March 21, 2023

Oxyzo Financial Services Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT-Market Linked Debenture	109	109	PP-MLD [ICRA]A+ (Stable); reaffirmed
LT-Market Linked Debenture*	26	0	PP-MLD [ICRA]A+ (Stable); reaffirmed and withdrawn
Commercial Paper Programme	185	185	[ICRA]A1+; reaffirmed
Non-convertible Debenture	460	460	[ICRA]A+ (Stable): reaffirmed
Non-convertible Debenture*	105	0	[ICRA]A+ (Stable): reaffirmed and withdrawn
LT Borrowing Programme	2	2	[ICRA]A+ (Stable): reaffirmed
Issuer Rating	-	-	[ICRA]A+ (Stable): reaffirmed
Long Term - Fund Based/ CC	188.34	188.34	[ICRA]A+ (Stable): reaffirmed
Long Term - Fund Based TL	19.66	19.66	[ICRA]A+ (Stable): reaffirmed
Total	**1095.00**	**964.00**	

**Instrument details are provided in Annexure- I; ^ The withdrawal is at the request of the company since the rated instruments have matured and have been fully repaid*

Rationale

The ratings for Oxyzo Financial Services Private Limited (Oxyzo) factor in its improving scale of operations along with its good control over the asset quality, strong capitalisation for its near-to-medium-term growth and expanding borrowing relationships. The company's capitalisation was augmented by an equity infusion of Rs. 1,578 crore (including Rs. 81 crore by the OFB) in FY2022 and H1FY2023. The ratings factor in the limited, albeit improving, track record and the high pace of growth. ICRA notes that Oxyzo has demonstrated good control over the asset quality, despite the challenging operating environment in the recent past. ICRA draws comfort from the management's focus on building a secured (~76% as on September 30, 2022) and granular loan book.

ICRA also takes note of the company's enhanced relationships with lenders to support the envisaged growth in the assets under management (AUM). Nevertheless, the Oxyzo would need to continue expanding the lender relationships to grow as per business plans. While leverage levels would increase with the further scale-up of the business, the management plans to maintain a prudent capitalisation level with the gearing not exceeding 3-4x in the near term. Going forward, the company's ability to continue to scale up its secured lending operations profitably, maintain a well-diversified resource profile on competitive terms, and keep good control over the asset quality on a sustained basis would remain critical from a credit perspective.

The ratings for Oxyzo derive strength from its parentage, OFB Tech Private Limited (OFB - 76% stake in Oxyzo as on September 30, 2022; rated [ICRA]A+/[ICRA]A1+) given the strong financial and operational support from OFB, which, in the past, has included access to capital, management and systems, and supervision by the board. Oxyzo also enjoys strong commitment from OFB to keep it adequately capitalised and maintaining significant ownership as Oxyzo acts as the financial services lending arm of OfBusiness group.

Given the recent sizeable equity raise from external investors by Oxyzo and the lower integration and overlapping of functions between Oxyzo and OFB, ICRA has revised the analytical approach for Oxyzo's ratings from consolidation view to standalone view while factoring support from its parent.

Key rating drivers and their description

Credit strengths

Strong capitalisation – Oxyzo's capitalisation profile is characterised by a managed gearing of 0.9x as on September 30, 2022, improving from 1.4x as on March 31, 2022 and 2.6x as on March 31, 2021, supported by the capital infusion of Rs. 1,578 crore in FY2022 and H1FY2023 (including Rs. 81 crore from OFB). The company reported a net worth of Rs. 2,193 crore with a CRAR of 52.8% as September 30, 2022. ICRA expects the capital raised till date to be sufficient for the envisaged growth in the near to medium term. While ICRA expects the leverage to increase over the medium term given the targeted growth plans, Oxyzo is expected to maintain a prudent capitalisation profile (gearing below 4x) with sufficient capital buffer.

