

Recommendation		Subscribe	
Price Band		Rs 249 - 263	
Bidding Date		16 th Sep to 19 th Sep 2024	
Book Running Lead Manager		ICICI Securities Limited Axis Capital Limited Citigroup Global Markets India Private Limited	
Registrar		KFin Technologies Limited	
Sector		NBFC	
Min Retail Application- Detail At Cut off Price			
Number of Shares		57 Shares	
Minimum Application Money		Rs. 14,991	
Payment Mode		ASBA	
Consolidated Financials		FY23	FY24
Total Income		754	1180
Profit Before Provisioning		362	544
Adj PAT		242	318
Valuations (FY 2024)		Upper Band	
Mkt Cap (Diluted, Rs Cr)		5024 Cr	
Adj EPS (post issue)		16.6	
P/E (post issue)		15.8	
BVPS (post issue)		147.3	
P/B (post issue)		1.8	
Post Issue Shareholding Pattern			
Promoters		0%	
Public		100%	
Offer structure for different categories			
QIB (Including MF)		50%	
Non-Institutional		15%	
Retail		35%	
Post Issue Equity (Rs. in Cr)		191 Cr	
Issue Size (Rs in Cr)		777 Cr	
Face Value (Rs)		10	

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BACKGROUND

Northern Arc Capital is a leading diversified NBFC focused on catering to the retail credit needs of underserved households and businesses in India. The company operates across multiple sectors, including MSME financing, microfinance, consumer finance, vehicle finance, affordable housing, and agriculture finance. Its business model includes direct lending, intermediate retail lending through Originator Partners, and placements & fund management, supported by a robust technology stack like Nimbus and Nu Score.

Details of the Issue:

The public issue consists of Offer For Sale aggregating up to Rs 277 Cr and fresh issue up to Rs 500 Cr.

Investment Rationale:

- Expanding market potential with sectoral expertise.
- Robust partner ecosystem and technology-driven network.
- Strong risk management through proprietary models and data.
- Diversified funding sources and proactive liquidity management.

Valuation and Recommendation

Northern ARC is well-positioned for growth, leveraging sector expertise, digital platforms, and a strong partner ecosystem to access India's underpenetrated credit markets. It's diversified funding sources and improved credit rating support sustainable expansion, despite high operational costs. Northern Arc has respectable ROA (3.0%) and ROE (14.5%) along with loan growth of 28% CAGR over FY22-24. Its asset quality is impressive with low GNPA (0.5%) and NNPA (0.1%). The price-to-book value (1.8x) indicates the company is undervalued compared to peers (industry average of 3.0x), Thus we recommend subscribing to the issue.

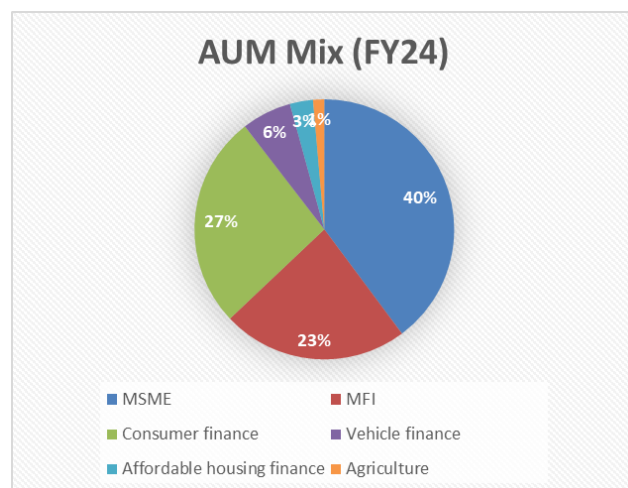
Financials (Rs. Cr)	FY22	FY23	FY24
Total Income	506	754	1180
Growth		49%	57%
Pre Prov Profit	285	362	544
Growth		27%	50%
PAT	182	242	318
Growth		33%	31%
EPS	9.5	12.7	16.6
ROA	2.6%	2.7%	3.0%
ROE	10.4%	12.6%	14.5%
P/E	27.6X	20.7X	15.8X

