June 02, 2023 (Revised)

Blacksoil Capital Private Limited: Ratings upgraded to [ICRA]BBB+ (Stable) and [ICRA]A2

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); upgraded from [ICRA]BBB (Stable)
Long-term / Short-term bank lines – Fund based*	100.00	100.00	[ICRA]BBB+ (Stable)/[ICRA]A2; upgraded from [ICRA]BBB (Stable)/[ICRA]A3+
Commercial paper programme	50.00	50.00	[ICRA]A2; upgraded from [ICRA]A3+
Total	**186.77**	**186.77**	

**Instrument details are provided in Annexure I*

Rationale

The ratings upgrade factors in Blacksoil Capital Private Limited's (BCPL) steady performance trajectory with adequate profitability and leverage and prudent liquidity management over the years. Furthermore, notwithstanding the risky profile of the portfolio, aggregate credit losses and write-offs have been low since inception, reflecting positively on the company's underwriting track record. While BCPL's profitability trajectory has been steady with a return on assets (RoA) in the range of 3.2-4.0% between FY2020 and FY2023, its capitalisation profile has been characterised by a capital to risk-weighted assets ratio (CRAR) of over 40% and a gearing of 1.5x as of March 31, 2023.

The ratings continue to favourably factor in the benefits derived from BCPL's sponsors, which include the promoters of the Avvashya Group and the Navneet Group. BCPL's funding profile benefits from the business network of its sponsors. Supported by the promoters' business network, BCPL has been able to raise funds through non-convertible debentures (NCDs) issued to high-net-worth individuals (HNIs) and family offices apart from raising intercorporate deposits (ICDs) from various corporate entities.

BCPL's product mix has changed in recent years, with the company exiting the real estate lending business (legacy book accounted for 5% of the loan book[1] as of December 31, 2022). The loan exposures are incrementally to venture capital (VC)/private equity (PE) backed growth companies, which accounted for 35% of the loan book as of December 31, 2022. Additionally, BCPL has diversified its product offering to include lending to non-banking financial companies (NBFCs) and fintech, which accounted for 29% of the loan book, followed by supply chain finance for small and medium business loans (SMBL)[2] at 22% as of December 31, 2022. The loan book stood at Rs. 646 crore as of December 31, 2022.

The ratings are, however, constrained by the risky profile of the portfolio. The headline asset quality indicator, gross non-performing assets (GNPAs)/gross advances {excluding investment in units of Alternative Investment Funds (AIFs)}, stood elevated at 6.0% as of March 31, 2023, primarily due to stress in one last real estate account, compared to 2.8% as of March 31, 2022, though it remains lower than the historic high. GNPAs, excluding the exposure to the real estate segment, stood at 1.0% as of March 31, 2023. Further, the concentration in the loan book (top 10 accounts comprised ~35% of the loan book as of December 2022) exposes the company's asset quality to lumpy slippages. ICRA takes note of BCPL's track record of exits through timely and successful implementation of resolution plans in the past with limited delinquencies. Nevertheless, BCPL's ability to maintain adequate asset quality and keep credit costs under control will remain a monitorable going forward.

[1] *Including investments in units of AIFs*
[2]

While taking the rating action, ICRA has noted the continued challenges in resource mobilisation stemming from the risk-averse sentiment of institutional investors towards NBFCs in wholesale lending. In this regard, BCPL's borrowing profile remains skewed towards NCDs issued to HNIs and family offices (68% of total borrowing as on December 31, 2022) followed by ICDs (18%) and bank borrowings (10%). While BCPL's demonstrated ability to raise funds from its captive investor base of HNIs and family offices provides comfort, the higher dependence on a limited source of borrowing remains a concern.

Key rating drivers and their description

Credit strengths

Track record of adequate profitability – Notwithstanding its relatively small scale of operations and the asset quality pressure in the recent past, BCPL has demonstrated a track record of adequate profitability since inception. It reported steady profitability between FY2020 and FY2023 with RoA of 3.2-4.0%. Further, ICRA notes that the cumulative profit since inception stood at Rs. 94 crore. In FY2023. BCPL's standalone profit after tax (PAT) was Rs. 25 crore on total income of Rs. 101 crore. The revenue profile remains supported by healthy fee income from the co-lending business, distribution income from investment in the units of AIFs, and management and monitoring fees from its AIF business (through its wholly-owned subsidiary). The operating cost to average managed assets remains steady in the range of 2.2-2.6%, given the centralised and wholesale-oriented lending model. Going forward, BCPL's ability to maintain adequate asset quality and consequently keep the credit costs under control will be imperative for sustaining the profitability trajectory.

