



**IPO note:**

**NORTHERN ARC CAPITAL LTD - SUBSCRIBE**



Northern Arc Capital Ltd (NACL) is a financial service platform that provides credit solutions to households and businesses in India. As of March 31, 2024, the company has financed Rs. 1.73 Million, which has impacted over 101.82 Million lives in India as of March 31<sup>st</sup>, 2024. It is one of the leading NBFC companies in terms of Asset Under Management (AUM) with a diversified business model across offerings, sectors, products, geographies and borrower categories. It also has the lowest credit cost amongst diversified NBFCs in India as of 31<sup>st</sup> March, 2024.

The company has expertise in enabling credit across sectors namely - Micro, Small and Medium Enterprises ("MSMEs") financing, Microfinance ("MFI"), Consumer Finance, Vehicle Finance, Affordable Housing Finance and Agricultural Finance. It has 14 years of experience in MSME, 15 years in MFI and 9 years into Consumer finance sector. NACL, caters to retail credit market through a multi channel approach which includes (I) providing financing from the balance sheet ("Lending") to Originator Partners in the form of loans or investments in their debt to enable on-lending to retail customers ("Intermediate Retail Lending") and directly to underserved households and businesses ("Direct to Customer Lending"), either in partnership with Retail Lending Partners or via their branch network, to provide MSME and rural finance. It has presence in 671 districts, 28 states and 7 union territories in India with AUM of Rs. 117,100.19 million, as of March 31<sup>st</sup>, 2024. (II) Providing credit for their originator partners through different financing products ("Placements") with aggregate placement volume of Rs. 1,019,038.92 million as of March 31, 2024 (III) Providing debt management and portfolio management services ("Fund Management") where Rs. 120,785.58 million had been deployed across 10 alternate investment funds ("AIFs") and three Portfolio Management Service ("PMS") funds as of March 31<sup>st</sup>, 2024.

In their Lending channel, they provide loans to and guarantee the borrowings of their extensive network of technology platforms, financial technology companies ("Fintechs") and other organizations that serve as business correspondents to generate financial exposure (collectively, "Originator Partners") depending on each Originator Partner's unique needs, they provide a range of financing options. Also, they provide credit solutions to customers directly through a physical approach, which is a combination of leveraging their technology and data first approach. For this, they have 316 branches across India and 50 selected originator partners who enable them to directly lend to customers.

In their Placements channel, with their technology platform- Nimbus, they work with different investors who use this platform to access the opportunities to invest in underserved sectors in India ("Investor Partners"). This also facilitates, structure and syndicate financing through debt, credit enhancement or co-investing in transactions as required to achieve the target credit rating or to provide comfort to their investor partners.

In their Fund management channel, This is operating through a subsidiary- NAIM. NAIM manages debt funds from contributions that are received from investor partners. NAIM, broadly invests in subset of originator partners and mid-market companies in line with the investment mandate of the respective funds.

The NACL, had raised Rs. 37450 million in investor commitments across 10 AIFs and three PMS funds, out of which they have facilitated successful exits for Investor Partners in four AIFs and one PMS fund as of March 31<sup>st</sup>, 2024.

The company has built an efficient business model which is supported by their proprietary integrated customized technology. Their in house technology stack includes- (I) Nimbus- This enables end to end debt transactions. (II) nPOS- provides a co-lending and co-origination technology solution through Application Programming Interfaces ("API"). (III) Nu Score- It is an analytical module with machine learning which assists their originator partners in the loan underwriting process. (IV) AltiFi- This is a platform for an alternative retail debt.

#### Investment Recommendation and Rationale: -

**At the upper price band of Rs. 263, the issue is priced at a P/E multiple of 13.36 its FY24 post IPO EPS of Rs. 19.69. We give a 'SUBSCRIBE' rating to the issue for the following reasons: -**

- The company has lowest GNPA of 0.45% and NNPA of 0.08% as of FY24.**
- The company is able to maintained sustainable performance over the last three years with consistently enhancing operational activity..**
- An experienced professional management team and BODs who are able to manage business operations efficiently.**

