



Northern Arc Capital is a diversified financial services platform set up primarily with the mission of catering to the diverse retail credit requirements of the under-served households and businesses in India. Northern Arc Capital has facilitated financing of over ₹1.73 trillion that has impacted over 101.82 million lives across India, as of March 31, 2024. Northern Arc Capital has one of the lowest industry-wide credit costs amongst diversified NBFCs in India, as of March 31, 2024. Northern Arc Capital caters to this retail credit market through a multi-channel approach that includes: (i) extending financing from its balance sheet, to originator partners in the form of loans or investment in their debt to enable on-lending to the retail customer (Intermediate Retail Lending) and directly to under-served households and businesses (Direct to Customer Lending), with AUM of ₹117,100.19 million across 671 districts, 28 states, and seven union territories in India, as of March 31, 2024; (ii) enabling credit for its originator partners through various financing products (Placements), with aggregate Placements volume of ₹1,019,038.92 million, as of March 31, 2024; and (iii) managing debt funds and providing portfolio management services (Fund Management), with aggregate fund deployed of ₹120,785.58 million across 10 alternate investment funds (AIFs) and three portfolio management service (PMS) funds, as of March 31, 2024.

### Investment Rationale:

#### Large addressable and underpenetrated market with strong sectoral expertise:

- By leveraging the company's diversified business model and proprietary technology product suite customised to multiple sectors, it has, over the last 15 years, developed strong sectoral expertise in enabling credit across its focused sectors: MSME, MFI, consumer finance, vehicle finance, affordable housing finance and agriculture finance.
- More recently, it has strengthened its retail MSME outreach by introducing, loan against property (LAP) financing in Fiscal 2022, and supply chain finance in FY23.
- Its LAP financing provides secured business loans directly to MSMEs through 50 branches, as of March 31, 2024. Its technology-driven supply chain financing business offers financing solutions to various participants within the enterprises' supply chain network.
- In addition, it incorporated its dedicated rural finance partner subsidiary, Pragati, in Fiscal 2021, which acts as a business correspondent and serves rural and semi-urban areas through which the company provides small ticket loans through a digital platform and aims to be a one-stop lending solution for rural borrowers.

#### Northern Arc Capital has the lowest GNPA and NNPA in FY24 amongst the compared peers:

- As of Fiscal 2024, Northern Arc Capital has the lowest GNPA at 0.45% followed by Bajaj Finance (1.05%) among peers. Northern Arc Capital has credit cost of 0.47% as of fiscal 2023 and credit cost of 1.18% as of fiscal 2024.
- Further, Northern Arc Capital has one of the lowest Industry-wide credit costs amongst diversified NBFCs in India, as of March 31, 2024.

#### Diversified sources of funding for own deployment and proactive liquidity management:

- The company maintains a well-diversified funding profile that is underpinned by its established relationships with its lenders and investors, proactive liquidity management system and strong credit rating. Its diversified base of lenders (including various banks, offshore financial institutions and NBFCs) and investors provide it a strong base for increased funding.
- In addition, it has also conducted 12 rounds of equity fund raises (including issuances of CCPS) in the last 11 Fiscals which has allowed it to benefit from the capital sponsorship of a marquee set of equity investors which include impact focused funds and a global systemically important bank. It has also been able to service its debt obligations during challenging industry and macro-economic events and credit cycles for NBFCs.

**Valuation and Outlook:** The company currently has AUM of INR 117,100.19 million in FY24 which grew 29.99% YoY. The net interest income was INR 8,637.07 in FY24 which grew from INR 5,461.19 million in FY23. The Yield on assets minus Average Cost of Borrowings (Spread) was 7.53% in FY24 and 5.89% in FY23. Northern Arc Capital had the lowest GNPA of 0.45% and NNPA of 0.08%, as of FY24. The company's ROA was 2.97% in FY24. The company plans to expand its footprint to better reach and serve under-served households and businesses in its focused sectors in India by: (i) adding to and strengthening its origination channels, i.e., by on-boarding new Originator Partners onto its platform and financing the debt capital requirements for the growth of its Originator Partners, and on-boarding new Retail Lending Partners who can help it reach more Direct to Customer Borrowers; and (ii) increasing the use of as well as scale and leverage its in-house technology and data enabled products and platforms. It also plans to add more products on its AltFi platform to offer full scale wealth management services comprising products across savings, investments (such as listing of commercial papers, fixed deposits and mutual funds) and insurance, which will help in broadening its coverage of retail investors as well. We recommend to subscribe to the issue as the issue is attractively priced given the company's growth with healthy credit metrics over the past, ability to raise capital from marquee investors and grow the loan book, post issue we expect the company to retain credits costs and growth rates coupled with healthy return ratios.

