

Blacksoil Capital Private Limited

October 17, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank Lines	-	150	[ICRA]BBB(Stable)/[ICRA]A3; Assigned
Long-term Borrowings Programme	100	100	[ICRA]BBB(Stable); Outstanding
Total	100	250	

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB (pronounced ICRA triple B) and short-term rating of [ICRA]A3 (pronounced ICRA A three) to the Rs. 150-crore bank lines of Blacksoil Capital Private Limited (BCPL)¹.

ICRA has a long-term rating outstanding of [ICRA]BBB for the long-term debt programme of BCPL. The outlook on the long-term ratings is Stable.

Rationale

The rating factors in the capitalisation profile of the company supported by the sizeable equity infusion by the promoters (Rs. 108 crore in Q1FY2019). Further, ICRA has taken into account the gradual diversification in the loan book, with the ramp-up of the new economy lending segment (established venture capital (VC), or private equity (PE), backed new age high-growth companies and channel partner ecosystem) and a shift towards lower tick-size exposures thereby reducing the portfolio concentration risk. ICRA also factor in the company's enhanced financial flexibility by virtue of its reputable sponsors, with the entity being backed by the promoters of Navneet Group and Avvashya Group along with Mahavir Agency and Blacksoil Group. Additionally, the company also receives operational and managerial support from the sponsors, in terms of deal origination and evaluation, by capitalising the sponsors' experience as well as large network and relationships across industries built over a period of time.

The rating is however constrained by the company's limited track record and moderate scale of operations (portfolio of ~Rs. 398 crore as on June 30, 2018). Further, the limited seasoning of BCPL's loan-book, its focus on sectors like real estate and new economy debt having a higher risk profile and high client concentration, albeit reducing, (top five exposures attributing to 39% of the loan-book as on June 30, 2018) lead to an inherent vulnerability of the portfolio to any borrower or industry specific event which could result in a steep deterioration in asset quality indicators While the company has reported nil non-performing assets (NPA) till date, there have been few instances of delinquencies (0+dpd). Ability to control slippages to harder buckets would be a key monitorable from rating perspective.

Outlook: Stable

In ICRA's opinion, BCPL will continue to report steady growth while maintain a healthy capitalisation and adequate profitability indicators. The outlook may be revised to 'Positive' if BCPL is able to execute its business plans successfully, demonstrating a ramp-up in loan book with further diversification while maintaining a consistently healthy asset quality and profitability leading to an improvement in the risk profile. The outlook may be revised to 'Negative' in case there is

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

significant deterioration in the company's asset quality or solvency indicators. Any material change in expected level of support from the promoters would also remain a key rating sensitivity.

Key rating drivers

Credit strengths

Financial flexibility and operational support by virtue of the company's sponsor group - The company is backed by the promoters of the Navneet group and Avvashya group (Allcargo Logistics Limited, the flagship entity of the group rated [ICRA]AA(Stable)) along with Mahavir Agency and Blacksoil group and draws significant advantages from this association at managerial, operational and strategic levels. The deal origination and business sourcing are supported considerably by the vast network of the promoters built over a period of time. Further, the promoters are actively involved in the operation of the company and are a part of the credit committee. The promoter groups have also extended support in terms of technical know-how given their prior experience of managing an alternative investment fund named Blacksoil Realty Fund which was launched in 2013 with a corpus of Rs. ~160 crore. The fund has successfully exited 5 residential projects and partially exited 1 project of the investments made giving an annualized IRR of ~23%. Further BAMPL (100% subsidiary of BCPL) has launched a second fund, namely, Walton Street Blacksoil Real Estate Debt Fund I with Walton Street India which is an affiliate of the Walton Street Capital, L.L.C ("Walton Street"), a United States (US) based real estate investment management firm, as an anchor investor or advisor to the firm. The fund has achieved final close of its target size of Rs. 300 crore. BCPL enjoys considerable financial flexibility given the support it enjoys from the promoters demonstrated by their willingness to infuse funds (either through equity or sponsor loans) as and when need arises.

