Oxyzo Financial Services Private Limited

November 18, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term/Short Term Bank Facility	200.00	CARE BBB; Stable/CARE A2 (Triple B; Outlook: Stable/A Two)	Assigned
Total Facilities	**200.00 (Rs. Two Hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Oxyzo Financial Services Private Limited (Oxyzo) factors in experienced promoters and management team, presence of diversified investor base at the parent level, comfortable capitalization profile of Oxyzo, adequate liquidity position and gearing level of 2.4 times as on September 30, 2019, well diversified lender base of Oxyzo and prudent underwriting policies and risk management/control systems that have resulted in comfortable asset quality metrics thus far. Oxyzo is a part of the OFB Group and 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. In rating Oxyzo, CARE has taken a standalone approach for rating the NBFC however it has factored in strong operational and financial synergies between OFB Tech and Oxyzo.

The rating strengths are partially offset by Oxyzo's moderate profitability; albeit improving, limited track record of operations, low seasoning of loan book along with unsecured exposure forming around 51% of loan book . Also the company's business remains susceptible to inherent challenges related to asset quality risks arising from lending to small and medium enterprises that have modest credit profiles. Also the group's two tier business model combining raw material procurement with purchase financing to SMEs remains untested over macro-economic cycles. 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.

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: Oxyzo 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 and are instrumental in setting up prudent risk management, credit and underwriting processes. The senior management is supported by well experienced second line of management.

Also, the company has demonstrated its ability to raise capital at regular intervals from well-established and marquee group of private equity investors. End September 2019, 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.

Comfortable capitalization levels supported by regular equity infusion: Under OFB group, the equity is raised at the parent level (OFB Tech) and down-streamed to Oxyzo, in line with latter's growth requirements. Since its inception till end September 2019, OFB Tech has raised Rs.600 crore of equity including the latest round of capital raising of Rs.243 crore that took place in September 2019. Of the total capital raised, OFB Tech has infused Rs.191 crore in Oxyzo till September 30, 2019.

Owing to regular equity infusion, Oxyzo's tangible net worth stood at Rs.204 crore as on September 30, 2019 up from Rs.105.08 crore as on March 31, 2019. As a result, Oxyzo's gearing remained range bound at 2.4 times as on Sep 30, 2019, and 2.3 times as on March 31, 2018. The management of OFB group has mentioned that the gearing of Oxyzo will be maintained at around 3 times at all times. As on March 31, 2019, Oxyzo's capital adequacy ratio (CAR) remained comfortable at 29.5%, well above the regulatory minimum requirement of 15%. On a consolidated basis, the OFB group's tangible networth and gearing stood at Rs.259.34 and 1.2 times respectively as on March 31, 2019 (provisional).

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

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. Also, the company has been working on further increasing its lender base to reduce any concentration risk. As on March 31, 2019, Oxyzo's total borrowings stood at Rs 258.6 crore (up from Rs 55 crore as on March 31, 2018) of which 43% were from NBFCs, 27% from banks, 26% via capital instruments such as non-convertible debentures (NCDs) and market linked debentures and remaining 4% through commercial papers (CPs). The company's average cost of borrowings stood at 11.64% (on an annualized basis) as on June 30, 2019 (consolidated). On a consolidated basis, the total borrowings stood at Rs.546 crore as on September 30, 2019 (Rs.307 crore as on March 31, 2019).

Adequate risk management and control systems*:* OFB group follows an integrated tech module wherein material aggregation and fulfillment is done via OFB Tech (via its platform OASYS), tender aggregation via "BidAssist" and lending activities via Oxyzo. The integration of all these activities lead to low acquisition cost for Oxyzo and also assists Oxyzo in ensuring prudent underwriting and credit appraisal and 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 sales and Oxyzo generates 80% of leads through Bidassist.

Key Rating Weaknesses

Differentiated business model which remains untested across economic cycles: OFB Group has a differentiated, albeit relatively new, business model that enables 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 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 inter-dependence between material aggregation platform and NBFC currently remains high and any change in the level of synergies will remain a key rating sensitive.

