August 07, 2020

# Blacksoil Capital Private Limited: Ratings reaffirmed and outlook revised to Negative; Rating withdrawn for matured NCDs

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term Borrowings Programme | 68.35 | 68.35 | [ICRA]BBB (Negative); Reaffirmed (Outlook revised to Negative from Stable) |
| Long-term Borrowings Programme | 31.65 | 0.00 | [ICRA]BBB (Negative); Reaffirmed (Outlook revised to Negative from Stable) and Withdrawn |
| Long-term / Short-term Fund-based Bank Lines | 35.30 | 8.33 | [ICRA]BBB (Negative); Reaffirmed (Outlook revised to Negative from Stable) / [ICRA]A3; Reaffirmed |
| Long-term / Short-term Bank Lines – Unallocated | 114.70 | 141.67 | [ICRA]BBB (Negative); Reaffirmed (Outlook revised to Negative from Stable) / [ICRA]A3; Reaffirmed |
| **Total** | **250.00** | **218.35** | |

**Instrument details are provided in Annexure-1*

## Rationale

The change in the outlook factors in the increasing stress in Blacksoil Capital Private Limited's (BCPL) loan book, resulting in a deterioration in its asset quality with the gross non-performing assets (GNPA; including restructured assets) increasing to 9.70% of total advances as of March 31, 2020 from 3.74% as on March 31, 2019 (nil as on March 31, 2018). Given the challenging operating environment and the stress in the underlying borrower segment, BCPL's asset quality is expected to remain under pressure over the near term. The real estate sector has witnessed significant headwinds in the recent past, which were further aggravated by the nationwide lockdown on account of the Covid-19 pandemic. The outlook also factors in the moratorium granted by the company to the borrowers (~32% of the loan book outstanding as on June 30, 2020), in line with the Reserve Bank of India's (RBI) regulatory package. The outlook also considers the possibility of further deterioration in the asset quality once the moratorium ends, with the borrowers' operations being affected and the turnaround expected to remain slow. BCPL has certain resolution plans for its stressed assets, which are expected to be executed over the next four-six months. The timely execution of these plans would remain critical from a credit perspective.

The ratings favourably factor in BCPL's healthy capitalisation profile supported by capital infusions in FY2020 and the current adequate liquidity position. BCPL's asset mix has witnessed a gradual shift to lower ticket-sized lending with the monthly amortising loans to the growth companies segment having a steady stream of cashflows on a monthly basis. The ratings also factor in BCPL's financial flexibility, supported by its sponsor group, which comprises the promoters of the Avvashya Group and the Navneet Group. ICRA notes that BCPL benefits from the considerable experience and business network of its sponsors.

The ratings are constrained by the company's high-risk profile of the underlying segments as BCPL primarily lends to real estate companies and growth companies (loans to venture capital (VC)/private equity (PE) backed growth companies). Also, the portfolio concentration remains high with the top 10 clients accounting for ~51% of the portfolio as on March 31, 2020 compared to ~50% as on March 31, 2019. While BCPL is yet to demonstrate the efficacy of its business model in lending to growth companies over a longer period, the current cashflow and the liquidity position are comfortable in relation to near-term maturities. The ratings also factor in the low diversification of the company's resource profile. BCPL's resource profile as on June 30, 2020 primarily comprises debentures issued to high net worth individuals (HNIs), inter-corporate deposits (ICDs) and unsecured loans from shareholders. BCPL's access to the banking system is limited at present, with only 2% of the borrowings as on June 30, 2020 coming from banks and financial institutions. The non-banks, especially the wholesale lending entities, have been witnessing challenges in raising funds at competitive prices over the past two years due to risk aversion by the investors/lenders. However, BCPL has demonstrated its ability to raise funds from its captive investor base of HNIs (BCPL raised ~Rs. 95 crore from around 200 investors in FY2020, of which ~Rs. 50 crore was raised in Q4 FY2020) and the shareholders, providing comfort.

## Key rating drivers and their description

## Credit strengths

**Financial flexibility by virtue of the promoters** – BCPL is backed by the promoters of the Navneet Group and the Avvashya Group (flagship company – Allcargo Logistics Limited; rated [ICRA]AA/Negative) along with 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. 6.50 crore outstanding as on June 30, 2020, Rs. 39.37 crore as on March 31, 2020 and Rs. 55.60 crore as of March 31, 2019) to support business growth.

