

March 02, 2022

Northern Arc Capital Limited: Update on material event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	880.00	880.00	[ICRA]A+(Stable); outstanding
Non-Convertible Debentures	7.50	7.50	PP-MLD[ICRA]A+(Stable); outstanding
Long Term – Bank Facilities	2,500.00	2,500.00	[ICRA]A+(Stable); outstanding
Subordinated Debt	40.00	40.00	[ICRA]A+(Stable); outstanding
Commercial Paper	300.00	300.00	[ICRA]A1+; outstanding
Total	3,727.50	3,727.50	

*Instrument details are provided in Annexure-1

Rationale

Vide an announcement dated February 21, 2022, S.M.I.L.E. Microfinance Limited (SML) informed the BSE regarding the transfer of its microfinance business together with associated employees, assets and liabilities as a going concern, on slump sale basis to Northern Arc Capital Limited (NACL) for an aggregate cash consideration of Rs.115 crore, under a Business Transfer Agreement. This transaction would be subject to approval by shareholders, statutory and regulatory authorities, as applicable. Based on the discussion with NACL's management, ICRA understands that the transaction is expected to be completed by March 31, 2022. NACL is likely to provide liquidity support, if required, to SML to until the completion of the transaction. NACL had adequate cash & liquid investments of Rs 770 crore (on balance sheet) and undrawn bank lines of Rs.320 crore as on Feb 7, 2022. ICRA will continue to monitor the developments on this front and take appropriate rating action as and when further details are available.

Please refer to the following link for the previous detailed rationale that captures the Key rating drivers and their description, Liquidity position and Rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

Chennai-based NACL is a systemically important non-banking financial company. It acts as a platform in the financial services sector with the objective of catering to diverse credit requirement of under-served households and businesses by providing access to debt finance. This is done either through direct lending and investments or by providing syndication and structuring services. The company commenced its business by targeting microfinance institutions and has diversified into other sectors including micro, small, and medium enterprises (MSME) finance, vehicle finance (includes commercial vehicle and two-wheeler finance), consumer finance, affordable housing finance and agricultural supply chain finance. Further, over the years, NACL has steadily diversified across products, geographies, and borrower segments as well. Nimbus, NACL's proprietary technology

system, forms the backbone of its growth as a platform and enables the scaling up of business operations with execution and functional efficiencies and data analytics.

As of December 2021, IIFL Special Opportunities Fund was the largest shareholder with a stake of 26.1% on a diluted basis. Other large shareholders included Leapfrog Financial Inclusion India II Limited (23.0%), Augusta Investments II Pte Ltd (18.1%), Eight Roads Investments (Mauritius) (II) Limited (10.5%), Dvara Trust (9.9%), Accion Africa Asia Investment Company (5.9%), and SMBC (5.4%).

Northern Arc Investment Managers Private Limited

Incorporated in February 2014, Northern Arc Investment Managers Private Limited (NAIMPL) is a wholly-owned subsidiary of NACL and provides investment management services to several alternative investment funds (AIFs). The company manages seven AIFs at present while it has already provided full exit from another two AIFs.

Northern Arc Investment Adviser Services Private Limited

Incorporated in September 2012, Northern Arc Investment Adviser Services Private Limited (NAIAPL) is a wholly-owned subsidiary, which provides investment advisory services.

Northern Arc Foundation

It was constituted as a Section 8 company (not for profit) in FY2019. NACL holds 100% stake in the company. Northern Arc Foundation is primarily engaged in the business of, inter alia, providing vocational training and skill training and development for members of marginalized communities, conducting workshops, seminars and symposiums, carrying out educational programs for social upliftment, and undertaking research to identify areas for improving standards of living.

Pragati Finserv Private Limited

Pragati, a recently incorporated wholly-owned subsidiary of NACL, proposes to commence microfinance lending as a part of its rural finance business. Pragati is proposing to apply to the Reserve Bank of India (RBI) for registration as an NBFC-MFI.

Key financial indicators (audited; Ind As)

	FY2019	FY2020	FY2021
Total income (Rs. crore)	602	634	684
Profit after tax (Rs. crore)	115	103	77
Net worth (Rs. crore)	1,290	1,598	1,673
Loan book (Rs. crore)	3,970	4,096	5,123
Total managed assets (Rs. crore)	4,510	4,855	5,969
Return on managed assets (%)	2.7%	2.2%	1.4%
Return on net worth (%)	10.8%	7.1%	4.7%
Managed gearing (times)	2.8	2.0	2.7
Gross stage 3 (%)	0.82%	0.46%	2.23%
Net stage 3 (%)	0.49%	0.13%	0.88%
Solvency (Net stage 3/Net worth)	1.67%	0.37%	2.92%
CRAR (%)	27.0%	33.2%	28.9%

