

March 27, 2025

Northern Arc Investment Managers Private Limited: [ICRA]AA-(SO) assigned to Class A and Class B units in Northern Arc Finserv Fund

Summary of rating action

Trust name	Instrument*	Current rated amount (Rs. crore)	Rating action
Northern Arc Finserv Fund	Class A ¹	665.00	[ICRA]AA-(SO); assigned
	Class B	35.00	[ICRA]AA-(SO); assigned

*Instrument details are provided in Annexure I; Rating is indicative of the capital protection available to the investors and should not be construed as an indication of the expected returns

¹ Class A represents Class A1, Class A2, Class A3 and Class A4 units

Rationale

The Class A and Class B units are issued by Northern Arc Finserv Fund, a scheme of Northern Arc Investment Managers Trust I, a trust organised in India and registered with the Securities and Exchange Board of India (SEBI) as a Category II – Alternative Investment Fund (AIF). The AIF has been sponsored and would be managed by Northern Arc Investment Managers Private Limited (NAIM; the asset management company or AMC). It is a close-ended scheme with a total tenure of 3.0 years, following the final closure, and a fund size of Rs. 700 crore. The fund comprises Class A (Class A1, Class A2, Class A3 and Class A4) and Class B units.

The assigned rating represents the credit risk associated with the underlying debt instruments and the adequacy of the cash flows from the debt instruments to repay the principal to the investors while covering the operating expenses for managing the scheme and is thus indicative of the capital protection available to the investors. For this analysis, all cash flows available to the investors from the fund, which could be in the form of distribution proceeds (including interest, cash dividends, premium, capital gains, prepayment penalties or other forms of cash receivable as permitted, net of expenses) gross of taxes and redemption proceeds (principal repayments, capital repayments, prepayments and redemption from one or more portfolio investments), are considered to be available for principal or capital redemption for investors.

The rating does not factor in the market risks and hence should not be construed as an indication of the expected returns or the prospective performance of the scheme. It is also not a reflection of the quality of the fund's management or its financial performance, reputation and other business practices including investment strategies, pricing, marketing and distribution activities. Furthermore, the rating is not a reflection of the adherence of the fund to the regulatory requirements.

The fund has raised a capital commitment of Rs. 175.75 crore, including Rs. 140.75 crore from Class A investors and Rs. 35 crore from Class B investors. As on February 28, 2025, it invested Rs. 112.07 crore, in line with its investment criteria. The rating factors in the support available to the Class A and Class B unitholders for capital redemption in the form of their share in the distribution proceeds, the expected moderate credit risk profile of investments and limited cash flow mismatch risk aided by the scheme's investment criteria. Adherence to this criterion over the life of the fund would remain critical.

Key rating drivers and their descriptions

Credit strengths

Track record of the Group in financial sector – NAIM was set up in February 2014 and is a wholly-owned subsidiary of Northern Arc Capital Limited {NACL; rated [ICRA]AA- (Stable)}. It manages AIFs for the Group. Since inception, it has managed 12 debt oriented CAT I, II and III AIFs till date with 6 fully matured schemes. The funds invest in operating companies with proven businesses models and high vintage across different yield buckets ranging from 13-18% (gross).

NACL has a track record of more than 15 years in the placement (arranging funding for its clients via loan syndication, securitisation and assignment among others) and lending businesses. It provides diverse financing solutions to non-banking financial companies (NBFCs) operating in different segments and small & mid-sized corporates. It also has partnerships with more than 300 originators. Its consolidated assets under management (AUM) grew by 30% YoY to Rs. 11,775 crore as of March 2024 (compound annual growth rate (CAGR) of around 29% from March 2020).

As a part of the Group, NAIM enjoys synergies on risk management, industry networks, support teams, technology & data sciences with NACL that will benefit the underwriting process and portfolio selection as well as monitoring of the fund.

