

## IPO NOTE



# NORTHERN ARC CAPITAL LIMITED

**Date: 13.09.2024**



- ◆ The company was originally incorporated as a private limited company “Highland Leasing & Finance Private Limited” in March 1989. After the acquisition of the Company by the IFMR Trust in 2008, the name of our Company was changed to ‘IFMR Capital Finance Private Limited’. The company was converted into public limited company in 2017 and was re-named as “IFMR Capital Finance Limited”. During 2018, as a part of rebranding exercise, the company was renamed as “Northern Arc Capital Limited”.
- ◆ Northern Arc Capital Ltd is a diversified financial services platform providing retail credit to underserved households and businesses in India.
- ◆ As per the CRISIL Report, they are one of the leading diversified NBFCs in India by Assets under Management (AUM) as of March 31, 2024, with a diversified business model across offerings, sectors, products, geographies, and borrower categories.
- ◆ They specialize in credit for micro, small, and medium enterprises (MSMEs), microfinance (MFI), consumer finance, vehicle finance, affordable housing finance, and agricultural finance.
- ◆ Their multi-channel approach includes balance sheet lending, intermediate retail lending through Originator Partners, and direct lending to underserved households and businesses.
- ◆ Their credit underwriting and risk models, backed by a repository of over 35.17 million data points, have consistently ensured strong asset quality and risk-adjusted returns.
- ◆ According to the CRISIL Report, they had one of the lowest GNPA at 0.45% and NNPA at 0.08% as of Fiscal 2024.
- ◆ Their multi-channel approach provides access to debt capital through three main channels: Lending, Placements, and Fund Management, all supported by their proprietary technology stack to offer efficient digital financing solutions for underserved sectors in India.
- ◆ They have a diverse lender base, including banks, NBFCs, offshore financial institutions, DFIs, and HNIs. Their credit rating was upgraded to AA- (Stable) by ICRA and India Ratings in 2023, reaffirmed in 2024, with A1+ for short-term facilities and commercial papers.

Issue Details	
Price Band (in ₹ per share)	249-263
Issue size (in ₹ Crore)	762-777
Fresh Issue (in ₹ Crore)	500.00
OFS (in ₹ Crore)	262.25-277.00
Issue open date	16.09.2024
Issue close date	19.09.2024
Tentative date of Allotment	20.09.2024
Tentative date of Listing	24.09.2024
Total number of shares (lakhs)	306.70-295.98
No. of shares for QIBs (50%) (lakhs)	150.39-145.03
No. of shares for NII (15%) (lakhs)	45.12-43.51
No. of shares for S-HNI (33%)(lakhs)	15.04-14.50
No. of shares for B-HNI (66%)(lakhs)	30.08-29.01
No. of shares for retail investors (35%) (lakhs)	105.28-101.52
No of shares for Employee Reservation (lakhs)	5.91
Minimum order quantity	57.00
Face value (in ₹)	10.00
Amount for retail investors (1 lot) (in ₹)	14193-14991
Maximum no. of shares for Retail investors at Lower Band	798 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	741 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	198702-194883
Minimum no. of shares for sHNI (2 Lakhs) at upper band	798 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	3762 (66 lots)
Minimum number of shares for bHNI at upper band	3819 (67 lots)
Exchanges to be listed on	BSE, NSE

## Promoters

- PROFESSIONALLY MANAGED COMPANY.

## Objects of the Offer

The Company proposes to utilize the Net Proceeds towards the following objects:

- ◆ To meet their future capital requirements towards onward lending in their focused sectors, namely, MSME financing, MFI, consumer finance, vehicle finance, affordable housing finance and agricultural finance, and to ensure compliance with the RBI regulations on capital adequacy, for Financial Year 2025.



## Brief Financials

PARTICULARS (Rs. Cr)*	FY24	FY23	FY22
Share Capital	89.38	89.03	88.90
Net Worth	2314.34	1955.39	1739.04
Total Income	1890.08	1304.97	909.53
Net Interest Income	985.72	590.93	370.17
Net Interest Margin (%)	8.42	6.31	4.64
Profit/(Loss) After Tax	317.69	242.21	181.93
EPS (in Rs.)	34.61	25.85	19.52
Net Asset Value (in Rs.)	177.06	150.01	133.54
P/E#	7.60	NA	NA
P/B#	1.49	NA	NA