Source: Company, ICRA Research;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					Mar 02, 2022	Sep 15, 2021	Sep 25, 2020 Aug 14, 2020	Jul 30, 2020 Jul 20, 2020 Jun 16, 2020	Jan 10, 2020 Oct 10, 2019	Aug 30, 2019 Aug 5, 2019 Jul 1, 2019 Jun 13, 2019	Dec 6, 2018 Sep 27, 2018 Sep 14, 2018 Aug 28, 2018 Jul 18, 2018
1	NCD	Long term	880.00	880.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	NCD	Long term	7.50	7.50	PP-MLD[ICRA]A+ (Stable)	PP-MLD[ICRA]A+ (Stable)	PP-MLD[ICRA]A+ (Negative)	PP-MLD[ICRA]A+ (Negative)	PP-MLD[ICRA]A+ (Stable)	-	-
5	Long Term – Bank Facilities	Long term	2500.00	2500.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
6	Subordinated Debt	Long term	40.00	40.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
7	Commercial Paper	Short term	300.00	300.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Moderately Complex
NCD	Complex
Long Term – Bank Facilities	Simple
Subordinated Debt	Complex
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
					(Rs. crore)	
INE850M14AC4	Commercial Paper	15-Jun-21	7.60%	14-Sep-21	50.00	[ICRA]A1+
INE850M14AD2	Commercial Paper	22-Jul-21	7.50%	22-Sep-21	30.00	[ICRA]A1+
INE850M14AG5	Commercial Paper	14-Sep-21	7.25%	14-Dec-21	50.00	[ICRA]A1+
INE850M14AF7	Commercial Paper	13-Sep-21	7.25%	30-Nov-21	5.00	[ICRA]A1+
INE850M14976	Commercial Paper	24-Mar-21	8.25%	20-Sep-21	25.00	[ICRA]A1+
INE850M14AB6	Commercial Paper	10-Jun-21	7.50%	8-Sep-21	10.00	[ICRA]A1+
INE850M14AF7	Commercial Paper	31-Aug-21	7.25%	30-Nov-21	25.00	[ICRA]A1+
INE850M14AE0	Commercial Paper	10-Aug-21	7.50%	8-Nov-21	10.00	[ICRA]A1+
Unallocated	Commercial Paper	NA	NA	NA	95.00	[ICRA]A1+
INE850M07251	Non Convertible Debentures	26-Jun-20	11.25%	26-Jun-23	25.00	[ICRA]A+(Stable)
INE850M07269	Non Convertible Debentures	13-Jul-20	10.40%	13-Jul-23	33.33	[ICRA]A+(Stable)
INE850M07335	Non Convertible Debentures	13-Nov-20	9.15%	13-May-22	150.00	[ICRA]A+(Stable)
INE850M07160	Non Convertible Debentures	11-Dec-18	9.45%	11-Jun-22	100.00	[ICRA]A+(Stable)
INE850M07178	Non Convertible Debentures	20-Dec-18	9.60%	20-Dec-23	71.43	[ICRA]A+(Stable)
INE850M07301	Non Convertible Debentures	14-Sep-20	9.50%	14-Mar-22	150.00	[ICRA]A+(Stable)
INE850M08085	Non Convertible Debentures	25-Sep-19	11.60%	25-Sep-23	0.24	[ICRA]A+(Stable)
INE850M07293	Non Convertible Debentures	8-Sep-20	9.50%	8-Mar-22	50.00	[ICRA]A+(Stable)
INE850M07251	Non Convertible Debentures	26-Jun-20	11.25%	26-Jun-23	25.00	[ICRA]A+(Stable)
Unallocated	Non Convertible Debentures	NA	NA	NA	275.00	[ICRA]A+(Stable)
INE850M07285	Market Linked Debentures	30-Jul-20	Linked to BSE Sensex	30-Apr-22	7.50	PP-MLD[ICRA]A+(Stable)
NA	Term Loan 1	29-Jun-19	NA	1-Jul-22	12.50	[ICRA]A+(Stable)
NA	Term Loan 2	30-Sep-21	NA	1-Oct-24	20.00	[ICRA]A+(Stable)
NA	Term Loan 3	30-Mar-21	NA	30-Sep-22	66.67	[ICRA]A+(Stable)
NA	Term Loan 4	31-Dec-18	NA	31-Dec-21	2.22	[ICRA]A+(Stable)
NA	Term Loan 5	21-Sep-20	NA	21-Sep-23	25.56	[ICRA]A+(Stable)
NA	Term Loan 6	30-Jul-21	NA	30-Jul-24	45.83	[ICRA]A+(Stable)
NA	Term Loan 7	30-Sep-21	NA	1-Oct-25	100.00	[ICRA]A+(Stable)
NA	Term Loan 8	26-Dec-19	NA	31-Mar-23	37.50	[ICRA]A+(Stable)
NA	Term Loan 9	31-Dec-19	NA	1-Jan-22	0.93	[ICRA]A+(Stable)
NA	Term Loan 10	31-Mar-21	NA	31-Mar-22	10.00	[ICRA]A+(Stable)
NA	Term Loan 11	27-Dec-19	NA	31-Dec-21	3.75	[ICRA]A+(Stable)
NA	Term Loan 12	3-Mar-21	NA	28-Feb-23	47.22	[ICRA]A+(Stable)
NA	Term Loan 13	13-Aug-21	NA	13-Aug-24	50.00	[ICRA]A+(Stable)
NA	Term Loan 14	30-Mar-21	NA	30-Mar-24	33.06	[ICRA]A+(Stable)