### Key Financial & Operating Metrics (Consolidated)

In INR mn	Interest Income	YoY (%)	NIM	PAT	EPS	ROE	ROA
FY22	7808.45	34.66	5.53	1819.38	12.78	11.69	2.67
FY23	11483.88	47.07	6.48	2422.14	17.02	13.87	2.80
FY24	17121.12	49.09	8.33	3176.93	22.32	20.84	3.01

### Issue Snapshot

Issue Open	16-September-24
Issue Close	19-September-24
Price Band	INR 249 - 263
Issue Size (Shares)	2,95,43,727
Market Cap (mln)	INR 11293

### Particulars

Fresh Issue (INR mln)	INR 5000
OFS Issue (INR mln)	INR 2770
QIB	50%
Non-institutionals	15%
Retail	35%

### Capital Structure

Pre Issue Equity	14,23,14,010
Post Issue Equity	16,13,25,417
Bid Lot	57 Shares
Minimum Bid amount @ 249	INR 14193
Maximum Bid amount @ 263	INR 14991

### Share Holding Pattern

	Pre Issue	Post Issue
Promoters	100.00%	88.75%
Public	0.00%	11.25%

### Particulars

Face Value	INR 10
Book Value	INR 118.63
EPS, Diluted	INR 22.32

### Objects of the Issue

- Meet future capital requirements towards onward lending- INR 5000 million

**SUBSCRIBE**

research@smifs.com

# Northern Arc Capital Limited

September 16, 2024



Northern Arc Capital is a diversified financial services platform set up primarily with the mission of catering to the diverse retail credit requirements of the under-served households and businesses in India. Northern Arc Capital has facilitated financing of over ₹1.73 trillion that has impacted over 101.82 million lives across India, as of March 31, 2024. Northern Arc Capital has one of the lowest industry-wide credit costs amongst diversified NBFCs in India, as of March 31, 2024. Northern Arc Capital caters to this retail credit market through a multi-channel approach that includes: (i) extending financing from its balance sheet, to originator partners in the form of loans or investment in their debt to enable on-lending to the retail customer (Intermediate Retail Lending) and directly to under-served households and businesses (Direct to Customer Lending), with AUM of ₹117,100.19 million across 671 districts, 28 states, and seven union territories in India, as of March 31, 2024; (ii) enabling credit for its originator partners through various financing products (Placements), with aggregate Placements volume of ₹1,019,038.92 million, as of March 31, 2024; and (iii) managing debt funds and providing portfolio management services (Fund Management), with aggregate fund deployed of ₹120,785.58 million across 10 alternate investment funds (AIFs) and three portfolio management service (PMS) funds, as of March 31, 2024.

## Sector-wise break-up of Gross Transaction Volume (GTV) for the Fiscals indicated:

Sectors	Fiscal 2024		Fiscal 2023		Fiscal 2022	
	Amount (₹ million)	% of total (%)	Amount (₹ million)	% of total (%)	Amount (₹ 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<sup>(D)</sup></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>

## Industry Overview:

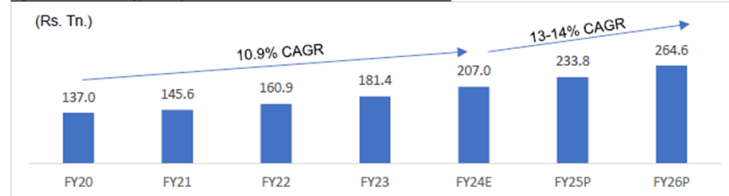
The NBFC sector has, over the years, evolved considerably in terms of size, operations, technological sophistication, and entry into newer areas of financial services and products. The number of NBFCs as well as the size of the sector have grown significantly, with a number of players with

heterogeneous business models starting operations. The increasing penetration of neo-banking, digital authentication, and mobile phone usage as well as mobile internet has resulted in the modularization of financial services, particularly credit. Overall NBFC credit during Fiscals 2020 to 2024, witnessed a CAGR of around 12% which was majorly led by retail segment which accounts for around 48% of overall NBFC credit and witnessed a CAGR of around 15%, while NBFC non-retail credit witnessed a growth of around 9% during the fiscals. Going forward, growth in the NBFC retail segment is expected at 16-18% CAGR between Fiscals 2024-2026 which will support overall NBFC credit growth, with continued focus on the retail segment and multiple players announcing plans to reduce wholesale exposure. The retail segment's market share is expected to rise further to 48% by end of Fiscal 2025 and remain around 48.5% in Fiscal 2026.

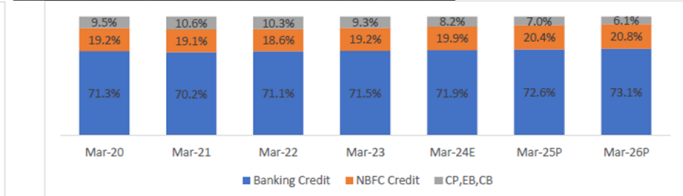
Under-served households and businesses represent a significant proportion of India's population that faces challenges in obtaining credit due to reasons such as a lack of credit history and the inability to provide collateral. Government initiatives such as Pradhan Mantri Jan-Dhan Yojana (PMJDY), Aadhaar, and widespread digitization (referred collectively as the 'JAM Trinity') have expanded the formal financial inclusion for underserved Indian population. Additionally, the widespread availability of affordable data and digital disruption has transformed the financing landscape in India. NBFCs have generally been able to address this opportunity on account of their strong origination skills, extensive reach, better customer service, faster processing, streamlined documentation requirements, digitization of customer on-boarding process, customized product offerings, local knowledge, and differentiated credit appraisal methodology. The rapid evolution of fintechs over the last few years has added another dimension to the market served by NBFCs and has fuelled rapid growth across the landscape. NBFCs have consistently gained or maintained market share across most asset classes over the last few years. Though, in certain segments such as housing finance to prime customers, they have lost market share to banks due to the decline in market interest rates. In the gold loans market, NBFCs slightly lost market share in Fiscal 2022 due to increasing focus of banks (both public and private) towards gold loans as well as RBI permitting banks to offer gold loans at a higher loan-to-value amidst the COVID-19 pandemic. Nevertheless, NBFCs continue to have a healthy market share across other segments.

