Oxyzo Financial Services Private Limited

October 12, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	15.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]
Long Term / Short Term Bank Facilities	200.00	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)
Total Bank Facilities	**215.00 (Rs. Two Hundred Fifteen Crore Only)**		
Non Convertible Debentures	50.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Non Convertible Debentures	200.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Total Long Term Instruments	**250.00 (Rs. Two Hundred Fifty Crore Only)**		

*****_Details of instruments/facilities in Annexure-1_

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the various bank facilities/ instruments of Oxyzo Financial Services Private Limited (Oxyzo) factors in the strong loan book growth, comfortable capital structure, adequate liquidity position, experienced promoters and management team, prudent underwriting policies and risk management/control systems that have resulted in comfortable asset quality metrics thus far.

The rating revision also factors in significant equity infusion at the parent level (OFB Tech Private Ltd) by a diversified group of investors, which provides growth capital and financial flexibility to the group for the scaling up of its business operations.

However, these rating strengths are partially offset by moderate profitability metrics and track record of operations. Further 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 and remain inherently more vulnerable to macro-economic shocks. Although CARE takes comfort from the fact that the portfolio vulnerability arising from SME lending is significantly mitigated by rising share of secured loan book that constituted about 75% of AUM of Oxyzo as on March 31, 2021.

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 and there is a strong synergy within the financial and material aggregation platform. OFB as a group engages with its borrowers on a more regular basis. Oxyzo also provides funding to SMEs for buying raw materials that are aggregated by OFB Tech. The business model for the group is transitioning with developments happening wrt backward integration and any significant change which impacts the level of synergies will remain a key rating sensitive. While rating Oxyzo, CARE has taken a standalone approach for rating the NBFC (Oxyzo), factoring in its linkages with its parent on account of the strong operational and financial synergies between OFB Tech and Oxyzo.

Rating Sensitivities

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

- Significant scale up of operations in a profitable manner
- Maintaining adequate capitalization profile with gearing below 3 times on a steady basis at NBFC level

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

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

- Decline in asset quality with Net NPA above 1.0% on a sustained basis.
- OFB Tech's shareholding in Oxyzo going below 51% or change in key management at OFB Tech leading to decline in level of synergies between material aggregator platform and Oxyzo
- Material changes with respect to financial and operational performance at parent level leading to moderation in support to Oxyzo in times of need

Detailed description of the key rating drivers

Key Rating Strengths

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 September 2021, the three promoters and other KMP of the company together owned 25.90% of OFB Tech's shareholding while the remaining stake is held by Falcon Edge (16.95%), Creation Investments (14.06%), Matrix Partners India (13.01%), Norwest Ventures (10.05%), Softbank (9.50%) and Zodius Technologies (4.54%) and remaining 5.99% with Angel investors and ESOPs. The quantum of equity funds recently raised and the marquee investor base exhibits the Group's significant fund raising capabilities. Currently, Oxyzo is fully held by OFB Tech.

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. 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 March 31, 2021 and 30% as on July 31, 2021, well above the regulatory requirement at 15%.

Oxyzo's tangible net worth (as per IndAS) increased to Rs.445 crore as on March 31, 2021 and Rs.464 crore as on July 31, 2021, up from Rs.315 crore as on March 31, 2020 on account of equity infusion amounting to Rs.90 crore in FY21 from the parent and positive internal accruals which provided the company adequate headroom for loan book growth. As a result, Oxyzo's gearing stood at 2.63 times as on March 31, 2021 and 2.44 times as on July 31, 2021. Further, there has been an equity infusion of Rs.50 crore in Oxyzo in Sep 2021. With the significant equity infusion at the parent level, there is visibility of the growth capital and roadmap for scaling up of business operations in the medium term. The management of OFB group have also indicated that the gearing of Oxyzo will be maintained at around 3.5 to 4 times at all times.

The tangible net worth of OFB Tech stood at Rs.825 crore as on March 31, 2021. Further OFB Tech had significant equity raising programmes in calendar year 2021, amounting to Rs. 3,271 crore till October 05, 2021, adjusted for that the networth of the OFB Tech has increased to Rs.4,110 crore leading to a sharp improvement in the overall capitalization of the group. The overall gearing of OFB tech stood at 0.11 times as on July 31, 2021.

***Strong loan book growth coupled with rising share of secured portfolio*:** End fiscal 2021, the AUM of Oxyzo stood at Rs.1,368 crore and Rs.1,508 crore as on July 31, 2021, up from Rs.901 crore as on March 31, 2020, registering a compounded annual growth rate (CAGR) of 56% over the past three years. Of the total AUM as on July 31, 2021, secured portfolio formed about 74.79% (of which about 93% is backed by bank guarantee and rest is backed by machinery and property), unsecured purchase financing formed another 19.42%, unsecured business loan formed 4.94% and quasi-secured book formed 0.85%. The composition of book secured by bank guarantees increased considerably over past years with its share in AUM rising from 33% as on March-19 to 53% as on March-20 and further to 69% as on March 31, 2021. Within, the unsecured book, the exposure is primarily towards the repeat clients which are highly vintaged and scalable and with whom the company has seen multiple cycles.

