June 02, 2022

Blacksoil Capital Private Limited: Long-term rating reaffirmed; short-term rating upgraded to [ICRA]A3+ and fresh rating assigned to CP programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Borrowings Programme	36.77	36.77	[ICRA]BBB (Stable); reaffirmed
Term Loan*	15.00	0.00	-
Long-term / Short-term Bank Lines – Unallocated*	85.00	0.00	-
Long-term / Short-term Bank Lines – Unallocated	50.00	0.00	[ICRA]BBB (Stable) reaffirmed/[ICRA]A3+ (upgraded from [ICRA]A3) and withdrawn
Long-term / Short-term Bank Lines – Fund Based*	0.00	100.00	[ICRA]BBB (Stable) reaffirmed/[ICRA]A3+ (upgraded from [ICRA]A3)
Commercial Paper Programme	0.00	50.00	[ICRA]A3+; assigned
Total	**186.77**	**186.77**	

**Instrument details are provided in Annexure-1; *Term loan of Rs. 15-crore and long-term/short-term unallocated bank line of Rs. 85 crore is merged together in long-term/short-term bank lines-fund based of Rs. 100 crore*

Rationale

The rating action factors in the consistent performance of Blacksoil Capital Private Limited (BCPL) with adequate capitalisation and a steady profitability trajectory. ICRA also takes note of BCPL's strong promoter groups, which include the promoters of the Avvashya Group and the Navneet Group. BCPL benefits from the considerable experience and business network of its sponsors.

While BCPL has gradually reduced its exposure to the real estate segment, the portfolio concentration and the inherent risk profile of the main segment, i.e. loans to venture capital (VC)/private equity (PE) backed growth companies, with start-up and venture debt accounting for 57% of the loan book {including investment in alternative investment funds (AIFs)} as of March 31, 2022, remain key challenges. BCPL witnessed a moderation in its asset quality in the recent past with its gross non-performing assets (GNPAs; including restructured loans) increasing to more than 10% in FY2020 and FY2021 from 3.7% as of March 31, 2019. Nonetheless, the same improved to 2.8% as of March 31, 2022[1] supported by the successful implementation of the resolution plans. In this regard, BCPL's ability to maintain adequate asset quality will remain a key monitorable, given the volatility in the softer delinquency buckets in FY2022.

While taking the rating action, ICRA has noted the continued challenges in resource mobilisation stemming from the operating environment and the risk-averse sentiment of institutional investors towards non-banks, particularly wholesale-oriented entities. BCPL's borrowing profile remains skewed towards non-convertible debentures (NCDs) issued to high-net-worth individuals (HNIs; 74% of total borrowings as on March 31, 2022) followed by inter-corporate deposits (ICDs) and unsecured loans from shareholders (18%). Though BCPL's demonstrated ability to raise funds from its captive investor base of HNIs (~Rs.

[1] *Nil write-offs in FY2022*

106 crore raised in FY2022) and the shareholders provides comfort, the higher dependence on limited sources of borrowing remains a concern. Going forward, BCPL's ability to diversify its borrowing profile while maintaining a competitive cost of funds will also remain a monitorable.

ICRA has withdrawn the ratings assigned to BCPL's Rs. 50.0-crore long-term/short-term bank lines programme as no amount is outstanding against the rated instrument. The ratings were withdrawn at the request of the company and as per ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Adequate capitalisation and low leverage – BCPL's capitalisation remains adequate with a reported net worth of Rs. 263 crore and a capital to risk-weighted assets ratio (CRAR) of 41.9% as on March 31, 2022. The capitalisation profile was supported by capital infusions (through conversion of compulsorily convertible debentures (CCDs) and fresh issuances) in FY2020 and FY2021. A further infusion of Rs. 96.9 crore (through the conversion of the CCDs (series 3)[2]) was expected in FY2024, but this was called off, given BCPL's decision to discontinue the real estate lending business. The company redeemed the paid-up portion of the CCDs (series 3) and cancelled the balance portion of the instrument in H2 FY2022.

