

**FY24**



# **NORTHERN ARC CAPITAL LIMITED**



**BY ALTIUS INVESTECH**



# About the Company

- **Overview:** Northern Arc Capital Limited (NACL) is a prominent financial services company in India, founded in 1989 and registered with the Reserve Bank of India.
- **Specialization:** NACL specializes in enabling small and medium-sized NBFCs and fintech entities to access debt capital.
- **Expansion:** Over the years, NACL has expanded its operations into various retail segments, including microfinance institutions, supply chain finance, loan against property, and education loans.
- **Focus Sectors:** NACL has developed expertise across six key sectors: MSME financing, microfinance, consumer finance, vehicle finance (including commercial vehicles, two-wheelers, and electric vehicles), affordable housing finance, and agriculture finance.
- **Impact:** NACL has positively impacted over 80.59 million lives across 682 districts in 28 states and 7 union territories of India, facilitating financing amounting to over ₹1.50 trillion in the past 14 years.
- **Technology Solutions:** NACL's success is bolstered by innovative technology solutions such as Nimbus, nPOS, Nu Score, and AltiFi, which streamline debt transactions, co-lending/co-origination processes, loan underwriting, and retail debt investments, respectively.

# Core Activities

- 1. Debt Facilitation and Lending:** NACL assists NBFCs and fintechs in accessing debt capital through various means, including securitisation, debentures, and co-lending. It also provides direct loans to these entities and invests in subordinated tranches of securitisation pools.
- 2. Lending to Corporates and Retail Customers:** In addition to supporting NBFCs and fintechs, NACL also lends to mid-market corporates and retail customers.
- 3. Microfinance and Sectoral Expansion:** Initially focused on microfinance, NACL has diversified its NBFC activities to include affordable housing finance, small business loans, commercial vehicle finance, agricultural finance, corporate finance, and consumer finance.

# Subsidiary Companies

- **Northern Arc Investment Adviser Services Private Limited:** Facilitates investments and acts as an advisor to provide financial/investment advice to both Indian and foreign investors.
- **Northern Arc Investment Managers Private Limited:** Carries on the business of an investment company and provides portfolio management services to offshore funds and all kinds of AIFs.
- **Pragati Finserv Pvt Ltd:** Incorporated in FY21, offers small-ticket loans through a digital platform to under-served rural and semi-urban areas.
- **Northern Arc FoundationNorthern Arc Foundation:** Acts as the CSR arm for Northern Arc Capital, focusing on skill building, employment development, and education.
- **Northern Arc Securities Private Limited:** Established as a 100% subsidiary to register as a stockbroker in the debt segment. Responsible for the operations of the AltiFi platform after broking registration.





# Technology and Innovation

Northern Arc's success is bolstered by its proprietary end-to-end integrated technology solutions:

- **Nimbus:** A curated debt platform that enables the complete processing of debt transactions.
- **nPOS:** A co-lending and co-origination technology solution utilizing application programming interfaces (APIs).
- **Nu Score:** A machine learning-based analytical module designed to aid Originator Partners in the loan underwriting process.
- **AltiFi:** An alternative retail debt investment platform that expands the company's reach in retail debt investments.

# Board of Directors



**P.S. Jayakumar**  
**Non-Executive**  
**Independent Director**  
**and Chairman**



**Dr. Kshama Fernandes**  
**Non-Executive Non-**  
**Independent Director**  
**and Vice-Chairperson**



**Ashish Mehrotra**  
**Managing Director and**  
**Chief Executive Officer**

# Financial Highlights

₹ IN CRORES

Particulars	FY 2023-24	FY 2022-23	FY 2021-22
Total Income	1906	1311	916
EBITDA	1163	892	668
Profit After Tax	317	242	182
EBITDA Margin	61%	68%	73%
Net Profit Margin	17%	18%	20%
EPS	24.38	25.85	19.52

- **GNPA** - 0.76% in FY23 | 0.51% FY22.
- **NNPA** - 0.36% in FY23 | 0.18% in FY22.

# AUM by Sector

₹ IN CRORES

Particulars	March 2023	March 2022	March 2021
MSME	3,361	2,836	1,909
MFI	2,459	1,918	1,725
Consumer Finance	1,892	1,096	416
Vehicle Finance	865	829	819
Affordable Housing Finance	247	234	248
Agriculture	181	193	100
<b>Total AUM</b>	<b>9,008</b>	<b>7,108</b>	<b>5,220</b>



# Industry Overview

## Relevance of NBFCs in the Indian landscape:

NBFCs have emerged as a significant force in promoting financial inclusion in India by successfully catering to the underserved segments of society.

