May 17, 2024

Blacksoil Capital Private Limited: Ratings reaffirmed and outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term borrowing programme	36.77	0.0	[ICRA]BBB+; reaffirmed, outlook revised to Positive from Stable and withdrawn
Long-term/Short-term bank lines – Fund based*	100.00	350.0	[ICRA]BBB+; reaffirmed and outlook revised to Positive from Stable [ICRA]A2; reaffirmed and assigned for enhanced amount
Commercial paper programme	50.00	50.00	[ICRA]A2; reaffirmed
Total	**186.77**	**400.00**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the rating outlook to Positive from Stable factors in Blacksoil Capital Private Limited's (BCPL) improving scale of operations, augmented capital base following the rights issue in Q4 FY2024, and the alleviation of risks associated with the erstwhile real estate lending operations. BCPL's consolidated assets under management (AUM) grew by 38% in FY2024 to Rs. 1,028 crore as of March 31, 2024. During this period, the company also raised equity capital, aggregating Rs. 104 crore, from existing investors. Its capitalisation stands characterised by a consolidated net worth of Rs. 436 crore and a gearing of 1.1 times as of March 31, 2024 compared to Rs. 300 crore and 1.4 times, respectively, as of March 31, 2023.

BCPL's headline profitability has been steady with the consolidated return on managed assets (RoMA) in the range of 3.0-4.0% during FY2020-FY2024, though the operating profitability witnessed a moderation in recent quarters due to the uptick in operating expenses. Notwithstanding the higher concentration of investors in non-convertible debentures (NCDs), ICRA takes note of the improving diversification in BCPL's borrowing profile. The share of borrowing from banks and financial institutions increased to 18% as of December 2023 from 12% as of March 2023.

The ratings continue to consider the benefits derived from BCPL's sponsors, which include the promoters of the Avvashya Group and the Navneet Group and the family office of Virendra Gala and Mohinder Bansal. The promoters have demonstrated their continued commitment to BCPL through regular capital infusions and interim financial support in the form of loans from shareholders. Their commitment to the company is also evident from the purchase of the units of the alternative investment funds (AIFs) held by it, pursuant to the Reserve Bank of India's (RBI) directive on investment in AIFs (dated December 19, 2023[1]).

The ratings are, however, constrained by the risk associated with the underlying borrower segment. Although the headline asset quality indicator, gross non-performing assets (GNPAs)/gross advances (excluding investment in units of AIFs), improved to 1.7% as of March 31, 2024 from 6.3% as of March 31, 2023, the concentration in the loan book exposes the company's asset quality to lumpy slippages. In this regard, while ICRA takes note of BCPL's track record of exits from stressed real estate

[1]As per the RBI's notification dated December 19, 2023, if a regulated entity (RE) has invested in an AIF scheme and if the AIF has made a downstream investment in the RE's debtor company, the RE shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF

accounts through the timely and successful implementation of resolution plans in the past with limited delinquencies, its ability to maintain adequate asset quality and keep the credit costs under control will remain a monitorable, going forward.

BCPL exited the real estate lending business in FY2022 and the legacy book was run down in FY2024. Incrementally, the focus is on lending to venture capital (VC)/private equity (PE) backed growth companies (39% of the loan book[2] as of December 31, 2023), loans to financial institutions (30%[9]) and supply chain finance (29%[9]). Additionally, BCPL has scaled-up its off-balance sheet co-investment[3] and referral lending book[4]. ICRA notes that the aggregate credit losses and write-offs have been low since inception despite the interim volatility in the headline asset quality indicators, reflecting positively on the company's underwriting track record.

ICRA has reaffirmed and withdrawn the rating assigned to the Rs. 36.77-crore long-term borrowing programme as no amount is outstanding against the same. This is in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Adequate capitalisation; capital base stands augmented following rights issue in Q4 FY2024 – BCPL concluded an equity raise, aggregating Rs. 104 crore, from existing investors (through rights issue) in Q4 FY2024. As a result, its consolidated net worth increased to Rs. 436 crore as of March 31, 2024 from Rs. 300 crore as of March 31, 2023 and the consolidated gearing declined to 1.1 times from 1.4 times during this period. The company's capital adequacy ratio stood at 46% as of March 31, 2024. In ICRA's view, the current level of capitalisation is sufficient to support BCPL's near-to-medium-term growth plans. The company plans to keep its leverage below 2.5 times consistently over the medium term. In this regard, it is noted that the consolidated gearing has remained in the range of 1.0-1.5 times in the last six years (FY2019-FY2024).