The current level of capitalisation remains adequate to support BCPL's near-to-medium-term growth plans. ICRA notes that the gearing level remained low at 1.3 times as of March 31, 2022, providing the company adequate headroom for additional borrowing to grow its lending business. ICRA derives comfort from BCPL's plan to cap its near-term leverage at 1.5 to 2 times.

Track record of adequate profitability – Notwithstanding the relatively small scale of operations and the asset quality pressures witnessed in the recent past, BCPL has demonstrated a track record of adequate profitability. It reported steady profitability between FY2020 and FY2022 with a return on assets (RoA) of 3-4%, albeit lower than 5.5% in FY2019. The revenue profile remains supported by healthy fee income. Going forward, BCPL's ability to maintain adequate asset quality and consequently keep the credit costs under control will be imperative.

Strong promoter groups – BCPL is backed by the promoters of the Navneet Group, the Avvashya Group, Mahavir Agency and Blacksoil Group. 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. The promoter group infused Rs. 6.10 crore of capital in the company in FY2020 and FY2021 (Rs. 0.70 crore of equity and Rs. 5.40 crore through the conversion of CCDs). Further, the shareholders have also supported by extending loans to the company.

Credit challenges

Inherently high risk profile of the portfolio with focus on venture debt segment; portfolio concentration remains high – Until FY2018, the real estate segment accounted for 64% of BCPL's loan book (including investment in AIFs). While BCPL reported a year-on year (YoY) reduction in its real estate exposure thereafter and it finally decided to exit the segment in FY2022[3], the overall lending book remains risky given the higher exposure to the start-up/venture debt segment (57% of the loan book (including investment in AIFs) as of March 31, 2022). The inherent risky nature of this segment (given the limited seasoning of businesses and volatile cash flows of the borrowers) keeps the portfolio vulnerability high. The total disbursement in FY2022 stood at Rs. 650 crore.

Further, the high concentration in the loan book (top 10 exposures accounted for ~40% of the loan book, including investment in AIFs, as of March 31, 2022 compared to ~52% of the loan book, including investment in AIFs, as of June 30, 2021) poses the

[2] BCPL had received Rs. 48.4 crore on the CCDs (series 3), while the remaining Rs. 48.4 crore was yet to be called

[3] The legacy real estate book (10% of the loan book as on March 31, 2022) is expected to run down in 18-24 months

risk of lumpy deterioration in the asset quality. BCPL witnessed a moderation in its asset quality in the recent past with its GNPAs (including restructured loans) increasing to more than 10% in FY2020 and FY2021 from 3.7% as of March 31, 2019. Nonetheless, supported by the successful implementation of its resolution plans, the GNPAs improved to 2.8% as of March 31, 2022[4]. In this regard, given the volatility in the softer delinquency buckets in FY2022, BCPL's ability to maintain adequate asset quality will remain a key monitorable.

Low diversification in borrowing profile – BCPL's borrowing profile remains skewed towards NCDs issued to HNIs, which accounted for 74% of the total borrowings as on March 31, 2022 (97% as of March 31, 2021). Until FY2018, the company was largely supported by unsecured loans from shareholders and related parties and ICDs for meeting additional funding requirements. While the share of loans from shareholders and related parties and ICDs had declined to 3% of the total borrowings as on March 31, 2021 from 55% as on March 31, 2018, the same increased to 18% as of March 31, 2022. ICRA notes that the operating environment for non-banking financial companies (NBFCs), especially entities with inherently risky products (real estate and venture debt), has remained challenging since September 2018. Although BCPL has demonstrated the ability to raise funds through NCDs, its dependence on limited sources of finance is a credit challenge. Going forward, the company's ability to raise funds from diverse sources at competitive rates will be a key monitorable.

Liquidity position: Adequate

BCPL's asset-liability management (ALM) statement as of March 31, 2022 showed positive cumulative mismatches in all the buckets, supported by the sizeable on-balance sheet liquidity maintained by the company. As on March 31, 2022, BCPL had cash/bank balance and liquid investments aggregating Rs. 103.3 crore. The available liquidity adequately covers the debt obligations falling due over the next six months. Moreover, while the on-balance sheet liquidity may be rationalised in the near term, ICRA expects BCPL to benefit from the unsecured loans from its shareholders/directors in case of any contingencies.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to increase the scale of operations while achieving a diversified portfolio and maintaining adequate capitalisation and asset quality. Further, achieving a diversified resource profile will remain imperative.

