October 12, 2021

Blacksoil Capital Private Limited: Rating reaffirmed and outlook revised to Stable; Rating withdrawn for matured long-term borrowing programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Borrowings Programme	20.00	-	[ICRA]BBB reaffirmed; Outlook revised to Stable from Negative; Rating Withdrawn
Long-term Borrowings Programme	36.77	36.77	[ICRA]BBB reaffirmed; Outlook revised to Stable from Negative
Long-term/Short-term fund-based Bank Lines	2.00	-	-
Long-term Fund-based Bank Lines	-	15.00	[ICRA]BBB reaffirmed; Outlook revised to Stable from Negative
Long-term / Short-term Fund- based Bank Lines (Unallocated)	148.00	135.00	[ICRA]BBB reaffirmed; Outlook revised to Stable from Negative/[ICRA]A3 reaffirmed
Total	**206.77**	**186.77**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn the rating assigned to the Rs. 20.00-crore long-term borrowings of Blacksoil Capital Private Limited (BCPL) as no amount is outstanding against the rated instrument. The rating was withdrawn at the request of the company and as per ICRA's policy on the withdrawal of credit ratings.

The revision in the outlook to Stable from Negative factors in the improvement in BCPL's asset quality supported by the resolution/recoveries from certain stressed accounts. BCPL's gross non-performing assets (GNPA; including restructured loans[1]) improved to 6.9% of advances as on September 30, 2021 from 10.9% as on March 31, 2021 (10.2% as on March 31, 2020). The rating continues to take into account the company's financial flexibility, supported by its sponsor groups, which include the promoters of the Avvashya Group and the Navneet Group, and its adequate capitalisation profile supported by regular capital infusions. The promoter group has infused Rs. 170.8 crore of equity in the company since FY2016 and also invested Rs. 24.2 crore (as of March 2021) through compulsorily convertible debentures (CCDs). ICRA notes that BCPL benefits from the considerable experience and business network of its sponsors.

The rating remains constrained by the high risk profile of the underlying segments comprising real estate and growth companies (loans to venture capital (VC)/private equity (PE) backed growth companies) and the high portfolio concentration with the top 10 clients accounting for ~52% of the portfolio as on June 30, 2021. However, over the past three years, BCPL's asset mix has witnessed a gradual shift to lower ticket-sized lending in the form of monthly amortising loans to the growth companies segment and a reduction in the real estate exposure (to ~29% of loan book as on June 30, 2021 from ~66% as on March 31, 2018).

[1]As on September 30, 2021, total restructured loans were Rs. 21.1 crore (5% of the loan book) of which Rs. 15.3 crore (4% of the loan book) is included in GNPA, while the balance Rs. 5.8 crore (1% of the loan book) is classified as standard asset. As on March 31, 2021, the company had Rs. 32.9 crore of restructured loans (8% of the loan book) of which Rs. 27.0 crore (7% of the loan book) was included in GNPA.

The company witnessed a moderation in the asset quality in FY2020 with its GNPA increasing to 10.2% as on March 31, 2020 from 3.7% as on March 31, 2019. BCPL increased focus on recoveries and implementation of resolutions plans in FY2021 supported by which GNPA moderated to 6.9% as on September 30, 2021 compared to 10.9% as on March 31, 2021. The asset quality, however, remains moderate with high variability in the softer delinquency buckets. This notwithstanding, the company has been able to maintain its earning profile with return on asset of 3.4% in H1 FY2022 and 3.2% in FY2021. Going forward, BCPL's ability to resolve the stressed assets and maintain adequate asset quality as it scales up its operations will remain a key monitorable.

The rating also factors in the low diversification of the company's resource profile. BCPL's resource profile, as on June 30, 2021, comprised debentures issued to high-net-worth individuals (HNIs), inter-corporate deposits (ICDs) and unsecured loans from shareholders. Non-banks, especially wholesale lending entities, have been witnessing challenges in raising funds at competitive prices over the past few years due to risk aversion by lenders.

However, BCPL has demonstrated the ability to raise funds from its captive investor base of HNIs and the shareholders (BCPL raised ~Rs. 80 crore through the issuance of non-convertible debentures (NCDs) in FY2021 and Rs. 50 crore in H1 FY2022) with incremental improvement in the cost of funding of 150-200 bps, over the last two years. In Q2 FY2022, BCPL raised Rs. 15 crore from a bank loan, thus bringing some diversification to the resource profile. Nevertheless, the overall borrowing profile remains skewed towards NCDs. Going forward, the company's ability to maintain a diversified borrowing profile also remains a key monitorable.