## Credit penetration in India:

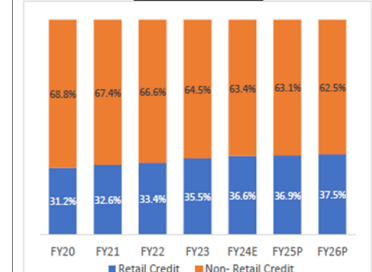
Systemic credit to grow by 13-14% between Fiscals 2024 and 2026



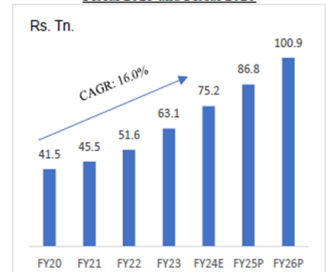
Share of NBFC credit in overall systemic credit to reach 21% in Fiscal 2026



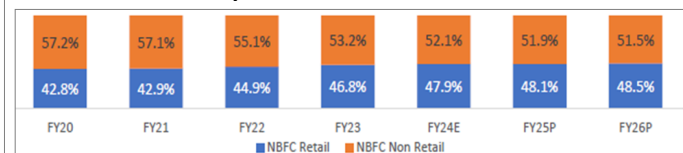
Retail segment to account for 37.5% of overall systemic credit by Fiscal 2026



Retail credit growth to continue a strong footing in Fiscal 2025 and Fiscal 2026



## Share of retail credit in total NBFC credit to grow to 48% by end of FY25 and expected to reach 48.5% in FY26



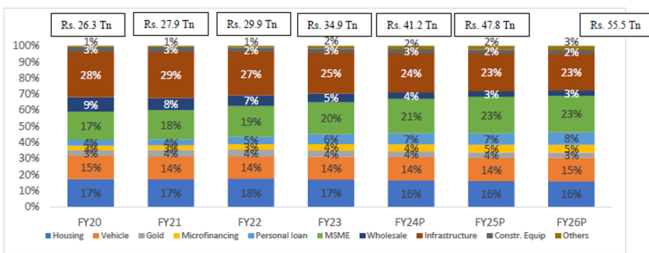
## Housing finance accounts for third highest share in overall NBFC credit as of Fiscal 2024

As of Fiscal 2024 infrastructure financing accounts for the highest share in NBFC credit (24%), which was followed by MSME loans which account for 21% share of overall NBFC credit. Housing finance accounted for third highest share in overall NBFC credit outstanding with 16% share in overall NBFC credit.

