Oxyzo Financial Services Private Limited

September 1, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	8.92 (Reduced from 15.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	800.00 (Enhanced from 200.00)	CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Total bank facilities	**808.92 (₹ Eight hundred eight crore and ninety-two lakh only)**		
Non-convertible debentures	50.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Non-convertible debentures	105.00 (Reduced from 200.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total long-term instruments	**155.00 (₹ One hundred fifty-five crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the various bank facilities and instruments of Oxyzo Financial Services Private Limited (Oxyzo) continues to factor in its strong loan book growth, comfortable liquidity position and experienced promoters and management profile.
Furthermore, the ratings also take into account strong capitalisation metrics of Oxyzo, supported by periodic capital infusion from the parent entity, i.e., OFB Tech Private Limited (OFB), coupled with equity raise of ₹1,421 crore by Oxyzo on a standalone level, as part of its Series-A equity raise. Also, the ratings for the entity continue to be driven by its prudent underwriting policies and risk management/control systems that have resulted in comfortable asset quality metrics thus far.

However, these rating strengths are partially offset by moderate absolute profitability metrics and lower track record of operations. Furthermore, the company's business remains susceptible to the inherent challenges related to asset quality risks arising from lending to small and medium enterprises (SMEs) that have modest credit profiles and remain inherently more vulnerable to the macro-economic shocks CARE Ratings Limited (CARE Ratings) takes comfort from the fact that the portfolio vulnerability arising from SME lending is significantly mitigated by the rising share of the secured loan book that constituted about 71% (FY21:75%) of its loan book as on March 31, 2022.

Rating sensitivities

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Significant scale up in operations with loan portfolio crossing ₹4,000 crore, whilst maintaining adequate asset quality metrics with gross non-performing assets (GNPA, including write-offs) remaining below 2%
- Improvement in the overall profitability metrics, with return on total assets (ROTA) above 3% on a sustained basis

Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deterioration in the asset quality profile with gross NPA (GNPA) and net NPA (NNPA) rising above 4% and 2%, respectively
- Moderation in the capitalisation profile with overall capital adequacy ratio (CAR) falling below 18% and/or leverage increasing above 5x
- Any significant deterioration in the operational/financial performance of OFB, which may have negative implications on shareholding/financial profile of Oxyzo
- Significant rise in share of unsecured loans in the total loan portfolio, leading to riskier borrower profile mix

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Operational and technical support from OFB: OFB, the parent company, held 76.79% shareholding in Oxyzo post the Series-A equity raise done by the latter in March 2022 and continues to be the promoter of the company, along with Ms. Ruchi Kalra, promoter, who held 3.28% shareholding as on June 30, 2022.

With majority of the loans sourced via a common integrated technical platform, i.e., Bidassist, which acts as a platform for small & medium enterprises (SMEs) looking for all government tenders, collated and presented under one application, Oxyzo shares significant operational and technical synergy as the application is developed by OFB's technical team and the leads thus generated are available to use for both parties. Given that SMEs are required to input their basic requirements and operational information, the platform allows Oxyzo and OFB to access the information and connect with SMEs according to their financing needs.

Strong capitalisation profile supported by periodic capital infusion: In March 2022, Oxyzo raised equity capital as a part of its Series-A round, amounting to ₹1,421 crore (USD 200 million), which was led by marquee investors, namely, Alpha Wave Ventures (8.10% shareholding), Tiger Global (4.93%, Internet Fund VII), Norwest Venture Partners (4.16%), Creation Investments (2.19%) and Matrix Partners India (0.55%), which provided a strong boost to the overall capital position of Oxyzo and increased its tangible net-worth to ₹2,029 crore as on June 30, 2022, which was further supported by rising positive internal accruals.

As a result, the overall capital adequacy ratio (CAR) and Tier-I CAR expanded to 48.38% (FY21: 32.32%; refers to the period April 1 to March 31) and 47.99%, respectively, as on March 31, 2022, with overall CAR increasing further to 57.66% as on June 30, 2022.

Consequently, with the overall borrowings rising 72% y-o-y to ₹2,015 crore as on March 31, 2022, leverage profile of Oxyzo improved sequentially to 1.45x as on March 2022, compared with 2.63x as on March 2021. Leverage profile of Oxyzo improved further to 0.76x as on June 30, 2022 on account of realization of second tranche of equity infusion in April 2022. Going forward, capitalization ratios are expected to moderate considering Company's high target growth rate and no plans of further equity infusion in the near term.

