

NORTHERN ARC CAPITAL LTD

16-09-2024 - 19-09-2024

Industry: NBFC

Price Band: ₹249 - 263

Recommendation: Subscribe for Long Term

Post Implied Market Cap: ₹4,045Cr - ₹4,244 Cr

Key Data

Issue Size (₹ Cr)	762 - 777
Fresh (₹)	500
OFS (₹)	277
No. of shares offered	30,669,592 - 29,597,646
Face Value (₹ /share)	10
Bid Lot	57

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	20-09-2024
Refunds/Unblocking ASBA Fund	23-09-2024
Credit of equity shares to DP A/c	23-09-2024
Trading commences	24-09-2024

Shareholding (No. of shares)

Pre-Issue	142,314,010
Post Issue (Lower price band)	162,451,282
Post Issue (Higher price band)	161,379,336

Shareholding Pattern

Promoter:

Pre Issue	50.80%
Post Issue	38.28%

Public - Others:

Pre Issue	47.59%
Post Issue	60.31%

Shares held by Trust:

Pre Issue	1.60%
Post Issue	1.41%

Issue Breakup

QIB	50%
NIB	15%
Retail	35%

Other Details

BRLMs: Axis Capital, ICICI Securities, Citigroup Global Markets

Registrar: KFin Technologies Ltd.

Listing: BSE & NSE

Research Analyst

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About the Company

Northern Arc Capital Limited (NACL) is a diversified financial services platform focused on addressing the retail credit needs of underserved households and businesses in India. Since entering the financial inclusion space in 2009, NACL has facilitated over ₹1.73 trillion in financing, impacting more than 101.82 million lives as of March 31, 2024. As a leading NBFC in terms of Assets under Management (AUM), NACL's business model is diversified across sectors, products, and borrower categories, with expertise in MSME financing, microfinance, consumer finance, vehicle finance, affordable housing finance, and agricultural finance. The company has one of the lowest credit costs among diversified NBFCs in India and has been actively involved in the MSME, MFI, and consumer finance sectors for over 14, 15, and 9 years, respectively.

Investment Rationales

- Large addressable and underpenetrated market with strong sectoral expertise:** NACL has developed a diversified business model and a proprietary technology product suite tailored to various sectors, including MSME, microfinance, consumer finance, vehicle finance, affordable housing finance, and agriculture finance. With over 15 years of experience, NACL has built strong sectoral expertise, having operated in the MSME, MFI, and consumer finance sectors for 14, 15, and 9 years, respectively. To enhance its retail MSME outreach, NACL introduced loan against property (LAP) financing in 2022 and supply chain finance in 2023, providing secured business loans through 50 branches. In consumer finance, NACL offers a broad range of products, such as consumer durable loans, personal loans, salary advances, and buy-now-pay-later financing through online and offline channels and in partnership with Retail Lending Partners.
- Large ecosystem of partners and data and technology platform creating strong network effects:** Over the past 15 years, NACL has developed a robust ecosystem in the Indian retail credit market, facilitating financing of over ₹1.73 trillion since 2009. As of March 31, 2024, NACL has established partnerships with 328 Originator Partners, 50 Retail Lending Partners, and 1,158 Investor Partners. The company's multi-channel offerings include Lending, Placements, and Fund Management, supported by proprietary technology and a substantial data repository of over 3.52 crore data points. NACL's "flywheel effect" leverages its Lending channel to identify and nurture Originator Partners that serve under-served categories, often helping smaller-scale partners grow by providing access to debt. Additionally, NACL collaborates with diverse Investor Partners, including banks, asset management companies, insurance firms, DFIs, and FPIs, offering them investment opportunities in India's under-served segments along with due diligence, underwriting, and ongoing monitoring capabilities.
- Robust risk management based on domain expertise, proprietary risk models and data repository driving asset quality:** NACL has tailored its risk management systems for each of its focused sectors and channels, helping to build a diversified portfolio and effectively manage risks. These systems are powered by Nimbus, a technology platform that utilizes internal and external data to provide deep risk analytics and modelling. NACL's credit risk management is enhanced by quantitative analysis based on over 3.52 crore data points, derived from loan pools evaluated and invested in through securitizations and direct assignments for Originator Partners, and over 1.86 crore Direct to Customer Lending loans disbursed as of March 31, 2024.
- Continue to scale the Direct to Customer Lending channel to enhance risk adjusted returns:** NACL's strategy for scaling their Direct to Customer Lending channel includes expanding their presence in current states and entering new geographies, along with developing innovative products. They plan to enhance their 'phygital' presence by leveraging their technology infrastructure and expertise, and to grow their rural finance network by introducing new products and offering larger value loans. Additionally, they aim to directly fund small businesses by broadening and diversifying their product portfolio.
- Focus on credit quality to manage credit cost efficiently:** NACL's 'credit first' principle emphasizes maintaining a high-quality credit portfolio to keep credit costs low. Key practices include timely identification of potential risks, monitoring borrower repayment behaviour with other lenders, and analyzing pin code data of hypothecated borrowers. The company plans to further invest in risk monitoring, analytics, and machine learning to enhance these capabilities.

