

One Stop Investment Avenue



GEPL
CAPITAL

IPO Note

NORTHERN ARC CAPITAL LIMITED

Sep 16, 2024





Sep 16, 2024

Details of the Issue

Price Band	₹ 249- ₹ 263
Issue Size	₹ 777 Cr
Face Value	₹ 10
Bid Lot	57
Listing on	BSE, NSE
Post Issue Mcap	₹ 4242.86 Cr
Investment Range	₹ 14,193 - ₹ 14,991

Important Indicative Dates (2024)

Opening	16 - Sep
Closing	19 - Sep
Basis of Allotment	20 - Sep
Refund Initiation	23 - Sep
Credit to Demat	23 - Sep
Listing Date	24 - Sep

Lead Manager

ICICI Securities Limited
Axis Bank Limited
Citigroup Global Markets India Private Limited

Offer Details

Offer Size	₹ 777 Cr
Fresh Issue	₹ 500 Cr
OFS	₹ 277 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	388.5	14.77	15.60	50
NIB	116.6	4.43	4.68	15
Retail	271.9	10.34	10.92	35
Em- ploy.	-	-	-	-
Total	777	29.54	31.2	100

Invest Now**Company Profile**

Established in 2009, Northern Arc Capital Limited provides retail loans to underserved households and businesses across India. The company specializes in a range of financial services including micro, small, and medium enterprises (MSMEs), microfinance (MFI), consumer finance, vehicle finance, affordable housing finance, and agriculture finance. By March 31, 2024, it had facilitated over Rs. 1.73 trillion in financing, positively impacting more than 101.82 million people. Its operations are broad-based, including lending with an AUM of Rs. 117,100.19 million across 671 districts, placements with an AUM of Rs. 1,019,038.92 million, and fund management with Rs. 120,785.58 million spread across various funds. The company also boasts a robust technology suite, offering Nimbus for streamlined debt transactions, nPOS for co-lending and co-origination, Nu Score for advanced loan underwriting, and AltiFi for innovative retail debt investments.

Business Highlights & Services

Northern Arc Capital Limited is a diversified financial services platform dedicated to addressing the retail credit needs of underserved households and businesses in India. The company has three primary channels namely Lending, Placements, and Fund Management and utilizes a proprietary technology stack to provide streamlined digital financing solutions. The company aims to expand its reach by enhancing origination channels, scaling its technology and data products, and attracting a broader investor base, including domestic and international banks, NBFCs, and private wealth investors. By utilizing its technology solutions such as nPOS, Nu Score, and Nimbus, Northern Arc Capital enhances underwriting, risk management, and customer experience. The platform also plans to monetize its technology and data solutions, expand its AltiFi platform to offer comprehensive wealth management services, and align with India Stack tools to support tech-enabled lending solutions, further broadening its impact on the credit ecosystem.

The company seeks to explore incremental opportunities across various sectors and products, particularly in climate and sustainability and it is poised to capitalize on the growing momentum in climate financing, driven by government support and significant investments in renewable energy. By collaborating with environmentally conscious organizations, especially within the MSME sector, the company intends to support initiatives in electric mobility, solar energy, waste recycling, and sustainable water solutions. The company also plans to enter the gold loan sector, leveraging its branch ecosystem and technology to offer small-ticket, short-duration credit. Additionally, Northern Arc will enhance its ESG risk management system, incorporating comprehensive due diligence and external consultancy. In Fund Management, the company seeks to expand through product innovation, including thematic and structured funds, and by growing its presence in international markets like the IFSC in GIFT City.

The company further plans to broaden its investor base by targeting new categories in Asia, deepening relationships with existing investors in Europe and the US, and focusing on high-yield products for international funds and HNIs. The company adheres to a 'credit first' principle, emphasizing superior credit quality and lower credit costs through data and technology integration. By investing in advanced risk monitoring and machine learning, the company aims to enhance credit management, improve portfolio quality, and bolster investor confidence in its Placements and Fund Management channels.