<b>Type of Issue</b>	Fresh Issue of 1,90,11,407 shares (aggregating up to Rs. 500.00 Cr) Offer for Sale of 10,532,320 shares (aggregating up to Rs. 277.00 Cr)
<b>Issue size</b>	Rs. 777 crores
<b>Price Band</b>	Rs. 249 to Rs. 263 per share
<b>Bid lot/ Bid Size</b>	57 shares/ Rs. 14,991
<b>Issue structure</b>	QIB-50%, HNI- 15%, Retail- 35%
<b>Post issue equity shares</b>	16,13,25,417
<b>Post issue implied market cap</b>	Rs. 4242.86 crores
<b>BRLMs</b>	ICICI Securities Limited, Axis Capital Limited, Citigroup Global Markets India Private Limited
<b>Registrar to the issue</b>	KFin Technologies Limited

#### Financial Summary (Restated Consolidated) (Rs in million)

Particulars	FY24	FY23	FY22
Total income	19,060.33	13,112.00	9,165.45
Restated profit for the year	3,176.93	2,422.14	1,819.38
Profit for the year attributable to owners of the holding company	3,083.34	2,300.11	1,725.00
Total assets	117,076.59	93,715.72	79,741.16
Total equity	23,204.11	20,677.30	18,321.12
Spread	7.53%	5.89%	5.34%
RoNW	14.54%	12.55%	10.38%
AUM	117,100.19	90,086.93	71,083.17
- Intermediate Retail Lending AUM	58,767.46	56,232.07	54,493.41
As a % of total AUM (%)	50.19%	62.42%	76.66%
- Direct to Customer Lending AUM	58,332.73	33,854.87	16,589.76
As a % of total AUM	49.81%	37.58%	23.34%
Placements volume	117,559.19	130,642.25	73,257.47
Gross Transaction Volumes ("GTV")	293,236.80	273,851.59	198,964.29

Source: Red Herring Prospectus (RHP)



## Objects of the issue

Offer for Sale of 10,532,320 shares aggregating up to Rs. 277.00 Cr

## Shareholding pattern

Name of the Selling Shareholders	Type	Number of Equity Shares Offered	Weighted Average Cost of Acquisition per Equity Share (in ₹) ^
LeapFrog Financial Inclusion India (II) Ltd	ISS	3,844,449 Equity Shares of face value Rs. 10 each	48.83
Accion Africa-Asia Investment Company	ISS	1,263,965 Equity Shares of face value Rs. 10 each	26.64
360 ONE Special Opportunities Fund (formerly known as IIFL Special Opportunities Fund)	ISS	1,408,918 Equity Shares of face value Rs. 10 each	197.02
Eight Roads Investments Mauritius II Limited (formerly known as FIL Capital Investments (Mauritius) II Limited)	ISS	1,746,950 Equity Shares of face value Rs. 10 each	121.23
Dvara Trust (represented by its corporate trustee, Dvara Holdings (formerly known as Dvara Holdings Private Limited and as Dvara Trusteeship Services Private Limited)	ISS	1,344,828 Equity Shares of face value Rs. 10 each	4.10
Sumitomo Mitsui Banking Corporation	ISS	923,210 Equity Shares of face value Rs. 10 each	197.02

Source: Red Herring Prospectus (RHP)

## Fresh Issue of 1,90,11,407 shares aggregating up to Rs. 500.00 Cr

Company plans to use the Net Proceeds to fund the following objects:

- To meet capital requirement towards onward lending.
- Creating brand name.

Source: Red Herring Prospectus (RHP)

## The table below sets forth sector wise break up of Gross Transaction Volume("GTV"):

Sectors	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	Amount (Rs in million)	% of total (%)	Amount (Rs in million)	% of total (%)	Amount (Rs in million)	% of total (%)
MSME	81,609.16	27.83%	76,077.66	27.78%	70,764.08	35.57%
MFI	76,229.91	26.00%	81,337.50	29.70%	52,658.69	26.47%
Consumer finance	101,174.93	34.50%	85,742.80	31.31%	32,067.31	16.12%
Vehicle finance	19,012.61	6.48%	20,760.89	7.58%	34,636.25	17.41%
Affordable housing finance	10,154.50	3.46%	6,632.74	2.42%	4,797.01	2.41%
Agriculture finance	5,055.69	1.72%	3,300.00	1.21%	4,040.94	2.03%
<b>Total GTV</b>	<b>293,236.80</b>	<b>100.00%</b>	<b>273,851.59</b>	<b>100.00%</b>	<b>198,964.29</b>	<b>100.00%</b>