Healthy capitalisation profile given the current scale of operations - The capitalisation profile for BCPL remains healthy with capital adequacy ratio of 46.3% as on June 30, 2018 as compared to 23% as on March 31, 2018. The capitalisation is supported by capital infusion from the promoter groups with a total equity infusion of Rs. 108 crore in Q1FY2019 and has increased the net worth to Rs. 184 crore as on June 30, 2018. Additionally, the promoters have extended sponsors loans (Rs. 20 crore as of June 30, 2018) to the company. Given the limited external borrowings, the ramp-up in the loan-book has largely been supported by the promoter funds. The gearing also remains comfortable at 1.14 times as on June 30, 2018. ICRA expects the promoter group to infuse further capital as and when need arises with the ramp-up of loan book to keep the gearing in the range of 3-4 times in the medium term.

Gradual diversification in loan book along with increased granularity - BCPL is engaged in wholesale funding with focus on segments like real estate, established VC/PE backed new age high-growth companies, debt to channel partner ecosystem and other mid-sized promoter / corporate lending. Over the past few months, the company has shifted its strategic focus towards new economy segment and slowed down the disbursements in the real estate segment. Real estate attributed to 49% of the loan-book as of June 30, 2018 (67% as of March 31, 2018) while the share of new economy debt and structure debt stood at 27% (13% as of March 31, 2018) and 21% (15% as of March 31, 2018) respectively. During FY2018, the company commenced a new vertical small and medium business loans (SMBL) wherein the ticket size is restricted to Rs. 3 crore (3% of loan-book as on June 30, 2018). With the increased focus on the lower ticket sized new economy debt and SMBL segments, the granularity of the loan book has improved.

Healthy financial performance - With the increase in operating track record for the company, the profitability has improved with the company reporting a profit after tax (PAT) of Rs. 12.63 crore during FY2018 (return on assets (RoA) of 5.57%) as compared to Rs. 2.16 (RoA of 3.37%) crore in FY2017. The company has made a PAT of Rs. 4.36 crore in Q1FY2019. The profitability is expected to improve further, as the loan book grows. However, the ability to maintain the asset quality given the inherently risky operational segment will remain a key sensitivity to maintain the profitability.

Credit challenges

Limited track record with low seasoning of the portfolio and moderate scale of operations – The company is a relatively new entrant in the lending space, having commenced operations in FY2017. While BCPL has reported a healthy loan book growth, with total deployment close to ~Rs. 713 crore in 82 deals August 2016 to June 30, 2018 and has successfully fully exited 19 deals worth ~Rs. 316 crore, the scale of operations remains limited with the loan book at Rs. 398 crore as on June 30, 2018. Given the limited track record in senior secured lending, the portfolio remains unseasoned and is yet to witness an economic downturn or stress. ICRA, however, draws comfort from the promoter group’s prior experience in real estate investment through its alternate investment fund (AIF).

High concentration in the portfolio albeit improvement- The loan-book (excluding small and medium business loans (SMBL) segment) comprises of 28 exposures with an average ticket size of ~Rs. 13.8 crore. Concentration risk remains high with the top five exposures attributing to 39% of the loan-book as on June 30, 2018, albeit lower than historical level supported by the company’s strategy to increase focus on lower ticket size loans which has helped increase the granularity in the loan-book to some extent (top five loans attributed to 59% of the loan-book as on December 31, 2017). Given the wholesale nature of the company’s lending business, the portfolio remains inherently vulnerable to any borrower or industry specific event which could result in a steep deterioration in asset quality indicators. While the company has reported nil non-performing assets (NPA) till date, there have been few instances of delinquencies (0+ dpd) in the past. However, major proportion of the overdue amount has been recovered and associated accounts have become regular. Going forward, the company’s ability to scale up its operations and further diversify its loan-book, while maintaining a healthy asset quality, will remain critical from a rating perspective.

Inherently high risk profile with focus on real estate and venture debt segments – The company’s operations are largely focused on the real estate and new economy debt segment, which have an inherently high risk profile. The risk in real estate segment has increased by the ongoing downturn in Indian real estate with slowdown in sales across geographies leading to a stretched liquidity profile across developers. New economy debt segment is niche business segment in India and there are only a few players. The risk associated with venture debt is high given that funding is provided to ventures wherein the operations are yet to break-even (though they might be earning positive cash flows). BCPL provides debt to companies which are backed by reputed & established Venture Capital Funds (VCFs). Further, the cash-flows based lending model and setup of escrow and debt service reserve account (DSRA) provides some comfort.