Source: Company data, NBRR

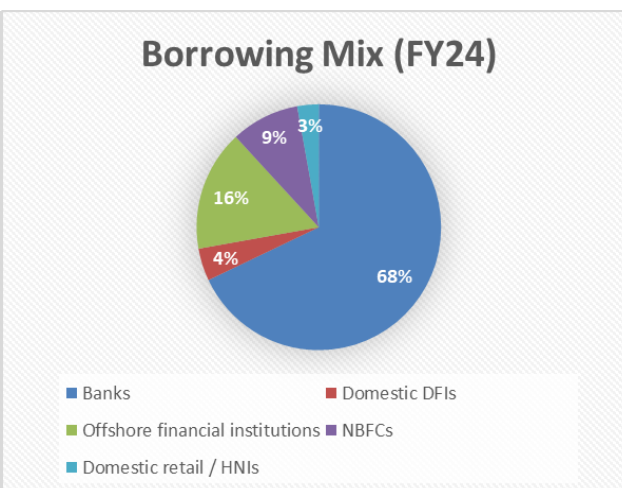
Company Background

Northern Arc Capital is a leading diversified financial services platform in India, focusing on serving the under-served households and businesses through innovative credit solutions. Recognized as one of the top diversified NBFCs in India, Northern Arc has an extensive portfolio across sectors such as micro, small, and medium enterprises (MSMEs), microfinance (MFI), consumer finance, vehicle finance, affordable housing finance, and agricultural finance. Northern Arc’s business model is built on a multi-channel approach, which includes lending directly from their balance sheet, providing financing to Originator Partners for on-lending to retail customers, placement of debt and and managing debt funds through portfolio management services. By March 2024, Northern Arc’s assets under management (AUM) amounted to ₹ 11,710 Cr, spread across 671 districts, 28 states, and seven union territories in India. The company’s technology-driven platform includes tools like Nimbus (a debt transaction processing platform), nPOS (co-lending and origination solution), and Nu Score (a machine learning-based credit assessment tool). This proprietary technology allows Northern Arc to efficiently scale operations and manage risk. Northern Arc’s credit risk framework is supported by a data repository of over 35.17 million data points, enabling strong risk management and low credit costs.

Northern Arc’s diversified lender base includes banks, offshore financial institutions, development finance institutions (DFIs), NBFCs, and high-net-worth individuals (HNIs). The company holds a strong AA- (Stable) credit rating and continues to gain investor confidence with successful fundraisings. Its operations span multiple sectors, catering to MSME financing, microfinance, consumer finance, vehicle finance, affordable housing, and agriculture finance. By partnering with 122 Originator Partners in the MSME sector, 68 in microfinance, and 40 in consumer finance, Northern Arc has expanded its reach to some of India’s most underserved regions. The company's focus on scalable rural financing, secured MSME lending, and technology-driven solutions allows it to address last-mile credit needs. Through innovative product offerings, a strong technology backbone, and sound risk management practices, Northern Arc Capital continues to be a key player in India’s retail credit market, contributing to the country’s financial inclusion and credit accessibility.



Source: RHP



Source: RHP

Investment Rationale

Expanding market potential with sectoral expertise

India has a low credit penetration compared to other developing nations like China, indicating significant untapped opportunities, especially in rural areas, where only 9% of banking credit was allocated by 2024 despite contributing 47% of GDP. A considerable portion of the population remains underserved due to limited credit access, but government initiatives like PMJDY and Aadhaar have expanded financial inclusion. Non-banking financial companies (NBFCs), such as Northern Arc, are well-positioned to serve this market by leveraging their origination skills, digital platforms, and tailored products. With strong sectoral expertise in MSME, microfinance, consumer finance, vehicle finance, housing, and agriculture, Northern Arc has been pivotal in enabling credit access across these sectors for over 15 years. Recent additions such as LAP financing and supply chain financing further strengthen the company's offering to underserved markets.

