

Rating Rationale

May 23, 2023 | Mumbai

Blacksoil Capital Private Limited

'CRISIL A2' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.150 Crore
Short Term Rating	CRISIL A2 (Assigned)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned 'CRISIL A2' rating to the short-term bank facility of Blacksoil Capital Private Limited (Blacksoil).

The rating reflects Blacksoil's comfortable earnings profile and capital positioning, backed by sequential and sizeable support from its sponsors and promoter family. Although, sustenance in asset quality parameters, given the wholesale nature of advances, and improvement in resource raising ability, remains to be monitored. However, Blacksoil has demonstrated a long track record of successful exits in the past with limited delinquencies. Even in cases where there were overdue, the company has been able to recover its dues on time and in full. Nevertheless, ability to continue to sustain asset quality as portfolio scales up will be a key monitorable.

Blacksoil commenced its operations in 2010, as a Group, while the NBFC, Blacksoil Capital Private Limited, initially started its lending operations in 2016 to provide debt to real estate developers and venture/structured debt to early-stage growth companies. In 2019, the company discontinued its business of lending to real estate developers through Blacksoil set up AIF funds for real estate investments. Consequently, the real estate portfolio is being run down at the NBFC level and the outstanding real estate portfolio (including real estate AIF investments) stood at Rs 73 crores as on December 31, 2022. Blacksoil continued its business of lending to growth companies and also started providing debt to other financial Institutions along with supply chain financing to MSMEs. In fiscal year 2021, the company acquired 100% stake in Saraloan Technologies Private Limited (Saraloan) to expand its supply chain financing business. The company carried exposure to growth companies (35% of the AUM), to financial institutions (29% of AUM) and supply chain financing (22% of AUM) as on December 31, 2022.

Analytical Approach

For arriving at the ratings of Blacksoil Capital Private Limited (BCPL), the team has taken a consolidated approach. The team has on a consolidated basis analysed the businesses of BCPL, and its subsidiary companies i.e., Blacksoil Asset Management Private Limited (BAMPL) and Saraloan Technologies Private Limited.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Strong promoter and sponsor group

Blacksoil, as a group, initiated its operations in 2010, with real estate advisory being the forefront. Subsequently, Blacksoil forayed into real estate lending in 2014. Blacksoil, founded by Mr. Mohinder Pal Bansal and Mr. Ankur Bansal (promoter family), is sponsored by strong investors like Mr. Shashi Kiran Shetty (promoter of Allcargo Logistics), Mr. Gnanesh Gala (promoter of Navneet Group) and Mr. Virendra Gala (promoter of Mahavir Agency and VBG Realty). Cumulatively, Blacksoil has received capital infusion to the tune of Rs 171 crore since inception from the above group of individuals. Further, along with the equity, the sponsors have also supported the company with extension of debt lines. As on December 31, 2022, loans from sponsors/related parties accounted for 14% of total borrowings. Given the background and the set of investors, BCPL has established a network of various private equity (PE)/ venture capital (VC) funds which enable the entity to generate leads in order to scale up its loan book. Consequently, the wide business network of the promoters helps BCPL source capital from many HNIs families and financial institutions to expand its activities.

Comfortable capital position, supported by earnings

Since inception, Blacksoil has received capital infusion to the tune of Rs 171 crores from its sponsor group, with the last equity infusion coming in fiscal year 2019. Further, the company has remained profitable since inception reporting cumulative profits of Rs 94 crores in the last 6 fiscals.

As a result, combined with sequential positive internal accruals, net-worth of Blacksoil was reported at Rs 282 crore as on December 31, 2022. Leverage profile too remained comfortable at 1.5 times as on December 31, 2022, on a consolidated basis. Leverage profile is supported by adequate net-worth, against which Blacksoil carried total borrowings of Rs 430 crore, 68% of which was in the form of NCDs issued to HNIs and Ultra HNI families/individuals, while the remaining was via a mix of loans from banks (10%), sponsors/related parties (14%) and commercial paper (4%). Capital profile is expected to remain comfortable backed by healthy internal accruals with steady state gearing expected to remain under 3-4 times in the medium term.

Consistent earning metrics, aided by low credit costs

During fiscal year 2022, Blacksoil reported net profitability of Rs 21 crore on a consolidated basis, on a total income of Rs 89 crore. The income profile continues to be supported by multiple segments of revenue, augmented by rising assets under management (AUM) base of the NBFC to Rs 502 crore as on March 31, 2022. Additionally, income profile is supported by management fee from its fund management business, which includes income from outstanding drawdown under the credit fund, managed via Blacksoil Asset Management Private Limited (BAMPL, 100% subsidiary of BCPL). Furthermore, during the nine-month period ending December 31, 2022, Blacksoil reported a PAT and total income of Rs 15 crore and Rs 85 crore respectively. Overall, operational profitability of the entity is supported by low credit costs (as a percentage of managed assets) of 0.3% and 0.8% in fiscal year 2022 and nine-month period ending December 31, 2022, respectively, backed by controlled slippages. As a result, return on managed assets (RoMA) for the nine-month period ending December 31, 2022, stood at 2.8% (annualized).