Improving profitability metrics: End-fiscal March 31, 2022, absolute profitability profile of the company improved sequentially as it reported a top-line growth of 59% y-o-y, with interest income from the loans rising 52% y-o-y to ₹287 crore. This, in conjunction with comfortable operational expenses and credit costs profile of Oxyzo, led to improvement in the operational profitability, with net profit rising to ₹69 crore in FY22 vs ₹40 crore in FY21.

Driven by improving economies of scale on the back of increase in the scale of operations, operational expenses as a percentage of total assets improved to 2.42% (FY21: 2.90%) end-March 31, 2022. Also, owing to the controlled slippages, credit costs also remained comfortable and improved to 0.54% (FY21: 1.21%) during the period.

However, while absolute profitability has improved, amidst declining interest rate environment, Oxyzo witnessed margin compression on a yearly basis, as average yields charged on loans declined by more than 200 bps to 14.71% in FY22, which while cushioned by improvement in the cost of funds (down by 108 bps), led to compression in lending spreads to 5.7% in FY22 (vs. 6.7% in FY21). Oxyzo aims to provide purchase financing to higher rated borrowers, requiring lower interest rates on a competitive basis.

Consequently, while absolute profitability profile improved significantly during the period, ROTA moderated marginally to 2.73% (FY21: 3.07%) end-March 31, 2022, on account of expanding asset base due to equity infusion in March 2022.

Although, post adjusting total assets for the company for an equity infusion of ₹817.56 crore, profitability metrics of the company remained comfortable with net interest margins (NIMs, as a percentage of adjusted total assets) of 7.3% in FY22. As a result, adjusted ROTA for Oxyzo as on March 31, 2022 improved to 3.26%, as against 3.07% in FY21.

On a quarterly basis, Oxyzo reported a total income and profit after tax (PAT) of ₹117 crore and ₹38 crore, indicating improved margins and expected rise in RoTA for FY23 from the current levels.

Secured and diversified loan portfolio, clubbed with robust growth in FY22: End-fiscal March 31, 2022, Oxyzo reported robust loan book growth, with its assets under management (AUM) increasing 87% Y-o-Y to ₹2,555 crore, supported by increased demand from the sectors, such as consumer durables, social infrastructure and metal ancillaries.

Also, the portfolio quality of the company takes comfort from the secured nature of its advances, as 71% of Oxyzo's advances are entirely secured, followed by 4% share of quasi-secured loans, while the remaining 25% remains unsecured loans provided to MSMEs, having an established credit and performance record.

Comfortable asset quality metrics: Supported by minimal slippages and adequate risk management practices followed by Oxyzo in regards to collection mechanism, quick recoveries and secured nature of majority of its loan portfolio, the asset quality of Oxyzo remained comfortable as it reported GNPA of ₹26.1 crore (FY21: ₹16.72 crore) end-March 31, 2022. As a result, in conjunction with increase in the loan assets of the company during FY22, the GNPA ratio improved marginally to 1.01% end-March 2022, compared with 1.22% as on March 2021.
Furthermore, with an adequate provision coverage of 58% maintained on stage-3 assets by the company, Oxyzo reported NNPA of ₹11.01 crore on a net loan asset base of ₹2,540 crore, translating into an NNPA ratio of 0.43%.
Going forward, the ability of the management to maintain comfortable asset quality metrics with NNPA below 1% on a sustained basis remains a key rating sensitivity.

Key rating weaknesses

Potential portfolio vulnerability arising from lending to SMEs: Oxyzo mainly provides short-term financing to SMEs to procure raw materials from suppliers in the ecosystem. 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 Ratings expects the overall SME segment to remain more economically vulnerable. However, CARE Ratings takes some comfort from the fact that Oxyzo only provides short-term financing with about three-fourth of the book as secured in nature. Also, majority of purchase finance customers have vintage of above five years and have turnover above ₹500 crore that provides them some cushion against asset side risks. End-June 30, 2022, Oxyzo's secured book stood at 71% of the total portfolio. However, with the rise in exposure limit towards its borrowers and management's plan to gradually increase share of its unsecured loan portfolio, the ability of Oxyzo to maintain credit quality of its unsecured loan portfolio whilst expanding its loan book remains a key monitorable.

Limited track record of operations, albeit adequate seasoning of secured loan book: Oxyzo started lending operation in fiscal 2018 after the receipt of non-banking finance company (NBFC) license in November 2017. While the company has limited, albeit improving, track record of operations, the rating draws comfort from the fact that about 83% of Oxyzo's assets under management (AUM) is towards the short-term purchase financing wherein the repayments are made within 90-120 days, thus resulting in a higher portfolio churn as against a loan tenure of 2-3 years for unsecured long-term financing loan book.