#Calculated at upper price band \* Restated consolidated financials

### Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
<b>Revenue from operations</b>			
Interest income	780.85	1148.39	1712.11
Fee and Commission income	86.05	85.62	84.93
Net gain on fair value changes	42.65	50.63	45.62
Net gain on derecognition of financial instruments	-	20.34	47.43
<b>Total revenue from operations</b>	<b>909.54</b>	<b>1304.97</b>	<b>1890.08</b>
Other income	7.01	6.23	15.95
<b>Total income</b>	<b>916.55</b>	<b>1311.20</b>	<b>1906.03</b>
YoY Growth (%)	-	43.06%	45.37%
<b>Expenses</b>			
Fee and Commission expense	52.73	121.42	220.82
YoY Growth (%)	-	130.26%	81.86%
Employee benefits expenses	97.94	148.93	241.61
YoY Growth (%)	-	52.05%	62.23%
Impairment on financial instruments	36.51	39.21	122.44
YoY Growth (%)	-	7.41%	212.23%
Other expense	60.73	109.05	156.63
Finance cost	410.67	557.45	726.39
Depreciation and amortisation	9.58	12.04	16.94
<b>Total expenses</b>	<b>668.16</b>	<b>988.10</b>	<b>1484.83</b>
<b>Profit before tax</b>	<b>248.39</b>	<b>321.23</b>	<b>420.24</b>
<b>Tax expenses</b>			
Current tax	50.50	97.02	108.81
Adjustment of tax relating to earlier periods	-	-	0.47
Deferred tax charge / (benefit)	15.95	-18.01	-6.74
<b>Total tax expenses</b>	<b>66.45</b>	<b>79.01</b>	<b>102.54</b>
<b>Profit for the year</b>	<b>181.94</b>	<b>242.21</b>	<b>317.69</b>
PAT Margin (%)	10.63%	21.09%	40.69%
<b>Earnings per share</b>			
EPS (BASIC)	19.52	25.85	34.61

### Cashflow Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
Net cash generated from operating activities	-1325.50	-1295.65	-2134.45
Net cash used in investing activities	-385.52	-119.47	36.05
Net cash used in financing activities	2028.12	927.95	2045.46
Net increase/ (decrease) in cash and cash equivalents	317.10	-487.17	-52.94
Cash and cash equivalent as at 1 April	398.08	719.51	232.34
<b>Cash and cash equivalent as at year end</b>	<b>715.17</b>	<b>232.34</b>	<b>179.40</b>

### Balance Sheet

Particulars (In Crores)	FY2022	FY2023	FY2024
<b>ASSET</b>			
<b>Financial assets</b>			
Cash and cash equivalents	715.17	232.34	179.40
Bank balances other than cash and cash equivalents	87.34	190.26	228.34
Derivative financial instruments	1.52	61.05	54.82
Trade receivables	19.18	28.61	25.35
Loans	5208.76	6888.61	9209.59
Investments	1765.75	1762.73	1780.71
Other financial assets	69.65	50.59	83.92
<b>Total financial assets</b>	<b>7867.38</b>	<b>9214.19</b>	<b>11562.12</b>
<b>Non-financial assets</b>			
Current tax assets (net)	42.09	29.12	24.04
Deferred tax assets (net)	13.69	35.18	34.76
Property, plant and equipment	1.96	3.81	6.66
Intangible assets under development	0.28	0.99	2.31
Goodwill	1.75	24.07	23.48
Other intangible assets	9.43	13.37	11.79
Right of use asset	11.22	9.67	14.72
Investment in associates	-	27.27	3.89
Other non-financial assets	26.33	13.91	23.88
<b>Total Non-financial assets</b>	<b>106.74</b>	<b>157.38</b>	<b>145.54</b>
<b>Total assets</b>	<b>7974.12</b>	<b>9371.57</b>	<b>11707.66</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Financial liabilities</b>			
Derivative financial instruments	6.44	2.28	2.99
Trade payables	-	-	-
Total outstanding dues of micro enterprises and small enterprises	-	-	-
Total outstanding dues of creditors other than micro enterprises and small enterprises	55.82	109.61	128.48
Debt securities	1343.60	1224.32	1413.73
Borrowings (Other than debt securities)	4599.43	5770.30	7634.03
Subordinated liabilities	39.94	39.95	-
Other financial liabilities (including lease liabilities)	66.94	110.19	155.06
<b>Total financial liabilities</b>	<b>6112.16</b>	<b>7256.65</b>	<b>9334.28</b>
<b>Non-financial liabilities</b>			
Provisions	22.46	33.35	32.07
Current tax liabilities (net)	-	-	4.62
Deferred tax liabilities (net)	0.72	0.20	0.72
Other non-financial liabilities	6.67	13.64	15.56
<b>Total Non-financial liabilities</b>	<b>29.85</b>	<b>47.20</b>	<b>52.96</b>
<b>Total liability</b>	<b>6142.00</b>	<b>7303.84</b>	<b>9387.25</b>
<b>EQUITY</b>			
Equity share capital	88.91	89.03	89.39
Instruments entirely equity in nature	82.65	82.65	82.65
Other equity	1567.52	1783.75	2142.35
Non-controlling interest (NCI)	93.03	112.30	6.03
<b>Total equity</b>	<b>1832.11</b>	<b>2067.73</b>	<b>2320.41</b>
<b>Total liabilities and equity</b>	<b>7974.12</b>	<b>9371.57</b>	<b>11707.66</b>