Adequate capitalisation – BCPL's capitalisation remains adequate with a reported net worth of Rs. 290 crore and a CRAR of 40% as on March 31, 2023. The capitalisation profile is supported by healthy internal accruals as well as capital infusions by the promoters. The current level of capitalisation remains sufficient to support BCPL's near-to-medium-term growth plans. ICRA notes that the gearing level of 1.5 times, as of March 31, 2023, provides the company with adequate headroom for additional borrowing to grow its lending business. BCPL plans to cap its leverage at 2.5 to 3.0 times over the medium term.

Resourceful promoter group – 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 it source new business and the promoters are also involved in its credit/investment decisions. The promoters have infused capital at regular intervals. Further, supported by the promoters' business network, BCPL has been able to raise funds through NCDs issued to HNIs and family offices apart from raising ICDs from various corporate entities. The promoters have also demonstrated supported by extending loans to the company. Though the dependency on loans from promoters has reduced substantially over the years, ICRA expects the promoters to extend support in case of contingencies.

Credit challenges

Risky profile of loan portfolio; 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, the overall lending book remains risky given the exposure to the VC/PE-backed growth company segment. Further, in the SMBL segment, BCPL has a right to recourse on the anchor companies, which are also growth companies. ICRA notes the interlinkage between the SMBL segment and the growth company lending segment. As the businesses of these borrowers have limited track records and volatile cash flows, portfolio vulnerability remains high, especially in the backdrop of the recent funding winter. ICRA, however, notes that BCPL lays strong emphasis on lending to start-ups, which have a) a vintage of 4-5 years, b) a strong and established market position in the target segment, c) entered the growth phase, d) achieved breakeven at least at the contribution margin (CM-1) level, and e) raised ~60% equity capital from institutional investors.

This apart, the high concentration in the loan book exposes BCPL's asset quality to lumpy slippages as seen in the past. The headline asset quality indicator, i.e. GNPA (excluding investment in units of AIFs), stood elevated at 6.0% as of March 31, 2023, primarily due to the stress in one last real estate account, compared to 2.8% as of March 31, 2022, though it remains below the historic high of ~10%. GNPAs, excluding the exposure to the real estate segment, stood at 1.0% as of March 31, 2023. Nevertheless, ICRA notes BCPL's track record of successful exits in the past with limited delinquencies. The aggregate write-offs have been low since inception (aggregate write-off of Rs. 10.0 crore compared to cumulative disbursements of Rs. 3,410 crore and outstanding loan book of Rs. 644 crore as of March 31, 2023), which provides comfort. ICRA also notes BCPL's track record of successful implementation of resolution plans to curtail losses. Going forward, BCPL's ability to maintain adequate asset quality and keep credit costs under control will remain a monitorable. Nevertheless, the overall capitalisation profile provides cushion to absorb any losses.

Low diversification in borrowing profile – ICRA has noted the continued challenges in resource mobilisation stemming from the risk-averse sentiment of institutional investors towards NBFCs in wholesale lending. In this regard, BCPL's borrowing profile remains skewed towards NCDs issued to HNIs and family offices (68% of total borrowing as on December 31, 2022) followed by ICDs (18%) and bank borrowings (10%). Initially, the NCDs were issued for three years with a put/call option after the first year, exposing the company to refinancing risk. Incrementally, BCPL has started issuing NCDs with put/call options at two years from issuance. The put options exercised by investors remained limited at less than 5% of the NCDs outstanding as on December 31, 2022. Further, ~52% of the loan book, comprising loans extended in the form of NCDs and investment in units of AIFs, may not be eligible for bank funding, which limits the company's ability to diversify its borrowing profile. Nevertheless, BCPL managed to add three financial institutions to its borrowing profile in FY2023. While BCPL's demonstrated ability to raise funds from its captive investor base of HNIs and family offices provides comfort, the high dependence on a limited source of borrowing remains a concern. Going forward, BCPL's ability to further diversify its borrowing profile at competitive costs will be a driver of its growth and profitability.

Liquidity position: Adequate

BCPL's asset-liability management (ALM) statement, as of December 31, 2022 showed positive cumulative mismatches in all the buckets[3], supported by the sizeable on-balance sheet liquidity maintained by it. As on February 28, 2023, the company had a cash/bank balance and liquid investments aggregating Rs. 110.5 crore. The available liquidity adequately covers the debt obligations falling due over the next six months, though the debt obligation does not include unforeseen put options exercisable by the investors. ICRA notes that all the NCDS issued by BCPL provide investors with the right to exercise a put option after 24 months from the issuance date. Nevertheless, 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 there is a sizeable increase in the scale of operations along with a diversified asset and liability profile. A consistent track record of adequate asset quality, profitability and capitalisation, while scaling up the operations, will also be a positive factor.

