

Northern ARC Capital Limited

October 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Commercial paper	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating to the commercial paper (CP) issue of Northern ARC Capital Limited (NACL) reflects its strong operational track record, established risk management systems, comfortable capitalisation, and diversified funding profile. The rating also factors in NACL's asset under management (AUM) growth in recent years, supported by the expansion of the direct-to-customer (D2C) segment, which has improved the average yield on its lending portfolio. NACL has also been expanding its fee-generating businesses to further diversify its revenue base.

The rating remains constrained by moderate client concentration risk in the intermediate retail lending portfolio. Stress has also been observed in certain D2C segments, including small-ticket micro, small and medium enterprise (MSME) loans, rural finance, and unsecured retail lending, where the company has relatively limited experience. CARE Ratings Limited (CareEdge Ratings) notes the rise in credit costs in the recent fiscal; however, the company's earnings profile remains comfortable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could individually or collectively lead to positive rating action/upgrade:

Not applicable

Negative factors: Factors that could individually or collectively lead to negative rating action/downgrade:

- Weakening of asset quality parameters, with gross non-performing assets (GNPA) of above 3% on a sustained basis.
- Decline in profitability levels, with return on total assets (ROTA) of below 1% on a sustained basis.
- Capital adequacy levels remaining below 18% on a sustained basis.

Analytical approach: Consolidated

CareEdge Ratings has analysed the consolidated business and financial risk profiles of NACL, its subsidiaries and associate. Consolidated entities are mentioned in Annexure-6.

Outlook: Not applicable

Detailed description of key rating drivers:

Key strengths

Established track record of operations and well-established risk management systems

NACL has been active in lending, fund management, and debt placement for over 15 years, building strong relationships with banks, non-banking finance companies (NBFCs), mutual funds, offshore investors, and private wealth firms. It has enabled funding for over 300 partner institutions across microfinance, affordable housing, small business loans, commercial vehicle finance, agricultural finance, and consumer finance. The company is Board-led and professionally managed, with Ashish Mehrotra as MD

¹Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

and CEO, P. S. Jayakumar as non-executive independent chairman, and Dr. Kshama Fernandes as non-executive vice-chairperson. Its Board comprises eight Directors, including five Independent and two Nominee Directors, supported by a strong senior management team handling business, risk, and technology functions.

Over time, NACL has built risk management practices approved by its Board Risk Committee. Credit and risk teams assess clients at onboarding stage and continuously thereafter, with oversight from the Credit Committee. Its underwriting covers governance, MIS systems, origination, and collections, with additional geographical and district-level risk triggers. A dedicated analytics team tracks portfolio performance monthly, while field visits and daily monitoring strengthen oversight. NACL leverages its in-house technology platform, Nimbus, which integrates with partners via NPoS for co-lending, and offers Altifi, a wealth management platform for retail investors to access curated investment opportunities.

Comfortable capitalisation levels with diversified resource profile

NACL reported a consolidated tangible net worth (TNW) of ₹3,284 crore as on March 31, 2025, compared to ₹2,248 crore as on March 31, 2024. The increase was considering internal accruals, and the equity raise of ₹872 crore by the company in FY25. This also resulted in an improvement in the company's capital adequacy ratio (CAR) to 24.72% as on March 31, 2025, from 18.26% as on March 31, 2024. The current levels of capitalisation are sufficient to support the growth envisaged by NACL, and CareEdge Ratings has noted the management's guidance that the existing capital base is sufficient to support growth for the next three years. On the gearing front, debt/tangible networth reduced to 3.00x as on March 31, 2025, from 4.02x as on March 31, 2024. The TNW increased to ₹3,352 crore in Q1FY26.

On the resource profile's diversification front, of the total borrowings as on March 31, 2025, at NACL's standalone level, the share of bank funding stood at 65.20% (PY: 68.19%), followed by international development finance institutions at 18.53% (14.49%), domestic development finance institutions at 8.45% (4.29%), NBFCs at 5.12% (PY: 6.50%) and others, including offshore funding, foreign banks, and small finance banks, among others, at 2.70% (PY: 6.53%). CareEdge Ratings has taken note of the company's strategy of increasing external currency borrowings (ECBs), which has helped reduce its overall cost of funds in FY25.

Growth in AUM driven by retail segment

The company's AUM grew at a compounded annual growth rate (CAGR) of 27% between FY21 and FY25, reaching ₹13,634 crore as on March 31, 2025. This growth was primarily driven by the strong performance of its D2C products, which cater to retail borrowers and small businesses. The D2C portfolio includes MSME funding, which is originated through 84 own branches, rural microfinance loans, which are originated through 285 branches of its subsidiary (Pragati Finserv Private Limited) and consumer financing, and rural finance. Since its inception in FY21, the D2C book has expanded at a CAGR of 64%, reaching ₹7,064 crore as on March 31, 2025. In terms of portfolio contribution, the share of the D2C book rose from 19% of total AUM in FY21 to 52% in FY25. This growth demonstrates the company's strategic shift towards higher-yielding retail products. D2C book further increased in Q1FY26 to ₹7,142 crore as on June 30, 2025.

