Oxyzo Financial Services Private Limited

August 10, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE A+; Stable/CARE A1+ and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE A+; Stable and Withdrawn
Non-Convertible Debentures	-	-	Reaffirmed at CARE A+; Stable and Withdrawn
Non-Convertible Debentures	-	-	Reaffirmed at CARE A+; Stable and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings assigned to the bank facilities and non-convertible debentures (NCDs) issued by Oxyzo Financial Services Private Limited (Oxyzo). CARE Ratings has also simultaneously withdrawn the rating on proposed NCD as well as the ratings on the bank facilities at Oxyzo's request and 'No Objection Certificate' received from the lenders that have extended facilities rated by CARE Ratings.

The reaffirmation of the ratings continues to factor in its strong loan book growth, strong capitalisation profile, comfortable liquidity position and experienced promoters and management profile. 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 limited seasoning of the portfolio given high growth witnessed in past few years. 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 takes comfort from the fact that the portfolio vulnerability arising from SME lending is significantly mitigated by the high share of the secured loan book that constituted about 74% of its loan book as on March 31, 2023 (71% as on March 31, 2022).

Analytical approach: Standalone

Outlook: Stable

The outlook reflects expectation of continued growth in portfolio with comfortable capitalisation levels, while maintaining profitability and asset quality.

Detailed description of the key rating drivers:

Key strength

Strong capitalisation profile supported by periodic capital infusion:

Since inception the company has raised ~ ₹1960 crore as equity, with ~₹700 crore being raised in FY23 which provided a strong boost to the overall capital position of Oxyzo. This couple with positive internal accruals has led to comfortable capital adequacy ratio of 42.65% as on March 31, 2023, albeit declined from 48.38% a year earlier as the growth in loan book was partly funded by borrowings. The gearing level is low at 1.37x as on March 31 2023 compared to 1.45x a year earlier. Going forward, CARE Ratings expects capitalisation ratios to moderate considering its high target growth rate, but will remain at comfortable levels.

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

Improving profitability metrics:

Net interest margin improved to 7.82% in FY23, from 7.3% (NIMs, as a percentage of adjusted total assets) in FY22 driven by reduction in cost of debt and lower interest cost with improved gearing. The Opex also improved in FY23 to 2.03% from 2.42% in FY22 benefiting from economies of scale with increasing portfolio size. Credit cost continues to remain low at 0.62% in FY23, albeit increased 0.54% in FY22. The low credit cost continuous to be supported by prudent underwriting standards. Supported by these factors return on total assets improved to 4.37% in FY23 from 2.73% in FY22. Consequently, return on tangible net worth also improved to 10.72% in FY23 from 7.58% in FY22.

Secured and diversified loan portfolio, clubbed with robust growth in FY23:

End-fiscal March 31, 2023, Oxyzo reported robust loan book growth, with its assets under management (AUM) increasing 84% Y-o-Y to ₹4,689 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 74% of Oxyzo's advances are entirely secured, while the remaining 26% advances remain unsecured loans provided to MSMEs, having an established credit and performance record. The contribution of business loan segment increased to 31.55% in FY23 from 18% in FY22.

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 gross non-performing assets (GNPA) of ₹41.95 crore (FY22: ₹26.1 crore) end-March 31, 2023. As a result, in conjunction with increase in the loan assets of the company during FY23, the GNPA ratio improved marginally to 0.89% end March 2023, compared with 1.01% as on March 2022.

Furthermore, with an adequate NPA provision coverage of 49% by the company, Oxyzo reported net NPA (NNPA) of ₹21.53 crore on a net loan asset base of ₹4,671 crore, translating into an NNPA ratio of 0.46% as on March 31 2023.

Key weaknesses

Potential portfolio vulnerability arising from lending to SMEs:

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. The company provides short-term purchase financing with tenure up to 12 months and business loans with tenure of 18-30 months. The contribution of business loans has increased to 31% as on March 31 2023 from 18% as on March 31 2022. CARE Ratings takes comfort from the fact that the portfolio vulnerability arising from SME lending is significantly mitigated by the high share of the secured loan book that constituted about 74% of its loan book as on March 31, 2023 (71% as on March 31, 2022).

Limited track record of operations:

Oxyzo started lending operation in fiscal 2018 after the receipt of non-banking finance company (NBFC) license in November 2017. The net loans increased to ₹4,672 crore as on March 31 2023 from ₹2,540 crore as on March 31 2022 and ₹1,357 crore as on March 31 2021. Given the 2-year compounded annual growth rate (CAGR) growth of 86%, the seasoning of the portfolio remains limited.

Liquidity: Strong

Aided by equity infusion in FY23, and consequent rise in the cash and bank balances to ₹868 crore (included investment in liquid list debt securities of ₹738 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, 2023. Additionally, the liquidity profile of the company was further supported by unutilised credit lines from the lenders amounting to ₹248 crore as on March 31, 2023.

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

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Non-Banking Financial Company (NBFC)

Oxyzo is a non-deposit accepting, systemically important NBFC belonging to the OFB Group and started its lending operations in November 2017. Oxyzo is 70% held (considering fully dilution of compulsory convertible preference shares) by its parent – OFB as on March 31 2023. Oxyzo provides secured and unsecured purchase finance loans to SMEs for financing the purchase of raw materials. As on March 31, 2023, the operations of the company are spread across 20states with 38% of operations in south India, 30% in north India and 27% in west India. End-March 31, 2023, the AUM of the company grew to ₹4,689 crore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	197.57	313.24	561.78
PAT	39.94	69.34	196.51
Interest coverage (times)	1.60	1.67	2.42
Total Assets	1,640.11	3,432.56	5564.05
Net NPA (%)	0.51	0.43	0.44
ROTA (%)	3.07	2.73	4.37
Adjusted ROTA (%)	3.07	3.26#	4.37

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	Proposed				0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	February 2024	0.00	Withdrawn
Fund-based - LT/ ST-Term loan		-	-	January 2025	0.00	Withdrawn

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 2023-2024	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
1	Debentures-Non-Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (01-Sep-22)	1)CARE A+; Stable (12-Oct-21)	1)CARE BBB+; Stable (13-Oct-20)
2	Fund-based - LT/ ST-Term loan	LT/ST*	-	-	-	1)CARE A+; Stable / CARE A1+ (01-Sep-22)	1)CARE A+; Stable / CARE A1+ (12-Oct-21)	1)CARE BBB+; Stable / CARE A2 (19-Nov-20) 2)CARE BBB+; Stable / CARE A2 (13-Oct-20)
3	Debentures-Non-Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (01-Sep-22)	1)CARE A+; Stable (12-Oct-21)	1)CARE BBB+; Stable (19-Nov-20)
4	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Stable (01-Sep-22)	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 covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on the 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	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: +91-120-4452002 E-mail: gaurav.dixit@careedge.in
Relationship Contact Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-11-4533 3200 E-mail: dinesh.sharma@careedge.in	Neha Kadiyan Associate Director **CARE Ratings Limited** Phone: +91-120-4452022 E-mail: Neha.Kadiyan@careedge.in Jaya Gupta Executive **CARE Ratings Limited** E-mail: jaya.gupta@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.

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