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 company has been working on further increasing its lender base to reduce any lender wise concentration risk. As on March 31, 2021, Oxyzo's total borrowings stood at Rs.1,168 crore, of which 38% were from banks, 34% from NBFCs and 28% via capital instruments such as non-convertible debentures (NCDs) and market linked debentures. The company's average cost of borrowings stood at 10.1% as on March 31, 2021. The total borrowings of Oxyzo stood at Rs.1,132 crore as on July 31, 2021.

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 a significant portion of its leads through Bidassist.

Key Rating Weaknesses

Limited track record of operations however asset quality comfortable so far: Oxyzo started lending operation in fiscal 2018 after the receipt of 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 89% 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 1.22% and 0.51% respectively as on March 31, 2021 and 1.21% and 0.38% respectively as on July 31, 2021, up from 0.92% and 0.27% respectively as on March 31, 2020. With the challenging operating environment, on account of pandemic induced stress, the asset quality has marginally deteriorated with GNPA and NNPA at Rs.17.7 crore and Rs.5.7 crore respectively as on July 31, 2021 and Rs.16.7 crore and Rs.6.9 crore respectively as on March 31, 2021 up from GNPA at Rs.8.32 crore as on March-20. With the significant equity infusion in the group, the company however has significant capital buffer to withstand any asset quality stress in the medium term. 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) at 7.9% and 3.1% respectively as on March 31, 2021 vs. 10.5% and 3.1% respectively as on March 31, 2020. During FY21, Oxyzo reported total income and profit after tax (PAT) of Rs.197.6 crore and Rs.39.9 crore respectively, up from Rs.135.2 crore and Rs.21.1 crore respectively in FY20 (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 2.9% as on March 31, 2021, down from 4.6% as on March 31, 2020. As the economies of scale set in, the company's operational efficiency is expected to further improve going forward.
During 4M FY22, Oxyzo reported total income (net of interest expense) of Rs.45.9 crore and net profit of Rs.19.9 crore end July 31, 2021. The annualized NIM and RoTA at 7.6% and 3.7% respectively as on July 31, 2021.

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 fourth 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 July 31, 2021, Oxyzo's secured book stood at 75% of total portfolio.
The business model of the group is however evolving with the group looking at forward/backward integration of its business operations and any significant change in that which impacts the synergy between the group companies will remain a key monitorable.

Liquidity: Strong
The liquidity position of Oxyzo is comfortable with positive cumulative mismatches in upto 1 year bucket as per liquidity statement dated July 31, 2021. 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 obligations are around Rs.453 crore against which the company has scheduled inflows at around Rs.1,241 crore. Also, Oxyzo has cash in hand amounting to Rs.35 crore, unencumbered investments of Rs.62 crore and unutilised bank lines to the tune of Rs.43 crore as on July 31, 2021. At parent level, OFB Tech has cash in hand amounting to Rs.12 crore, unencumbered investments of Rs.474 crore and unutilised bank lines to the tune of Rs.184 crore as on July 31, 2021.

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 July 31, 2021, the operations of the company are spread across 12 states with 45% of operations in south India, 25% in north India and 30% 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, finished garments, agri products and agri chemicals through its technology platform.
End September 2021, the three promoters and other KMP of the company together owned 25.90% of OFB Tech's shareholding while the remaining stake held by Falcon Edge (16.95%), Creation Investments (14.06%), Matrix Partners India (13.01%), Norwest Ventures (10.05%), Softbank (9.50%), Zodius Technologies (4.54%) and remaining 5.99% with Angels and ESOPs.

Brief Financials (Rs. crore)-Oxyzo	FY20 (A)	FY21 (A)
	IND AS	IND AS
Total income	135.20	197.57
PAT	21.06	39.94
Interest coverage (times)	1.47	1.60
Total Assets	962.93	1,640.11
Net NPA (%)	0.29	0.51
ROTA (%)	3.14	3.07

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Term loan	-	-	-	Aug 2023	200.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	-	Feb 2024	15.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE04VS07099	Dec 12, 2019	13%	Dec 11, 2023	35.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE04VS07172	Dec 10, 2020	10%	Jun 10, 2022	60.00	CARE A+; Stable
Debentures-Non Convertible Debentures	Proposed				155.00	CARE A+; 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	50.00	CARE A+; 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 A+; Stable / CARE A1+	-	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 A+; Stable	-	1)CARE BBB+; Stable (19-Nov-20)	-	-
4	Fund-based - LT-Term Loan	LT	15.00	CARE A+; Stable	1)CARE A (CE); Stable (03-Sep-21)2)Provisional CARE A (CE); Stable (01-Apr-21)	-	-	-

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 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 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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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