Key rating drivers and their description

Credit strengths

Financial flexibility by virtue of the promoter group – BCPL is backed by the promoters of the Navneet Group, the Avvashya Group, Mahavir Agency and Blacksoil Group. The company draws advantage from this association in the form of operational support and enhanced financial flexibility. The wide business network of the promoters helps BCPL source new business and the promoters are also involved in its credit/investment decisions. The promoters have infused capital at regular intervals, in addition to providing unsecured loans (Rs. 6.3 crore outstanding as on March 31, 2021), to support business growth.

Healthy capitalisation – BCPL reported healthy capitalisation with a net worth of Rs. 241 crore and capital to risk-weighted assets ratio (CRAR) of 55.6% as on March 31, 2021. The capitalisation was supported by a fund infusion in the company (through conversion of CCDs and fresh issuances). The promoter group has infused Rs. 170.8 crore of equity in the company since FY2016 and also invested Rs. 24.2 crore (as of March 2021) through CCDs. ICRA notes that the conversion of the third tranche of CCDs (Rs. 96.9 crore of which Rs. 24.2 crore has been called so far) is due in FY2024, which would further support the capitalisation profile.

Additionally, unsecured loans from promoters (Rs. 6.3 crore outstanding as on March 31, 2021) have supported the operations with the loan book growth largely being funded by the net worth. The gearing (including CCDs) remained comfortable at 1.08 times as on September 30, 2021 compared to 0.96 times as on March 31, 2021 (1.03 times as on March 31, 2020).

Credit challenges

Limited track record with low seasoning of the portfolio; moderate asset quality – The company commenced lending operations in FY2017. BCPL is engaged in wholesale funding with a focus on segments like growth company loans (venture debt and asset-backed), other mid-sized promoter/corporate lending and real estate lending. Its track record in senior secured lending is limited. The company's asset quality witnessed a moderation in H2 FY2020 with the GNPA increasing to 10.2% of total advances as on March 31, 2020 from 3.7% as on March 31, 2019 (nil as on March 31, 2018).

In FY2021, BCPL successfully resolved two NPAs/restructured accounts of Rs. 18.9 crore (4.7% of loans as on March 31, 2020) as well as a large ticket-size special mention account-2 (SMA-2; i.e. in 60-90 days overdue bucket) of Rs. 40 crore (9.8% of the loan book as on March 31, 2020). However, the Covid-19 pandemic-related disruptions impacted the borrowers' business/loan repayment ability, resulting in fresh restructuring of accounts. As on March 31, 2021, the restructured loan book was 8% and the GNPA stood at 10.9%. The asset quality improved in H1 FY2022 supported by resolution/recoveries from certain stressed accounts and the GNPA moderated to 6.9% as on September 30, 2021 (BCPL closed two out of seven outstanding restructured accounts in H1 FY2022 and no new accounts were restructured in H1 FY2022). Nevertheless, the asset quality remains moderate with high variability in the softer delinquency buckets. Over the last one and half year BCPL has demonstrated ability to resolve stressed assets and its ability to resolve the existing stressed assets and maintain adequate asset quality as it scales up its operations will remain a key monitorable.

Inherently high-risk profile of the portfolio with focus on real estate and venture debt segments – BCPL's operations are largely focused on growth companies (~37% of advances as on June 30, 2021) and real estate lending (~29% of advances as on June 30, 2021), which have an inherently high risk profile. BCPL's foray into lending to growth companies, with a lower ticket size compared to the real estate segment, is expected to provide granularity and high churn to the portfolio over the medium term. The company has slowed down on real estate lending over the past few years with a shift towards relatively smaller ticket size funding. Going forward, the company plans to focus on real estate investments through alternative investment fund (AIF) route would help reduce upfront capital requirement and would also support regular fee income. However, the concentration risk remains high at present with the top 10 clients accounting for ~52% of the loan book as on June 30, 2021.

Low diversification in borrowing profile – BCPL's total borrowings (including CCDs) stood at Rs. 231 crore as on March 31, 2021 (Rs. 230 crore as on March 31, 2020). Till FY2018, the company was largely supported by the shareholders through unsecured loans for meeting its additional funding requirements (loans from shareholders, related party and inter-corporate deposit declined to 3% of total borrowings as on March 31, 2021 from 55% as on March 31, 2018). From FY2019, the company increased its reliance on NCDs for funding its operations (97% of total borrowings as of March 31, 2021 compared to 73% as on March 31, 2020 and 36% as on March 31, 2019).

BCPL has demonstrated the ability to regularly raise funds through NCDs with the incremental improvement in the cost of funding of 150-200 bps, over the last two years. Although the borrowing profile remains skewed towards NCDs, the term loan of Rs. 15 crore raised in Q2 FY2022 brings some diversification to the borrowing profile and thus provides comfort. Going forward, the company's ability to maintain its borrowing cost while diversifying its borrowing mix will be a key monitorable.

