Oxyzo Financial Services Private Limited

April 01, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Partially Credit Enhanced long term Bank Facilities	15	****Provisional CARE A (CE) Stable (Provisional Single A (Credit Enhancement); Outlook: Stable)**	Assigned
Total Facilities	**15.00 (Rs. Fifteen crores only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

****** The rating assigned to the proposed long-term bank facilities of Rs.15 crore is based on the credit enhancement in the form of unconditional and irrevocable partial guarantee to be provided by Northern Arc Capital Limited (NACL; rated CARE A1+) to the extent of Rs.2.7 crore, being 18% of the issue size of the long term bank facility. When due to the amortization of the facility, the Credit Enhancement percentage becomes greater than 50% of the aggregate outstanding principal of the facility, the Guarantee Cap shall be capped to 50% of the aggregate outstanding principal of the said facility. Rating Rationale for NACL can be found at this web link. Further, this rating is provisional and will be confirmed once the company submits copies of relevant executed documents, to the satisfaction of CARE.

The standalone rating of the bank facilities/instruments of Oxyzo Financial Services Private Limited (Oxyzo) were reaffirmed at CARE BBB+; Stable/A2 in Nov 2020. The rating reaffirmation was on account of strong loan book expansion during FY20 with assets under management (AUM) growing by 151% Y-o-Y to Rs.901 crore end March 2020, comfortable capital structure with overall gearing at 2.0 times as on March-20 backed by regular capital infusion from the parent (OFB Tech Private Ltd), presence of diversified investor base at the parent level and experienced promoters and management team. The ratings are also supported by strong liquidity, well diversified lender base of Oxyzo with lending partnership with multiple banks, NBFCs and other financial institutions, prudent underwriting policies and risk management/control systems that have resulted in comfortable asset quality metrics thus far with reported Gross NPA and Net NPA at 0.92% and 0.29% respectively as on March-20 and a provision coverage ratio at 69%. End December 2020, the company's GNPA stood at 1.2%.

However, the rating strengths were partially offset by moderate albeit improving profitability metrics with return on average total assets (RoTA) at 3.1% and operating expense as a percentage of average total assets at 4.6% as on March-20, reduced from 7.1% as on March-19 and relatively short track record of operations with Oxyzo having started operations in November 2017. Also the company's business remains susceptible to inherent challenges related to asset quality risks arising from lending to small and medium enterprises (SMEs) that have modest credit profiles are remain inherently more vulnerable to macro-economic shocks. Although CARE takes comfort from the fact that the portfolio vulnerability arising from SME lending is partially mitigated by rising share of secured loan book that constituted about 58% of asset under management (AUM) of Oxyzo as on March-20 (72% as on Dec 31, 2020). Also, Oxyzo caters to SMEs that are comparatively larger in size (turnover wise), which also reduces portfolio level vulnerability.

OFB Group follows a two-tier business model with parent company OFB Tech Private Limited (OFB Tech) undertaking raw material aggregation/fulfillment activities for SMEs while the lending activities are done via its wholly owned non-banking finance company (NBFC) subsidiary Oxyzo. The said model enables its NBFC arm Oxyzo to have better and more regular engagement with its borrowers, ensures lower cost of acquisitions and timely collections. Through its two-tier structure, the group creates a holistic supply chain management wherein Oxyzo also provides funding to SMEs for buying raw materials that are also aggregated by Oxyzo's parent company. Accordingly, there is a strong interdependence and synergy within the financial and technology platform. As a result, the group engages with its borrowers on a more regular basis. The synergies between material aggregation platform and NBFC currently remains high and any change in the level of synergies will remain a key rating sensitive. While rating Oxyzo, CARE has taken a standalone approach for rating the NBFC (Oxyzo) however it has factored in strong operational and financial synergies between OFB Tech and Oxyzo.

Rating Sensitivities

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Going forward, the ability of the company to increase its scale of operations; while maintaining capitalization profile, improving profitability profile and maintaining strong asset quality would be the key rating sensitive.

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Scale up of operations in a profitable manner
- Maintenance of adequate liquidity metrics
- Comfortable asset quality with GNPA on a sustainable basis at around 1%
- Maintaining adequate capitalization profile with gearing below 3.5 times on a steady basis at NBFC level

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Weakness in profitability, asset quality and/or capitalization profile of Oxyzo with gearing rising above 3.5 times and decline in asset quality (GNPA above 2%).
- Changes in level of synergies/inter-dependence between material aggregation platform and NBFC
- Material change in shareholding pattern at parent and or NBFC level leading to reduction in level of support for Oxyzo.