The company is further focused on expanding its Direct to Customer Lending channel to capitalize on India's growing retail credit market. The company aims to deepen its presence in existing and new geographies while innovating its product offerings. It seeks to reach a broader borrower base and enhance risk-adjusted returns. It plans to introduce new products in its rural finance network and diversify its small business financing portfolio with comprehensive financial solutions. Additionally, the company will strengthen its monitoring and asset-liability management to optimize borrowing costs and improve its credit rating. Northern Arc also intends to diversify its lender base, pursue strategic acquisitions, and explore inorganic growth opportunities to maintain its leading position in the financial ecosystem.

Sources of Borrowing:

Type of lender	As of March 31, 2024		
	Number of Lenders	Amount (₹ million)	% of Total (%)
Banks	31	61,456.89	67.93%
Domestic DFIs	1	3,864.47	4.27%
Offshore financial institutions	6	14,403.87	15.92%
NBFCs	7	8,183.21	9.04%
Domestic capital markets	-	-	-
Domestic retail / HNIs ⁽¹⁾	4	2,569.12	2.84%
Total Borrowings⁽²⁾	49	90,477.56	100.00%

GTV growth and AUM growth:

Particulars	As of and for the financial year ended March 31,		
	2024	2023	2022
	(₹ million, unless indicated otherwise)		
Gross Transaction Volume (GTV)			
Disbursements ⁽¹⁾	148,850.81	117,882.44	89,823.61
Placements volume ⁽²⁾	117,559.19	130,642.25	73,257.47
Fund deployment volume ⁽³⁾	26,826.80	25,326.90	35,883.20
Total GTV⁽⁴⁾	293,236.80	273,851.59	198,964.29
GTV growth⁽⁵⁾ (%)	7.08%	37.64%	52.42%
Assets under Management (AUM)			
AUM ⁽⁶⁾	117,100.19	90,086.93	71,083.17
Average AUM ⁽⁷⁾	100,763.36	77,678.14	58,450.75

PMS Business Details:

Particulars	Tenure	Maturity	Target Sectors	Net fund returns ⁽¹⁾	Fund status	Year established
Northern Arc Income Builder– Series A	2.25 years	February 2024	Sector agnostic	7.45%	Matured	December 2021
Northern Arc Income Builder– Series B	Three years	September 2025	Sector agnostic	11.45%	Active	September 2022
Northern Arc Credit Opportunities	Two years	February 2026	Sector agnostic	1.13%	Active	February 2024

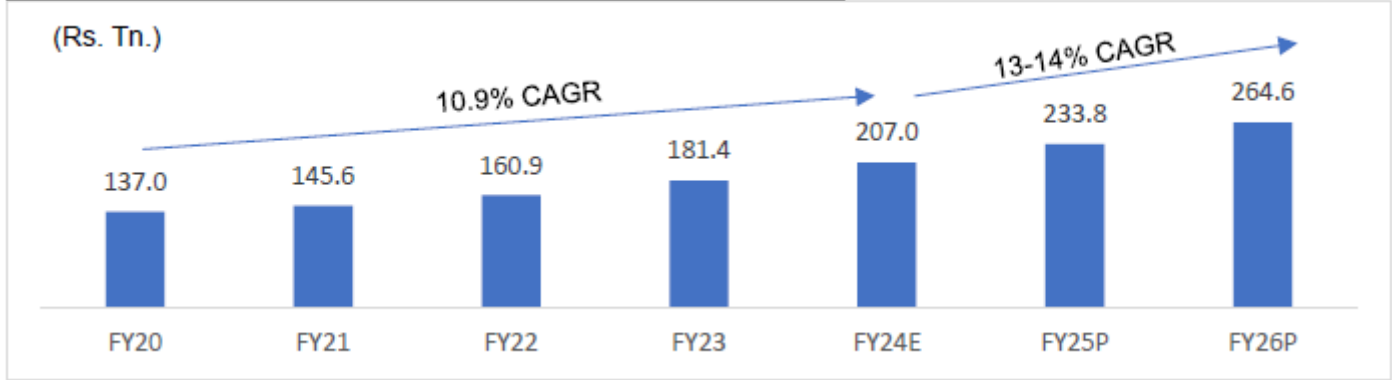
Asset Quality Details:

