors.

The pro forma income statement has been reproduced on Slide 15. Now, because spread income is recognized over the expected life of the loan, an early repayment has a much smaller effect on the income already booked. On a pro forma basis, reversals for the first half year fall from Rs 120.5 crores to about Rs 58 crores, and the first half profit after tax moves from Rs 118.6 crores to Rs 126.3 crores, an uptick of about Rs 7.7 crores. The change is smaller than the fall in reversals because upfront income on new co-lending and assignment is also lower on the behavioral basis.

On the adjusted equity base, first half pro forma ROA was 2.7% and pro forma ROE would be 10.6% on the same basis. Now to see a path to our higher returns. How we expect returns to build is set out on slides 17 and 9- 17 to 19. Our FY29 objective is a steady-state ROA ranging between 3% to 3.5%, as against 2.7% today on a pro forma basis. It depends on 3 major things: the focus businesses growing at the guided pace, credit costs staying within the expected losses, and operating costs held as volumes grow.

On the capital and liquidity, Uh, as we already saw, our reported net worth is Rs 3,029 crores. Our leverage is 6.3- 3.6 times, and capital adequacy is at 18.8%. Now this rises to about 22% on the

merged entity, of course on a pro forma basis, well within our capital headroom. We closed the quarter with liquidity of about Rs 1,500 crores. Which gives us adequate headroom to support growth. Much of our new lending replaces the lower-yielding book as it runs off, so our risk-weighted assets grow far more slowly than our disbursements.

This, coupled with the annuity-led income, would allow us to fund our plans through FY26 without any new equity required. Thank you. We can now open the floor for questions.

Questions & Answers

Operator
Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Shailendra Sood, an individual investor. Please proceed with your question.

Shailendra Sood - Individual Investor, Individual Investor
Hello good afternoon can you hear me yes can

Juhi Manwani - Analyst, Arihant Capital Markets Limited
Hear you

Shailendra Sood - Individual Investor, Individual Investor
Yes thank you for the presentation I have this question on the two Indians route you mentioned in the presentation one is the LAP and cross the current 53 is the focus and defocus is 47 And LAP is projected to grow at 20 to 30 and GROx expected to grow 35 to 40%. So what I want to understand is 2 years down the line, uh, what is the share of focused and defocused? And, uh, you mentioned that the provision coverage is 45%, right? So because GROx is unsecured loan So what will be the provision coverage required because of increasing growth exposure in your year?

Thank

Anuj Pandey - Chief Executive Officer, UGRO Capital Limited
You. Uh, uh, thanks, Arindra. Uh, I'll answer that. Uh, so, uh, our 2 focus business lines are Emerging Market LAP and GROx. Uh, GROx, uh, actually was a fintech which we had acquired 2 years ago. It was called MyShubhLife earlier. We have recently rechristened it and call it GROx Technologies. So our emerging market LAP business, we do loans between Rs 7.5 lakh to Rs 50 lakh ticket size secured against property, and that is- our expectation is it will grow by 25-30%. The GROx platform does small retail lending which is unsecured in nature, typically 12 to 13 months tenure with a daily repayment.

So on that, so that will, that is, will grow by about 35-40%. So overall, while these 2 will grow, our defocused book will keep running down. So when we made the strategic recalibration exercise, at that point in time these 2 focus businesses contributed to 32%. Today they are 53%. And in our last calls, uh, we have guided that in- by FY29, both these businesses put together, uh, would be about 87% of the total portfolio. As far as your provision coverage ratio, uh, question is concerned, we are currently at 45%, which is quite healthy, uh, looking at the nature of Uh, the composition of our

portfolio.

All our emerging LAP business is secured by property. The GROx portfolio is unsecured, and there we go up to, uh, 70-75% provision coverage. But on the whole, put together for the full book, 45% is very decent.

Shailendra Sood - Individual Investor, Individual Investor
Even with the increase in GROx, uh, 35-40%, the PCR of current 45% is adequate,

Anuj Pandey - Chief Executive Officer, UGRO Capital Limited
Uh, So, so while Growx will be growing by 35-40%, it is not a very big AUM builder because there is a lot of repayment also. We, we disburse about 800-900 crores in a month and about 600-700 crores of repayment also come in the same month. So as a part, as an AUM, it will be about between 25-30%, uh, as we move forward. So it is not a great, uh, contributor in the total AUM mix. Primarily, uh, about 60% of the EM would be emerging market LAP.