Negative factors – The ratings may be downgraded on a sustained deterioration in the asset quality, which may affect the company's profitability, solvency and liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidation

[3]*Excluding the NCDs for which investors have a right to exercise a put option*

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. The NBFC initiated its lending operations in 2016 with real estate financing and gradually diversified to providing finance to growth companies and financial institutions in the form of term loans, debt investments and structured debt. The company forayed into supply chain financing, in 2021, post its acquisition of Saraloan Technologies Private Limited, during this period. BCPL provides funding to growth companies (backed by venture capital and private equity), NBFCs/fintech/financial institutions and small and medium businesses. It discontinued its real estate lending business in FY2022 and the legacy book is expected to run down in 12-15 months.

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 (managed by Mr. Gnanesh Gala; Navneet Education Limited is the flagship entity of the Group), Mahavir Agency (managed by Mr. Virender Gala; engaged in real estate advisory) and Blacksoil Group (the Bansals).

In FY2023, BCPL reported a profit after tax (PAT) of Rs. 25 crore on total income of Rs. 101 crore compared to a PAT of Rs. 23 crore on total income of Rs. 77 crore in FY2022. The company's capitalisation is characterised by a net worth of Rs. 290 crore and a gearing of 1.5 times as on March 31, 2023.

Key financial indicators (audited)

BCPL (standalone)	FY2021	FY2022	FY2023*
Total income	63	77	101
Profit after tax	15	23	25
Net worth	241	264	290
Loan book (including investment in units of AIFs)	430	503	644
Assets under management (AUM)	454	558	~924
Total assets	499	633	766
Return on managed assets	3.0%	3.7%	2.9%
Return on net worth	6.7%	9.0%	9.2%
Gross gearing (times)	1.0	1.3	1.5
Gross NPA	6.9%	2.8%	6.0%
Net NPA	5.0%	1.1%	4.6%
Solvency (Net stage 3/Net worth)	7.9%	1.9%	9.3%
CRAR	56%	42%	40%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

BCPL (consolidated)	FY2021	FY2022
Total income	73	89
Profit after tax	18	21
Net worth	246	267
Loan book (including investment in units of AIFs)	443	525
Assets under management (AUM)	466	581
Total assets	522	654
Return on managed assets	3.3%	3.3%
Return on net worth	7.5%	8.0%
Gross gearing (times)	0.9	1.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; As of March 31, 2022, BCPL had two wholly-owned subsidiaries, i.e. Blacksoil Asset Management Private Limited and Saraloan Technologies Private Limited*

Status of non-cooperation with previous CRA: Not applicable

Any other information:

BCPL may face prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial covenants and operating covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders or the lenders do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jun 02, 2023	Jun 02, 2022	Oct 12, 2021	Dec 07, 2020	Aug 07, 2020
1	Long-term borrowings programme	Long term	36.77	0.0	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)
2	Fund-based bank lines	Long term/ Short term	100.00	55.0	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-
3	Long-term / Short-term bank lines – Unallocated	Long term/ Short term	-	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+; withdrawn	-	-	-
4	Long-term borrowings programme	Long term	-	-	-	-	[ICRA]BBB (Stable) withdrawn	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)
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
7	Fund-based bank lines	Long term/ Short term	-	-	-	-	-	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3
8	Commercial paper	Short term	50.0	6.9	[ICRA]A2	[ICRA]A3+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term borrowings programme	Simple*
Long-term/Short-term fund-based bank lines	Simple
Commercial paper	Very Simple*

**Subject to change based on terms of issue*

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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Long-term borrowing programme***	-	-	-	36.77	[ICRA]BBB+ (Stable)
-	**Long-term/Short-term bank lines – Fund-based bank lines**	-	-	-	100.00	[ICRA]BBB+ (Stable)/ [ICRA]A2
INE468V14028	**Commercial paper programme**	Dec-30-22	9.73%	Dec-5-23	3.60	[ICRA]A2
INE468V14036	**Commercial paper programme**	Mar-14-23	9.84%	Feb-14-24	3.30	[ICRA]A2
-	**Commercial paper programme***	NA	NA	NA	43.10	[ICRA]A2

*Source: Company; *Proposed*

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

Annexure II: List of entities considered for consolidated analysis: Not applicable

Corrigendum:

Rationale dated June 2, 2023, has been revised with the following changes:

The link for 'Rating Approach – Consolidation' is added in the analytical approach table, on page no. 3.

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