**Healthy capitalisation** – BCPL reported a healthy capital to risk weighted assets ratio (CRAR) of 58.33% as on March 31, 2020 compared to 44.08% as on March 31, 2019. The capitalisation was supported by a capital infusion of Rs. 27.14 crore (Rs. 26.44 crore in the form of compulsorily convertible debentures (CCDs) and Rs. 0.70 crore in the form of partly-paid equity shares). Additionally, unsecured loans from promoters (Rs. 6.50 crore outstanding as on June 30, 2020) have supported the operations with the loan book growth largely being funded through net worth and loans from shareholders. The gearing (excluding CCDs) remained comfortable at 0.92x as on March 31, 2020 compared to 1.36x as on March 31, 2019. Further, the company raised ~Rs. 95 crore through NCDs (largely from existing investors) in FY2020.

## Credit challenges

**Limited track record; deterioration in asset quality in FY2020** – The company commenced lending operations in FY2017. BCPL is engaged in wholesale funding with focus on segments like real estate, growth company loans (venture debt and asset-backed) and other mid-sized promoter/corporate lending. The company's track record in senior secured lending limited. However, ICRA draws comfort from the fact that in the last four years, the company has disbursed over Rs. 1,174 crore, of which ~64% has been repaid by the borrowers. The loan book witnessed a sharp increase in delinquency levels in FY2020, with the GNPA (including restructured assets) increasing to 9.70% of total advances as on March 31, 2020 from 3.74% as on March 31, 2019 (nil as on March 31, 2018). The chunky exposures in the real estate segment resulted in a slippage in the asset quality, which was further aggravated by the declining loan book. Further deterioration in the asset quality may be witnessed once the moratorium granted to the borrowers (as per the RBI's regulatory package) ends and if the repayments fall short of expectations. The company has drawn up certain resolution plans for its stressed assets, to be executed over the next four-six months. ICRA will continue to monitor progress in this regard. Achieving resolution in a timely manner remains critical from a credit perspective.

**Inherently high-risk profile of the portfolio with focus on real estate and venture debt segments** – The company's operations are largely focused on the real estate and growth companies, which have an inherently high-risk profile. The risk in the real estate segment has increased due to the ongoing downturn in the Indian real estate industry with a slowdown in sales across geographies leading to a stretched liquidity profile for the developers. The nationwide lockdown due to the ongoing pandemic has further aggravated the stress in the sector. Further, a contracting loan book has led to some concentration risk with the top 10 clients accounting for ~51% of the loan book as on March 31, 2020 compared to 50% as on March 31, 2019. With the objective of diversifying its portfolio, from FY2018, BCPL has been reducing its exposure to the real estate sector and focusing on lending to growth companies. It is also looking at further reducing the loan ticket size and increasing the granularity. Real estate lending and growth companies lending each accounted for ~35% of the portfolio as on March 31, 2020 (35% and 40%, respectively, as on March 31, 2019), followed by structured debt (27%; PY – 21%) and small and medium business loans (4% in FY2020 and FY2019).

**Low diversification in borrowing profile** – BCPL's total borrowings stood at Rs. 153 crore as on June 30, 2020 compared to Rs. 206 crore as on March 31, 2020 (Rs. 277 crore as on March 31, 2019). Till FY2018, the company was supported by the shareholders through unsecured loans for meeting additional funding requirements (declined to 4% of total borrowings as on June 30, 2020 from 32% as on March 31, 2018). From FY2019, the company has increased its reliance on NCDs for funding its operations (91% of total borrowings as of June 30, 2020 compared to 70% as on March 31, 2020 and 35% as on March 31, 2019). Although BCPL has been able to raise funds through NCDs (Rs. 95 crore in FY2020 and Rs. 45 crore in FY2019), the dependence on limited sources of finance is a credit challenge. The fund raising efforts are further constrained by the risk aversion towards wholesale-oriented non-banks. 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 on June 30, 2020 showed repayment obligations of ~Rs. 24 crore in the 6-month bucket against expected inflows of ~Rs. 205 crore in the same bucket. As the cash inflows are sufficient to meet the short-term debt repayment obligations, the company's liquidity position is expected to remain adequate. While the disbursements over the past few quarters have been low, the repayments received from the loan book have been used for debt repayments and to shore up liquidity. The company did not avail moratorium from its lenders. Additionally, BCPL had cash and liquid investments of Rs. 44 crore and undrawn bank lines of Rs. 5 crore as on June 30, 2020. Further, it is expected to be able to draw unsecured loans from its shareholders, in case of any funding requirement, as demonstrated in the past.

## Rating sensitivities

**Positive triggers** – ICRA may revise the outlook or the ratings if the company witnesses a significant improvement in the asset quality (GNPA of less than 5% on a sustained basis) and an increase in the diversification of the portfolio and the resource profile while maintaining a comfortable capital structure (gearing consistently below 3x).