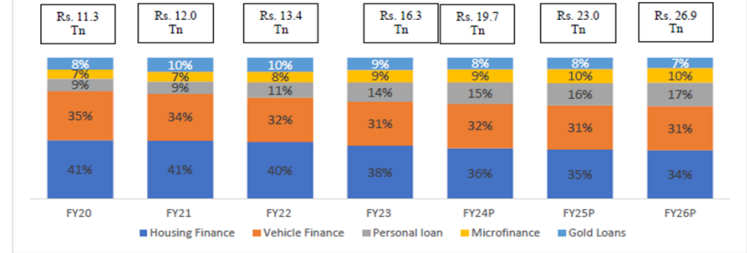
IPO Note



Distribution of NBFC Credit across asset classes

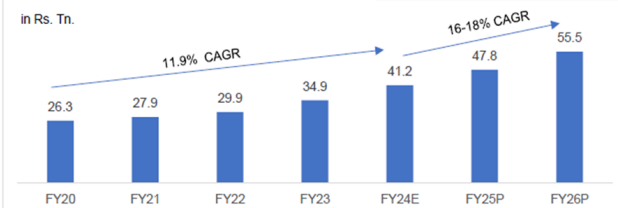


Housing finance accounted for the highest share in NBFC retail credit

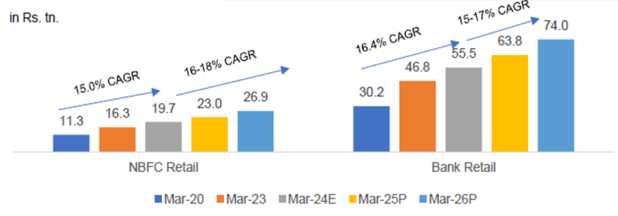


## NBFC credit to grow faster than systemic credit between FY24 and FY26

NBFC credit to grow at CAGR 16-18% between Fiscals 2024 and 2026



Growth in retail credit for NBFCs and Banks



## Investment rationale:

### Large addressable and underpenetrated market with strong sectoral expertise:

By leveraging the company's diversified business model and proprietary technology product suite customised to multiple sectors, it has, over the last 15 years, developed strong sectoral expertise in enabling credit across its focused sectors: MSME, MFI, consumer finance, vehicle finance, affordable housing finance and agriculture finance. It has been operating in the MSME, MFI and consumer finance sectors for over 14 years, 15 years and nine years, respectively. More recently, it has strengthened its retail MSME outreach by introducing, loan against property (LAP) financing in Fiscal 2022, and supply chain finance in FY23. Its LAP financing provides secured business loans directly to MSMEs through 50 branches, as of March 31, 2024. Its technology-driven supply chain financing business offers financing solutions to various participants within the enterprises' supply chain network. In addition, it incorporated its dedicated rural finance partner subsidiary, Pragati, in Fiscal 2021, which acts as a business correspondent and serves rural and semi-urban areas through which the company provides small ticket loans through a digital platform and aims to be a one-stop lending solution for rural borrowers. Further, it offers a comprehensive portfolio of products and services in the consumer finance sector, including consumer durable loans, cash or personal loans, salary advance loans and buy-now-pay-later financing, through both online and offline channels as well as in collaboration with its Retail Lending Partners.

**Northern Arc Capital has the lowest GNPA and NNPA in FY24 amongst the compared peers:** As of Fiscal 2024, Northern Arc Capital has the lowest GNPA at 0.45% followed by Bajaj Finance (1.05%) among peers. As of Fiscal 2024, Northern Arc has the lowest NNPA among peer at 0.08% followed by Credit Access Grameen (0.35%). In terms of credit cost, Poonawala Fincorp has lowest credit cost as of Fiscal 2024 among the peer for which data is available at 0.35% followed by Five Star Business (0.55%). Northern Arc Capital has credit cost of 0.47% as of fiscal 2023 and credit cost of 1.18% as of fiscal 2024. Further, Northern Arc Capital has one of the lowest Industry-wide credit costs amongst diversified NBFCs in India, as of March 31, 2024.

Asset quality trend

	GNPA (%)			NNPA (%)			Credit cost (%)*		
	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2022	Fiscal 2023	Fiscal 2024
MSME									
Five Star Business Finance Limited	1.05%	1.36%	1.38%	0.68%	0.69%	0.63%	NA	0.28%	0.55%
SBFC Finance Limited	2.74%	2.43%	2.43%	1.63%	1.41%	1.36%	NA	NA	0.73%
MFI									
Credit Access Grameen Limited	3.12%	1.21%	1.18%	0.94%	0.35%	0.35%	3.45%	2.45%	1.84%
Fusion Microfinance Private Limited	5.70%	3.46%	2.89%	1.60%	0.87%	0.60%	NA	2.41%	3.47%
Diversified									
Bajaj Finance Limited	2.02%	1.19%	1.05%	0.85%	0.43%	0.46%	NA	NA	NA
Cholamandilam Investment and Finance Company Limited	6.80%	4.60%	3.54%	4.70%	3.10%	2.32%	1.15%	0.88%	0.98%
Poonawala Fincorp Limited	3.29%	1.44%	1.16%	1.30%	0.78%	0.59%	NA	-0.97%	0.35%
MAS Financial Services Limited	2.28%	2.15%	2.25%	1.70%	1.52%	1.51%	0.62%	0.75%	1.07%
Summary									
Average of MSME lenders	1.90%	1.90%	1.91%	1.16%	1.05%	1.00%	NA	NA	0.64%
Average of MFI lenders	4.41%	2.34%	2.04%	1.27%	0.61%	0.48%	NA	2.43%	2.66%
Average of Diversified lenders	3.60%	2.35%	2.00%	2.14%	1.46%	1.22%	NA	0.22%*	0.80%*
Average of all the above lenders	3.38%	2.23%	1.99%	1.68%	1.14%	0.98%	NA	NA	NA
Northern Arc Capital	0.50%	0.77%	0.45%	0.21%	0.40%	0.08%	0.55%	0.47%	1.18%

## Set forth are details of the NBFCs loan outstanding size in terms of AUM and growth along with key growth drivers of each of the focused sectors:

Parameter	Sub-Parameter	AUM ₹Billions (Fiscal 2024)	Loan outstanding (CAGR Fiscal 2024-Fiscal 2026)	Key Growth Drivers
Overall NBFCs growth	Loan outstanding growth	41,200	16-18%	
Selected asset class wise NBFCs loan outstanding growth	MSME loans <sup>^</sup>	6,135	13-15%	Low credit penetration for MSMEs, increased data availability and transparency, and Government initiatives including credit guarantee fund scheme, emergency credit line guarantee scheme
	Micro finance loans <sup>^</sup>	1,709	23-25%	Government's continued focus on strengthening rural financial ecosystem, strong credit demand and increasing ticket sizes of loans
	Consumer finance <sup>^</sup>	4,592	17-20%	Strong macro tailwinds, increased consumer spending and digitization driving consumer durables demand
	Vehicle loans <sup>*</sup>	2,676	12-14%	Improving rural productivity, Government income support, improving industrial activity, Government's focus on infrastructure development and return to office
	Affordable housing loan	4,295	14-16%	Higher data availability, increasing affordability, urbanization, and supportive government policies
	Agri loans	35	9-10%	Increasing demand for high-value commodities, shift to tech-intensive supply chain solutions and increase in finance penetration across agriculture value chain