# STORY IN CHARTS

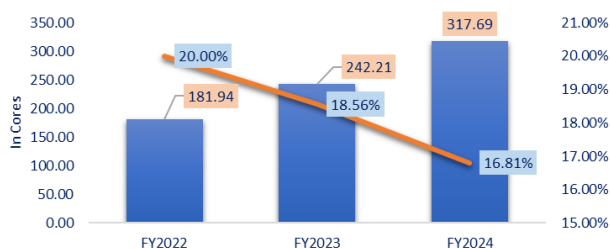
**Revenue shows steady growth of 67% CAGR-2 yr**



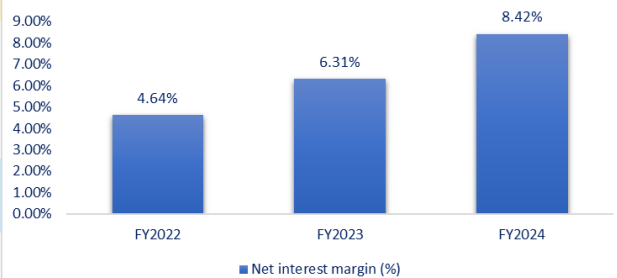
**Net Interest Income (in crores) has grown by 63% CAGR- 2 yr**



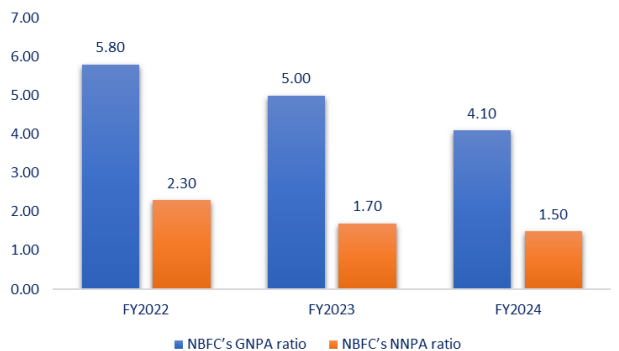
**PAT shows robust growth of 32% CAGR-2 yr**



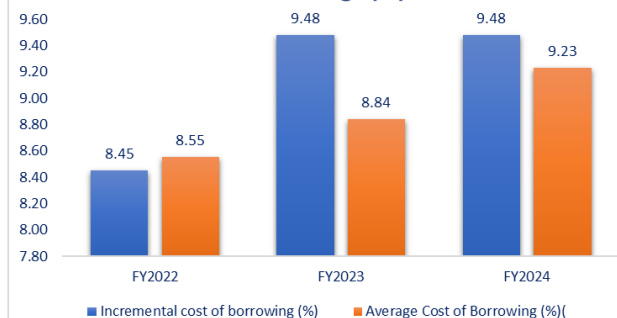
**Net Interest Margin**



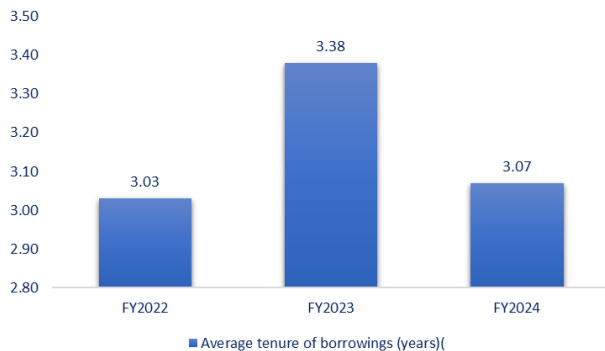
**GNPA and NNPA(%)**



**Incremental and average cost of borrowings (%)**



**Average tenure of borrowings (years)**



## Industry Review

### Declining Credit Share in Metropolitan Areas

- ◆ The share of credit to metropolitan areas has steadily declined over the past few years, falling from 66% as of March 31, 2018, to 57% by March 31, 2024.
- ◆ This reflects a shift in lending focus toward other regions, particularly rural, semi-urban, and urban areas, where the opportunity for credit expansion remains significant.