Adequate profitability trajectory; recoveries from stressed assets provided support in FY2024 – Despite the relatively small scale of operations and the asset quality pressure in the preceding years, BCPL has demonstrated a track record of adequate profitability since inception. It reported steady profitability during FY2020-FY2023, with consolidated RoMA of 3.3-4.0%, and the trend continued in FY2024 with RoMA of 3.2%. BCPL reported an increase in the operating expense to average managed assets ratio to 5.6% in FY2024 from 4.3% in FY2023. Further, the write-off of stressed assets led to an increase in the credit cost to 0.7% in FY2024 from 0.01% in FY2023. Nevertheless, the income profile in FY2024 was supported by recoveries from stressed assets (including ~Rs. 14-crore interest income, which was not booked earlier on a stressed real estate asset and recoveries from restructured assets), along with distribution income from investment in the units of AIFs fee, management fees from the distribution of the units of AIFs and income from the co-lending business. Even though the operating expenses increase due to the augmentation of the employee base and office space for scaling up the supply chain business, BCPL achieved a profit after tax (PAT) of Rs. 32 crore in FY2024 (on a provisional basis) compared to Rs. 27 crore in FY2023. Going forward, BCPL's ability to scale up the operations and maintain adequate asset quality, and consequently keep the credit costs under control, will be imperative for sustaining the profitability trajectory.

Resourceful promoter group – BCPL is backed by the promoters of the Navneet Group, the Avvashya Group, Mahavir Agency and Blacksoil Group. The promoters have demonstrated their continued commitment to BCPL through regular capital infusions and interim financial support in the form of loans from shareholders. Since inception, the promoters infused equity capital aggregating Rs. 275 crore in BCPL with the latest infusion (Rs. 104 crore) in Q4 FY2024. The wide business network of the promoters helps source new business and the promoters are also involved in the company's credit/investment decisions. Further, supported by the promoters' business network, BCPL has been able to raise funds through NCDs issued to high-net-

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[2] Excluding investment in units of AIFs

[3] Co-investment with HNIs and family offices

[4] BCPL acts as the direct selling agent of a large financial institution

worth individuals (HNIs) and family offices apart from raising intercorporate deposits (ICDs) from various corporate entities. Cumulative funds raised through NCDs stood at Rs. 675 crore as of March 31, 2024. The promoters' commitment to BCPL is also evident from their purchase of the units of AIFs held by it pursuant to the RBI's directive on investment in AIFs (dated December 19, 2023). ICRA expects the promoters to continue extending support in case of contingencies.

Credit challenges

Relatively risky profile of loan book with vulnerability to concentration risk; though, real estate book has been run down – BCPL decided to exit the real estate lending business in FY2022 and the book was successfully run down in FY2024. The company remains focused on lending to VC/PE-backed growth companies (39% of the loan book[5] as of December 31, 2023), besides loans to financial institutions (30%[9]) and small and medium business loans (SMBL; supply chain finance – 29%[9]). ICRA notes the risk associated with the underlying borrower segment as the businesses of these borrowers have limited track records and volatile cash flows. Further, in the SMBL segment, while BCPL has a right to recourse on the anchor companies, these are also growth companies. In this regard, the interlinkage between the SMBL segment and the growth company lending segment is noted. Nevertheless, BCPL lays emphasis on lending to start-ups, which have a) a vintage of 4-5 years, b) an established market position in the target segment, c) entered the growth phase, d) achieved breakeven at least at the contribution margin (CM-1) level, e) low leverage, and f) raised ~60% equity capital from institutional investors.

While BCPL's headline asset quality indicator, GNPAs (excluding investment in units of AIFs), improved to 1.7% as of March 31, 2024[6] from 6.3% as of March 31, 2023, the concentration in the loan book exposes the asset quality to lumpy slippages as seen in the past. The company's asset quality trajectory has remained volatile with peak GNPA of 10.9% in FY2021. As of December 31, 2023, the top 10 exposures accounted for 38% of the loan book. Nonetheless, BCPL has demonstrated a track record of successful exits from the stressed real estate accounts in the past with the successful implementation of resolution plans to curtail losses. The aggregate write-offs have been low since inception (aggregate net write-off of ~Rs. 11 crore compared to cumulative disbursements of Rs. 4,498 crore and outstanding loan book of Rs. 715 crore as of December 31, 2023), which provides comfort. Going forward, BCPL's ability to maintain adequate asset quality in the continuing product segments and keep credit costs under control will remain a monitorable, though the overall capitalisation profile provides sufficient cushion to absorb any losses.

