

CMP: INR 225

OUTLOOK: Positive

Target Price: NA

Stock Info

| | |
|--------------------------|--------------|
| BSE | 544260 |
| NSE | NORTHARC |
| Bloomberg | 0542390D:IN |
| Reuters | INE850M01015 |
| Sector | NBFC |
| Face Value (INR) | 10 |
| Equity Capital (INR Cr) | 161 |
| Mkt Cap (INR Cr) | 3633 |
| 52w H/L (INR) | 350/ 141 |
| Avg Yearly Vol (in 000') | 839 |

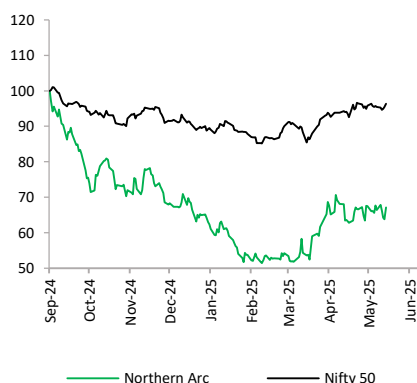
Shareholding Pattern %

(As on September, 2024)

| | |
|-----------------|-----|
| Promoters | 0 |
| Public & Others | 100 |

| Stock Performance (%) | 1m | 6m | 12m |
|--------------------------|------|-------|-------|
| Northern ARC Capital Ltd | 10.9 | -10.9 | -30.4 |
| Nifty | 4.63 | 2.04 | 8.00 |

Northern ARC Capital Ltd Vs Nifty



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Northern ARC Capital is a diversified financial services platform addressing credit needs of underserved households and businesses in India. Company focuses on sectors like MSMEs, microfinance, consumer finance, vehicle finance, affordable housing, and agriculture.

- Northern Arc Capital Ltd operates in **2 segments** – Direct to customer lending and Intermediate retails credit solutions. Their Direct to customer lending involves MSME, consumer and rural (MFI) lending.
- Intermediate retails credit solutions involves lending to NBFCs, and Fund Management among others.
- The **MFI industry has been facing issues** during the past year, including borrower overleveraging, weakening of the JLG model, and political influences among others, due to which company's within the industry has been underperforming in FY25.
- Northern Arc capital **recognized the stress at an early stage** and **reduced their exposure to rural (MFI) lending** to 8% in FY25 and thus remained safeguarded from industry stress.
- Their **profitability in Q4FY25 was impacted due to one time provision** of INR 0.68 bn, made in accordance with the regulatory guidelines on default loss guarantee, and management overlay of INR 0.51 bn, taking the total management overlay on the ECL of INR 0.60 bn.
- 75% of the borrowings of the company is floating** and the **interest rate cut benefit is expected to come in coming quarters**. This will help them to **reduce their cost of funds** further.
- Further, their **yields are also expected to improve**, driven by their **shift in product mix towards MSME LAP**.
- Their MSME LAP operates at a yield of 17 – 20%, with 48% LTV and avg ticket size of INR 11 to 15 Lakh.
- The MSME currently contributes to 19% of the total AUM, which is expected to increase going forward.
- They **target to grow SME lending by 30%** and **aims to double fund AUM over the next six quarters**.
- The company has **funds in pipeline**, which will help their fund AUM to double in next 6 quarters.
- Further, their **NIMs are expected to improve**, driven by the dual impact of improvement in yields and reduction in cost of funds.
- Company is **exploring standalone potential for proprietary Nimbus technology platform** and have entered into agreement with banks for the same, which will help to improve their revenue in coming periods.
- They are **targeting credit cost to be within the range 2 - 2.6%** for the FY26.

Outlook:

Company has a well - defined growth strategy going forward. Despite being perceived as an MFI-focused lender, rural lending forms a minor part of the portfolio (~8%). The company's diversified lending strategy, particularly in MSME and secured segments, provides a natural hedge against localized stress, offering greater earnings visibility. Their NIMs are expected to improve, driven by the dual impact of reduction in cost of funds and improvement in yields. Their cost of funds is expected to improve driven by the interest rate cut benefit that is projected to come in coming quarters. Further, their shift in product mix towards MSME will help them to improve their yields. Their SME lending is targeted to grow by 30% in FY26. Further, The company has funds in pipeline, which will help their fund AUM to double in next 6 quarters. The company's strong operational performance, coupled with a clearly defined growth strategy, indicates a favorable outlook for future performance.

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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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