

Northern Arc Investment Managers Private Limited

March 16, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Manager Quality Rating (FMQR) --	--	--	AMC Quality 2(AMC2); reaffirmed
Total	--	--	

Rating action

ICRA has reaffirmed the AMC Quality 2 (AMC2) (pronounced Asset Management Company Quality Two)¹ fund management quality rating (FMQR) for Northern Arc Investment Managers Private Limited (NAIMPL; formerly IFMR Investment Managers Private Limited). Entities rated AMC2 are adjudged to provide high assurance on management quality. ICRA's opinion is not a comment on the statutory compliance, financial performance or future performance of schemes managed by an asset management company.

Rationale

The rating reaffirmation factors in the committed operational, managerial and financial support received from the parent, Northern Arc Capital Limited (NACL, rated [ICRA]A+(Stable)/ [ICRA]A1+) by virtue of being a wholly-owned subsidiary, the established risk management systems and the satisfactory performance of funds managed by NAIMPL. ICRA also takes note of NACL's established relationships with several clients and investors, which NAIMPL could leverage to scale-up its business, going forward. The rating is, however, constrained by the company's modest track record in the fund management business, considerable exposure to the microfinance segment and its relatively limited experience in other asset classes. The rating also takes cognisance of senior management exits at the Group level, in the recent past, and the limited board constitution of NAIMPL. Going forward, the company would need to augment its board and expand its senior management and other internal committees, including the investment committee as the business expands.

Key rating drivers

Credit strengths

Operational, managerial and financial support from the parent - NAIMPL is the wholly-owned subsidiary of Northern Arc Capital Limited (formerly IFMR Capital Finance Limited), which provides diverse financing solutions to entities providing microfinance, affordable housing finance and commercial vehicle finance among others, through loans and structured debt products. NAIMPL benefits from the shared services provided by NACL including IT, infrastructure, HR and finance. NAIMPL also has access to NACL's risk-monitoring reports of the investee companies, which provides adequacy in terms of post-investment controls and timely investor communications. ICRA also notes that the Group has demonstrated its commitment by investing more than the regulatory requirement (2.5% of the fund size or Rs. 5.0 crore,

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

whichever is lower, for Category I and II Alternative Investment Funds; AIF) in the funds managed by NAIMPL. ICRA expects NAIMPL to continue to benefit from the operational, managerial and financial support of its parent and the Group, going forward.

Established client and investor relationships - The rating takes cognisance of NACL's established presence and client relationships (145 as of January 2018) in various segments, including microfinance, affordable housing finance, commercial vehicle finance, small and medium enterprises (SME) finance, agriculture finance and consumer durable finance, which NAIMPL could leverage. NACL also has a diverse lender/investor base including banks, development finance institutions, insurance companies, NBFCs, HNIs and sovereign wealth funds, which could be accessed for investment in the funds managed by NAIMPL.

Satisfactory performance of funds managed though funds have limited seasoning – NAIMPL managed five funds with total assets under management (AUM) of about Rs. 826 crore as on December 31, 2017. These funds have invested in several entities via a mix of senior and subordinated debentures. ICRA notes that the fund performance has been satisfactory since inception, although its performance across economic/business cycles remains to be seen.

Credit challenges

Modest track record in fund management business - NAIMPL has a limited track record in the fund management business. However, its access to NACL's operational and managerial resources provides comfort. The rating also considers the senior management exits at the Group level in the recent past and the limited board constitution with only two directors at present. The company's ability to augment the board and strengthen the various internal committees would be critical to manage the increased fund size, going forward.

Considerable concentration in microfinance segment albeit reducing in the recent past – Of the total AUM of Rs. 826 crore in December 2017, about 65% of the fund exposure is towards the microfinance segment (includes small finance banks). However, this has declined from about 70% in September 2016 given the increasing penetration in other asset classes.