**Negative triggers** – The ratings may be downgraded on a further deterioration in the asset quality due to a delay in the resolution of the stressed assets as per the indicated timelines, which may affect the company's financial risk profile. A change in the profile or market standing of the promoters would affect the financial flexibility available to the company, and the same would be a negative rating trigger.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | ICRA's Credit Rating Methodology for Non-Banking Finance Companies |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | The ratings are based on the standalone financial statements of the company |

## 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. It 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 rated [ICRA]AA/Negative), 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). With BCPL's book size crossing Rs. 500 crore in January 2019, it started reporting to the RBI as a non-deposit accepting, systemically important NBFC (NBFC-ND-SI).

In FY2020, the company reported a profit after tax (PAT) of Rs. 16.31 crore on a total income of Rs. 74.01 crore. BCPL had a net worth of Rs. 223.16 crore and a loan book of Rs. 376 crore as on June 30, 2020.

## Key financial indicators (audited)

| | FY2019 | FY2020 |
|---|---|---|
| Net interest income | 39.95 | 37.38 |
| Profit before tax | 34.04 | 23.42 |
| Profit after tax (PAT) | 23.54 | 16.31 |
| Loan book | 464.3 | 430.55 |
| Total assets | 494.43 | 472.75 |
| | | |
| Tier I capital | 43.02% | 51.33% |
| CRAR | 44.08% | 58.33% |
| Gearing | 1.37x | 1.03x |
| | | |
| RoA | 5.50% | 3.37% |
| RoE (PAT/Average net worth) | 17.13% | 7.65% |
| | | |
| Gross NPA (including restructured assets) | 3.74% | 9.70% |
| Net NPA | 3.36% | 8.91% |
| Net NPA / Net worth | 7.63% | 16.04% |

*Source: Company, ICRA research; Amounts in Rs. crore; All ratios are as per ICRA calculations*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2021) | | | | Rating History for the Past 3 Years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding | Rating | FY2020 | FY2019 | | FY2018 |
| | | | | | 07-Aug-2020 | 22-Nov-19 | 17-Oct-18 | 03-Sep-18 | 05-Jan-18 |
| 1 | Long-term Borrowings Programme | Long Term | 68.35 | 20.9 | [ICRA]BBB (Negative) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB- (Stable) |
| 2 | Long-term / Short-term Fund-based Bank Lines | Long Term /Short Term | 8.33 | 8.33 | [ICRA]BBB (Negative)/ [ICRA]A3 | [ICRA]BBB (Stable)/ [ICRA]A3 | [ICRA]BBB (Stable)/ [ICRA]A3 | - | - |
| 3 | Long-term / Short-term Bank Lines – Unallocated | Long Term /Short Term | 141.67 | Nil | [ICRA]BBB (Negative)/ [ICRA]A3 | [ICRA]BBB (Stable)/ [ICRA]A3 | ICRA]BBB (Stable)/ [ICRA]A3 | - | - |

*Amount in Rs. crore*

## 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 click here

## Annexure-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated* (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| INE468V07014 | Long-term Borrowings Programme (NCD – Series I) | 1-Feb-17 | 12.00% | 1-Feb-20 | 20.00 | [ICRA]BBB (Negative); withdrawn |
| INE468V07022 | Long-term Borrowings Programme (NCD – Series III) | 25-May-17 | 11.00% | 24-May-20 | 11.65 | [ICRA]BBB (Negative); withdrawn |
| INE468V07030 | Long-term Borrowings Programme (NCD – Series IV) | 12-Oct-17 | 11.00% | 11-Oct-20 | 11.58 | [ICRA]BBB (Negative) |
| INE468V07048 | Long-term Borrowings Programme (NCD – Series V) | 18-Jan-18 | 10.50% | 17-Jan-21 | 10.00 | [ICRA]BBB (Negative) |
| INE468V07055<br>INE468V07063 | Long-term Borrowings Programme (NCD – Series VI) | 17-May-18 | 11.00%<br>11.50% | 16-May-21 | 10.00 | [ICRA]BBB (Negative) |
| NA | Long-term Borrowings Programme** | NA | NA | NA | 36.77 | [ICRA]BBB (Negative) |
| NA | Long-term / Short-term Fund-based Bank Lines | NA | NA | NA | 8.33 | [ICRA]BBB (Negative)/[ICRA]A3 |
| NA | Long-term / Short-term Bank Lines – Unallocated | NA | NA | NA | 141.67 | [ICRA]BBB (Negative)/[ICRA]A3 |

** Earlier rated amount – Rs. 15 crore (Rs. 11.65 crore after initial redemption); ** Yet to be placed/Proposed; Source: BCPL*

## 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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