## Diversified sources of funding for own deployment and proactive liquidity management:

The company maintains a well-diversified funding profile that is underpinned by its established relationships with its lenders and investors, proactive liquidity management system and strong credit rating. Its diversified base of lenders (including various banks, offshore financial institutions and NBFCs) and investors provide it a strong base for increased funding. In addition, it has also conducted 12 rounds of equity fund raises (including issuances of CCPS) in the last 11 Fiscals which has allowed it to benefit from the capital sponsorship of a marquee set of equity investors which include impact focused funds and a global systemically important bank. It has also been able to service its debt obligations during challenging industry and macro-economic events and credit cycles for NBFCs. It has demonstrated the ability to improve its borrowing costs, even in environments characterized by rising interest rates in recent years. Further, the company has adopted an asset/ liability management policy which requires it to monitor and manage interest rate and liquidity risks, from time to time.

This has enabled it to maintain a positive asset liability management (ALM) position with no cumulative negative mismatches (in the maturity bucket for the period of up to one year), in line with its ALM policy, as of the last three Fiscals. It reduces the interest rate mismatch while maintaining sufficient liquidity to comply with the LCR norms by investing in low risk, liquid investments such as short-term treasury bills.

**Track record of consistent and resilient performance:** Northern Arc has achieved consistent growth in its business and financial performance as well as demonstrated resilience through various business cycles and events, including rising interest rates, the COVID-19 pandemic, demonetisation, natural disasters, and other socio-economic disruptions.

The table below sets out certain key operational and financial parameters as of and for the Fiscals indicated:

Particulars	As of and for the financial year ended March 31,		
	2024	2023	2022
Cumulative number of Originator Partners onboarded <sup>(1)</sup>	328	298	278
Cumulative number of Investor Partners <sup>(2)</sup>	1,158	871	700
AUM <sup>(3)</sup> (₹ million)	117,100.19	90,086.93	71,083.17
- Intermediate Retail Lending AUM <sup>(4)</sup> (₹ million)	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 <sup>(5)</sup> (₹ million)	58,332.73	33,854.87	16,589.76
As a % of total AUM (%)	49.81%	37.58%	23.34%
Placements volume <sup>(6)</sup> (₹ million)	117,559.19	130,642.25	73,257.47
Total Fund AUM <sup>(7)</sup> (₹ million)	28,581.27	27,756.74	29,964.03
Gross Transaction Volumes ("GTV") <sup>(8)</sup> (₹ million)	293,236.80	273,851.59	198,964.29
Total income (₹ million)	19,060.33	13,112.00	9,165.45
Restated profit for the year (₹ million)	3,176.93	2,422.14	1,819.38
Restated profit for the year attributable to owners of the holding company (₹ million)	3,083.34	2,300.11	1,725.00
Total assets (₹ million)	117,076.59	93,715.72	79,741.16
Total equity (₹ million)	23,204.11	20,677.30	18,321.12
Yield on assets minus Average Cost of Borrowings (Spread) <sup>(9)</sup> (%)	7.53%	5.89%	5.34%
Restated profit for the year attributable to owners of the holding company/ Average net worth (Return on average net worth) <sup>(10)</sup> (%)	14.54%	12.55%	10.38%
Restated Profit for the year attributable to owners of the holding company/ Average Total Assets (%)	2.97%	2.73%	2.60%

**Valuation and outlook:** The company currently has AUM of INR 117,100.19 million in FY24 which grew 29.99% YoY. The net interest income was INR 8,637.07 in FY24 which grew from INR 5,461.19 million in FY23. The Yield on assets minus Average Cost of Borrowings (Spread) was 7.53% in FY24 and 5.89% in FY23. Northern Arc Capital had the lowest GNPA of 0.45% and NNPA of 0.08%, as of FY24. The company's ROA was 2.97% in FY24. The company plans to expand its footprint to better reach and serve underserved households and businesses in its focused sectors in India by: (i) adding to and strengthening its origination channels, i.e., by on-boarding new Originator Partners onto its platform and financing the debt capital requirements for the growth of its Originator Partners, and on-boarding new Retail Lending

Partners who can help it reach more Direct to Customer Borrowers; and (ii) increasing the use of as well as scale and leverage its in-house technology and data enabled products and platforms. It also plans to add more products on its AltFi platform to offer full scale wealth management services comprising products across savings, investments (such as listing of commercial papers, fixed deposits and mutual funds) and insurance, which will help in broadening its coverage of retail investors as well. We recommend to subscribe to the issue as the issue is attractively priced given the company's growth with healthy credit metrics over the past, ability to raise capital from marquee investors and grow the loan book, post issue we expect the company to retain credits costs and growth rates coupled with healthy return ratios.