Limited track record of operations with low seasoning of loan book 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.460 crore as on March 31, 2019 of which about 78% or Rs 361 crore was in Oxyzo while remaining 22% or Rs 100 crore was in OFB Tech. The consolidated book size further increased to Rs.830 cr as on September 30, 2019, of which Rs 671 crore or 81% was in the books of Oxyzo. While the company has limited track record of operations, the rating draws comfort from the fact that Oxyzo provides short-term financing for a maximum term of 90 days. The effective risk management processes and internal controls have helped Oxyzo keep its asset quality under check with GNPA% and NNPA at 1.0% and 0.66% respectively as on March 31, 2019 and GNPA and NNPA at 0.63% and 0.25% respectively as on September 30, 2019. 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 11.9% and 2.04% respectively in FY19 vs. NIM and ROTA of 14.73% and 0.9% respectively (*annualised as Oxyzo started operations in November 2017*) in FY18. However, given the limited scale of operations in fiscal 2018, the ratios are not strictly comparable. End fiscal 2019, Oxyzo reported total income and profit after tax (PAT) of Rs.45.60 crore and Rs.4.74 crore respectively in FY19 as against total income and net profit (PAT) of Rs.3.73 crore and Rs.0.17 crore respectively in FY18. Given the rapid scaling up of operations, the company's CARE adjusted cost to income ratio (operating cost divided by net interest income and other income) improved to 69% as on March 31, 2019 down from 78% as on March 31, 2018. As the economies of scale set in, the company's operational efficiency is expected to further improve going forward. Oxyzo reported total income and net profit (PAT) of Rs.56.56 crore and Rs.8.46 crore respectively in H1FY20.
On consolidated basis, OFB Group reported PAT of Rs.14.62 crore (provisional) in FY19 as against net loss of Rs.0.97 crore reported previous fiscal.

Potential portfolio vulnerability arising from lending to SMEs: Oxyzo provides short term financing to SMEs to procure raw materials. Given the current macro-economic headwinds underpinned by dampened consumption, subdued investment climate and financial sector disruption, CARE expects SME's credit profile to remain economically vulnerable. Although CARE takes some comfort from the fact Oxyzo only provides short term financing and takes a maximum exposure of 10% the working capital requirement of the borrower. End September 2019, Oxyzo's secured book (backed by bank guarantees) constituted 48% of portfolio, up from 32% as on March 31, 2019. On a consolidated basis, the secured book constituted 52% of the total loans outstanding as on June 30, 2019 as against 42% as on March 31, 2019.

Liquidity Position: Adequate

The liquidity position of Oxyzo is comfortable with positive cumulative mismatches in all the time buckets as per liquidity statement dated September 30, 2019. Oxyzo's liquidity profile is supported by its shorter tenure lending; wherein in most of the cases loans are repaid within 90 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. Also, the company has unutilised bank lines to the tune of Rs.97 cr as on September 30, 2019 which supports its growth plans and liquidity position further.

Key Rating Sensitivities:

Positive Factors-

- 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

Negative Factors-

- 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 1.5%).
- Changes in level of synergies/inter-dependence between material aggregation platform and NBFC.

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
Short Term Instruments
Rating Methodology - Non Banking Finance Companies (NBFCs)
Financial Ratios – Financial Sector
Rating Methodology: Consolidation and 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, 2019, the operations of the company are spread across 14 states with 42% of operations in north India, 48% in south India and 10% in west India. The company has customer base (lending) of around 1,300 SMEs.

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 goods, electrical and electronics, 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 September 30, 2019, 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	FY18 (A)	FY19 (A)
Total income	3.73	45.60
PAT	0.17	4.74
Interest coverage (times)	1.33	1.37
Total Assets	86.23	378.86
Net NPA (%)	Nil	0.66%
ROTA (%)	0.9	2.04

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

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/ ST-Term loan	-	-	Nov 2022	200.00	CARE BBB; Stable / CARE A2

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	50.00	CARE BBB; Stable	1)CARE BBB; Stable (14-Oct-19)	-	-	-

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Gaurav Dixit
Group Head Contact no.- +91-11-4533 3235/+91 9717070079
Group Head Email ID- gaurav.dixit@careratings.com

Business Development Contact
Name: Swati Agrawal
Contact no. : +91-11-4533 3200 / +91-98117 45677
Email ID : swati.agrawal@careratings.com

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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