December 07, 2020

Blacksoil Capital Private Limited: Ratings reaffirmed; Rating withdrawn for matured long-term borrowings and bank lines

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Borrowings Programme	11.58	-	[ICRA]BBB (Negative); reaffirmed and withdrawn
Long-term Borrowings Programme	56.77	56.77	[ICRA]BBB (Negative); Reaffirmed
Long-term / Short-term Fund- fund based Bank Lines	8.33	2.00	[ICRA]BBB (Negative)/[ICRA]A3; reaffirmed
Long-term / Short-term Bank Lines – Unallocated	141.67	148.00	[ICRA]BBB (Negative)/[ICRA]A3; reaffirmed
Total	**218.35**	**206.77**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn the rating assigned to the Rs. 11.58-crore long-term borrowings of Blacksoil Capital Private Limited (BCPL) as no amount is outstanding against the rated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 The rating was withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

The ratings reaffirmation factors in BCPL's healthy capitalisation profile supported by regular capital infusions and the current adequate liquidity position. The ratings also factor in BCPL's financial flexibility, supported by its sponsor groups, which include 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 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 ~53% of the portfolio as on September 30, 2020. However, over the past two 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. The ratings also take into account the deterioration in the company's asset quality with gross non-performing assets (GNPAs; including restructured assets) increasing to 10.2% of total advances as of March 31, 2020 from 3.7% as on March 31, 2019 (nil as on March 31, 2018). While there were no incremental slippages in H1 FY2021, the GNPAs increased to 11.3% of total advances as of September 30, 2020 owing to the contraction in the loan book. The company, however, reported an improvement in other stressed assets (special mention assets 2 or SMA 2 accounts, i.e. over 60 to 90 days past due) to 0.02% of total advances as on September 30, 2020 from 9.9% as on March 31, 2020, supported by the resolution of a large-ticket asset, thereby preventing a further slide in the asset quality. 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. Though the sector witnessed a sequential uptick in Q2 FY2021 with the easing of the lockdown, the sustainability of the recovery and a return to pre-Covid levels remain to be seen.

The ratings also factor in the low diversification of the company's resource profile. BCPL's resource profile, as on September 30, 2020, primarily comprised 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 1% of its borrowings as on September 30, 2020 coming from banks/financial institutions. Non-banks, especially small wholesale lending entities, have been witnessing challenges in raising funds at competitive prices over the past two years due to risk aversion by investors/lenders. However, BCPL has demonstrated its ability to raise funds from its captive investor base of HNIs (BCPL raised Rs. 25 crore through the issuance of NCDs in Q2 FY2021 and ~Rs. 95 crore from around 200 investors in FY2020) and the shareholders, which provides comfort.

The Negative outlook reflects the continuing stress in BCPL's loan book coupled with the subdued operating environment. BCPL has certain resolution plans for its stressed assets, which are expected to be executed over the next two quarters. The timely execution of these plans would remain critical from a credit perspective.

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. 6.4 crore outstanding as on September 30, 2020, Rs. 39.4 crore as on March 31, 2020 and Rs. 55.6 crore as of March 31, 2019), to support business growth.

Healthy capitalisation – BCPL reported a healthy capital to risk weighted assets ratio (CRAR) of 61.4% as on September 30, 2020 (58.3% as on March 31, 2020). 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) in FY2020. A further infusion of ~Rs. 24 crore is expected in Q4 FY2021 through the scheduled call for the second tranche payment of the CCDs. Additionally, unsecured loans from promoters (Rs. 6.4 crore outstanding as on September 30, 2020) have supported the operations with the loan book growth largely being funded through the net worth and loans from the shareholders. The gearing (excluding CCDs) remained comfortable at 0.74x as on September 30, 2020 compared to 0.91x as on March 31, 2020.

