

September 30, 2025

Northern Arc Capital Limited: Provisional ratings assigned to PTCs backed by consumer finance loan receivables (originated under co-lending partnerships) issued by Rudra Securitisation Trust IV

Summary of rating action

Trust name	Instrument*	Current rated amount (Rs. crore)	Rating action
Rudra Securitisation Trust IV	Series A1 PTC	97.77	Provisional [ICRA]AA+(SO); assigned
	Equity PTC	5.55	Provisional [ICRA]A+(SO); assigned

*Instrument details are provided in Annexure I

Rating in the absence of pending actions/documents

No rating would have been assigned as it would not be meaningful

Rationale

The pass-through certificates (PTCs) are backed by a pool of consumer finance loan receivables originated by Northern Arc Capital Limited {NACL/Originator; rated [ICRA]AA- (Stable)} through co-lending partnerships. The pool has an aggregate principal outstanding of Rs. 111.10 crore (pool receivables of Rs. 152.80 crore). NACL will also be servicer of the transaction.

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

As per the transaction structure, till Series A1 PTC is outstanding, the monthly cash flow schedule comprises the promised interest payout to Series A1 PTC. The Series A1 PTC principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The equity PTC principal is then expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any prepayment in the pool would be used for the prepayment of the Series A1 PTC principal. The residual cash flow from the pool, after meeting the promised and expected payouts, will be passed on to the Originator.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 6.00% of the initial pool principal, amounting to Rs. 6.67 crore, to be provided by the Originator, (ii) subordination of 12.00% of the initial pool principal for Series A1 PTC and 7.00% of the initial pool principal for the equity PTC, and (iii) the excess interest spread (EIS) of 27.27% of the initial pool principal for Series A1 and equity PTCs.

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 5,366 contracts, with the top 10 obligors forming only 0.40% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some of the losses in the pool and provide support in meeting the PTC payouts.

Seasoned contracts in the pool with no overdues – The pool had a weighted average seasoning of ~12 months with no delinquent contracts as on the cut-off date. This reflects the borrowers' relatively better credit profile, which is a credit positive.

Track record of co-lending operations – NACL has a record of over four years of partnership in the consumer finance loan category. It has adequate underwriting policies and collection procedures across a wide geography. The company has sufficient processes for servicing the loan accounts in the securitised pool. The collections received from borrowers are deposited in the escrow account controlled by NACL, indicating no commingling risk.

Credit challenges

High geographical concentration – The pool has high geographical concentration with the 3 three states, viz. Maharashtra, Tamil Nadu and Karnataka, contributing 53.5% to the initial pool principal. Its performance would thus be exposed to any state-wide disruption that may occur due to natural calamities, political events, etc.

Risks associated with lending business – The pool's performance would remain exposed to macroeconomic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. The pool is exposed to the inherent credit risk associated with the unsecured nature of the asset class and the fact that recoveries from delinquent contracts tend to be lower.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 5.50% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidence of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final ratings for the instruments.

Liquidity position: Strong

The liquidity for the Series A1 and equity PTCs is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement for the Series A1 and equity PTCs would be ~5.75 times and ~5.00 times, respectively, the estimated loss in the pool.

Rating sensitivities

Positive factors – The ratings could be upgraded on the strong collection performance of the underlying pool (monthly collection efficiency >95%) on a sustained basis, leading to the build-up of the credit enhancement cover for the remaining payouts.

Negative factors – Pressure on the ratings could emerge on the sustained weak collection performance of the underlying pool (monthly collection efficiency of <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer (NACL) could also exert pressure on the ratings.

Analytical approach

The rating action is based on the analysis of the performance of NACL's consumer finance loan portfolio with its co-lending partners till June 2025, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Analytical approach	Comments
Applicable rating methodologies	Securitisation Transactions
Parent/Group support	Not applicable
Consolidation/Standalone	Not applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originator

NACL is a systemically important non-banking financial company (NBFC). It acts as a platform in the financial services sector with the objective of catering to the diverse credit requirements of underserved 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 (MFIs) and has diversified into other sectors including micro, small, and medium enterprise (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. 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.

NACL's equity shares were listed on NSE and BSE in September 2024. As of June 2025, on a fully-diluted basis, Leapfrog Financial Inclusion India II Limited was the largest shareholder with a stake of 16.2% in NACL, followed by Augusta Investments II Pte Ltd (16.0%), Eight Roads Investments (Mauritius) (II) Limited (7.4%), IFC (6.1%), Dvara Trust (3.7%), Accion (4.0%), SMBC (3.8%) and others (42.9%).