Sachindra Nath - Founder Managing Director, UGRO Capital Limited
If, if I may add, uh, purely on your provision coverage ratio, this is Shachindra. Uh, see, GROX is a small-ticket, uh, small-ticket merchant and customer lending business. It's a relatively high yield, uh, today relatively very low credit cost business. But primarily, its credit cost is largely once something goes into GNPA, after a lag effect of some period of time, gets normally written off. At the moment, it is, you know, trending to roughly around 2%. So you don't need to necessarily create a provision coverage ratio.

It would, you know, in the unit economics, actually it would get written off, and still it creates a very healthy, you know, 5+% ROA. So I think that's why provision coverage is fine, because that's largely on secured piece of loan, and whatever is left covered on our merchant interface.

Shailendra Sood - Individual Investor, Individual Investor
Thank you for the clarification, sir.

Operator
Thank you. Ladies and gentlemen, to ask a question, please press star and 1 now. Participants who wish to ask a question, please press star and 1 at this time. Ladies and gentlemen, to ask a question, please press star and 1 now. The next question is from the line of Sarth from Zen Wealth Management. Please proceed with your question.

Sarth - Analyst, Zen Wealth Management
Hi, thanks for taking my question. My question is regarding the status on share of stake from the IndusInd. Are we done with it or is there any forward supply from the portfolio? And the second question was on

Sachindra Nath - Founder Managing Director, UGRO Capital Limited
Sorry for

Sarth - Analyst, Zen Wealth Management
The inconvenience. My first question was regarding the supply of shares from the end of last year. Are we done with it, or are there any, uh, uh, still overhang left on, uh, on in this context? And the second question was, what kind of risk do you perceive, uh, from the, uh, GROX books from the current model impact, uh, both internally and externally, if you can highlight, uh, these 2 aspects.

Sachindra Nath - Founder Managing Director, UGRO Capital Limited
Yes, I'll take the first one, uh, and we'll take the second one. So with respect to, you know, I, uh, I do want to comment on this, uh, by individual name, but the way to think about it is that, uh, 2 of our long-term strategic shareholders, which is IFU, 15.5%, uh, ADV, which is, uh, roughly around 9.5%, Uh, Samena, which is, uh, which is currently not on our board but was till very recently on our board, potentially may have come back to the board. Uh, they have, uh, for some internal reason, they have stepped out of the board.

Investors who are, you know, part of our board and, you know, uh, insider to the company are not in the market. Uh, outside that, obviously there are shareholders which are, you know, neither inside the company and they are technically public shareholders. Uh, you would- if you look at our slide presentation and compare the two, you will see that, uh, two of the other two large, you know, institutional shareholders, their shareholdings have come down a little bit but not very significantly, uh, because as you know, our price has corrected significantly because after the reset and with the war and others, market, you know, UGRO specifically corrected very heavily.

So I don't think that that has cleared. It would take some more time.

Sarth - Analyst, Zen Wealth Management
Okay,

Anuj Pandey - Chief Executive Officer, UGRO Capital Limited
Okay. And, uh, on your second question on the risks which we see on the GrowX portfolio, uh, so when we started, we were actually very calibrated and we have experimented with various kinds of systems and system design and policy. So this is a loan given to a small retailer via a payment system aggregator. Uh, before we give the loan, uh, we have the full transaction history of that small retailer, uh, uh, which is available, uh, and it forms a significant part in the underwriting journey. So that added to the bureau repayment record, uh, we combine the 2, run our machine learning model and then come with an eligibility.

Uh, we have been now in this business, uh, from, uh, September- August, September 2024, so about 2 to, uh, 25 months complete. Uh, typical tenure of the loan is about a year. So now we have seen 2 full cycles, and now we are very confident that given our, uh, technology platform expertise Uh, and the business rule engine, the way it has worked, we don't see too much of credit risk, uh, uh, significantly deviating from what we have seen so far. A good example, uh, was the Middle East war. When it broke out, uh, we, we started carefully monitoring the daily transactions of, uh, the small retailers, especially the small roadside food merchants.