Apart from D2C, the company is also engaged in intermediate retail lending, under which it provides funding to NBFCs for onward lending. Apart from this, the company also extends funding to mid-corporates and provides supply chain financing to corporates. NACL also invests in financial institutions / corporates through AIFs and offers debt placement solutions to its clients. Under this segment, the lending AUM recorded a moderate CAGR of 12% between FY21 and FY25 and stood at ₹6,570 crore. However, the company has simultaneously increased its fund management AUM and placement volumes to enhance fee-based income and further diversify its revenue profile. CareEdge Ratings expects the company to continue focusing on expanding its D2C portfolio and scaling up its fee-income generating businesses, which is likely to improve profitability and support greater revenue diversification.

Comfortable earnings profile, though credit cost inched up recently

NACL's consolidated total income increased from ₹1,906 crore in FY24 to ₹2,356 crore in FY25, reflecting a year-on-year growth of 24%. The company's topline comprises interest income from its lending portfolio, fee-based income from the credit funds managed by its subsidiary, and income from the placements business. Over the recent years, NACL has been focusing on diversifying its revenue base by increasing the share of fee-based income while also shifting towards higher-yielding D2C products, aiming to improve profitability. This strategy has been visible in the improvement in net interest margins (NIMs), which stood at 10.73% in FY25 compared to 9.42% in FY24. The increase in NIMs was supported by rationalisation of operating expenses driven by economies of scale and adoption of technological advancements that enabled automation and scalability.

However, the growth in NIMs was partly offset by a significant increase in credit costs in FY25. Credit cost rose by 205 basis points, reaching 3.22% in FY25 against 1.17% in FY24. This rise was primarily due to higher stress in the microfinance sector, and its exposure to unsecured retail loans. Additionally, the increase in credit cost was also influenced by regulatory changes in provisioning norms applicable to the company. Given the limited track record in the unsecured retail lending segment, NACL's ability to enhance its earnings from current levels while maintaining asset quality and managing growth of the lending book will continue to be an important monitorable.

Key weakness**Concentration risk in the wholesale book and stress in the D2C book**

NACL's lending book is broadly divided into two key segments: lending to intermediate retail entities and D2C lending. Since the average ticket size in the intermediate retail segment is significantly larger than in D2C lending, it exposes the company to concentration risk. As on March 31, 2025, the contribution of the top 10 borrowers to the total AUM stood at 10%, and their exposure accounted for 40% of the TNW. This has since moderated to 8% and 33%, respectively, in Q1FY26. CareEdge Ratings observes that the company's ability to keep its asset quality under control remains critical, since slippage in high ticket loans, may have a significant impact on asset quality and profitability.

Within the D2C book, NACL caters to MSME lending, consumer financing, and rural financing. The company has been facing challenges in these segments, particularly with stress in the lower-ticket MSME portfolio, which resulted in a Gross Stage 3 (GS3) ratio of 5.47% as on June 30, 2025. While the GS3 ratio in rural and consumer financing has been contained through a policy of write-offs at 90+ days past due (DPD), the stress in these portfolios has kept credit costs elevated. In the case of partnership-based consumer lending, write-offs have been partially offset by First Loss Default Guarantees (FLDGs). Going forward, the company's ability to manage credit costs effectively while expanding the D2C book will remain a key monitorable.

Liquidity: Adequate

The company's liquidity profile is adequate, with no negative mismatches across time buckets in the asset liability management (ALM) statement as on June 30, 2025. It had cash and cash equivalents of ₹421 crore and unutilised credit lines of ₹107 crore on the same date. Liquidity is further supported by expected inflows of ₹2,623 crore over the next three months against debt repayments of ₹1,204 crore in the same period. On a consolidated basis, the company had an unencumbered cash and bank balance of ₹493 crore as on June 30, 2025.

Environment, social, and governance risks

Although NACL's service-oriented business model limits its direct exposure to environmental risks, credit risk may arise if operations of asset class of the portfolio are adversely impacted by environmental factors. The company manages environmental risk through

a board-level environment, social, and governance (ESG) Committee that integrates environmental considerations into its lending and investment processes and tracks relevant indicators (usage of renewable energy, microfinance impact metrics) as part of ESG due-diligence and monitoring.