NA	Term Loan 15	21-Jan-19	NA	21-Jan-22	25.00	[ICRA]A+(Stable)
NA	Term Loan 16	16-May-19	NA	16-May-22	58.33	[ICRA]A+(Stable)
NA	Term Loan 17	28-Sep-21	NA	28-Sep-24	50.00	[ICRA]A+(Stable)
NA	Term Loan 18	1-Sep-21	NA	31-Aug-24	50.00	[ICRA]A+(Stable)
NA	Term Loan 19	31-Aug-21	NA	31-Aug-24	100.00	[ICRA]A+(Stable)
NA	Term Loan 20	26-Sep-19	NA	27-Mar-22	9.09	[ICRA]A+(Stable)
NA	Term Loan 21	30-Mar-20	NA	31-Mar-24	21.87	[ICRA]A+(Stable)
NA	Term Loan 22	30-Mar-20	NA	31-Mar-24	21.78	[ICRA]A+(Stable)
NA	Term Loan 23	28-Dec-18	NA	31-Dec-21	1.39	[ICRA]A+(Stable)
NA	Term Loan 24	31-Dec-19	NA	31-Dec-22	11.67	[ICRA]A+(Stable)
NA	Term Loan 25	30-Sep-21	NA	30-Sep-24	68.06	[ICRA]A+(Stable)
NA	Term Loan 26	2-Mar-20	NA	2-Feb-23	14.93	[ICRA]A+(Stable)
NA	Term Loan 27	12-Mar-21	NA	9-Dec-23	27.00	[ICRA]A+(Stable)
NA	Term Loan 28	21-Dec-19	NA	21-Dec-22	11.67	[ICRA]A+(Stable)
NA	Term Loan 29	20-Sep-21	NA	1-Oct-23	57.50	[ICRA]A+(Stable)
NA	Term Loan 30	6-Mar-20	NA	6-Mar-22	2.08	[ICRA]A+(Stable)
NA	Term Loan 31	31-Mar-21	NA	31-Mar-24	32.22	[ICRA]A+(Stable)
NA	Term Loan 32	28-Sep-21	NA	30-Sep-24	24.31	[ICRA]A+(Stable)
NA	Term Loan 33	18-Mar-20	NA	1-Jun-23	11.67	[ICRA]A+(Stable)
NA	Term Loan 34	24-Jun-21	NA	1-Jun-24	22.92	[ICRA]A+(Stable)
NA	Term Loan 35	24-Sep-19	NA	30-Nov-22	8.26	[ICRA]A+(Stable)
NA	Term Loan 36	23-Oct-18	NA	23-Oct-21	2.08	[ICRA]A+(Stable)
NA	Term Loan 37	9-Jan-19	NA	9-Jan-22	4.17	[ICRA]A+(Stable)
NA	Term Loan 38	31-Dec-20	NA	31-Dec-21	11.11	[ICRA]A+(Stable)
NA	Term Loan 39	29-Sep-21	NA	29-Sep-24	100.00	[ICRA]A+(Stable)
NA	Term Loan 40	24-Sep-21	NA	10-Aug-22	57.50	[ICRA]A+(Stable)
NA	Term Loan 41	28-Sep-21	NA	28-Dec-23	100.00	[ICRA]A+(Stable)
NA	Term Loan 42	29-Jun-21	NA	28-Jun-24	9.09	[ICRA]A+(Stable)
NA	Term Loan 43	6-Nov-19	NA	31-Dec-22	45.46	[ICRA]A+(Stable)
NA	Term Loan 44	28-Feb-20	NA	31-Dec-22	45.46	[ICRA]A+(Stable)
NA	Term Loan 45	22-Feb-21	NA	31-Dec-23	163.64	[ICRA]A+(Stable)
NA	Term Loan 46	21-Dec-18	NA	17-May-22	6.53	[ICRA]A+(Stable)
NA	Term Loan 47	30-Sep-19	NA	22-Feb-23	13.53	[ICRA]A+(Stable)
NA	Term Loan 48	30-Sep-20	NA	22-Sep-22	24.03	[ICRA]A+(Stable)
NA	Term Loan 49	30-Nov-19	NA	5-Jan-23	3.33	[ICRA]A+(Stable)
NA	Term Loan 50	21-Sep-19	NA	21-Sep-22	4.00	[ICRA]A+(Stable)
NA	Term Loan 51	16-Mar-20	NA	5-Apr-23	24.98	[ICRA]A+(Stable)
NA	Term Loan 52	29-Jan-21	NA	30-Apr-24	29.16	[ICRA]A+(Stable)
NA	Term Loan 53	30-Nov-19	NA	30-Nov-21	3.13	[ICRA]A+(Stable)
NA	Term Loan 54	26-Feb-21	NA	28-Feb-23	10.00	[ICRA]A+(Stable)