Key financial indicators

NACL (consolidated)	FY2024	FY2025	Q1 FY2026
Total income	1,906	2,356	608
Profit after tax	318	303	79
Total managed assets	12,654	14,640	14,395
Gross stage 3 [#]	0.5%	1.0%	1.2%
CRAR [#]	18.3%	24.7%	25.5%

Source: Company, ICRA Research; [#] Standalone; Amount in Rs. crore; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: A member of the board of directors of ICRA Limited is also an independent Director on NACL's board. This Director was not involved in any of the discussions and processes related to the ratings mentioned herein.

Rating history for past three years

Trust name	Instrument	Current rating (FY2026)		Chronology of rating history for the past 3 years			
		Initial rated amount (Rs. crore)	Current rated amount (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
				Sep 30, 2025	-	-	-
Rudra Securitisation Trust IV	Series A1 PTC	97.77	97.77	Provisional [ICRA]AA+(SO)	-	-	-
	Equity PTC	5.55	5.55	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Series A1 PTC	Moderately complex
Equity PTC	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 type	Date of issuance/ sanction	Coupon rate (p.a.p.m.)	Maturity date	Current rated amount (Rs. crore)	Current rating
Rudra Securitisation Trust IV	Series A1 PTC	September 29, 2025	8.97%	March 17, 2029	97.77	Provisional [ICRA]AA+(SO)
	Equity PTC		NA		5.55	Provisional [ICRA]A+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

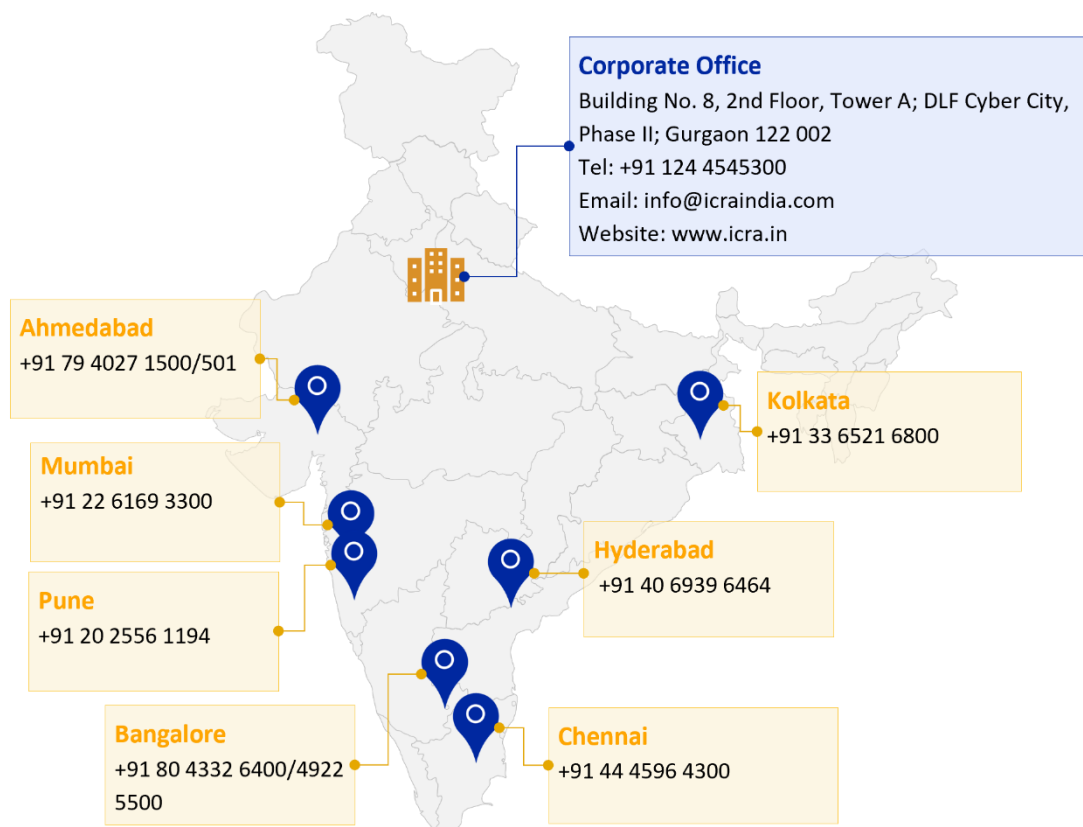


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