Good asset quality/business risk management; however, unsecured lending portfolio imparts vulnerability – While Oxyzo's lending operations are of a relatively recent vintage and its ability to manage the asset quality through multiple economic cycles would remain a key monitorable. ICRA draws comfort from the resilient performance trajectory since inception despite the challenging operating environment. Further, a high proportion of the portfolio is secured with good asset quality since the commencement of operations (90+ of 0.1% as on September 30, 2022). ICRA takes note of the separation of business functions/processes between Oxyzo and OFB, thereby, facilitating greater operating efficiency and independence. The relatively short-term nature of the portfolio (with interest being serviced monthly) provides comfort. Given the relatively short-tenured nature of the loans, a single customer revolves a particular limit multiple times on average, leading to better seasoning in terms of cyclicity of the loan book. ICRA also notes that the Oxyzo has a granular loan book and has set up a good underwriting framework demonstrated in the good asset quality indicators. Oxyzo's asset quality indicators have been under control so far with a gross stage 3 percentage of 1.0% (90+ days past due (dpd) of 0.5%) as on September 30, 2022 compared to 1.0% (90+dpd of 0.7%) as on March 31, 2022 (1.2% (90+dpd of 0.8%) as on March 31, 2021). Considering the moderate credit quality of the underlying borrowers with 24% of the lending being in the form of unsecured loans to small and medium enterprise (SME) borrowers, the asset quality (90+ of 1.7% as on September 30, 2022 and 2.2% as on March 31, 2022) may come under some pressure and the delinquencies in the softer buckets can remain volatile . Overall, the company's ability to arrest fresh slippages while growing business volumes would have a bearing on its overall financial profile and would be a key monitorable

Adequate profitability profile – Oxyzo reported a PAT of Rs. 84 crore in H1FY2023 with a return on average assets (RoA) of 4.4% compared to PAT of Rs. 69 crore in FY2022 with a RoA of 2.7%. The profitability trajectory has been supported by improvement in NIMs to 8.9% in H1FY2023 from 6.9% in FY2022 (adjusted[1] NIMs 8.0% in FY2022) due to decline in gearing , stable operating expenses/Average managed assets (AMA) of 2.4% despite marginal increase in credit costs/AMA to 0.7% in H1FY2023 from 0.5% in FY2022. Going forward, while the margins may decline from current levels with increase in scale of operations, improvement in the operating efficiency, while keeping control on the margins and asset quality, will remain imperative for maintaining healthy profitability and for improving the Return on Average Net Worth (RONW) from the current levels.

Diversified lender base; higher share of bank borrowings – The company has been expanding the lender base and has developed relationships with forty two lenders comprising of twenty two banks (including small finance banks), besides NBFCs and other lending institutions. It has also diversified its borrowing mix to include market instruments like non-convertible debentures (NCDs) and market linked debentures (13% of total borrowings as of September 30, 2022). While Oxyzo has raised funds through commercial paper in the past, the outstanding remained Nil as on September 30, 2022. The company's funding profile continues to improve, with the proportion of banks in the overall borrowing mix increasing to ~70% as on September 30, 2022 from 51% as on March 31, 2021. Going forward, given the target growth plans, the company will have to continue augmenting relationships with lenders while optimising its cost of funds. Also, Oxyzo raised debt aggregating ~Rs. 2,387 crore

[1] *Excluding the impact of capital infusion in the March 2023, resulting in base effect, adjusted NIMs, Opex/AMA, Credit cost /AMA and RoMA stood at 8.0%, 2.9%, 0.6% and 3.3% respectively in FY2022.*

FY2022 and H1FY2023. Going forward, given the target growth plans, the company will have to continue augmenting relationships with lenders willing to lend in larger ticket sizes while optimising its cost of funds.

Credit challenges

Limited track record; high pace of growth in relation to existing scale of operations – The company has achieved a sharp growth in its scale of operations. The AUM of Oxyzo had grown to Rs. 3,379 crore on September 30, 2022 from Rs. 2,592 crore on March 31, 2022 and Rs. 1,389 crore on March 31, 2021. The company plans to continue this high growth trajectory over the medium term. In this context, ICRA believes sharp growth can pose challenges in maintaining the underwriting quality, and consequently asset quality indicators. Moreover, with the company having sufficient equity capital and given its ambitious growth aspirations, the company's ability to arrest fresh slippages while growing business volumes would have a bearing on its overall financial profile and would be a key monitorable.