Detailed description of the key rating drivers

Experienced promoters and management team and presence of diversified investor base at the parent level: OFB Tech Private Limited is promoted by Mr. Asish Mohapatra (Chief Executive Officer), Ms. Ruchi Kalra (Chief Financial Officer) and Mr Bhuvan Gupta (Chief Technology Officer) who have considerable experience in the financial service industry. The senior management is supported by well experienced second line of management. Also, the parent company OFB Tech has demonstrated its ability to raise capital at regular intervals from well-established and marquee group of private equity investors. End March 2020, the three promoters and other KMP of the company together owned 31.87% of OFB Tech's shareholding while the remaining stake is held by Matrix Partners India holding 17.14%, Creation Investments (16.28%), Zodius Technologies (9.45%) and Falcon Edge (9.16%), Norwest Ventures (11.29%) and remaining 5% with Angels and ESOPs.

Healthy capitalization levels supported by regular equity infusion provide adequate headroom for growth: Under OFB group, the equity is raised at the parent level (OFB Tech) and down-streamed to its NBFC arm Oxyzo, in line with latter's growth requirements. OFB Tech has been able to raise equity capital at regular intervals and has raised Rs.600 crore of equity from marquee set of investors since its inception till March 2020. Of the total capital raised at OFB Tech level, Rs.295 crore has been down-streamed as equity in Oxyzo till March 31, 2020. Per management, OFB Tech has committed to downstream equity to its NBFC business as and when need arises while ensuring gearing discipline at NBFC level. Owing to regular equity infusion from parent, Oxyzo has been maintaining healthy capitalization ratios with overall CAR at 32% as on Dec 31, 2020, well above the regulatory requirement at 15%.

Oxyzo's tangible net worth (as per IndAS) increased to Rs.315 crore in FY 20 and Rs.367 crore end Dec-20 from Rs.101 crore in FY19 on account of equity infusion of Rs.195 crore in FY20 from the parent and positive internal accruals which provided the company adequate headroom for loan book growth. As a result, Oxyzo's gearing improved to 2.0 times as on Mar-20 from 2.6 times as on March-19. End Dec-20, the gearing of Oxyzo stood at 2.5times. The management of OFB group has mentioned that the gearing of Oxyzo will be maintained at around 3.5 times at all times. On a consolidated basis, the OFB group's tangible networth and gearing stood at Rs.620 crore and 1.3 times respectively as on March 31, 2020 as against Rs 275 crore and 1.1 times respectively as on March 31, 2019.

***Strong loan book growth coupled with rising share of secured portfolio*: End fiscal 2020, the AUM of Oxyzo stood at Rs.901 crore, up 151% from Rs.358 crore as on March 31, 2019 and Rs.82 crore as on March 31, 2018, registering a compounded annual growth rate (CAGR) of 122% over the past three years. The strong CAGR growth is also due to low base in initial years. As on Dec 31, 2020, the AUM of Oxyzo stood at Rs.1,196 crore. Of the total AUM as on Dec-20, secured portfolio formed about 72% (of which about 90% is backed by bank guarantee and rest is backed by machinery and property), unsecured purchase financing formed another 20%, unsecured business loan formed 6% and quasi-secured book formed 2%. The composition of secured book increased considerably over past years with its share in AUM rising from 32% as on March-19 to 58% as on March-20 and further to 72% as on Dec-20. On a consolidated basis, AUM stood at Rs.1,580 crore as on Dec-20 while the total disbursements stood at Rs.2,069 crore as on same date.

Diversified lender base: Oxyzo has a well-diversified borrowings profile with funding from various sources such as banks, non-banking finance companies (NBFCs), other financial institutions and capital markets. The borrowings remain largely backed by corporate guarantee of parent OFB Tech. Also, the company has been working on further increasing its lender base to reduce any lender wise concentration risk. As on Dec 31, 2020, Oxyzo's total borrowings stood at Rs.919 crore (up from Rs.261 crore as on March 31, 2019) of which 49% were from banks, 33% from NBFCs and 16% via capital instruments such as non-convertible debentures (NCDs) and market linked debentures and 2% via commercial paper issue. The company's average cost of borrowings stood at 8.9% (on an annualized basis) as on Dec 31, 2020. On a consolidated basis, the total borrowings stood at Rs.782 crore as on March 31, 2020 (Rs.309 crore as on March 31, 2019). Further, Oxyzo has not availed moratorium from any of its lenders as a part of the COVID-19 – Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