Robust partner ecosystem and technology-driven network

Over the past 15 years, Northern Arc has established a vast ecosystem of 328 Originator Partners, 50 Retail Lending Partners, and 1,158 Investor Partners. This comprehensive network, coupled with a strong technological infrastructure, has allowed the company to raise significant debt capital and investment, positively impacting over 101.82 million lives. Its proprietary platforms like Nimbus and Nu Score enable seamless debt transactions and credit decisions, while nPOS and Altifi facilitate co-lending and retail debt investments. This interconnected system generates network effects, with each transaction providing incremental data that enhances the ecosystem's scalability. By enabling Originator Partners and investors to access new pools of capital and investment opportunities, Northern Arc has created a self-sustaining 'flywheel effect'.

Particulars	As of March 31,		
	2024	2023	2022
Cumulative number of Originator Partners⁽¹⁾	328	298	278
Vintage up to 1 year	30	20	40
Vintage 1-3 years	98	109	107
Vintage >3 years	200	169	131
Cumulative number of Investor Partner⁽²⁾	1,158	871	700
Vintage up to 1 year	287	171	372
Vintage 1-3 years	670	667	300
Vintage >3 years	201	33	28

Source: Company RHP

Diversified funding sources and proactive liquidity management

Northern Arc maintains a well-diversified funding base, sourcing capital from 49 lenders, including banks, domestic and offshore financial institutions, and NBFCs. As of March 31, 2024, its borrowings totalled ₹90.47 billion. Strong credit ratings and long-term relationships with lenders have allowed the company to access competitive funding, even during challenging economic cycles. Northern Arc's proactive liquidity management system, supported by its asset-liability management policy, ensures positive cash flow with no negative mismatches. The company's credit rating, upgraded to AA- (Stable), reflects its ability to efficiently manage borrowing costs while maintaining sufficient liquidity through low-risk investments.

Strong risk management through proprietary models and data

Northern Arc employs a customized risk management system across all sectors and channels, supported by its extensive data repository of over 35.17 million data points. These data-driven insights, combined with secondary sources and on-field monitoring, strengthen the company's risk models. The development of over 30 analytical models and tools like Nu Score has enabled real-time, data-backed risk assessment, helping maintain high asset quality. The company also conducts thorough due diligence on its Originator Partners, mitigating risks across geographies and sectors. As a result, Northern Arc reported industry-leading asset quality with a GNPA of 0.45% and NNPA of 0.08% in Fiscal 2024.

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%

Source: Company RHP

Concerns

Competition: Excessive competition in retail segments like MSME, micro finance and consumer finance especially from larger NBFCs having access to low cost deposits, and the ability to offer a wider range of financial services.

Cost of outreach: Reaching rural areas and servicing small loan amounts involve high cost of operations. Setting-up branches and/or having partnership with agents, high disbursement and collection cost involved (employees need to visit remote villages for sourcing and collection of small loan amounts which increase the transportation cost) increase the overall cost of MFIs focusing in rural areas.

Risk Perception: Addressing risk perception through the development of robust risk assessment and mitigation strategies is a key challenge for lenders. Improving their ability to accurately evaluate the credit risk profile of MSME borrowers can help lenders overcome their hesitance in lending to this segment. Also MSME and Mid-corporate borrowers are often susceptible to industry-specific challenges and volatility. Effective risk assessment and mitigation strategies are essential to address these sector-specific risks.

Valuation and Recommendation

Northern ARC is well-positioned for growth, leveraging sector expertise, digital platforms, and a strong partner ecosystem to access India's underpenetrated credit markets. It's diversified funding sources and improved credit rating support sustainable expansion, despite high operational costs. Northern Arc has respectable ROA (3.0%) and ROE (14.5%) along with loan growth of 28% CAGR over FY22-24. Its asset quality is impressive with low GNPA (0.5%) and NNPA (0.1%). The price-to-book value (1.8x) indicates the company is undervalued compared to peers (industry average of 3.0x; and closest peer i.e. MAS Financial at 2.6x), Thus we recommend subscribing to the issue.