Exposure to vulnerable borrowing profile for unsecured lending portfolio and exposure to intense competition – While the company has managed to grow the loan book while maintaining a high share of secured loans, ICRA notes that the target borrower segment has existing borrowing relationships. Hence, the risk of augmented competition from banks and/or replication of the lending model by other NBFCs cannot be ruled out. Nevertheless, comfort is drawn from the synergies with OFB which facilitates enhanced connect because of various touchpoints with SMEs and early-mover advantage with increasing presence in multiple supply chains. ICRA takes note of the inherent vulnerability on the portion of unsecured loan book (~24% of Oxyzo's loan book as on September 30, 2022). While the performance in unsecured loan book improved to 90+dpd of 1.7% as on September 30, 2022 (3.2% as on March 31, 2021) it remained relatively weaker as compared to 90+dpd of 0.1% in secured loans as on September 30, 2022. Owing to limited track record of operations, the performance on asset quality of unsecured loans across economic cycles remains a key monitorable.

Liquidity position: Strong

Given the low leverage and short-tenor loans extended by Oxyzo, its asset liability maturity (ALM) profile is characterised by positive cumulative mismatches across all buckets. As on September 30, 2022, the total debt obligations over the next 1 year stood at ~Rs. 1,523 crore against which the expected inflows from advances stood at ~Rs. 2,887 crore over the same period. Further, notwithstanding the high growth targets and associated liquidity needs, the liquidity profile of the group is supported by the availability of sufficient on-balance sheet and off-balance sheet liquidity buffer with cash & liquid investments aggregating Rs. 851 crore and unutilised funding lines of about Rs. 244 crore as on September 30, 2022.

Rating sensitivities

Positive factors – ICRA could change the outlook to Positive or upgrade the rating if the company has a healthy profitability trajectory while scaling up its secured lending operations and is able to build a well-diversified resource profile and maintain healthy asset quality on a sustained basis. An improvement in the parent's credit profile could also warrant a rating upgrade or change in outlook for Oxyzo.

Negative factors – Pressure on Oxyzo's rating could arise if the leverage increases significantly (gearing of over 4 times) or if there is a sustained weakening in the asset quality, thereby putting pressure on the profitability. A significant change in the likelihood of support from the parent or a deterioration in the parent's credit profile could warrant a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Approach - Implicit parent or group support Policy on withdrawal of credit ratings
Parent/Group Support	OFB Tech Private Limited Oxyzo is a majority-owned subsidiary of OFB, which held 76% stake as on September 30, 2022. Oxyzo enjoys strong financial and operational support from OFB, which, in the past, has included access to capital, management and systems. Oxyzo also enjoys strong commitment from OFB as Oxyzo is the primary financial services lending arm for OFB.
Consolidation/Standalone	Standalone

About the company

Oxyzo is a Gurgaon-based NBFC, which commenced lending operations in November 2017. It primarily provides secured and unsecured purchase finance loans to small and medium enterprises (SMEs) for financing the purchase of raw materials that are used in their core business.

Oxyzo's loan book, at the standalone level, stood at Rs. 3,379 crore as on September 30, 2022 compared to Rs. 2,592 crore in March 2022 and Rs. 1,389 crore in March 2021. As of September 30, 2022, about 76% of the loan book was secured, while 24% was unsecured. Purchase finance accounted for an 77% share on Sep-22 (Mar-20: 82%) in the loan book with the balance comprising business loan (23%) and & machinery financing (1%).

Oxyzo reported a profit after tax (PAT) of Rs. 84 crore in H1FY2023 on a total asset base of Rs. 4,270 crore against PAT of Rs. 69 crore in FY2022 on a total asset base of Rs. 3,439 crore. Oxyzo's net worth stood at Rs. 2,193 crore as on September 30, 2022 with a gearing of 0.9 times. It reported a gross stage 3% of 1.0% as on September 30, 2022 (1.0% as of March 31, 2022). The company raised incremental equity capital of Rs. 817 crore in March 2022, Rs. 603 crore in April 2022 and Rs. 107 crore in August 2022 as part of its Series A round.