Liquidity position: Adequate

BCPL's asset-liability management (ALM) statement as on June 30, 2021 showed positive cumulative mismatches in all the buckets. As on August 31, 2021, it had a cash/bank balance and liquid investments of Rs. 84.2 crore with the available liquidity adequate for covering the debt obligations due in the next six months. ICRA expects BCPL to draw financial support in the form of unsecured loans from its shareholders, in case of any contingencies. Thus, the liquidity position remains adequate.

Rating sensitivities

Positive factors – ICRA may upgrade the rating in case of an improvement in BCPL's asset quality (GNPA of less than 5% on sustained basis). An increase in the scale of operations with a diverse portfolio, while maintaining a comfortable capital structure (gearing consistently below 3x) and achieving diversification in the resource profile, may also lead to a positive rating action.

Negative factors – The rating may be downgraded on a further deterioration in the asset quality, which may affect the company's financial risk profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies Policy for withdrawal for credit rating
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Blacksoil Capital Private Limited (BCPL) is a non-deposit accepting non-banking financial company (NBFC), registered with the Reserve Bank of India (RBI). The company provides real estate funding, funding to growth companies (venture debt and asset-backed), structured debt funding and small and medium business loans. BCPL was formed in 2016 through the acquisition of a defunct NBFC, Sarvodaya Capital, by the existing promoters.

Key investors in the company include the promoters of the Avvashya Group (managed by Mr. Shashi Kiran Shetty, with Allcargo Logistics Limited, the flagship entity of the Group), the Navneet Group (engaged in book publication and stationery products, with Navneet Education Limited being the flagship entity of the Group), Mahavir Agency (engaged in real estate advisory) and Blacksoil Group (the Bansals).

In FY2021, BCPL reported a profit after tax (PAT) of Rs. 15.5 crore compared to a PAT of Rs. 16.3 crore in FY2020. It had a net worth of Rs. 241.1 crore and a loan book of Rs.398.6.0 crore as on March 31, 2021.

Key financial indicators (audited)

BCPL	FY2019	FY2020	FY2021	H1 FY2022^
Total income (Rs. crore)	78.9	74.0	63.1	32.0
Profit after tax (Rs. crore)	23.5	16.3	15.5	8.8
Net worth (Rs. crore)	203.2	223.2	241.1	250.0
Loan book (Rs. crore)	448.6	408.1	398.6	400.2
Loan book (including units of AIF; Rs. crore)	462.9	429.1	415.0	437.6
Total assets (Rs. crore)	494.0	472.8	498.8	544.3
Return on assets (%)	5.5%	3.4%	3.2%	3.4%
Return on net worth (%)	17.1%	7.7%	6.7%	7.2%
Gross gearing (times, outstanding borrowing include CCDs)	1.37	1.03	0.96	1.08
Gross NPA (%)*	3.7%	10.2%	10.9%	6.9%
Net NPA (%)*	3.4%	8.9%	9.2%	5.0%
Solvency (Net stage 3/Net worth)	7.6%	16.0%	14.9%	7.9%
CRAR (%)	44.1%	58.3%	55.6%	48.9%

Source: *Company, ICRA Research; All ratios as per ICRA calculations; ^ Provisional; *Includes restructured loans*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Non

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 as of Jun 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Oct 12, 2021	Dec 07, 2020	Aug 07, 2020	Nov 22, 2019	Oct 17, 2018	Sep 03, 2018
1	Long-term Borrowings Programme	Long-term	36.77	-	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Long-term Borrowings Programme	Long-term	20.0	-	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Fund-based Bank Lines	Long-term	15.00	15.00	[ICRA]BBB (Stable)	-	-	-	-	-
4	Fund-based Bank Lines	Long-term/ Short-term	135.0	-	[ICRA]BBB (Stable)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3	-
5	Fund-based Bank Lines	Long-term/Short-term	-	-	-	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Borrowings Programme*	Not applicable
Long-term Bank Lines –Fund based Bank Lines	Simple
Long-term / Short-term Bank Lines –Fund based Bank Lines*	Not applicable

**Yet to be placed*

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
INE468V07048	Long-term Borrowings Programme (NCD – Series V)	18-Jan-2018	10.50%	17-Jan-2021	10.0	[ICRA]BBB (Stable); withdrawn
INE468V07055 INE468V07063	Long-term Borrowings Programme (NCD – Series VI)	17-May-2018	11.00% 11.50%	16-May-2021	10.0	[ICRA]BBB (Stable); withdrawn
-	Long-term Borrowings Programme*	-	-	-	36.77	[ICRA]BBB (Stable)
Federal Bank	Long-term Bank Lines-Fund based	29-Sep-2021	MCLR linked	28-Sep-2024	15.00	[ICRA]BBB (Stable)
-	Long-term / Short-term Bank Lines –Fund based Bank Lines*	-	-	-	135.0	[ICRA]BBB (Stable)/ [ICRA]A3

Source: *Company; * Yet to be placed*

Annexure-2: 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.

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