Risk

- Slowdown of or disruption to the macroeconomic environment could increase the level of NPA in their AUM.
- Vulnerable to volatility in interest rates.

MView

We believe Northern Arc Capital Ltd (NACL) IPO gives investors an opportunity to invest in a diversified financial services platform dedicated to addressing the retail credit needs of under-served households and businesses in India.

We think the company's strong sectoral focus on MSME, microfinance, consumer finance, and more, coupled with its innovative products such as loan against property and supply chain finance, highlights its ability to address diverse credit needs.

We also believe NACL's extensive ecosystem, featuring 328 Originator Partners and 1,158 Investor Partners, and its data-driven risk management platform, Nimbus, underscore its sophisticated approach to managing credit risk and maximizing portfolio quality.

By looking at the financials, the company has demonstrated impressive growth in revenue from operations/net profit increased by 43.5%/33.1% in FY 2023 and 44.8%/31.2% in FY 2024. On valuation parse at the upper price band of ₹ 263/-, the issue is asking for a market cap of ₹ 4244 cr. Based on FY 2024 earnings and fully diluted post-IPO paid -up capital, the company is asking for a Price to book value (PBV) of 1.83x which seems reasonable compared to its listed peers trading at ~3x-3.5x.

With a strategic plan to expand geographically, innovate product offerings and deepen its rural finance network, with its substantial track record of financing over ₹1.73 trillion and its 'credit first' principle, NACL is well-positioned for continued growth. Hence, looking at all attributes, we recommend investors to "SUBSCRIBE" the Northern Arc Capital Ltd IPO for long term perspective.

CONSOLIDATED FINANCIAL TABLES

BASIC FINANCIAL DETAILS

Particulars ₹ (in Crs)	As at Mar' 31		
	2024	2023	2022
Equity Share Capital	89.39	89.03	88.91
Net worth	2,314.35	1,955.39	1,739.04
AUM	11,710.02	9,008.69	7,108.32
Disbursements	14,885.08	11,788.24	8,932.36
Total Borrowings	9,047.76	7,034.57	5,982.96
Revenue from Operations	1,890.08	1,304.97	909.54
Revenue Growth	44.8%	43.5%	-
EBITDA	1,163.57	890.72	668.64
Net Profit for the Year	317.69	242.21	181.94
Net Profit Margin	16.81%	18.56%	20.00%
EPS	34.61	25.85	19.52
Net Asset Value (₹) as stated	177.06	150.01	133.54
Debt Equity Ratio	3.90	3.40	3.27

Source: Company RHP

COMPARISON WITH INDUSTRY LISTED PEERS ₹ (IN CR)

Companies	Consolidated / Standalone	Revenue from Operations (₹ in Cr)	Mcap (in Cr)	FV	EPS	NAV (₹ per Share)	P/B	P/E	RoNW
Northern Arc Capital Ltd	Consolidated	1,890.08	4,244	10	19.69	143.46	1.83	13.4	13.32%
Five-Star Business Finance Ltd	Consolidated	2,182.85	22,370	1	28.64	177.68	4.29	24.8	16.09%
SBFC Finance Ltd	Consolidated	1,018.64	9,251	10	2.35	25.87	3.37	34.4	8.53%
CreditAccess Grameen Ltd	Consolidated	5,166.67	19,746	10	90.88	1,809.93	3.01	13.2	5.01%
Fusion Micro Finance Ltd	Consolidated	2,316.73	3,100	10	50.30	281.93	1.07	8.9	17.74%
Bajaj Finance Ltd	Consolidated	54,969.49	4,57,030	2	236.89	1,239.03	5.96	30.7	18.84%
Cholamandlam Investment & Finance Ltd	Consolidated	19,139.62	1,33,044	2	41.17	233.26	6.9	36.4	17.46%
Poonawalla Fincorp Ltd	Consolidated	3,109.01	31,105	2	21.89	105.44	3.8	25.5	20.60%
MAS Financial Services	Consolidated	1,279.16	5,366	10	15.31	108.70	2.8	20.2	14.08%

Date as on 31st March 2024, Cline Mcap, PE, PB calculated as on 17-09-2024

Northern Arc Capital Ltd, EPS/PE,PB, NAV calculated on annualised basis post money



MSEARCH

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Msearch's Recommendation (Absolute Performance)

Buy: > 20% within the next 12 Months

Accumulate: 5% to 20% within the next 12 Months

Sell : < -20% within the next 12 Months

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