

**Rating:** Subscribe for listing gains

### Issue Offer

**Fresh Issue of 19,011,407 equity shares up to INR 5000 mn and OFS of 10,532,320 equity shares up to INR 2770 mn taking the total issue size at INR 7770 mn**

#### Issue Summary

Price Band (INR)	249 – 263
Face Value (INR)	10
Implied Market Cap (INR Mn)	42,429
Market Lot	57
Issue Opens on	Sept, 16, 2024
Issue Close on	Sept, 19, 2024
No. of share pre-issue	142,314,010
No. of share post issue	161,325,417
Listing	NSE / BSE
<b>Issue Break-up (%)</b>	
QIB Portion	≤50
NII (HNI) Portion	≥15
Retail Portion	≥35

#### Book Running Lead Managers

ICICI Securities Limited  
Axis Capital Limited  
Citigroup Global Markets  
India Private Limited

#### Registrar

Kfin Technologies Limited

#### Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	0%	0%
Public & Others	100%	100%

#### Objects of the issue

- To meet future capital requirements towards lending.

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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. As of 31st March 2024, they have 316 physical branches and 50 originator partners. 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.

#### Investment Rationale

##### Growing market opportunities with sectoral expertise

India's credit penetration remains relatively low compared to other developing nations like China, suggesting a substantial untapped market. Despite rural areas contributing 47% of the GDP, they receive only 9% of total banking credit, highlighting a significant opportunity for banks and NBFCs to expand lending services in these regions. A large segment of India's population, including under-served households and businesses, faces difficulties in accessing credit due to factors such as the lack of credit history and insufficient collateral. Government initiatives like the Pradhan Mantri Jan-Dhan Yojana (PMJDY), Aadhaar, and the digitization efforts under the 'JAM Trinity' have considerably enhanced financial inclusion. Northern Arc is strategically positioned to capitalize on this market by leveraging its strong origination capabilities, digital platforms, and customized product offerings.

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

Over the past 15 years, Northern Arc has developed an extensive ecosystem comprising 328 Originator Partners, 50 Retail Lending Partners, and 1,158 Investor Partners. This expansive network, supported by a robust technological infrastructure, has enabled the company to raise substantial debt capital and investments, impacting over 101.82 million lives. Northern Arc's proprietary platforms, such as Nimbus and Nu Score, facilitate seamless debt transactions and streamlined credit decision-making, while nPOS and Altifi enable co-lending and retail debt investments. This integrated ecosystem benefits from network effects, as each transaction contributes incremental data, enhancing the platform's scalability. By providing Originator Partners and investors access to new capital pools and investment opportunities, Northern Arc has established a self-sustaining 'flywheel effect,' reinforcing the ecosystem's growth and sustainability..

##### Robust risk management based on domain expertise

Northern Arc implements a tailored risk management framework across its various sectors and channels, leveraging an extensive data repository comprising over 35.17 million data points. This data-centric approach, supplemented by secondary sources and field monitoring, enhances the company's risk models. With the development of more than 30 analytical models and tools like Nu Score, Northern Arc conducts real-time, data-driven risk assessments, enabling the maintenance of high asset quality. The company also performs rigorous due diligence on its Originator Partners to mitigate risks across different geographies and sectors. Consequently, Northern Arc reported industry-leading asset quality metrics in FY24, with a GNPA ratio of 0.45% and a NNPA ratio of 0.08%.

#### OUTLOOK

Northern Arc is strategically positioned for growth, leveraging its sector expertise, digital platforms, and robust partner ecosystem to penetrate India's under-served credit markets. The company's diversified funding sources and enhanced credit rating facilitate sustainable expansion, despite relatively high operational costs. Asset quality remains impressive, with a low GNPA ratio of 0.5% and a NNPA ratio of 0.1%. The company is valued at PBV of 1.8x. We recommend "Subscribe for listing gains" to the issue.

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**Stock Rating Scale**

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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