NA	Term Loan 55	29-Jul-21	NA	29-Jul-23	13.13	[ICRA]A+(Stable)
NA	Term Loan 56	31-Dec-19	NA	31-Dec-22	15.00	[ICRA]A+(Stable)
NA	Term Loan 57	31-Jan-20	NA	1-Apr-22	4.17	[ICRA]A+(Stable)
NA	Term Loan 58	30-Jun-21	NA	30-Jun-24	20.17	[ICRA]A+(Stable)
NA	Cash Credit / OD	28-Jun-21	NA	NA	10.00	[ICRA]A+(Stable)
NA	Cash Credit / OD	30-Sep-21	NA	NA	0.50	[ICRA]A+(Stable)
NA	Cash Credit / OD	31-Mar-21	NA	NA	1.00	[ICRA]A+(Stable)
NA	Cash Credit / OD	13-Aug-21	NA	NA	15.00	[ICRA]A+(Stable)
NA	Cash Credit / OD	25-Mar-21	NA	NA	20.00	[ICRA]A+(Stable)
NA	Cash Credit / OD	20-Sep-20	NA	NA	20.00	[ICRA]A+(Stable)
NA	Cash Credit / OD	31-Dec-20	NA	NA	4.00	[ICRA]A+(Stable)
NA	Cash Credit / OD	30-Jun-21	NA	NA	10.00	[ICRA]A+(Stable)
NA	Cash Credit / OD	31-Dec-20	NA	NA	5.00	[ICRA]A+(Stable)
NA	Cash Credit / OD	26-Jul-21	NA	NA	1.00	[ICRA]A+(Stable)
NA	WCDL	28-Jun-21	NA	NA	15.00	[ICRA]A+(Stable)
NA	WCDL	30-Sep-21	NA	NA	50.00	[ICRA]A+(Stable)
NA	WCDL	27-Sep-21	NA	NA	15.00	[ICRA]A+(Stable)
NA	WCDL	30-Sep-21	NA	NA	10.00	[ICRA]A+(Stable)
NA	WCDL	13-Aug-21	NA	NA	25.00	[ICRA]A+(Stable)
NA	WCDL	13-Aug-21	NA	NA	25.00	[ICRA]A+(Stable)
NA	WCDL	17-Aug-21	NA	NA	30.00	[ICRA]A+(Stable)
NA	WCDL	25-Mar-21	NA	NA	30.00	[ICRA]A+(Stable)
NA	WCDL	28-Dec-20	NA	NA	25.00	[ICRA]A+(Stable)
NA	WCDL	27-Sep-21	NA	NA	40.00	[ICRA]A+(Stable)
NA	WCDL	31-Dec-20	NA	NA	6.00	[ICRA]A+(Stable)
NA	WCDL	31-Dec-20	NA	NA	50.00	[ICRA]A+(Stable)
NA	WCDL	14-May-21	NA	NA	50.00	[ICRA]A+(Stable)
NA	Unallocated	NA	NA	NA	247.87	[ICRA]A+(Stable)
NA	Subordinated Debt	28-Dec-17	NA	27-Jun-23	25.00	[ICRA]A+(Stable)
NA	Subordinated Debt	29-Dec-17	NA	28-Jun-23	15.00	[ICRA]A+(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Name of the Entity	Ownership	Consolidation Approach
Northern Arc Investment Managers Private Limited	100.00%	Full Consolidation
Northern Arc Investment Adviser Services Private Limited	100.00%	Full Consolidation
IFMR FImpact Long Term Credit Fund [#]		Full Consolidation
Northern Arc Money Market Alpha Trust Fund [#]		Full Consolidation (Until Aug 8, 2019)
IFMR FImpact Medium Term Opportunities Fund [#]		Full Consolidation (Until Dec 6, 2018)

[#]Based on an evaluation of existence of control on these AIFs in accordance with Ind AS 110 (Consolidated Financial Statements), these funds have been included as a part of the consolidated financial statements of NACL.

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