Listed Comparable Peers

FY 2024	Five-Star	SBFC Financ	CreditAccess	Fusion Micrc	Poonawalla	MAS	Avg.	Northern AR
Loan Book (Rs Cr)	9641	6821.9	26,714	11,476	25,003	10,126	14,964	11,710
Loan CAGR FY22-FY24	33.1%	46%	27%	30%	46%	27%	35%	28%
Yield	24.3%	16.7%	20.9%	21.6%	13.9%	15.5%	18.8%	16.4%
COF	9.7%	9.3%	9.8%	10.4%	8.1%	9.8%	9.5%	9.2%
Spread	14.6%	7.4%	11.1%	11.2%	5.8%	5.7%	9.3%	7.1%
Cost/Income	35%	46%	30.5%	36.6%	34.0%	32.4%	35.8%	53.9%
ROA (pre IPO)	8.4%	3.9%	5.6%	4.8%	5.2%	2.8%	5.1%	3.0%
ROE (pre IPO)	17.6%	11.9%	24.9%	19.6%	13.4%	16.3%	17.3%	14.5%
GNPA	1.4%	2.4%	1.2%	2.9%	1.2%	1.5%	1.8%	0.5%
NNPA	0.6%	1.4%	0.4%	0.6%	0.6%	2.3%	1.0%	0.1%
P/BV Trailing (Post IPO)	4.3x	3.2x	3.0x	1.1x	3.8x	2.6x	3.0x	1.8x

Source: NBRR

Financial

P&L (Rs. Crs)	FY22	FY23	FY24
Interest earned	781	1,148	1,712
Interest expended	411	557	726
NII	370	591	986
Non interest incorr	136	163	194
Total income	506	754	1,180
<i>Growth</i>		49%	57%
Total Op. expense:	221	391	636
<i>Growth</i>		77%	62%
Staff costs	98	149	242
Other Op Exp	123	243	394
Profit before prov	285	362	544
<i>Growth</i>		27%	50%
Provisions	37	39	122
Share of loss from	0	2	1
Profit before tax	248	321	420
Taxes	66	79	103
Net profit	182	242	318
<i>Growth</i>		33%	31%
Per Share Data	FY22	FY23	FY24
EPS (Diluted)	9.5	12.7	16.6
BVPS	101.4	113.9	134.5
BVPS (Post IPO)	-	-	147.3
Valuation Ratios	FY22	FY23	FY24
P/E	27.6	20.7	15.8
P/BV	2.6	2.3	2.0
P/BV (Post Issue)	-	-	1.8

Source: Company data, NBRR

Bal. Sheet (Rs. Crs)	FY22	FY23	FY24
Equity capital	172	172	172
Reserves & surplus	1,568	1,784	2,142
Net worth	1,739	1,955	2,314
Borrowings	5,943	6,995	9,048
Other liab and prov	286	419	343
Total liab and equity	7,968	9,369	11,705
Cash & Bank Balance	803	423	408
Investments	1,766	1,763	1,781
Net Advances	5,209	6,889	9,210
<i>Growth</i>		32%	34%
Other assets	191	295	307
Total assets	7,968	9,369	11,705
Asset Quality	FY22	FY23	FY24
GNPA ratio	0.50%	0.77%	0.45%
NNPA ratio	0.21%	0.40%	0.08%
Credit Cost	0.51%	0.44%	1.05%
Other Parameters	FY22	FY23	FY24
Gross Loan Portfolio	7,108	9,009	11,710
<i>Growth</i>		27%	30%
Yield on Advances	13.9%	14.7%	16.8%
Cost of Borrowings	8.6%	6.7%	9.2%
Spread	5.4%	8.0%	7.5%
NIM	4.6%	6.3%	8.4%
Tier 1	22.8%	20.8%	18.3%
Cost / Income Ratio	43.7%	51.9%	53.9%
ROA (pre IPO)	2.6%	2.7%	3.0%
ROE (pre IPO)	10.4%	12.6%	14.5%

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