OFB Tech Private Limited

Incorporated in 2015, OFB provides raw material fulfilment and marketing services through its tech-enabled B2B platform under the brand 'Ofbusiness'. Through its platform, the company is engaged in the trading of bulk raw materials such as steel, agri-commodities, polymers, chemicals and cement, with a focus on small and medium enterprise (SME)-centric B2B business entities and corporates.

OFB had raised equity capital aggregating Rs. 5,370 crore over multiple rounds till January 2022. Latest capital infusion by Tiger Global, Falcon Edge and Softbank in January 2022.
The promoters continue to hold about 28.1% shareholding in OFB with the rest primarily being held by private equity investors including SoftBank Group, Matrix Partners India, Tiger Global, Creation Capital, Zodius Capital, Falcon Edge, and Norwest Venture Partners. It achieved a consolidated PAT of Rs. 201 crore in FY2022 compared to Rs. 56 crore in FY2021.

Key financial indicators

Oxyzo (standalone)	FY2020	FY2021	FY2022	H1FY2023
	Audited	Audited	Audited	Provisional
PAT	21.1	39.9	69.3	84.5
Net Worth	318.6	449.6	1,392.3	2,192.7
AUM	901.0	1,389.4	2,591.7	3,378.9
Total Assets	964.6	1,643.0	3,439.2	4,270.1
Return on Average Assets	3.1%	3.1%	2.7%	4.4%
Return on Average Equity	10.0%	10.4%	7.5%	9.4%
Gearing (times)	2.0	2.6	1.4	0.9
CRAR	35.1%	32.3%	48.4%	52.8%
Gross Stage 3 %	0.9%	1.2%	1.0%	1.0%
Net Stage 3 %	0.3%	0.5%	0.4%	0.5%
Net Stage 3/Net Worth %	0.8%	1.5%	0.8%	0.7%

Source: *Oxyzo, ICRA Research; Amount in Rs. crore*

OFB (consolidated)	FY2020	FY2021	FY2022
	Audited	Audited	Audited
PAT	32.3	55.7	201.1
Net Worth (excl. Minority Interest)	620.1	881.7	6,278.0
Investments	16.0	183.8	3,270.7
Loan Book	912.0	1,356.5	2,535.8
Total Assets	1,442.8	2,398.2	9,614.9
Return on Average Equity	7.2%	7.4%	5.4%
Gearing (times)	1.3	1.6	0.4

Source: *OFB, ICRA Research; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years									
		Type	Amount Rated	Amount O/s*	Mar 21, 2023	Date and rating in FY2022			Date and rating in FY2021				Date and rating in FY2020		
						Mar 22, 2022	Nov 02, 2021	Oct 05, 2021	Nov 19, 2020	Nov 02, 2020	Jul 16, 2020	Jun 26, 2020 Jun 08, 2020	Mar 06, 2020 Jan 28, 2020	Nov 15, 2019 Oct 25, 2019	Oct 07, 2019
1	Non-convertible Debentures	LT	460.00	98.25	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-convertible Debentures	LT	105.00	-	[ICRA]A+ (Stable); Withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	LT-Market Linked Debentures	LT	109.00	98.00	PP-MLD [ICRA]A+ (Stable)	PP-MLD [ICRA]A+ (Stable)	PP-MLD [ICRA]A+ (Stable)	PP-MLD [ICRA]A+ (Stable)	PP-MLD [ICRA] BBB+ (Stable)	PP-MLD [ICRA] BBB+ (Stable)	PP-MLD [ICRA] BBB (Stable)	PP-MLD [ICRA] BBB (Stable)	PP-MLD [ICRA] BBB (Stable)	PP-MLD [ICRA] BBB (Stable)	PP-MLD [ICRA] BBB (Stable)
4	LT-Market Linked Debentures	LT	26.00	-	PP-MLD [ICRA]A+ (Stable), Withdrawn	PP-MLD [ICRA]A+ (Stable)	PP-MLD [ICRA]A+ (Stable)	PP-MLD [ICRA]A+ (Stable)	PP-MLD [ICRA] BBB+ (Stable)	PP-MLD [ICRA] BBB+ (Stable)	PP-MLD [ICRA] BBB (Stable)	PP-MLD [ICRA] BBB (Stable)	PP-MLD [ICRA] BBB (Stable)	PP-MLD [ICRA] BBB (Stable)	PP-MLD [ICRA] BBB (Stable)
5	Commercial Paper	ST	185.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
6	Bank facilities – Fund Based/ CC	LT	188.34	17.5	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
7	Bank facilities – Fund Based TL	LT	19.66	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
8	LT Borrowing Programme/NCD	LT	2.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-	-	-
9	Issuer Rating	LT	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Source: *ICRA research; Amount in Rs. Crore; Note: LT: Long term; ST: Short term; *As on December 31, 2022*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debentures	Simple
LT-Market Linked Debentures	Moderately Complex
Commercial Paper Programme	Very Simple
Bank facilities – Fund Based/ CC	Simple
Bank facilities – Fund Based TL	Simple
LT Borrowing Programme	Simple
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure-I: Instrument details as on December 31, 2022