Support available for capital redemption – According to the scheme documents, distribution proceeds (including interest, cash dividends, premiums, capital gains, prepayment penalties, or other forms of cash receivables) from investments, after deducting fund expenses, management fees, and reserves for expenses and liabilities, will be simultaneously allocated and distributed to all classes of unit holders (A and B) on a pari passu basis at a quarterly frequency. Redemption proceeds will also be distributed on a pari passu to unitholders no later than the fund's maturity. All cash flows, whether from distribution or redemption proceeds, are considered available for capital redemption. As on December 31, 2024, the fund had distributed Rs. 3.11 crore to the unitholders.

No cash flow mismatch – The scheme is not expected to invest in instruments with a maturity date later than its own maturity date. This alleviates the risk of timing mismatches between the redemption of investments and payouts to unitholders.

Credit quality of the underlying instruments – As per the investment criteria, the scheme would invest at least 90% in instruments rated BBB- and above. Investments in unrated instruments will be capped at 10%. Adherence to this criterion throughout the fund's life would remain crucial.

Credit challenges

Exposure to concentration risk – The scheme will have a maximum exposure of 15% in any entity. However, the management would limit the exposure to a single entity to 3.0% for unrated entities and 5.0% for other investment grade rated instruments.

Reinvestment risk – Tenure mismatches in the invested instruments and the fund's maturity, along with potential prepayments, could lead to reinvestment risk. The scheme primarily targets investments in non-convertible debentures (NCDs). While the investment horizon will align with the scheme's life and objectives, factors such as amortisation, early redemption, or maturity mismatches could expose the scheme to reinvestment risks. The reinvestment rate may be negatively impacted if reinvestments are made below the minimum headline yield.

Liquidity position: Not applicable

Rating sensitivities

Positive factors – The rating would be upgraded based on the credit quality and performance of the underlying investments after full deployment.

Negative factors – Pressure on the rating could emerge on a deterioration in the credit quality of the underlying investments or non-adherence to the proposed fund structure.

Waterfall mechanism

Distribution proceeds

Investment proceeds, redemption amounts and sale proceeds, as reduced by scheme expenses or towards the creation of reserves, and the reinvestment amount shall be referred to as the distribution payouts.

The payout date shall mean the date at the end of each calendar quarter.

The distribution proceeds will be distributed in the following manner:

- Payment of yield simultaneously allocated to holders of Class A and Class B units on pari passu basis and in proportion to the number of units held by each respective contributor, scheduled to be made on the preceding quarterly payout dates but remaining unpaid;
- Payment of yield simultaneously allocated to holders of Class A and Class B units on pari passu basis and in proportion to the respective number of units held by each contributor, scheduled to be made on the payout date; and
- Pro rata redemption of Class A and Class B units on a pari passu basis and distribution of distribution payouts in proportion to number of units held by each respective contributor on the payout dates.

Analytical approach

The rating action is based on the proposed investment criteria and adequacy of cash flows from the debt instruments to repay the capital to the investors while covering the operating expenses for managing the scheme.

Analytical approach	Comments
Applicable rating methodologies	Rating Methodology for Alternative Investment Funds (AIFs) Rating Methodology for Collateralised Debt Obligations
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the scheme

Northern Arc Finserv Fund is a scheme of Northern Arc Investment Managers Trust I, a trust organised in India and registered with the Securities and Exchange Board of India (SEBI) as a Category II – Alternative Investment Fund (AIF). The AIF has been sponsored and would be managed by Northern Arc Investment Managers Private Limited (NAIM; the asset management company or AMC). It is a close-ended scheme with a total tenure of 3.0 years after the final closure and a fund size of Rs. 700 crore. The scheme targets to invest predominantly in non-convertible debentures (NCDs). At least 90% of the investments would be in instruments rated BBB- and above with no investment in an entity exceeding 5% of the investments. The scheme would have investments in unrated entities, which will be capped at 10% with no investment in an entity exceeding 3% of the investments. The scheme is not expected to invest in instruments with a maturity date later than its own maturity date. The fund is expected to deploy the commitments received by the final closing date within a period of three months.

The fund has raised a capital commitment of Rs. 175.75 crore, including Rs. 140.75 crore from Class A investors and Rs. 35 crore from Class B investors. As on February 28, 2025, it had invested Rs. 112.07 crore in NCDs.