### Increasing Credit Penetration in Rural, Urban, and Semi-Urban Areas

- ◆ Semi-Urban Areas: Credit allocation increased from 12% in 2018 to 14% by 2024, showing growing financial inclusion in these regions.
- ◆ Rural Areas: Despite contributing 47% of India's GDP, rural regions received just 9% of the overall banking credit as of March 2024. This highlights a vast untapped market for both banks and NBFCs, particularly in agricultural and MSME lending.
- ◆ Urban Areas: Credit penetration saw a marginal increase, further balancing the geographic distribution of financial services.

### Government Initiatives and Technological Advancements

- ◆ Financial inclusion has been driven by government initiatives like the JAM Trinity (Jan-Dhan, Aadhaar, and Mobile), which have brought millions of underserved individuals into the formal financial system.
  - ◆ Increasing smartphone and internet penetration, particularly in rural areas, is transforming the way financial services are delivered.
- The use of alternative data for underwriting—such as payment behavior, mobile phone usage, and utility payments—has enabled lenders to better assess customers in informal sectors without traditional credit histories.

### Growth Prospects for NBFCs

- ◆ CRISIL MI&A forecasts NBFC credit to grow at a robust CAGR of 16%-18% between FY 2024 and FY 2026, driven largely by the retail vertical, including housing finance, vehicle loans, and microfinance.
  - ◆ As economic recovery gains momentum, consumer demand is expected to rebound sharply by FY 2025, further fueling NBFC credit growth.
  - ◆ The NBFC landscape is undergoing organic consolidation, with larger players benefiting from mergers and acquisitions, such as Ambit Finvest's acquisition of SME Corner and the Incred-KKR India merger.
- Growth will be primarily driven by well-established NBFCs with strong parentage, deeper financial resources, and the ability to expand into new geographies and segments.

### Retail Segment as the Key Growth Driver

- ◆ The retail segment, which already constitutes 48% of overall NBFC credit, witnessed a healthy CAGR of 15% from FY 2020 to FY 2024, and is expected to maintain strong momentum with 16%-18% growth between FY 2024-2026.
- ◆ The focus on retail lending is expected to intensify, with many NBFCs planning to reduce exposure to wholesale credit.
- ◆ Retail segment market share is projected to increase to 48.5% by FY 2026, driven by increasing demand for consumer loans, auto financing, microfinance, and affordable housing.

### Improved Asset Quality

- ◆ The asset quality of NBFCs has shown improvement, particularly in FY 2023, due to enhanced collection processes and an overall improvement in economic activity.
- ◆ Different asset classes in the NBFC sector exhibit varied behaviors—small business loans and personal loans are highly sensitive to macroeconomic factors, while microfinance loans are more influenced by local and sector-specific factors. NBFCs have strengthened their risk management processes, focusing on improving Provisioning Coverage Ratios (PCR) and stabilizing Net Non-Performing Assets (NNPA) despite sector-wide challenges.



# Competitive Strengths of the Company

## Large Addressable Market with Sectoral Expertise

- ◆ India has a low credit penetration relative to other developing countries, highlighting significant untapped potential. (Source: CRISIL Report)
- ◆ 230 million adults in India are unbanked, according to the World Bank's Global Findex Database 2021.
- ◆ Rural areas, contributing 47% of GDP, received only 9% of total banking credit as of March 31, 2024, indicating a substantial opportunity for banks and NBFCs.
- ◆ Under-served households and businesses face challenges in obtaining credit due to lack of credit history and collateral.
- ◆ Government initiatives like Pradhan Mantri Jan-Dhan Yojana (PMJDY), Aadhaar, and digitalization (JAM Trinity) have increased financial inclusion.
- ◆ Affordable data and digital disruption have transformed the financing landscape in India.