Conflict of interest mitigated to an extent by differentiated product offering - NACL assists NBFCs and NBFC-MFIs in securing funds through loans, securitisation, and partial guarantees and by offering syndication services. It also provides loans to originate portfolio that can be securitised at a later date. AIFs managed by NAIMPL provide long-term credit to the investee companies, while the loans extended by the parent have a relatively shorter term and are in the form of other financial services. Therefore, the conflict of interest is limited.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA - Fund Management Quality Rating Methodology](#)

About the company:

Incorporated in February 2014, NAIMPL is a wholly-owned subsidiary of Northern Arc Capital Limited ([ICRA]A+ (Stable)/[ICRA]A1+) and provides investment management services to several AIFs. NAIMPL focuses on asset classes including microfinance, affordable housing finance, SME finance, commercial vehicle finance, consumer durable finance and corporate finance. At present, the company manages six funds with total AUM of Rs. 927 crore as on February 28, 2018. The company has been appointed the Investment Manager for the following AIFs:

- **IFMR Finance for the Freedom Social Venture Fund** is a Trust, established as a Category-I alternate investment funds (AIF). The IFMR Fim投资 Investment Fund is its first scheme with an AUM of Rs. 102 crore (as on February 28, 2018) and a tenure of up to six years. It is a close-ended, long-term fund, primarily focused on providing debt funding to entities in the microfinance segment.
- **IFMR Finance for Freedom Fund** is a Trust, established as a Category-II AIF. The IFMR Fim投资 Long-term Multi Asset Class Fund is its first scheme with an AUM of Rs. 398 crore (as on February 28, 2018) and a tenure of up to six years. It is a close-ended, long-term fund, primarily focused on providing debt funding to entities in the microfinance, small business loan finance, affordable housing finance, commercial vehicle finance and agri-business finance segment.
- **IFMR Finance for Freedom Fund II** is a Trust, established as a Category-II AIF. The IFMR Fim投资 Medium Term Microfinance Fund is its first scheme with a size of Rs. 102 crore (as on February 28, 2018) and a tenure of up to three years. It is a close-ended fund, primarily focused on providing medium-term debt funding to entities in the microfinance segment.
- **IFMR Finance for Freedom Fund III** is a Trust, established as a Category-II AIF. The IFMR Fim投资 Long Term Credit Fund is its first scheme with a size of Rs. 157 crore (as on February 28, 2018) and a tenure of 10 years (not closed yet). It is a close-ended fund with the objective of investing in sectors such as microfinance, affordable housing finance, small business loans, commercial vehicle finance, agri-business finance etc.
- **IFMR Finance for Freedom Fund IV** is a Trust, established as a Category-II AIF. The IFMR Fim投资 Medium Term Opportunities Fund is its first scheme with a size of Rs. 104 crore (as on February 28, 2018) and a tenure of five years (not closed yet). It is a close-ended fund with the objective of providing debt funding to entities in the microfinance, affordable housing finance, small business loans, commercial vehicle finance and agri-business finance segments.
- **IFMR Finance for Freedom Fund V** is a Trust, established as a Category-II AIF. The IFMR Fim投资 Income Builder Fund is its first scheme with a size of Rs. 64 crore (as on February 28, 2018) and tenure of three and a half years (not closed yet). It is a close-ended fund with the objective of investing in a diversified pool of securities of institutions that provide credit to the microfinance, affordable housing finance, small business loans, commercial vehicle finance and agri-business finance segments.

Northern Arc Capital Limited:

Northern Arc Capital Limited (formerly IFMR Capital Finance Limited) is a systemically important non-banking finance company, based in Chennai. The company provides diverse financing solutions to entities providing microfinance, affordable housing finance, commercial vehicle finance, agri-finance, small business loans and to companies as well. NACL provides loans and other structured debt products including guarantees to its clients. It also facilitates securitisation transactions for its clients and generally invests in subordinated tranches.

The company was promoted by Dvara Trust. The company raised equity of about Rs. 310 crore during FY2014-FY2018 (till date) from its investors. IFHPL holds about 47.88% equity in the company, while Leapfrog Financial Inclusion India II Limited (Leapfrog), FIL Capital Investments (Mauritius) (II) Limited and Standard Chartered Bank (Singapore Branch) hold 28.02%, 14.20% and 9.90%, respectively, on a fully diluted basis, as on January 2018.

Key financial indicators: Not applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	March 2018	FY2017 January 2017	FY2016 October 2015	FY2015 July 2014
1 Fund Manager Quality Rating (FMQR)	--	--	--	AMC Quality 2 (AMC2)	AMC Quality 2 (AMC2)	AMC Quality 2 (AMC2)	AMC Quality 2 (AMC2)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Not applicable

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