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 a 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 is limited. However, ICRA draws comfort from the fact that in the last four and half years, the company has disbursed over Rs. 1,362 crore, of which ~71% has been repaid by the borrowers. The loan book witnessed a sharp increase in the GNPA levels (including restructured assets) in H2 FY2020, especially in the real estate segment, to 10.2% of total advances as on March 31, 2020 from 3.74% as on March 31, 2019 (nil as on March 31, 2018). With the industry-wide slowdown in disbursements in H1 FY2021 due to the pandemic, the loan book shrunk and the GNPAs increased marginally to 11.3% as on September 30, 2020. No major slippages were reported between March 2020 and September 2020, providing comfort. Further, in H1 FY2021, BCPL reported a sharp reduction in the SMA2 accounts to 0.02% as on September 30, 2020 from 9.9% as on March 31, 2020, supported by the resolution of a large-ticket asset. BCPL has drawn up certain resolution plans for its stressed assets and is in the process of executing these plans over the next five-six months. ICRA will continue to monitor the company's 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 – BCPL's operations are largely focused on 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, further aggravated by the lockdown. Though the sector witnessed a sequential uptick in Q2 FY2021 with the easing of the lockdown, the sustainability of the recovery and a return to pre-Covid levels remain to be seen. Further, the contracting loan book has led to some concentration risk with the top 10 clients accounting for ~53% of the loan book as on September 30, 2020. Starting FY2018, BCPL has been reducing its exposure to the real estate sector and focusing on lending to growth companies, with the objective of diversifying its portfolio. Real estate lending accounted for ~39% of the portfolio as on September 30, 2020 (~35% as on March 31, 2020), followed by growth companies at ~31% (March 31, 2020: ~35%) and structured finance at 25% (March 31, 2020: ~27%).

Low diversification in borrowing profile – BCPL's total borrowings (excluding CCDs) stood at Rs. 170 crore as on September 30, 2020 compared to Rs. 203 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 its additional funding requirements (declined to 4% of total borrowings as on September 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 September 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. 25 crore in H1 FY2021, 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 of investors/lenders 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 September 30, 2020 showed repayment obligations of ~Rs. 23 crore in the 6-month bucket against expected inflows of ~Rs. 73 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 two quarters have been low, the repayments received from the loan book have been used for debt repayments and to shore up liquidity. Though the disbursements are expected to increase in H2 FY2021, BCPL's on-book liquidity (cash and liquid investments) of Rs. 45.4 crore as on September 30, 2020 and the projected cash inflows provide comfort. 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 to Stable in case of a significant improvement in BCPL's asset quality (GNPAs of less than 5% on a 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 triggers – The ratings may be downgraded on a further deterioration in the asset quality, 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 ICRA's Policy on Withdrawal of Credit Ratings
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). It 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 H1 FY2021, BCPL reported a profit after tax (PAT) of Rs. 7.3 crore compared to PAT of Rs. 11.7 crore in H1 FY2020. It had a net worth of Rs. 230.5 crore and a loan book of Rs. 401.7 crore (including investment in alternative investment fund) as on September 30, 2020.

Key financial indicators (audited)

	FY2019	FY2020	H1 FY2021*
Net interest income	39.95	37.38	15.82
Profit before tax	34.04	23.42	11.02
Profit after tax (PAT)	23.54	16.31	7.30
Loan book	464.3	430.55	401.67
Total assets	494.43	472.75	454.06
Tier I capital	43.02%	51.33%	54.08%
CRAR	44.08%	58.33%	61.40%
Gearing (Including CCDs)	1.37x	1.03x	0.85x
RoA	5.50%	3.37%	3.15%
RoE (PAT/Average net worth)	17.13%	7.65%	6.44%
Gross NPA (including restructured assets)	3.74%	10.22%	11.30%
Net NPA	3.36%	8.91%	9.33%
Net NPA / Net worth	7.63%	16.04%	14.12%

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

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 Outstand Ing*	Rating		FY2020	FY2019		FY2018
					December-07-2020	August-07-2020	November-22-2019	October-17-2018	September-03 2018	January-05 2018
1	Long-term Borrowings Programme	Long Term	56.77	11.23	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Long-term Borrowings Programme	Long Term	11.58	Nil	[ICRA]BBB (Negative); withdrawn	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Long-term / Short-term Bank Lines –Fund based Bank Lines	Long Term /Short Term	2.00	2.00	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3	-	-
4	Long-term / Short-term Bank Lines – Unallocated	Long Term /Short Term	148.00	Nil	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3	[ICRA]BBB (Stable)/ [ICRA]A3	-	-

*Amount in Rs. crore; *Outstanding as on September30, 2020*

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
INE468V07030	Long-term Borrowings Programme (NCD – Series IV)	12-Oct-17	11.00%	11-Oct-20	11.58	[ICRA]BBB (Negative); reaffirmed and withdrawn
INE468V07048	Long-term Borrowings Programme (NCD – Series V)	18-Jan-18	10.50%	17-Jan-21	10.00	[ICRA]BBB (Negative)
INE468V07055 INE468V07063	Long-term Borrowings Programme (NCD – Series VI)	17-May-18	11.00% 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 Bank Lines – fund based Bank Lines	NA	NA	NA	2.00	[ICRA]BBB (Negative)/[ICRA]A3
NA	Long-term / Short-term Bank Lines – Unallocated	NA	NA	NA	148.00	[ICRA]BBB (Negative)/[ICRA]A3

** 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.

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