## Peer Comparison

Players	Assets Under Management			CAGR (FY22-FY24)
	FY22	FY23	FY24	
		<b>MSME</b>		
Five Star Business Finance Limited	50.7	69.1	96.4	37.90%
SBFC Finance Private Limited	31.9	49.4	68.2	46.24%
		<b>MFI</b>		
Credit Access Grameen Limited	137.3	210.3	267.1	39.49%
Fusion Microfinance Private Limited	66.5	93	114.8	31.37%
		<b>Diversified</b>		
Bajaj Finance Limited	1,467.40	1,810.00	2,448.30	29.17%
Cholamandalam Investment and Finance Company Limited	769.1	1,065.00	1,455.70	37.58%
Poonawala Fincorp Limited	165.8	161.4	250	22.80%
MAS Financial Services Limited	62.5	80.9	101.3	27.29%
		<b>Summary</b>		
Total of MSME Lenders	82.6	118.6	164.6	41.18%
Total of MFI Lenders	203.9	303.3	381.9	36.86%
Total of Diversified Lenders	2,464.80	3,117.30	4,255.30	31.39%
Total of all the above lenders	2,751.20	3,539.20	4,801.80	32.11%
Northern Arc Capital	71.1	90.1	117.1	28.35%

Particulars	GNPA (%)			NNPA (%)			Credit Cost (%)		
	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
					<b>MSME</b>				
Five Star Business Finance Limited	1.05%	1.36%	1.38%	0.68%	0.69%	0.63%	-	0.28%	0.55%
SBFC Finance Limited	2.74%	2.43%	2.43%	1.63%	1.41%	1.36%	-	-	0.73%
					<b>MFI</b>				
Credit Access Grameen Limited	3.12%	1.21%	1.18%	0.94%	0.35%	0.35%	3.45%	2.45%	1.84%
Fusion Microfinance Private Limited	5.70%	3.46%	2.89%	1.60%	0.87%	0.60%	-	2.41%	3.47%
					<b>Diversified</b>				
Bajaj Finance Limited	2.02%	1.19%	1.05%	0.85%	0.43%	0.46%	-	-	-
Cholamandalam Investment and Finance Company Ltd.	6.80%	4.60%	3.54%	4.70%	3.10%	2.32%	1.15%	0.88%	0.98%
Poonawala Fincorp Limited	3.29%	1.44%	1.16%	1.30%	0.78%	0.59%	-	-0.97%	0.35%
MAS Financial Services Limited	2.28%	2.15%	2.25%	1.70%	1.52%	1.51%	0.62%	0.75%	1.07%
					<b>Summary</b>				
Average of MSME lenders	1.90%	1.90%	1.91%	1.16%	1.05%	1.00%	-	-	0.64%
Average of MFI lenders	4.41%	2.34%	2.04%	1.27%	0.61%	0.48%	-	2.43%	2.66%
Average of Diversified lenders	3.60%	2.35%	2.00%	2.14%	1.46%	1.22%	-	0.22%	0.80%
Average of all the above lenders	3.38%	2.23%	1.99%	1.68%	1.14%	0.98%	-	-	-
Northern Arc Capital	0.50%	0.77%	0.45%	0.21%	0.40%	0.08%	0.55%	0.47%	1.18%

Peers	ROA			Name of company	Revenue	EPS (Diluted)	P/E	P/B
	FY22	FY23	FY24					
				Northern Arc Capital Ltd.	18,900.84	23.4	11.78	2.22
				<b>Listed peers</b>				
Five Star Business Finance Limited	-	8.48%	8.37%	Five Star Business Finance Limited	21,828.47	28.39	26.49	4.2
SBFC Finance Limited	-	-	3.68%	SBFC Finance Limited	10,186.40	2.3	36.52	3.2
Credit Access Grameen Limited	2.93%	5.06%	5.88%	Credit Access Grameen Limited	51,666.70	90.41	14.15	3.1
Fusion Microfinance Private Limited	-	4.66%	4.81%	Fusion Micro Finance Limited	23,167.30	50.11	6.23	1.1
Bajaj Finance Limited	1.63%	2.19%	2.63%	Bajaj Finance Limited	5,49,694.90	235.98	32.55	3.19
Cholamandalam Investment and Finance Company Limited	2.80%	2.77%	2.53%	Cholamandalam Investment and Finance Company Limited	1,91,396.20	41.06	38.38	6.8
Poonawala Fincorp Limited	-	3.92%	10.02%	Poonawalla Fincorp Limited	31,090.10	21.63	18.68	3.8
MAS Financial Services Limited	2.85%	2.84%	2.95%	MAS Financial Services Ltd.	12,791.60	15.31	18.55	2.6
Northern Arc Capital Ltd.	2.60%	2.73%	2.97%					