## Large ecosystem of partners and data and technology platform creating strong network effects

- ◆ Over the past 15 years, they have impacted over 101.82 million lives by serving the Indian retail credit market and facilitating financing of over ₹1.73 trillion since 2009.
- ◆ As of March 31, 2024, they have established an extensive ecosystem comprising 328 Originator Partners, 50 Retail Lending Partners, and 1,158 Investor Partners.
- ◆ Their offerings include multi-channel services such as Lending, Placements, and Fund Management.
- ◆ They utilize proprietary technology solutions and maintain a substantial data repository with over 35.17 million data points.
- ◆ This expansive network of partners, along with their diverse product offerings and technology stack, has expanded their debt-raising and investment opportunities.

## Proprietary technology product suite transforming the debt market ecosystem

- ◆ **Nimbus:** Their proprietary integrated technology platform, Nimbus, streamlines the credit flow to Originator Partners through either their balance sheet or Investor Partners. It facilitates end-to-end debt transaction processing, including loan application, credit evaluation, legal documentation, and transaction closure, offering users scale, precision, transparency, and efficiency. Nimbus also connects Originator and Investor Partners, allowing them to track deal progress, execute transactions, and review company performance.
- ◆ **nPOS:** Their cloud-based API-enabled platform, nPOS, simplifies partnership lending and co-lending by connecting banks and financial institutions for quick data exchange and loan processing. Configurable and scalable, nPOS handles loan origination, underwriting, disbursement, and collection reconciliation within seconds. It integrates seamlessly with external parties, accommodating various loan types from microfinance to consumer durables. In Fiscal 2024, nPOS had 21 active partners and facilitated transactions worth ₹59,890.64 million. It was recognized as the 'Best Lending Fintech Platform' at the Smart CX Summit & Awards in May 2024.
- ◆ **AltiFi:** AltiFi is an alternative retail debt investment platform that provides retail and individual investors, as well as small corporates, with access to fixed income assets like bonds and debt securities previously available only to institutional investors. It offers secondary sales of corporate bonds, public bond issuances, and primary issuances of sovereign gold bonds. As of March 31, 2024, AltiFi had 30,518 registered users and facilitated over ₹4,163.29 million in investments. The platform democratizes access to debt securities, helping investors diversify their portfolios and earn returns while reducing market volatility exposure.
- ◆ **Nu Score:** To streamline the underwriting process, they developed Nu Score, a proprietary cloud-based API solution that offers real-time, data-driven risk assessments. Nu Score provides a comprehensive view of borrower parameters with a single metric, facilitating informed lending decisions and enhancing financial inclusion. In Fiscal 2024, Nu Score was used for 17,052 assessments, demonstrating its effectiveness in improving underwriting efficiency.

## Risk Factors

### **Their diversified business model carries various risks that could negatively affect their operations and financial condition.**

- ◆ They operate a diversified business model that involves various risks, and poor risk management could negatively impact their operations, financial performance, and condition. Their model spans multiple sectors, products, and regions, using three main channels—Lending, Placements, and Fund Management. They work with a wide network of financial institution partners, technology platforms, and business correspondents for credit origination. This includes:

### **Borrower defaults could increase NPAs, provisions, and write-offs, negatively impacting their business and financial condition.**

- ◆ Borrower defaults on repayment obligations could lead to increased non-performing assets (NPAs), higher provisions, and write-offs, adversely affecting their business, results, cash flows, and financial condition.
- ◆ Through their Lending channel, they extend loans either directly to customers or to Originator Partners for retail on-lending, making them vulnerable to default risks from both types of borrowers.
- ◆ Default risks include delays in repayment of principal or interest, which may increase Stage 3 assets and write-offs.
- ◆ Borrowers may default due to factors like job loss, intentional defaults, sector competition, liquidity issues, cost overruns, operational failures, regulatory intervention, bankruptcy, or macroeconomic changes.
- ◆ Their Originator Partners, being financial institutions, may also face default risks due to liquidity problems, bankruptcy, insolvency, asset quality issues, or capitalization concerns.

### **They have no identifiable promoter under SEBI ICDR Regulations and the Companies Act.**

- ◆ Their company lacks an identifiable promoter under SEBI ICDR Regulations and the Companies Act, 2013.
- ◆ The success of their business depends on their senior management and key personnel, and their ability to attract and retain them.
- ◆ No minimum promoter's contribution is required for the Offer, so none of the Equity Shares will be locked in for 18 months.
- ◆ The entire pre-Offer Equity Share capital will be locked in for six months from the date of allotment.