***Adequate risk management and control systems**:* OFB group follows an integrated tech module wherein material aggregation and fulfillment is done by OFB Tech (via its platform OASYS), tender aggregation via its website "BidAssist" and lending activities via its NBFC Oxyzo. The integration of all these activities leads to low acquisition cost for Oxyzo and also assists Oxyzo in ensuring prudent underwriting, credit appraisal, monitoring and early detection of delinquency trends at borrower, regional and/or sectoral level thereby ensuring maintenance of comfortable asset quality metrics. The high operational synergies are also evidenced by the fact that while financing SMEs, Oxyzo pays directly to the supplier on behalf of SME through OASYS, thereby ensuring end use of funds. On the other hand, Bidassist is utilised to generate leads and Oxyzo generates 75% of leads through Bidassist.

Key Rating Weaknesses

Limited track record of operations however asset quality comfortable so far: While the group started lending from August 2016 (as receivables in the books of OFB Tech), the lending activities under Oxyzo began in fiscal 2018 after the receipt of NBFC license in November 2017. The group's consolidated loan portfolio stood at Rs.1,174 crore as on March 31, 2020 (up from Rs 460 crore end FY 19) of which about 76% or Rs.901 crore was in Oxyzo while remaining 24% or Rs.273 crore was in OFB Tech. The consolidated book size further increased to Rs.1,580 cr as on Dec 31, 2020, of which Rs.1,196 crore or 76% was in the books of Oxyzo. While the company has limited, albeit improving, track record of operations, the rating draws comfort from the fact that about 88% of Oxyzo's AUM is towards short term purchase financing wherein repayments are made within 90-120 days. The effective risk management processes and internal controls have helped Oxyzo keep its asset quality under control with GNPA% and NNPA at 0.92% and 0.29% respectively as on March 31, 2020 down from 1.0% and 0.66% respectively as on March 31, 2019. The absolute Gross NPA increased to Rs.12.59 crore as on Sep-20 from Rs.8.32 crore as on March-20 translating into Gross NPA stood of 1.22% as on Sep-20. Of the Gross NPA of Rs.12.59 crore, as on Sep-20, about 90% is from unsecured loan book while remaining 10% is from secured loan book. End Dec-20, the GNPA stood at 1.2%. However, with company remaining exposed to SMEs that have inherently modest credit profiles, Oxyzo's ability to maintain comfortable asset quality metrics over longer term while ensuring sustainable levels of growth and profitability remains to be tested over macro-economic cycles.

Moderate albeit improving profitability: Oxyzo's profitability, though improving, remains moderate with net interest margin (NIM) and return on tangible assets (ROTA) of 10.5% and 3.1% respectively as on March 31, 2020 vs. NIM and ROTA of 10.3% and 1.8% respectively as on March 31, 2019. End fiscal 2020, Oxyzo reported total income and profit after tax (PAT) of Rs.135.2 crore and Rs.21.1 crore respectively in FY20 up from Rs.42.5 crore and Rs.4.1 crore in FY19 (as per IND AS). Given the rapid scaling up of operations, the company's operating expense as a percentage of average total assets improved to 4.6% as on March 31, 2020 down from 7.1% as on March 31, 2019. As the economies of scale set in, the company's operational efficiency is expected to further improve going forward. During 9MY21, Oxyzo reported total income and net profit (PAT) of Rs.137.8 crore and Rs.27.4 crore respectively. On a consolidated basis, OFB Group reported PAT of Rs.32 crore in FY20 as against net profit of Rs.17.1 crore reported previous fiscal.

Potential portfolio vulnerability arising from lending to SMEs: Oxyzo mainly provides short term financing to SMEs to procure raw materials. Given the protracted macro-economic challenges underpinned by dampened consumption, subdued investment climate and financial sector disruption that has been exacerbated by covid-19 pandemic, CARE expects the overall SME segment to remain more economically vulnerable. Although CARE takes some comfort from the fact that Oxyzo only provides short term financing with about three fifth of the book as secured in nature. Also majority of purchase finance customers have vintage of above 5 years and have turnover above Rs 5 crore that provides them some cushion against asset side risks. End December 2020, Oxyzo's secured book stood at 72% of total portfolio.