Negative factors – The ratings may be downgraded on a sustained deterioration in the asset quality, which may affect the company's profitability, solvency and/or liquidity profile, or if the leverage increases significantly with the gearing exceeding 3 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies Policy on Withdrawal of Credit Rating
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

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

[4] *Nil write-offs in FY2022*

discontinued its real lending business in FY2022 and the legacy book is expected to run down in 18-24 months. However, investment in the real estate segment through units of AIFs will continue.

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

In FY2022, BCPL reported a profit after tax (PAT) of Rs. 21.9 crore on total income of Rs. 76.8 crore compared to a PAT of Rs. 15.5 crore on total income of Rs. 63.1 crore in FY2021. The company's capitalisation is characterised by a net worth of Rs. 263 crore and a gearing of 1.3 times as on March 31, 2022.

Key financial indicators (audited)

BCPL	FY2020	FY2021	FY2022^
Total income (Rs. crore)	74.0	63.1	76.8
Profit after tax (Rs. crore)	16.3	15.5	21.9
Net worth (Rs. crore)	223.2	241.1	263.0
Loan book (Rs. crore)	408.1	398.6	442.1
Loan book (including units of AIF; Rs. crore)	429.1	415.0	501.9
Total assets (Rs. crore)	472.8	498.8	630.5
Return on assets (%)	3.4%	3.2%	3.9%
Return on net worth (%)	7.7%	6.7%	8.7%
Gross gearing (times, outstanding borrowing include CCDs)	1.03	0.96	1.29
Gross NPA (%)*	10.2%	10.9%	2.8%
Net NPA (%)*	8.9%	9.2%	1.1%
Solvency (Net stage 3/Net worth)	16.0%	14.9%	1.9%
CRAR (%)	58.3%	55.6%	41.9%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				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 FY2023	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Jun 02, 2022	Oct 12, 2021	Dec 07, 2020	Aug 07, 2020	Nov 22, 2019
1	Long-term Borrowings Programme	Long Term	36.77	-	**[ICRA]BBB (Stable)**	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
2	Fund-based Bank Lines^*	Long Term / Short Term	100.00	30.0	**[ICRA]BBB (Stable)/ [ICRA]A3+**	-	-	-	-
3	Long-term / Short-term Bank Lines – Unallocated^	Long Term / Short Term	50.0	-	**[ICRA]BBB (Stable)/ [ICRA]A3+; withdrawn**	-	-	-	-
4	Long-term Borrowings Programme	Long Term	-	-	-	[ICRA]BBB (Stable) withdrawn	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
5	Term Loan*	Long Term	-	-	-	[ICRA]BBB (Stable)	-	-	-
6	Fund-based Bank Lines	Long Term / Short Term	-	-	-	[ICRA]BBB (Stable)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3
7	Fund-based Bank Lines	Long Term / Short Term	-	-	-	-	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3
8	Commercial Paper	Short Term	50.00	-	**[ICRA]A3+**	-	-	-	-

^ Out of the previous Long-term / Short-term unallocated bank lines of Rs. 135 crore, rating for Rs. 50 crore is withdrawn in the current exercise and the balance is clubbed under Fund-based Bank Lines in row 2

**Term loan of Rs. 15 crore clubbed under Fund-based Bank Lines in row 2*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Borrowings Programme*	Not Applicable
Long-term/Short-term Bank Lines – Fund-based Bank Lines	Simple
Commercial Paper	Very Simple

**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 are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long-term Borrowings Programme*	-	-	-	36.77	[ICRA]BBB (Stable)
-	Long-term/Short-term Bank Lines – Fund-based Bank Lines	-	-	-	100.00	[ICRA]BBB (Stable)/ [ICRA]A3+
-	Commercial Paper*	-	-	7-365 days	50.00	[ICRA]A3+

Source: *Company; * Yet to be placed*

[Please click here to view details of lender-wise facilities rated by ICRA]

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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