ISIN / Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE04VS07198	NCD	31-Dec-20	12.60%	18-Dec-23	28.25	[ICRA]A+ (Stable)
INE04VS07180	NCD	18-Dec-20	12.75%	15-Dec-23	15	[ICRA]A+ (Stable)
INE04VS07271	NCD	26-Nov-21	9.00%	26-Nov-24	25	[ICRA]A+ (Stable)
INE04VS07289	NCD	16-Mar-22	0.095	16-Mar-24	30	[ICRA]A+ (Stable)
INE04VS07131	MLD	13-Mar-20	NA	13-Mar-23	8	PP-MLD[ICRA]A+ (Stable)
INE04VS07297	MLD	31-Mar-22	NA	10-Jan-24	50	PP-MLD[ICRA]A+ (Stable)
INE04VS07305	MLD	6-Jan-23	NA	24-Jan-25	40	PP-MLD[ICRA]A+ (Stable)
Yet to be Placed	NCD	NA	NA	NA	361.75	[ICRA]A+ (Stable)
Yet to be Placed	NCD*	NA	NA	NA	2	[ICRA]A+ (Stable)
Yet to be placed	MLD	NA	NA	NA	11	PP-MLD[ICRA]A+ (Stable)
INE04VS07107	NCD	28-Jan-20	12.85%	28-Jul-22	10.00	[ICRA]A+ (Stable); withdrawn
INE04VS07214	NCD	20-Mar-21	11.20%	30-Sep-22	25.00	[ICRA]A+ (Stable); withdrawn
INE04VS07206	NCD	30-Dec-20	10%	30-Jun-22	10.00	[ICRA]A+ (Stable); withdrawn
INE04VS07172	NCD	10-Dec-20	10%	10-Jun-22	50.00	[ICRA]A+ (Stable); withdrawn
INE04VS07172	NCD	10-Dec-20	10%	10-Jun-22	10.00	[ICRA]A+ (Stable); withdrawn
INE04VS07081	MLD	24-Sep-19	NA	28-Jun-22	17.00	PP-MLD[ICRA]A+ (Stable); withdrawn
INE04VS07123	MLD	13-Mar-20	NA	13-Mar-22	9.00	PP-MLD[ICRA]A+ (Stable); withdrawn
NA	Issuer Rating	-	-	-	-	[ICRA]A+ (Stable)
Yet to be Placed	Commercial Paper	NA	NA	NA	185.00	[ICRA]A1+
NA	Bank facilities - Fund Based/ CC	NA	NA	NA	188.34	[ICRA]A+ (Stable)
NA	Bank facilities - Fund Based TL#	NA	NA	NA	19.66	[ICRA]A+ (Stable)

Source: *Oxyzo, ICRA Research; *Long term borrowing/NCD; #Proposed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

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