Low diversification in borrowing profile, notwithstanding recent improvement – BCPL's borrowing profile remains skewed towards NCDs issued to HNIs and family offices. As of December 31, 2023, NCDs issued to HNIs and family offices accounted for 67% of the total borrowings followed by borrowings from banks and financial institutions (18%), ICDs (15%) and commercial paper (1%). Nonetheless, BCPL has registered an improvement in its borrowing profile with the share of borrowings from banks/financial institutions increasing from 12% as of March 31, 2023. ICRA also notes that ~43% of the loan book (excluding investment in AIF), comprising loans extended in the form of NCD structures and investment in units of AIFs, may not be eligible for bank funding, which limits the company's ability to diversify its borrowing profile. Previously, 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 the issuance with finer pricing. The put options exercised by investors remained limited at less than 5% of the NCDs outstanding as on December 31, 2023. While BCPL's demonstrated ability to raise funds from its captive investor base of HNIs and family offices provides comfort, its ability to further diversify its borrowing profile at competitive costs will be critical for growth and profitability.

Liquidity position: Adequate

Typically, BCPL's asset-liability management (ALM) statement shows positive cumulative mismatches in all the buckets, supported by the adequate on-balance sheet liquidity maintained by it. As on March 31, 2024, it had a cash/bank balance and

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[5] *Excluding investment in units of AIFs*

[6] *Supported by write-off of ~Rs. 5 crore*

liquid investments aggregating Rs. 41 crore. The available liquidity accounted for ~9% of its borrowings as of March 31, 2024 and adequately covered the debt obligations for the next three months. However, 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; thus, unforeseen put options exercised by the investors can impact liquidity. Nevertheless, the put options exercised by investors remained limited at less than 5% of the NCDs outstanding as on December 31, 2023.

Rating sensitivities

Positive factors – The continued scale-up of operations while maintaining healthy asset quality and capitalisation will be a credit positive. Improvement in profitability and augmentation of the borrowing profile also remain imperative.

Negative factors – A deterioration in the asset quality, affecting the company's profitability, solvency and liquidity profile, may lead to a pressure on the credit profile. A sustained and material increase in the leverage will also be a credit negative.

Analytical approach

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

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 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 (backed by venture capital and private equity) and financial institutions in the form of term loans, debt investments and structured debt. The company forayed into supply chain financing in 2021, after the acquisition of Saraloan Technologies Private Limited. In FY2022, BCPL exited the real estate lending business and the legacy book was run down in FY2024.

BCPL has two subsidiaries, i.e. Blacksoil Asset Management Private Limited (flagship company of BCPL for managing the AIF business) and Saraloan Technologies Private Limited (fintech platform used for evaluating small-ticket loans of up to Rs. 2-2.5 crore, primarily in the small and medium business loan segment).

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. Virendra Gala; engaged in real estate advisory) and Blacksoil Group (the Bansals).

In FY2024, BCPL reported a profit after tax (PAT) of Rs. 32 crore on total income of Rs. 143 crore compared to Rs. 27 crore and Rs. 104 crore, respectively, in FY2023. The company's capitalisation is characterised by a consolidated net worth of Rs. 436 crore and a gearing of 1.1 times as on March 31, 2024.

Key financial indicators (audited)

BCPL (standalone)	FY2022	FY2023	FY2024*
	I-GAAP	IND-AS	IND-AS
Total income	76	104	143
Profit after tax	24	27	32
Loan book (including investment in units of AIFs)	490	627	896
Assets under management (AUM)**	545	724	998
Return on managed assets	4.1%	3.6%	3.4%
Gross gearing (times)	1.3	1.5	1.1
Gross NPA	2.8%	6.3%	1.7%
CRAR	42%	38%	46%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; **Excludes investments by Blacksoil Asset Management Private Limited*

BCPL (consolidated)	FY2022	FY2023	FY2024*
	I-GAAP	IND-AS	IND-AS
Total income	88	118	164
Profit after tax	25	27	32
Loan book (including investment in units of AIFs)	514	650	926
Assets under management (AUM)	568	747	1,028
Return on managed assets	4.0%	3.4%	3.2%
Gross gearing (times)	1.2	1.4	1.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; As of March 31, 2024, 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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Apr 30, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 17, 2024	Jun 02, 2023	Jun 02, 2022	Oct 12, 2021
1	Long-term borrowing programme	Long term	36.77	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund-based bank lines	Long term/ Short term	350.00	173.13	[ICRA]BBB+ (Positive)/ [ICRA]A2	[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	Commercial paper	Short term	50.0	0.0	[ICRA]A2	[ICRA]A2	[ICRA]A3+	-

^Clubbed with fund-based bank lines

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term borrowing 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+ (Positive); withdrawn
-	**Long-term/Short-term bank lines – Fund-based bank lines**	Sep 2021 to Oct 2023	MCLR linked	Sep 2024 to Apr 2026	350.00	[ICRA]BBB+ (Positive) /[ICRA]A2
-	**Commercial paper programme***	-	-	-	50.00	[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

	BCPL Ownership	Consolidation Approach
BCPL	Rated Entity	Full Consolidation
Blacksoil Asset Management Private Limited	100%	Full Consolidation
Saraloan Technologies Private Limited	100%	Full Consolidation

Source: Company; As of March 31, 2023

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