Liquidity: Strong

The liquidity position of Oxyzo is comfortable with positive cumulative mismatches in upto 1 year bucket as per liquidity statement dated Dec 31, 2020. Oxyzo's liquidity profile is supported by its shorter tenure lending; wherein in most of the cases, loans are repaid within 90-120 days. As against the shorter tenure lending book, most of the borrowings of the company are for tenure of 1-1.5 years leading to comfortable ALM. Over the next six months, the company's debt obligation are around Rs.338 crore against which the company has scheduled inflows at around Rs.947 crore. Also, Oxyzo has cash in hand amounting to Rs.46 crore and unutilised bank lines to the tune of Rs.103 crore as on December 31, 2020. At parent level, OFB Tech has cash in hand amounting to Rs.98 crore and unutilised bank lines to the tune of Rs.51 crore as on December 31, 2020.

Covid-19 impact
In light of Covid-19 pandemic, the company has recalibrated its business strategy and has opted to disburse loans cautiously with tighter underwriting practices and curtailing disbursements towards unsecured term loan for the next nine months. In line with Reserve Bank of India (RBI)'s move to allow banks, NBFCs and HFCs to offer six month moratorium to borrowers (till Aug 31,2020) the company has advanced moratorium to 20% of its term loan customers translating to 5% of its AUM as on Sep-20. The collection efficiency of the company stood at 80% (excluding foreclosures) and 92% (including foreclosures) from March-20 to August-20 on the term loan book. On the purchase financing book, collection efficiency stood at 107% (including prepayments) from March-20 to August-20.

Analytical approach: Standalone, factoring in operational and financial synergies between OFB Tech Private Limited and Oxyzo and same senior management of both the companies.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Non Banking Finance Companies (NBFCs)
Financial Ratios – Financial Sector
Criteria for Rating Credit Enhanced Debt
Rating Methodology: Notching by factoring linkages in Ratings

About the Company (Oxyzo)
Oxyzo is a non-deposit accepting, systemically important NBFC belonging to OFB Group and Oxyzo started its operations in November 2017. Oxyzo is a 100% subsidiary of OFB Tech. Oxyzo provides secured and unsecured purchase finance loans to SMEs for financing the purchase of raw materials. As on March 31, 2020, the operations of the company are spread across 12 states with 51% of operations in south India, 26% in north India and 23% in west India.

About the Parent (OFB Tech Private Limited)
OFB Tech Private Limited is a private limited company incorporated in India on August 24, 2015. As an online portal, OFB has developed its own raw material aggregation technology platform (OASYS) which helps SMEs from across the country in procuring raw materials. Currently the company deals into various sub-industries including capital goods and PEB, consumer durables, steel, polymer, cement, auto and auto ancillaries, power, solar and small equipment, paper, polymer and industrial chemicals and finished garments through its technology platform. As on March 31, 2020, around 31% of the entire shareholding of OFB Tech is with promoters, 68% held by PE investors such as Matrix Partners India (17.14%), Creation Investments (16.28%), Zodius Technologies (9.45%), Falcon Edge (9.16%), Norwest Ventures (11.29%) and 5% being held by Angel Investors and the ESOP holders and remaining 1% by key management personnel.

Brief Financials (Rs. crore)-Oxyzo	FY19 (A)	FY19 (A)	FY20 (A)
	IGAAP	IND AS	IND AS
Total income	45.60	42.46	135.20
PAT	4.74	4.05	21.06
Interest coverage (times)	1.37	1.28	1.47
Total Assets	378.86	376.64	962.93
Net NPA (%)	0.90	0.73	0.29
ROTA (%)	2.04	1.75	3.14

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	Proposed			15.00	Provisional CARE A (CE); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB+; Stable	1)CARE BBB+; Stable (13-Oct-20)	1)CARE BBB; Stable (14-Oct-19)	-	-
2.	Fund-based - LT/ ST-Term loan	LT/ST	200.00	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (19-Nov-20) 2)CARE BBB+; Stable / CARE A2 (13-Oct-20)	1)CARE BBB; Stable / CARE A2 (18-Nov-19)	-	-
3.	Debentures-Non Convertible Debentures	LT	200.00	CARE BBB+; Stable	1)CARE BBB+; Stable (19-Nov-20)	-	-	-
4.	Fund-based - LT-Term Loan	LT	15.00	Provisional CARE A (CE); Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan (Partially Credit enhanced)	Complex

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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