And, uh, and we could see and anticipate, uh, early warning signs. So, uh, overall, uh, from, uh, credit risk perspective, if we stay, uh, within the short tenure, we stay on the daily repayment product, uh, we don't foresee too much of risk. There can be other risks. Uh, one of the risks which we are, uh, uh, very aware Uh, is not to be too concentrated in one- with one particular partner or with one particular geography. And that, uh, uh, yeah, we have been working, uh, quarter on quarter, and that is also- we are mitigating, and we will now be very well diversified in coming few quarters.

Sarth - Analyst, Zen Wealth Management
Okay. And my another question was regarding the cost of borrowings positioning. Now that we are on to the rate hike cycle How is Ugro Capital positioned with respect to floating rate borrowing book and fixed rate borrowing book? And correct me if I'm wrong, the entire book is- I mean, lending book

is totally fixed book, right?

Anuj Pandey - Chief Executive Officer, UGRO Capital Limited
Uh, no, uh, the, uh, all our loan against property, uh, uh, loans are on floating rate. The unsecured loans, uh, the the prime unsecured loans which are running down and the new, uh, uh, embedded finance through GROx are all fixed. But the GROx loans are very short tenure, so, so whether they are fixed or floating doesn't make too much of a difference. But on the cost of borrowing, I will ask Shilpa to answer.

Shilpa Bhattair - Chief Financial Officer, UGRO Capital Limited
Sure. Uh, so, uh, in terms of the mix of our borrowing between floating and fixed, we are almost 50-50. 50% of our borrowings are on a floating rate basis, and generally on the floating rate, uh, borrowings, the reset tenors are in 1 year. That is, mostly they are linked to the MCLR of our banks. So almost 45-odd percent of our borrowings is through the banking sector, wherein MCLR, uh, have a reset of 1 year. So we do expect that there will be an impact of the recent rate hike, uh, in, in our longer-term loans as well, uh, which can range between, uh, 15 to 20 bps.

Uh, in the meanwhile, we have also seen, uh, our cost of borrowing grown already marginally by about 5 bps, uh, quarter over quarter. Uh, so we are monitoring the situation. Uh, the idea is to see how well we can, you know, borrow in the current given times. One thing which is very helpful is that we have been carrying good amount of liquidity in hand, so there is no dearth of liquidity and there is no need to start scouting for higher-cost funds. We'll have to wait and watch how the situation moves ahead in terms of the cost of borrowing.

Sarth - Analyst, Zen Wealth Management
Okay, and my another question was on what would be the interest rate resetting tenor on the loan book?

Anuj Pandey - Chief Executive Officer, UGRO Capital Limited
Come again?

Piyush Bhutra - Analyst, GMO PG
Interest

Sarth - Analyst, Zen Wealth Management
Rate resetting tenor, like on the loan book, is it 3 months or 6 months?

Anuj Pandey - Chief Executive Officer, UGRO Capital Limited
So in case the rate- yeah, so it is, it is URR-based. It would be around 3 months.

Sarth - Analyst, Zen Wealth Management
Around 3 months, right? And any update on the rating upgrade, like, uh, or once it is done, uh, any scope for, uh, lowering of cost of borrowings?

Anuj Pandey - Chief Executive Officer, UGRO Capital Limited
So, uh, uh, our rating agencies are, are constantly engaged with us. Uh, we, we are- we set up- set out a plan in February. Uh, 2 quarters have gone by and we, and we have- we are going as per that plan. Hopefully, if we continue this performance, uh, sooner rather than later, it will reflect in our ratings as well.

Sarth - Analyst, Zen Wealth Management
Anytime, like, when would be the next rating review, uh, would be offered? Maybe is it after the quarterly results, or is there any timelines that the rating agencies follow?

Shilpa Bhattair - Chief Financial Officer, UGRO Capital Limited
So our annual surveillance is around the corner. Uh, we expect the surveillance to begin in the, uh, by the end of the last quarter. Of the calendar year, uh, and we should be out with the results after that.