About the AMC

Incorporated in February 2014, NAIM is a wholly-owned subsidiary of Northern Arc Capital Limited and provides investment management services to several AIFs. It focuses on asset classes including microfinance, affordable housing finance, small and medium enterprise (SME) finance, commercial vehicle finance, consumer durable finance and corporate finance. At present, the company manages 12 funds. It has been appointed the investment manager for the following AIFs:

1. **IFMR FImpact Investment Fund** – A trust established as a Category-I AIF, it is the first scheme with a fund size of Rs. 100 crore and a tenure of up to five years. It was a close-ended long-term fund, primarily focused on providing debt funding to entities in the microfinance segment. The fund was fully exited on March 30, 2021.
2. **IFMR FImpact Long Term Multi Asset Class Fund** – A trust established as a Category-II AIF, it is the second scheme with a fund size of Rs. 388 crore and a tenure of up to six years. It was a close-ended long-term fund, primarily focused on providing debt funding to entities in the microfinance, vehicle finance, small business loan and affordable housing finance segments. The fund was fully exited on June 24, 2022.
3. **IFMR FImpact Medium Term Microfinance Fund** – A trust established as a Category-II AIF, this is the third scheme with a fund size of Rs. 99 crore and a tenure of up to 3.5 years. It was a close-ended long-term fund, primarily focused on providing debt funding to entities in the microfinance segment. The fund was fully exited on December 10, 2019.
4. **IFMR FImpact Long Term Credit Fund** – A trust established as a Category-II AIF, this is the fourth scheme with a tenure of up to 10 years. It was a close-ended long-term fund, primarily focused on providing debt funding to entities in the microfinance, vehicle finance and small business finance segments.
5. **IFMR FImpact Medium Term Opportunities Fund** – A trust established as a Category-II AIF, it is the fifth scheme with a fund size of Rs. 286 crore and a tenure of up to five years. It was a close-ended long-term fund, primarily focused on providing debt funding to entities in the microfinance, vehicle finance and small business finance segments. The fund was fully exited on March 31, 2023.
6. **IFMR FImpact Income Builder Fund** – A trust established as a Category-II AIF, it is the sixth scheme with a fund size of Rs. 174 crore and a tenure of up to 3.5 years. It was a close-ended long-term fund, primarily focused on providing debt funding to entities in the microfinance, vehicle finance, small business loan and corporate finance segments. The fund was fully exited on July 05, 2022.
7. **Northern Arc Money Market Alpha Fund** – A trust established as a Category-III AIF, it is the seventh scheme with sector agnostic investments. It is the first open-ended long-term fund from NAIM.
8. **Northern Arc India Impact Fund** – A trust established as a Category-II AIF, this is the eighth scheme. It is a close-ended long-term fund, primarily focused on providing debt funding to entities in the microfinance, vehicle finance, small business loan, agri-finance and corporate finance segments. It is the first financial inclusion focused private debt fund in India with participation from overseas investors.
9. **Northern Arc Income Builder Fund – Series II** – A trust established as a Category-II AIF, it is the ninth scheme with a fund size of Rs. 350 crore and a tenure of up to 3.5 years. It is a close-ended long-term fund, primarily focused on providing debt funding to entities in the microfinance, vehicle finance and small business loan segments. The fund was fully exited on September 24, 2024.
10. **Northern Arc Emerging Corporate Bond Fund** – A trust established as a Category-II AIF, it is the tenth scheme with a tenure of up to 3 years. It is a close-ended long-term fund, primarily focused on new-age entities.
11. **Northern Arc Finserv Fund** – A trust established as a Category-II AIF, it is the eleventh scheme with a tenure of up to four years. It is a close-ended long-term fund, primarily focused on financial services firms and the agricultural sector.
12. **Northern Arc Fintech NBFC Fund I** – A trust established as a Category-II AIF, it is the twelfth scheme with a tenure of up to 3.5 years. It is a close-ended long-term fund, primarily focused on fintech, microfinance, vehicle finance, small business loans, corporate finance, affordable housing finance, agri finance and consumer finance.