Liquidity: Strong

Aided by equity infusion in March 2022, and consequent rise in the cash and bank balances to ₹547 crore, coupled with positive internal accruals and short-term nature of majority of its loan book, Oxyzo reported positive cumulative mismatches across all time buckets as per its asset-liability management (ALM) statement as on March 31, 2022. Additionally, the liquidity profile of the company was further supported by unutilised credit lines from the lenders amounting to ₹123 crore as on March 31, 2022.

Analytical approach: Standalone, factoring in the operational and financial synergies between OFB 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
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios
Policy for rating short-term instruments
Policy on Withdrawal of ratings
Rating Methodology: Factoring Linkages in Ratings

About the company

Oxyzo is a non-deposit accepting, systemically important NBFC belonging to the OFB Group (OfBusiness), and started its lending operations in November 2017. Until February 2022, Oxyzo was a 100% owned subsidiary of OFB Tech, although post Series-A equity raise by Oxyzo in March 2022, shareholding of the parent entity has declined to 77%, while shareholding of Ruchi Kalra (Promoter and Chief Financial Officer) has increased to 3.28% as on June 30, 2022.
Oxyzo provides secured and unsecured purchase finance loans to SMEs for financing the purchase of raw materials. As on June 30, 2022, the operations of the company are spread across 12 states with 41% of operations in south India, 23% in north India and 31% in west India. End-March 31, 2022, the AUM of the company grew to ₹2,555 crore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (P)
Total income	197.57	313.24	116.35
PAT	39.94	69.34	36.34
Overall gearing (including GOI bonds) [in times]	2.63	1.45	0.76
Interest coverage (times)	1.60	1.67	2.21
Total assets	1,640.11	3,432.56	3,608.50
GNPA (%)	1.22	1.01	1.13
NNPA (%)	0.51	0.43	0.52
ROTA (%)	3.07	2.73	NA
Adjusted ROTA (%)#	3.07	3.26	NA

A: Audited, P: Provisional, NA: Not available
Total assets and tangible net worth adjusted for deferred tax assets and intangible assets
#ROTA calculation is based on total assets adjusted for equity infusion of Rs.817.56 crore raised by Oxyzo on March 29, 2022

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Term loan	-	-	-	January 2025	800.00	CARE A+; Stable/CARE A1+
Fund-based - LT-Term loan	-	-	-	February 2024	8.92	CARE A+; Stable
Debentures-Non-convertible debentures	INE04VS07099	December 12, 2019	13%	December 11, 2023	0.00	Withdrawn#
Debentures-Non-convertible debentures	INE04VS07172	December 10, 2020	10%	June 10, 2022	0.00	Withdrawn*
Debentures-Non-convertible debentures	Proposed				155.00	CARE A+; Stable

*withdrawn on maturity and full redemption
#withdrawn on execution of put option and redemption

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non-convertible debentures	LT	50.00	CARE A+; Stable	-	1)CARE A+; Stable (12-Oct-21)	1)CARE BBB+; Stable (13-Oct-20)	1)CARE BBB; Stable (14-Oct-19)
2	Fund-based - LT/ ST-Term loan	LT/ST*	800.00	CARE A+; Stable /	-	1)CARE A+; Stable / CARE A1+	1)CARE BBB+;	1)CARE BBB; Stable / CARE A2

				CARE A1+		(12-Oct-21)	Stable / CARE A2 (19-Nov-20) 2)CARE BBB+; Stable / CARE A2 (13-Oct-20)	(18-Nov-19)
3	Debentures-Non-convertible debentures	LT	105.00	CARE A+; Stable	-	1)CARE A+; Stable (12-Oct-21)	1)CARE BBB+; Stable (19-Nov-20)	-
4	Fund-based - LT-Term loan	LT	8.92	CARE A+; Stable	-	1)CARE A+; Stable (12-Oct-21) 2)CARE A (CE); Stable (03-Sep-21) 3)Provisional CARE A (CE); Stable (01-Apr-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of instrument	Detailed explanation
Financial covenants	
Shareholding	OFB Tech Private Limited to maintain minimum shareholding of 70% in Oxyzo
Leverage	Maximum permissible ratio of financial indebtedness to adjusted tangible net worth shall not exceed 4x.
Profitability	Return on total assets (ROTA) shall be above 0%
Capital adequacy	Minimum CRAR of 20% to be maintained
Asset quality	Gross non-performing assets (GNPA) to be lower than 2.5%

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

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - LT/ ST-Term loan	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

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

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Gaurav Dixit
Phone- +91-11-4533 3235
E-mail: Gaurav.Dixit@careedge.in

Name: Neha Kadiyan
Phone: +91-11-4533 3200
E-mail: Neha.Kadiyan@careedge.in

Name: Akshay Jeevnani
E-mail: Akshay.Jeevnani@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in