Source: Red Herring Prospectus (RHP)

## The table below shows performance in MSME, MFI and consumer finance sectors in India for Fiscal 2024:

Particulars	As of and for financial year ended March 31, 2024		
	MSME	MFI	Consumer finance
GTV (Rs. in million)	81,609.16	76,229.91	101,174.93
Cumulative number of Investor Partners	83.00	93.00	47.00
Placements fee income (Rs. in million)	103.05	127.50	51.65
Cumulative number of Originator Partners	122	68	40
Number of branches	54	262	-
Number of Retail Lending Partners	18	8	20
Number of Originator Partners funded through our funds	52	27	11
Number of funds invested	10	10	10
Gross Stage 3 – Loans and Investments (%)	0.74%	0.01%	0.38%

Source: Red Herring Prospectus (RHP)



The table below shows comparison with NBFC industry of asset quality along with GNPA and NNPA ratio:

Particulars	As of March 31, 2024	
	Industry Ratio	NACL
GNPA ratio (%)	4.1%	0.45%
NNPA ratio (%)	1.5%	0.08%

Source: Red Herring Prospectus (RHP)

### Peer Comparison

Name of Company	Revenue from operations (Rs. million)	Face value per equity share Rs	P/E (x)	EPS (Basic) (Rs per share)	EPS (Diluted) (Rs per share)	RoNW(%)	Net Asset Value "NAV" (Rs. in million)
Northern Arc Capital Limited	18,900.84	10.00	19.69	34.61	23.40	13.32%	177.06
<b>Peer Groups</b>							
PNC Infratech Limited Five-Star Business Finance Limited	21,828.47	1.00	26.76	28.64	28.39	16.09%	177.68
SBFC Finance Limited	10,186.40	10.00	36.64	2.35	2.30	8.53%	25.87
CreditAccess Grameen Limited	51,666.70	10.00	13.12	90.88	90.41	5.01%	1,809.93
Fusion Micro Finance Limited	23,167.30	10.00	6.21	50.30	50.11	17.74%	281.93
Bajaj Finance Limited	549,694.90	2.00	30.93	236.89	235.98	18.84%	1,239.03
Cholamandalam Investment and Finance Company Limited	191,396.20	2.00	36.22	41.17	41.06	17.46%	233.26
Poonawalla Fincorp Limited	31,090.10	2.00	17.81	21.89	43.71	20.60%	105.44
MAS Financial Services Limited	12,791.60	10.00	18.55	15.31	15.31	14.08%	108.71

Source: Red Herring Prospectus (RHP)

### Competitive Strengths

1. Large addressable market with excellent sectoral expertise which is underpenetrated.
2. Strong network effect which is created by an extensive network of partners, data, and technological platforms.
3. Experienced Board and professional management team to drive the business.

Source: Red Herring Prospectus (RHP)

### Growth Strategies

1. Exploring opportunities across sectors such as climate lending & gold loans and enhancing ESG risk management systems.
2. Expanding fund management channel through product innovation, geographical expansion, increase investor category.
3. Grow Direct to Customer Lending channel further to improve risk-adjusted returns.
4. Focus on credit quality to manage credit cost efficiently.

Source: Red Herring Prospectus (RHP)

### Key Risks

1. If their borrowers fail to fulfill their repayment commitments, it may have a negative impact on business, operating results, cash flows, and financial condition in addition to raising the amount of non-performing assets ("NPA"), related provisions, and write-offs.
2. The company do not have any identifiable promoter in terms of the SEBI ICDR Regulations and the Companies Act, 2013.
3. Their investments consist mostly of unsecured credit facilities and unsecured debt or subordinated to other creditors. Failure to recoup these investments may lead to higher NPA levels, which may be detrimental to operations, prospects, company, cash flows, and financial health.
4. Dependence on Originator partners, Retail lending partners and Investor partners for their operations may adversely affect business, reputation, results of operations, cash flows and financial condition if if they unable to maintain strong relationship with them.

Source: Red Herring Prospectus (RHP)



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