Low diversification in the borrowing profile – The total borrowings for BCPL stood at ~Rs. 212.5 crore as on June 30, 2018 (Rs. 282.7 crore as on March 31, 2018 and Rs. 106.1 crore as on March 31, 2017). With the gradual ramp-up of loan book by the company, the company has been raising funds from non-convertible debentures (37% as on June 30, 2018), inter-corporate deposits (32% as on June 30, 2018) and banks (22% as on June 30, 2018). The company has raised NCD from HNI investors, leveraging the promoter’s networks. Further, the company has expanded the number of banking relationships to 3 banks. Going forward, the company’s ability to raise funds from the promoters to support the envisaged portfolio growth, diversify the funding mix and raise funds at competitive rate will be a key monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA’s Credit Rating Methodology for Non-Banking Finance Companies](#)

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 is involved in the business of real estate funding, venture debt funding, structured debt funding and small and medium business loans. BCPL was formed in the year 2016, by acquisition of a defunct NBFC, namely, Sarvodaya Capital, by the existing promoters. Key investors in the company include promoters of Avvashya group (managed by Mr. Shashi Kiran Shetty, with Allcargo Logistics Limited, the flagship entity of the group rated [ICRA]AA (Stable)), 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

During FY2018, the company generated a profit after tax (PAT) of Rs. 12.63 crore over an operating income of Rs. 44.03 crore. Further during Q1FY2019, the PAT stood at Rs. 4.36 crore over an operating income of Rs. 16.04 crore. BCPL had a net worth of Rs. 184.04 crore and a loan book of over Rs. 397.5 crore as on June 30, 2018.

Key Financial Indicators (Audited)

	FY2017	FY2018
Net interest income	2.90	19.58
Profit before tax	3.36	17.84
Profit after tax	2.16	12.63
Loan Book	126	324
Total assets	127.04	361.76
% Tier 1	14.65%	21.18%
% CRAR	14.86 %	21.69%
Gearing	5.29	3.94
% Net profit/Average total assets	3.83%	5.17%
% Return on net worth	20.31%	27.54%
% Gross NPAs	0.00%	0.00%
% Net NPAs	0.00%	0.00%
Net NPA/Net worth	0.00%	0.00%

Amount is Rs. Crore; All ratios as per ICRA calculations

Source: Company Data; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019) Type	Current Rating (FY2019)		Oct 2019	Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) (As on 15-Oct-18)		FY2019 Sep 2018	FY2018 Jan 2018	FY2017 Jan 2017	FY2016 -
1 Bank Lines	Long Term/ Short Term	150	71.00	[ICRA]BBB (Stable)/ [ICRA]A3	-	-	-	-
2 Long-term Borrowing programme	Long Term	100	52.98	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-

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 www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE468V07014	Long term borrowings (NCD (Series 1))	1-Feb-17	12.00%	31-Jan-20	19.75	[ICRA]BBB (Stable)
INE468V07022	Long term borrowings (NCD (Series 3))	25-May-17	11.00%	24-May-20	11.65	[ICRA]BBB (Stable)
INE468V07030	Long term borrowings (NCD (Series 4))	12-Oct-17	11.00%	11-Oct-20	11.58	[ICRA]BBB (Stable)
INE468V07071	Long term borrowings (NCD (Series 7))	11-Oct-18	11.00%	10-Oct-21	10.00	[ICRA]BBB (Stable)
INE468V07089	Long term borrowings (NCD (Series 7))	11-18-18	11.50%	10-Oct-21	10.00	[ICRA]BBB (Stable)
NA	Long-Term borrowings*	NA	NA	NA	47.02	[ICRA]BBB (Stable)
NA	Bank Lines				150.00	[ICRA]BBB (stable)/ [ICRA]A3

*Unutilised
Source: BCPL

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About ICRA Limited:

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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.

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