# Northern Arc Capital Limited

September 16, 2024



IPO Note

Income Statement				Balance Sheet			
Y/E (INR mn)	FY22	FY23	FY24	Y/E (INR mn)	FY22	FY23	FY24
Interest Income	7,808.45	11,483.88	17,121.12	<b>Source of funds</b>			
Fees and commission income	860.45	856.16	849.28	Equity Share Capital	1715.54	1716.78	1720.31
Net gain on fair value changes	426.49	506.25	456.19	Reserves	15675.24	17837.49	21423.54
Net gain on derecognition of financial instruments	-	203.42	474.25	Total Share holders funds	17390.78	19554.27	23140.32
Total Revenue	9,095.39	13,068.00	18,900.84	Debt Securities	13,435.97	12,243.16	14,137.25
Expenses:				Borrowings (Other than debt securities)	45,994.26	57,702.99	76,340.31
Finance Costs	4106.72	5574.49	7,263.85	Derivatives	29.87	22.76	64.38
Fees and commission expense	527.32	1214.20	2208.19	<b>Total Liabilities</b>	79,741.16	93,715.72	1,17,076.59
Impairment on financial instruments	365.09	392.14	1224.38	<b>Application of funds</b>			
Employee Cost	979.42	1489.25	2416.08	Loans	52087.56	68886.06	92095.89
Total Expenses	6,681.56	9,881.02	14,848.25	Investments	17657.51	17627.34	17807.05
Depreciation	95.76	120.44	169.44	Derivative financial instruments	15.19	610.48	548.19
Other Income	70.06	62.29	159.49	Other financial assets	696.52	505.90	839.15
PBT	2,483.89	3,212.25	4,202.36	Total financial assets	78,673.80	92,141.91	115621.21
PAT	1,819.38	2,422.14	3,176.93	<b>Total Assets</b>	79,741.16	93,715.72	1,17,076.59
EPS	12.78	17.02	22.32				

Cash Flow				Key Ratios			
Y/E (INR mn)	FY22	FY23	FY24	Y/E (INR mln)	FY22	FY23	FY24
Profit Before Tax	2483.89	3212.26	4202.36	<b>Growth Ratio</b>			
Adjustment	-3367.52	-5849.31	144.68	Net Sales Growth(%)	33.53%	47.07%	49.09%
Changes In working Capital	-15477.03	-19379.72	-769.93	PAT Growth(%)	137.54%	33.13%	31.16%
Cash Flow after changes in Working Capital	-16360.66	-22016.77	-150.83	<b>Margin Ratios</b>			
Tax Paid	-2423.50	-860.42	-5263.60	PBT	31.81	27.97	24.54
Cash From Operating Activities	-13255.02	-12956.54	-21344.45	PAT	23.3	21.09	18.56
Cash Flow from Investing Activities	-3855.19	-1194.71	360.45	Yield on advances	5.34	5.89	7.53
Cash from Financing Activities	20281.19	9279.53	20454.61	NIM	5.53	6.48	8.33
Net Cash Inflow / Outflow	3170.98	-4871.72	-529.39	<b>Return Ratios</b>			
Opening Cash & Cash Equivalents	3980.76	7151.74	2323.40	ROA	2.67	2.80	3.01
Closing Cash & Cash Equivalent	7151.74	2323.40	1794.01	ROE	11.69	13.87	20.84
				<b>Effeciency Ratios</b>			
				Total Debt/Equity(x)	3.48	3.63	3.90
				Cost of borrowing	0.21	0.47	1.18
				CRAR	22.79	20.77	18.26
				<b>Valuation Ratios</b>			
				P/E	6.49	4.88	11.78
				P/B	0.65	0.58	0.49
				<b>Asset Quality</b>			
				GNPA	0.5	0.77	0.45
				NNPA	0.21	0.4	0.08

**Analyst Certification:**

I, **Saurav Pal** of SMIFS Limited (in short "SMIFS / the Company"), authors and the names subscribed to this Research Report, hereby certify that all of the views expressed in this Research Report accurately reflect our views about the subject issuer(s) or securities and distributed as per SEBI (Research Analysts) Regulations 2014. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this Research Report. It is also confirmed that I, the above mentioned Research Analyst(s) of this Research Report have not received any compensation from the subject companies mentioned in the Research Report in the preceding twelve months and do not serve as an officer, director or employee of the subject companies mentioned in the Research Report .

**Terms & Conditions and Other Disclosures:**

SMIFS Limited is engaged in the business of Stock Broking, Depository Services, Portfolio Management and Distribution of Financial Products. SMIFS Limited is registered as Research Analyst Entity with Securities & Exchange Board of India (SEBI) with Registration Number – INH300001474.

SMIFS and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Research Analysts. SMIFS generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this Research Report have been prepared by SMIFS and are subject to change without any notice. The Research Report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of SMIFS Limited. While we would endeavour to update the information herein on a reasonable basis, SMIFS is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent SMIFS from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or policies of SMIFS, in circumstances where SMIFS might be acting in an advisory capacity to this company, or in certain other circumstances.

This Research Report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This Research Report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Securities as defined in clause (h) of section 2 of the Securities Contract Act, 1956, includes Financial Instruments, Currency and Commodity Derivatives. Though disseminated to all the customers simultaneously, not all customers may receive this Research Report at the same time. SMIFS will not treat recipients as customers by virtue of their receiving this Research Report. Nothing in this Research Report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this Research Report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. SMIFS accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this Research Report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. The information given in this report is as of date of this report and there can be no assurance that future results or events will be consistent with this information. The information provided in this report remains, unless otherwise stated, the copyright of SMIFS. All layout, design, original artwork, concepts and intellectual Properties remains the property and copyright of SMIFS and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the SMIFS.