Sarth - Analyst, Zen Wealth Management
Okay. Any, uh, possible or any sense of, uh, uh, so maybe only after the surveillance, uh, rating, the judgment will be out, right? Okay.

Shilpa Bhattair - Chief Financial Officer, UGRO Capital Limited
Yes, of course.

Sarth - Analyst, Zen Wealth Management
Okay then. Yeah, that's it from my side. Thank you. Thank you very much for answering my questions.

Shilpa Bhattair - Chief Financial Officer, UGRO Capital Limited
Thank you so much.

Operator
Thank you. The next question is from the line of Rajendra Jain Modi, an individual investor. Please proceed with your question.

Rajendra Jain Modi - Individual Investor, Individual Investor
Company [Foreign Speech]

Sachindra Nath - Founder Managing Director, UGRO Capital Limited
Investors [Foreign Speech] investors [Foreign Speech] company [Foreign Speech] investors [Foreign Speech] company [Foreign Speech] but [Foreign Speech] but [Foreign Speech]

Anuj Pandey - Chief Executive Officer, UGRO Capital Limited
[Foreign Speech]

Shailendra Sood - Individual Investor, Individual Investor
Thank you.

Operator
Thank you. Before we take the next question, we would like to remind participants that you may press star and 1 to ask a question. The next question is from the line of Piyush Bhutra from GMO PG. Please proceed with your question.

Piyush Bhutra - Analyst, GMO PG
Yeah, hi. My question is regarding the revenue for the future. Since sorry,

Sachindra Nath - Founder Managing Director, UGRO Capital Limited
Sorry, your voice. Mr.

Operator
Piyush, there is a lot of background noise.

Piyush Bhutra - Analyst, GMO PG
Okay, yeah, [Foreign Speech] last week.

Sachindra Nath - Founder Managing Director, UGRO Capital Limited
Sorry.

Piyush Bhutra - Analyst, GMO PG
Um, okay, let me let me try to speak a little louder. So regarding the income recognition, since you are changing it from the actual tenure to the behavioral tenure, do you foresee any impact on the gross revenue side or the profitability side because of that?

Sachindra Nath - Founder Managing Director, UGRO Capital Limited
No, I think so. This is, uh, when- this is with respect to all of the past, all of the income which were recognized at an NPV value on the contracted tenor Now since we have defined pattern and we know the, you know, in what period of time these loans are getting adjusted or repaid, and the differential which was otherwise going through P&L on every quarter basis is one time getting adjusted from our net reserves. Um, and going forward, whatever would be the component of co-lending and direct assignment would happen would be on the actual conservative behavioral tenor.

To that extent, uh, I think so you will see lesser value of income from DA plus co-lending, uh, over a period of time. Uh, but, uh, with respect to interest income, I don't think so there will be change. You want to add something?

Shilpa Bhattair - Chief Financial Officer, UGRO Capital Limited
That's absolutely right. No change in the interest income per se because this is only pertaining to the excess interest spread, uh, that we accrue on off-book transactions. No changes. Other

Piyush Bhutra - Analyst, GMO PG
Income, uh, so it was part of other income. That would- so this forms

Shilpa Bhattair - Chief Financial Officer, UGRO Capital Limited
Part of gain on derecognition of financial instruments.

Piyush Bhutra - Analyst, GMO PG
Okay, that one doesn't form

Shilpa Bhattair - Chief Financial Officer, UGRO Capital Limited
Part of other income.

Piyush Bhutra - Analyst, GMO PG
Sure, thank you.

Shilpa Bhattair - Chief Financial Officer, UGRO Capital Limited
Sure, thanks.

Operator
Thank you. As there are no further questions from the participants, I would now hand over the conference to Mr. Sachindra Nath for closing comments. Over to you, sir.

Sachindra Nath - Founder Managing Director, UGRO Capital Limited
Yeah, thank you very much, uh, for all of you to join our investor call. Uh, management, our investor relations team is available, uh, at any time, uh, if you have any further questions. We are very hopeful that the hard effort of the management would result into better return for, uh, in terms of the profitability and return for the company. And hopefully that would also be more meaningful for the shareholders. Thank you.

Operator
Thank you. On behalf of Arian Capital Markets Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you. Thank you.