Particulars	As of March 31, 2024	As of March 31, 2023	As of March 31, 2022
Gross Stage 3 – Loans and Investments (%) ⁽¹⁾	0.45%	0.77%	0.50%
Net Stage 3 (%) ⁽²⁾	0.08%	0.40%	0.21%
NBFC's GNPA ratio (%) ⁽³⁾	4.1%	5.0%	5.8%
NBFC's NNPA ratio (%) ⁽⁴⁾	1.5%	1.7%	2.3%

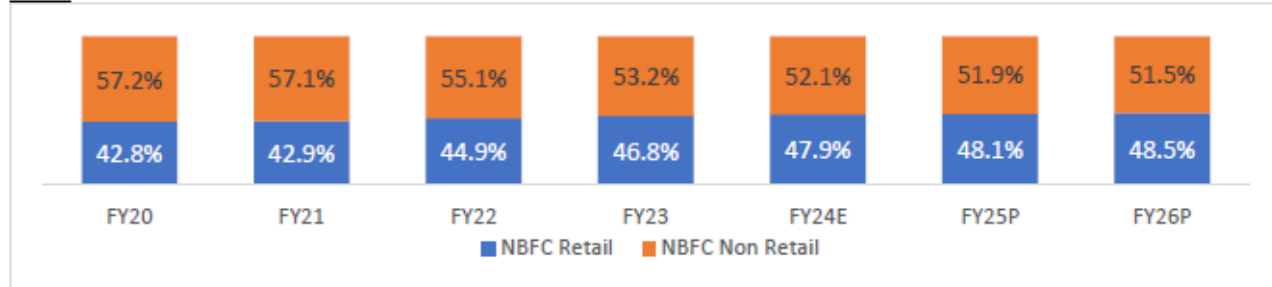


Industry outlook:

Systemic credit to grow by 13-14% between Fiscals 2024 and 2026



Share of retail credit in total NBFC credit to grow to 48% by end of Fiscal 2025 and expected to reach 48.5% in Fiscal 2026



Peers Comparison

Name of the company	Face Value (₹)	Total Income (₹ Cr)	EPS	NAV (₹)	P/E	RoNW(%)
Northern Arc Capital Limited	10	1890	23.40	177.06	NA	13.32%
Peers Group						
Five-Star Business Finance Ltd	1	2183	28.39	177.68	26.76	16.09%
SBFC Finance Ltd	10	1019	2.30	25.87	36.64	8.53%
Credit Access Grameen Ltd	10	5167	90.41	1809.93	13.12	5.01%
Fusion Micro Finance Ltd	10	2317	50.11	281.93	6.21	17.74%
Bajaj Finance Ltd	2	54969	235.98	1239.03	30.93	18.84%
Cholamandalam Investment and Finance Company Ltd	2	19140	41.06	233.26	36.22	17.46%
Poonawalla Fincorp Ltd	2	3109	21.63	105.44	17.81	20.60%
MAS Financial Services Ltd	10	1279	15.31	108.71	18.55	14.08%



Companies Competitive Strength :

- Large addressable and underpenetrated market with strong sectoral expertise.
- Large ecosystem of partners and data and technology platform creating strong network effects.
- Proprietary technology product suite transforming the debt market ecosystem.
- Robust risk management based on domain expertise, proprietary risk models and data repository driving asset quality.
- Diversified sources of funding for own deployment and proactive liquidity management.
- Professional management team supported by an experienced Board and marquee investors driving high standards of governance.
- Strong ESG framework integrated into the business model with focus on creating sustainable impact and climate-smart lending.