Social risks in the form of cybersecurity threat or customer data breach or mis-selling practices can affect NACL's regulatory compliance and reputation and hence remain a key monitorable. To address social risks such as cyber-security, data privacy, and customer-protection, NACL has an Information Security Policy and a Chief Information Security Officer, a formal grievance-redressal mechanism (toll-free numbers / escalation to a nodal officer) and reports cybersecurity/data-privacy metrics, the FY25 report notes one data-breach incident with no personally identifiable information exposed and no material impact.

As on June 30, 2025, NACL's Board comprised eight directors — including one Executive Director (MD and CEO), four Independent Directors and two Nominee Directors (and one Non-Executive Non-Independent director); the Board also includes two women Directors.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

[Short Term Instruments](#)

[Non Banking Financial Companies](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Non-banking financial company (NBFC)

NACL is primarily engaged in enabling small and medium-sized NBFCs and fin-techs to access debt capital, including by way of securitisation, debentures, and co-lending. It also provides loans to these entities and generally invests in the subordinated tranches of securitisation pools arranged by it. In addition, the company also lends to mid-market corporates and retail customers. All these businesses are bifurcated into two separate parts, intermediate retail and direct to customers. Under intermediate retail, direct lending and investments along with funding to its AIFs and placement transactions are included. Under D2C MSME, consumer financing and rural financing (MFI) is done. The company is registered with the Reserve Bank of India (RBI) as a non-deposit taking systemically-important NBFC and started NBFC activities in 2008 with focus on the microfinance sector, mainly to small and medium-sized MFIs. Later, NACL expanded the scope of its NBFC activities to include commercial vehicle (CV), agricultural finance (AF), corporate finance (CF), and consumer finance. NACL has also diversified into direct retail segments in FY22. NACL ventured into Retail via MFI, Supply Chain Finance (SCF), loan against property (LAP), and education loan.

As on June 30, 2025, 16.17% stake of NACL is held by Leapfrog Financial Inclusion India Limited, 16.07% is held by Augusta Investments Pte Limited, 7.35% is held by Eight Roads Investments Mauritius (II) Limited, 6.08% by International Finance Corporation, 3.74% is held by Dvara Trust, 3.99% is held by Accion Africa-Asia Investment Company, and the remaining by Northern Employee Welfare Trust, and directors and senior management of the company.

Consolidated financials of NACL:

Brief Financials (₹ crore)	31-03-2024 (A)	31-03-2025 (A)	Q1FY26 (UA)
Total income	1,906	2,356	608
PAT	318	301	78
Interest coverage (times)	1.60	1.49	1.50
Total assets	11,635	13,483	13,075
Net NPA (%) *	0.08%	0.36%	0.56%
ROTA (%)	3.04%	2.40%	2.36%**

A: Audited UA: Unaudited; Note: these are latest available financial results

*Standalone basis.

**Annualised

Status of non-cooperation with previous CRA: Not applicable**Any other information:** Not applicable**Rating history for last three years:** Annexure-2**Detailed explanation of covenants of rated instrument / facility:** Annexure-3**Complexity level of instruments rated:** Annexure-4**Lender details:** Annexure-5**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial Paper- Commercial Paper (Standalone)	INE850M14CE6	31-12-2024	9.45%	30-12-2025	50	CARE A1+
Commercial Paper- Commercial Paper (Standalone)	INE850M14CF3	30-06-2025	8.80%	29-06-2026	100	CARE A1+
Commercial Paper- Commercial Paper (Standalone)	INE850M14CG1	31-07-2025	8.80%	30-07-2026	50	CARE A1+
Commercial Paper- Commercial Paper (Standalone)	INE850M14CH9	23-09-2025	8.50%	20-02-2026	25	CARE A1+
Commercial Paper- Commercial Paper	-	-	-	-	275	CARE A1+

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
(Standalone) (Proposed)						

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Commercial Paper- Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (07-Oct-24)	1)CARE A1+ (26-Oct-23) 2)CARE A1+ (31-Aug-23)	1)CARE A1+ (01-Sep-22)

ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

 To view lender-wise details of bank facilities please [click here](#)
Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Northern Arc CrediTech Solutions Private Limited (Formerly known as Northern Arc Investment Adviser Services Private Limited)	Full	Subsidiary
2	Northern Arc Investment Managers Private Limited	Full	Subsidiary
3	Northern Arc Foundation	Full	Subsidiary
4	Northern Arc Securities Private Limited	Full	Subsidiary
5	Pragati Finserv Private Limited	Full	Subsidiary
6	Finreach Solutions Private Limited*	Moderate	Associate
7	Northern Arc Emerging Corporate Bond Fund	Moderate	Associate

*Ceases to be an associate as on date.

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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