The growing market share of NBFCs can be attributed to the lighter and more flexible regulations imposed by the RBI and their focus on specific sectors and niche markets.

## Highlights:

- As of September 2023, NBFCs in the country have disbursed loans amounting to over 450 billion U.S.
- As per ICRA, the NBFC-Retail AUM growth rate in FY23 was 16-18% in FY23 and 12-14% in FY24.
- Projected CAGR of the NBFC sector: 18.5% | 2021 – 2026

## Key Drivers:

- **Rising Middle Class:** A growing middle class with increasing disposable income creates demand for credit, a space NBFCs effectively fill.
- **Financial Inclusion:** NBFCs play a vital role in reaching underserved segments, particularly in rural areas, where traditional banks have limited penetration
- **Government Support:** Policy initiatives promoting financial inclusion and NBFC regulations foster a supportive environment for growth.

# Key Strengths

- **Established Track Record:** Over a decade in funding and debt issuance placement, with partnerships spanning various segments.
- **Strong Risk Management:** Approved comprehensive system by the Risk Committee, with robust underwriting guidelines and continuous credit risk assessment.
- **Revenue Diversification:** Income from loans and fee-based services like securitization and loan syndication, generating ₹56 crore in FY23.
- **Diversified Asset Classes:** Presence in multiple segments, including microfinance, affordable housing finance, vehicle finance, corporate finance, and consumer finance.
- **Comfortable Capitalisation:** CAR of 20.77% and gearing levels at 3.8x, supporting growth initiatives.
- **Diversified Funding:** Borrowings from various sources, including banks, FIs, and mutual funds/wealth management firms.
- **Stable Asset Quality:** Maintained good asset quality with GNPA and NNPA at 0.77% and 0.40% respectively as of March 31, 2023.
- **Improved Profitability:** Significant PAT improvement to ₹225 crore in FY23, with NIM at 6.88% and pre-provision operating profit growing by 30%.

# Key Weaknesses

- **Client Concentration Risk:** Top 10 exposures represent 16% of AUM, posing potential impact on asset quality and profitability.
- **Exposure to Marginal Risk Profiles:** Investments in subordinated tranches of securitisation transactions and sub-debt, with some exposures rated below BB+ or unrated.

# IPO Plans

Northern Arc has refiled DRHP with SEBI on February 2, 2024.

- **Fresh issue:** Rs 500
- **OFS:** 2.1 Crs. equity shares
- **Usage of Funds:** Capex Requirements

The Company is considering raising up to Rs 100 crore through a pre-IPO placement.



## Recent News

(May 2024)

South Indian Bank and Northern Arc Capital have established a strategic partnership to streamline loan processes and expand financial offerings, leveraging their respective strengths for mutual growth. This collaboration, solidified through a MOU, aims to seize market opportunities and drive innovation in co-lending activities, utilizing Northern Arc's nPOS platform.

(January 2024)

Karnataka Bank and Northern Arc Capital Limited have joined forces to provide customer-centric financial solutions through Northern Arc's nPOS technology platform, fostering co-origination and co-lending activities. The partnership, emphasized by Shri Srikrishnan H and Ashish Mehrotra, underscores a commitment to digital lending, risk management, and financial inclusion.

# Latest Funding

**On April 22, 2024** – Northern Arc announced an investment from the International Finance Corporation, a member of the World Bank Group.

- **Investment Amount – \$80Mn | Equal split of equity and debt, each contributing \$40 million**
- **Security type – 84,91,048 CCPS | Face value – ₹20 | Share price – ₹391 | Amount – INR 331 Crs**

**On 16th April 2024**, a private placement offer to RJ Corp

- **Security type – 12,78,772 CCPS | Face value – ₹20 | Share price – ₹391 | Amount – INR 50 Crs**

# Peer Comparison

Particulars	Northern Arc Limited	Five Star Business Finance Limited	Ugro Capital limited	Arman Financial Services
Total Income	1906	2195	1082	661
PAT	317	836	119	174
Net Profit Margin	17%	38%	11%	26%
EPS	24.38	28.58	12.86	165.67
Market Cap (June 2024)	5200	20787	2606	2382
CMP (June 2024)	400	711	281	2274
P/E	16	25	22	14
P/B	3.63	4.3	1.82	2.88





# Connect with us.



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