Weaknesses:

Inherent vulnerability of asset quality given segment of operation

End December 31, 2022, AUM of the NBFC, Blacksoil Capital Private Limited, BCPL, which initiated its lending operations in 2016, stood at Rs 646 crore (March 31, 2022: Rs 502 crore), and it carried exposure to broadly three key segments i.e. growth companies (35% of NBFC's AUM), financial institutions (29%) and supply chain finance (22%), while the remaining was towards exposure against real estate (5%) and investments made via its AIF fund. Owing to wholesale nature (average ticket size of Rs 10 crore) of loans under these segments, except supply chain financing, Blacksoil remains exposed to interim volatility in its asset quality profile, and thus the loan portfolio shall remain under close monitoring by CRISIL Ratings. On a group level, Blacksoil's AUM stood at Rs 995 crore as on December 31, 2022.

However, CRISIL Ratings takes cognizance of Blacksoil's measure to scale down its real estate book, with disbursements towards the segment paused since 2019.

The growth companies, though are early-stage companies, have strong backing of venture capital (VC)/private equity (PE) investors. Blacksoil identifies early-stage companies in need of debt capital to augment their liquidity profile and working capital requirement. Since its first loan disbursement to the segment in 2016, Blacksoil has made more than 100 exits from its set of portfolio companies, with negligible slippages. However, CRISIL Ratings notes the interim volatility witnessed by the segment in fiscal year 2022 and the consequent impact of the same on softer delinquencies.

During the nine-month period ending December 31, 2022, asset quality profile of BCPL witnessed moderation with the reported gross NPA deteriorating to 6.2%, as against 2.8% as on March 31, 2022, owing to slippages from one of the real estate accounts. However, in the past BCPL has managed to recover its dues even from accounts which have slipped into overdue category and Blacksoil is at an advanced stage of recovery from the same.

Consequently, ability of the company to sustain its asset quality and recoveries, if any, as the portfolio scales is a key monitorable.

Moderate resource profile, high share of loans from related parties

Blacksoil being a sponsor backed entity, has access to equity as well as debt capital from the latter. The share of such debt capital support has reduced as a percentage of total borrowings over the past fiscals. As a result, end December 31, 2022, with no equity infusion during the nine-month period, loans from sponsors and related parties decreased as a percentage of total borrowings, was at 14% (41% as on March 31, 2018). The remaining share of borrowings was via a mix of NCDs issued to HNI and ultra HNI families, which made up 68% of total borrowings, clubbed with another 10% in the form of bank borrowings and 4% being via commercial paper. Going forward, ability of Blacksoil to raise incremental funds via a diversified mix of public and private financial institutions including banks remains a key monitorable.

Liquidity: Adequate

Asset-liability mismatch of the company was comfortable as on December 31, 2022, with positive mismatches across all time buckets, supported by the sizeable on-balance sheet liquidity maintained by the company. As a practice, the company plans to maintain cash and bank balances aggregating to 1.5-2 months of debt repayments and expected disbursements at all points in time. As on March 31, 2023, Blacksoil carried on-balance sheet liquidity of Rs 95 crore in the form of cash and bank balances and mutual fund investments, against which it had debt repayments of Rs 59 crore scheduled for the next six months.

Rating Sensitivity Factors

Upward factors:

- Sustenance of profitability margins, with RoMA remaining consistently above 2.5%-3%, in the near to medium term, whilst scaling up of loan operations
- Maintenance of comfortable asset quality parameters, thus controlling credit costs

Downward factors:

- Sharp increase in gross NPA and consequently, credit costs, in the medium term
- Decline in operational profitability with return on managed assets (RoMA) turning negative.
- Increase in gearing beyond 3.5 times on a sustained basis.

About the Company

Blacksoil group, founded by the Bansal family and backed by participation from sponsor group of individuals, was incorporated in 2010, with real estate debt advisory and real estate debt investments through its alternate investment funds (AIF) being the initial phase of the group. Blacksoil Capital, the NBFC, earlier names as Sarvodaya Capital, was acquired by Blacksoil in 2016 and rechristened as Blacksoil Capital Private Limited (BCPL). The NBFC initiated its lending operations in 2016, to financial institutions and growth companies in the form of debt investments, asset backed debt, venture debt, structured debt etc. Additionally, the company forayed into supply chain financing in fiscal year 2021, post its acquisition of Saraloan Technologies Private Limited in the same period.

Key Financial Indicators: Consolidated

As on/for the period ending	Unit	Dec 22	Mar 22	Mar 21
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AS ON/for the period ending	Unit	Dec-22	Mar-22	Mar-21
Total assets	Rs crore	772	654	522
Assets under management (AUM)#	Rs crore	995	782	556
Total income	Rs crore	85	89	73
Profit after tax	Rs crore	15	21	18
90+dpd (as a % of AUM)	%	0.6	0.6	2.9
Adjusted gearing	Times	1.5	1.3	0.9
Return on managed assets	%	2.8*	3.5	3.5

*Annualized

#AUM inclusive of exposure towards credit fund AIF, and treasury exposure

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	150	NA	CRISIL A2

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Blacksoil Capital Private Limited	Full	Parent
Blacksoil Asset Management Company Private Limited	Full	Subsidiary
Saraloan Technologies Private Limited	Full	Subsidiary

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST	150.0	CRISIL A2		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Short Term Bank Loan Facility	150	Not Applicable	CRISIL A2

This Annexure has been updated on 23-May-23 in line with the lender-wise facility details as on 22-May-23 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Finance Companies
CRISILs Criteria for Consolidation

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