Key Financial Indicators: Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Trust Name		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Instrument	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
					March 27, 2025	-	-
1	Northern Arc Finserv Fund	Class A	665.00	NA	[ICRA]AA-(SO)	-	-
		Class B	35.00	NA	[ICRA]AA-(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Class A	Moderately Complex
Class B	Moderately Complex

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: [Click Here](#)

Annexure I: Instrument details

Trust name	Instrument	Date of issuance/ Sanction	Coupon rate (p.a.p.m.)	Maturity date	Current amount rated (Rs. crore)	Current rating
Northern Arc Finserv Fund	Class A	NA	NA	August 07, 2028	665.00	[ICRA]AA-(SO)
	Class B	NA	NA	August 07, 2028	35.00	[ICRA]AA-(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3462

sachin.joglekar@icraindia.com

Sumit Pramanik

+91 22 6114 3470

sumit.pramanik@icraindia.com

Rushabh Gohel

+91 22 6114 3420

rushabh.gohel@icraindia.com

Priya Gounder

+91 22 6114 3414

priya.gounder@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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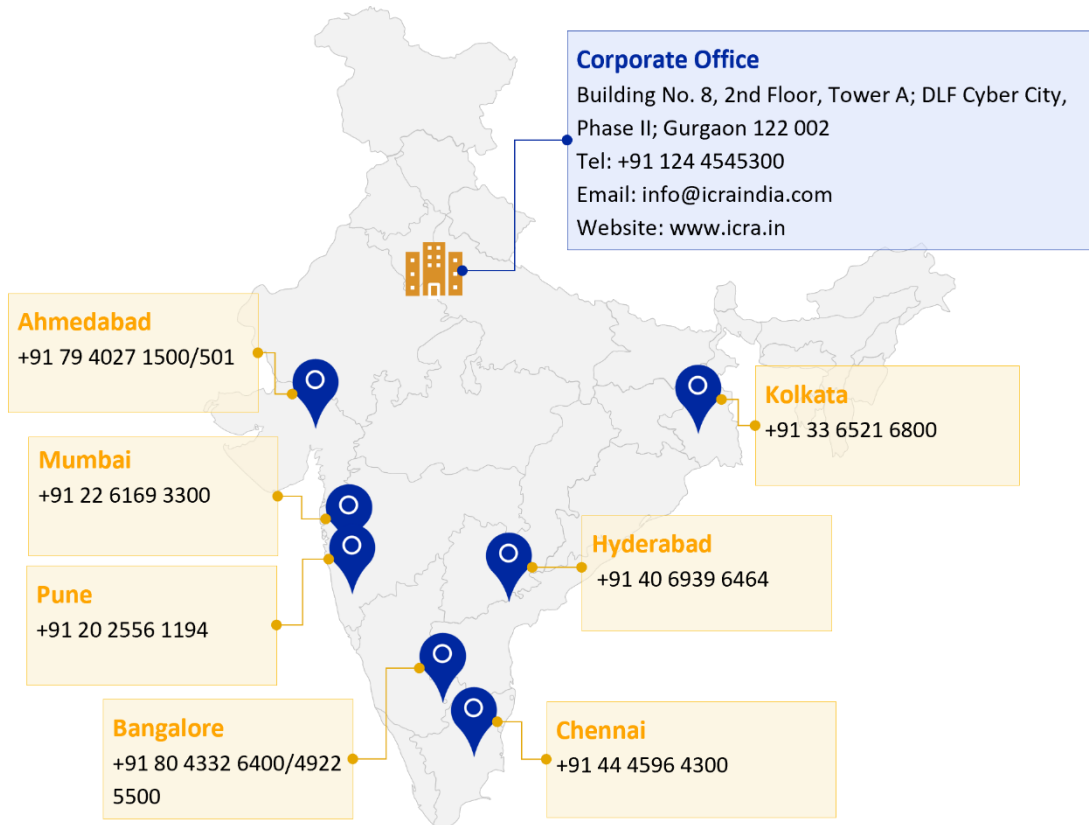


Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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