SMIFS shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, breakdown of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of SMIFS to present the data. In no event shall SMIFS be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the SMIFS through this report.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (a) Exchange Rates can be volatile and are subject to large fluctuations; (b) the value of currencies may be affected by numerous market factors, including world and notional economic, political and regulatory events, events in Equity & Debt Markets and changes in interest rates; and (c) Currencies may be subject to devaluation or government imposed Exchange Controls which could affect the value of the Currency. Investors in securities such as Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Since associates of SMIFS are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this Research Report.

SMIFS and its Associates, Officers, Directors, Employees, Research Analysts including their relatives worldwide may: (i) from time to time may have long or short positions in, and buy or sell the Securities, mentioned herein or (ii) be engaged in any other transaction involving such Securities and earn brokerage or other compensation of the Subject Company/ companies mentioned herein or act as an Advisor or Lender/Borrower to such Companies or have other potential/material Conflict of Interest with respect to any recommendation and related information and opinions at the time of the publication of the Research Report or at the time of Public Appearance.

SMIFS does not have proprietary trades but may at a future date, opt for the same with prior intimation to Clients/ Investors and extant Authorities where it may have proprietary long/short position in the above Scrip(s) and therefore should be considered as interested.

## Disclaimer

The views provided herein are general in nature and do not consider Risk Appetite or Investment Objective of any particular Investor; Clients/ Readers/ Subscribers of this Research Report are requested to take independent professional advice before investing, however the same shall have no bearing whatsoever on the specific recommendations made by the analysts, as the recommendations made by the analysts are completely independent views of the Associates of SMIFS even though there might exist an inherent conflict of interest in some of the stocks mentioned in the Research Report.

The information provided herein should not be construed as invitation or solicitation to do business with SMIFS.

SMIFS or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the Research Report as of the last day of the month preceding the publication of the Research Report.

SMIFS encourages independence in Research Report preparation and strives to minimize conflict in preparation of Research Report. Accordingly, neither SMIFS and their Associates nor the Research Analysts and their relatives have any material conflict of interest at the time of publication of this Research Report or at the time of the Public Appearance, if any.

SMIFS or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

SMIFS or its associates might have received any compensation from the companies mentioned in the Research Report during the period preceding twelve months from the date of this Research Report for services in respect of managing or co-managing public offerings, corporate finance, investment banking, brokerage services or other advisory service in a merger or specific transaction from the subject company.

SMIFS or its associates might have received any compensation for products or services other than investment banking or brokerage services from the subject companies mentioned in the Research Report in the past twelve months.

SMIFS or its associates or its Research Analysts did not receive any compensation or other benefits whatsoever from the subject companies mentioned in the Research Report or third party in connection with preparation of the Research Report.

Compensation of Research Analysts is not based on any specific Investment Banking or Brokerage Service Transactions.

The Research Analysts might have served as an officer, director or employee of the subject company.

SMIFS and its Associates, Officers, Directors, Employees, Research Analysts including their relatives worldwide may have been engaged in market making activity for the companies mentioned in the Research Report.

SMIFS may have issued other Research Reports that are inconsistent with and reach different conclusion from the information presented in this Research Report.

A graph of daily closing prices of the securities/commodities is also available at [www.nseindia.com](http://www.nseindia.com) and/or [www.bseindia.com](http://www.bseindia.com), [www.mcxindia.com](http://www.mcxindia.com) and/or [www.icex.com](http://www.icex.com).

SMIFS submit' s that no material disciplinary action has been taken on the Company by any Regulatory Authority impacting Equity Research Analysis activities in last 3 years.

This Research Report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SMIFS and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.



**Specific Disclosures**

1. SMIFS, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
2. SMIFS, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company.
3. SMIFS, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months.
4. SMIFS, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report.
5. Research Analyst has not served as director/officer/employee in the subject company
6. SMIFS has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months.
7. SMIFS has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
8. SMIFS has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months.
9. SMIFS has not received any compensation or other benefits from third party in connection with the research report.
10. SMIFS has not engaged in market making activity for the subject company

Analyst holding in stock: **NO**

---

**Key to SMIFS Investment Rankings**

Buy: Return >15%, Accumulate: Return between 5% to 15%, Reduce: Return between -5% to +5%, Sell: Return < -5%

---

**Contact us:**

**SMIFS Limited.** (<https://www.smifs.com/>)

**Compliance Officer:**

**Sudipto Datta,**

5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: +91 33 4011 5401 / +91 33 6634 5401

Email Id.: [compliance@smifs.com](mailto:compliance@smifs.com)

**Mumbai Office:**

206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India

Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5500

Email Id: [institutional.equities@smifs.com](mailto:institutional.equities@smifs.com)

**Kolkata Office:**

Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.

Contact No.: (D) +91 33 6634 5408, (B) +91 33 4011 5400

Email Id: [smifs.institutional@smifs.com](mailto:smifs.institutional@smifs.com)

---