Key Strategies Implemented by Company

- Enhance the ecosystem by growing and deepening relationships with partners, while leveraging and scaling up the technology products.
- Expand to adjacent sectors such as climate lending and gold loans, and enhance the ESG risk management systems.
- Expand the Fund Management channel.
- Continue to scale the Direct to Customer Lending channel to enhance risk adjusted returns.
- Focus on credit quality to manage credit cost efficiently.
- Expansion through inorganic growth.
- Continue to diversify the source of funds and widen the lender base to scale the borrowing requirements while lowering costs

Particular (INR in Cr)	FY24	FY23	FY22
Interest Income	1,712	1,148	781
Interest Expenses	726	557	411
Net Interest Income	986	591	370
Other Operating Revenue	178	157	129
Other Income	16	6	7
Total Income	1,180	754	506
Operating Expenses	759	431	258
PBT	421	323	248
Tax	103	79	66
PAT	318	244	182
ROE	14%	12%	10%
GNPA	0.45%	0.77%	0.50%
NNPA	0.08%	0.40%	0.21%

Valuations and Recommendation:

- Based on annualized FY24 earnings to post-IPO paid-up equity capital of the company, The issue is priced at a P/B of 1.83X. Thus the issue appears to be fairly priced compared to peers.
- The company has built a strong ecosystem of 328 Originator Partners, 50 Retail Lending Partners, and 1158 Investor Partners as of March 2024. Its in-house technology platform enables scalable growth, driving a sustainable business model. With vast opportunities in underserved markets and government initiatives boosting financial inclusion, the retail credit market in India is growing rapidly, especially in rural and semi-urban areas. Robust risk management, sectoral diversification, and a well-diversified funding profile protect the company from geographic and sector-specific risks. A strong ESG framework enhances sustainable impact and climate-smart lending. The company has demonstrated 20% CAGR in net interest income over the last three years, maintaining a healthy ROE of 14% and stable asset quality (GNPA: 0.45%, NNPA: 0.08%). It is well-positioned to capitalize on the expected 13-14% CAGR growth in Indian credit by FY26. Hence, we recommend an "Subscribe" rating for the issue.



Notes

GEPL Capital Pvt. Ltd

Head Office: D-21/22 Dhanraj Mahal, CSM Marg, Colaba, Mumbai 400001

Reg. Office: 922-C, P.J. Towers, Dalal Street, Fort, Mumbai 400001

Research Analyst – Mr. Dibandu Maji | + 022-6618 2689 | Dibandumaji@geplcapital.com

Disclaimer: This report has been prepared by GEPL Capital Private Limited ("GEPL Capital"). GEPL Capital is regulated by the Securities and Exchange Board of India. This report does not constitute a prospectus, offering circular or offering memorandum and is not an offer or invitation to buy or sell any securities, nor shall part, or all, of this presentation form the basis of, or be relied on in connection with, any contract or investment decision in relation to any securities. This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy, recommendation or any other content contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. All investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by the recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of GEPL Capital as a result of using different assumptions and criteria. GEPL Capital is under no obligation to update or keep current the information contained herein. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments. There is no representation that any transaction can or could have been effected at those prices and any prices do not necessarily reflect GEPL Capital's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions, by GEPL Capital or any other source may yield substantially different results. GEPL Capital makes no representation or warranty, express or implied, as to, and does not accept any responsibility or liability with respect to, the fairness, accuracy, completeness or correctness of any information or opinions contained herein. Further, GEPL Capital assumes no responsibility to publicly amend, modify or revise any forward-looking statements, on the basis of any subsequent development, information or events, or otherwise. Neither GEPL Capital nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. In no event shall GEPL Capital be liable for any direct, special indirect or consequential damages, or any other damages of any kind, including but not limited to loss of use, loss of profits, or loss of data, whether in an action in contract, tort (including but not limited to negligence), or otherwise, arising out of or in any way connected with the use of this report or the materials contained in, or accessed through, this report. GEPL Capital and its affiliates and/or their officers, directors and employees may have similar or an opposite position in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). The disclosures contained in the reports produced by GEPL Capital shall be strictly governed by and construed in accordance with Indian law. GEPL Capital specifically prohibits the redistribution of this material in whole or in part without the written permission of GEPL Capital and GEPL Capital accepts no liability whatsoever for the actions of third parties in this regard.