### **Their Statutory Auditors' reports for Fiscals 2024 and 2023 include modifications and remarks under the Companies (Auditor's Report) Order, 2020.**

- ◆ Modifications in the reports address issues such as book of accounts maintenance, audit trail features, and other matters.
- ◆ The reports also mention non-completion of physical property verification and slight delays in depositing some statutory dues.
- ◆ Future statutory auditors' reports may include similar issues or other remarks that could impact their financial results and cash flows.

## Peer Comparison

Name of the company	Total Income (in Cr)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	P/E*	P/B*
Northern Arc Capital Limited	1890.08	10.00	34.61	177.06	13.32	7.60	1.49
Five-Star Business Finance Limited ("Five Star")	2182.84	1.00	28.64	177.68	16.09	26.10	4.21
SBFC Finance Limited	1018.64	10.00	2.35	25.87	8.53	36.69	3.33
CreditAccess Grameen Limited	5166.67	10.00	90.88	1809.93	5.01	13.35	0.67
Fusion Micro Finance Limited	2316.73	10.00	50.30	281.93	17.74	6.24	1.11
Bajaj Finance Limited	54969.49	2.00	236.89	1239.03	18.84	30.56	5.84
Cholamandalam Investment	19139.62	2.00	41.17	233.26	17.46	36.62	6.46
Poonawalla Fincorp Limited	3109.01	2.00	21.89	105.44	20.60	17.93	3.72
MAS Financial Services	1279.16	10.00	15.31	108.71	14.08	18.58	2.62

\*P/E & P/B ratio based on closing market price as of September 10th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24.



## Our Views

- Northern Arc Capital's diversified business model spans multiple offerings, sectors, products, geographies, and borrower categories, reflecting a broad operational scope. As of March 31, 2024, it has facilitated over ₹1.73 trillion in financing, impacting approximately 101.82 million individuals across India. This diversification gives me opportunity to improve the yields of the company.
- They have huge market potential as they operate within the ₹75 trillion retail credit market, covering sectors like MSME, MFI, vehicle finance, affordable housing, and agriculture. This extensive market exposure positions Northern Arc to leverage significant growth opportunities.
- Technological integration acts major role for them in underwriting the loan book and investment pool book. Their proprietary integrated technology platform, Nimbus enhances scalability, precision, transparency, and efficiency. By facilitating seamless information flow between Originators and Investor Partners, Nimbus supports robust operational execution.
- Their cloud-based API-enabled platform, nPOS, simplifies partnership lending and co-lending by connecting banks and financial institutions for quick data exchange and loan processing. In FY2024, nPOS handled ₹59,890.64 million in transactions with 21 active partners.
- Altifi is an alternative retail debt investment platform provided by the company that provides retail and individual investors, as well as small corporates, with access to fixed income assets.
- The company maintains robust risk management practices, evidenced by low NPA ratios. As of fiscal 2024, Northern Arc Capital has one of the lowest gross non-performing assets ("GNPAs") of 0.45% and net non-performing assets ("NPAs") of 0.08%.
- The company has a diversified funding base—68% from banks, 20% from offshore institutions, 9% from NBFCs, and 3% from domestic retail investors and HNIs—ensures financial stability. The company has established 49 lender relationships with an average borrowing tenure of 3.1 years.
- Net Interest income has grown by 63% in terms of CAGR FY2021-23 and Net interest margin has also improved from 4.64% in FY2022 to 8.42% in FY2023. Profit after tax has grown by 32% in terms of 2 year CAGR FY2022-24. This shows strong performance in margin and profitability while they are operating in a highly competitive environment poses challenges in maintaining market share and profitability for the company.
- Direct to Customer Lending AUM has grown by 88% in FY2022-24 to 5833.27 crores and total lending AUM has grown by 28% in FY2022-24 to 11710 crores. Fund AUM has grown by 2% in FY2022-24 to 2996.40 crores. Due to diversification of their book in to investments and lending, their blended yield has improved from 14% to 16.5% over the past two years.
- Northern Arc Capital's diversified model and strong technological capabilities position it well for growth in the vast retail credit market. However, it should strategically manage risks related to AIF exposure and competitive pressures.
- Continued diversification in investment strategies and innovation in technology will be crucial for mitigating these risks and sustaining long-term growth.
- Regular review and adaptation to market conditions will be essential for maintaining competitive advantage and financial stability.

This issue is available at P/BVPS of 1.49x as on FY2024, which appears in line with peers. Hence, we recommend to **SUBSCRIBE** this issue for long-term gains.

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## Analyst Certification

We/I, Sankita V, MBA, Mcom Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer (s) or securities. We 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 report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

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