March 30, 2023 (Revised)

# OFB Tech Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Bank facilities - Fund Based** | 1,000 | 2,000 | [ICRA]A+ (Stable); reaffirmed/assigned |
| **Commercial Paper Programme** | 330 | 330 | [ICRA]A1+; outstanding |
| **Total** | **1,330** | **2,330** | |

**Instrument details are provided in Annexure-I*

## Rationale

While arriving at the rating, ICRA has considered the consolidated credit profile of OFB Tech Private Limited (OFB) and its subsidiaries including Oxyzo Financial Services Private Limited (Oxyzo) i.e, hereafter referred to as the OFB Group, owing to the common management, operational linkages and the strategic importance of both businesses to each other due to business synergies.

The ratings factor in the strong capitalisation profile of the group, augmented by multi-fold capital raise in OFB and Oxyzo. The consolidated revenue had grown to Rs. 7,269 crore in FY 2022 from Rs. 1,757 crore in FY2021(3 year CAGR of 124%). The growth trajectory is expected to continue with the multi-brand and multi-product diversification approach for OFB, further supported by acquisition of 13 companies in FY2022 which are likely to bring value addition as a service for the group making group's presence even stronger in the supply chain while improving margins in the existing business and increasing their product suite for the customers. Moreover, the improving scale of operations and the resulting operating efficiency augur well for the credit profile, along with the demonstrated ability to diversify the borrowing profile and the sustained track record of prudent liquidity management. The operating margins are expected to be remain modest due to the high share of revenue from the trading segment. The working capital cycle continues to be managed efficiently with working capital days of ~41 days in H1FY2023 and the negligible inventory/ price risk in the commerce business undertaken by OFB. Also, the group has sufficient capital buffer to absorb asset side shock, if any, without impairing the financial profile significantly from the current level. The strong capital base had helped the group grow without high dependence on borrowings and hence the overall leverage remains low. The Group was well capitalised supported by regular equity raisings to enable growth without high dependence on borrowings. The group has raised about Rs 6,867 crore of equity primarily from private equity players between January 2016 to August 2022 of which Rs. 5,370 crore was raised in OFB Tech and Rs. 1,498 crore has been raised in Oxyzo. Consequently, the net worth of OFB and Oxyzo stood at Rs. 5,671 crore and Rs. 2,193 crore (standalone level) as on September 30, 2022.

The rating is, however, constrained by the limited track record and the high pace of growth in relation to the existing scale of the Group's operations. Also, the evolution of business that started in the fiscal is still ongoing and yet to stabilise. The ability of the group to stabilise these new lines of business and subsequently improve the profitability would be a key monitorable. Also, any considerable deviation from the current business risk trajectory will be a credit negative. While ICRA takes cognisance of the Group's differentiated tech-driven business model with multiple touch points with customers, its trading as well as lending businesses remain exposed to intense competition from traditional and new-age business models.

## Key rating drivers and their description

### Credit strengths

**Strong capitalisation** – The OFB Group is well capitalised for its current scale of operations with a consolidated net worth of about Rs. 6,278 crore and a gearing of less than 0.4x as on March 31, 2022. The capitalisation level has been supported by regular equity raisings to enable growth without high dependence on borrowings. The group has raised about Rs 6,867 crore of equity primarily from private equity players between January 2016 to August 2022 of which Rs. 5,370 crore was raised in OFB Tech and Rs. 1,498 crore has been raised in Oxyzo. Consequently, the net worth of OFB and Oxyzo stood at Rs. 5,671 crore and Rs. 2,193 crore (standalone level) as on September 30, 2022. Oxyzo had directly raised equity capital of Rs 1,578 crore in FY2022 and H1FY2023 (including Rs. 81 crore from OFB), resulting in reduction of OFB's stake to ~79% (including promoters & management) as on September 30, 2022.

The capitalisation has remained comfortable for the non-banking financial company (NBFC; i.e. Oxyzo) as well (standalone level) with the gearing remaining of 0.9x and the CRAR above 52.8% as on September 30, 2022 (2.6x and 32%, respectively, as on March 31, 2021). While ICRA expects the leverage to increase over the medium term given the targeted growth plans, the Group is expected to maintain a prudent capitalisation profile (Consolidated TOL/TNW is not expected to go beyond 2x) with sufficient capital buffer.

**Good business risk management/asset quality; however, unsecured lending portfolio imparts vulnerability** – With the business model encompassing raw material procurement, value addition, lending, and marketing services, the Group has various touchpoints with small and medium enterprises (SMEs). This helps it gauge early warning signals and gather market intelligence at the customer/borrower as well as supply chain level. The multi-brand and multi-product approach supports diversification for OFB, further supported by acquisition of 13 companies in FY2022 which are likely to bring value addition as a service for the group making group's presence even stronger in the supply chain and improving margins in the existing business and increasing their product suite for the customers. The working capital cycle continues to be managed efficiently with working capital days of ~41 days in H1FY2023 and negligible inventory/ price risk in the commerce business undertaken by OFB. While the Group's lending (Oxyzo) operations are of a relatively recent vintage and its ability to manage the asset quality through multiple economic cycles would remain a key monitorable. Considering the moderate credit quality of the underlying borrowers with 24% of the lending by Oxyzo being in the form of unsecured loans to 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 control slippages while growing business volumes would also have a bearing on its overall financial profile and would be a key monitorable.

**Adequate profitability profile while increasing the scale of operations; supported by surplus liquidity** – Notwithstanding the growing and early stage of operations and the challenging operating environment, the consolidated profitability trajectory has been supported by the improving scale of operations and resulting operating efficiencies. OFB Group reported a consolidated net profit of Rs. 201 crore with a RoE of 5.4% in FY2022 (Rs. 56 crore with a RoE of 7.4% in FY2021). OFB (standalone) reported a PAT of ~Rs. 123 crore with PAT margin of 1.4% in FY2022 (Rs. 20 crore with PAT margin of 1.4% in FY2021) and Oxyzo (standalone) 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 evolution of business that is still ongoing and yet to stabilise. The ability of the group to stabilise these new lines of business and subsequently improve the profitability would be a key monitorable. While the operating margins are expected to be remain modest due to the high share of revenue from the trading segment. Improvement in the operating efficiency, while keeping good control on the margins in the trading business and asset quality in the lending business, will remain imperative for maintaining healthy profitability and for improving the RoE from 5.4% in FY2022.

**Diversified lender base; higher share of bank borrowings** – OFB (standalone) has secured working capital limits from 7 banks for Rs. 890 crore as on September 30, 2022. Large part of working capital lines remains unutilised (Rs. 561 crore as on

September 30, 2022) which supports the future growth plans for the company while maintaining a prudent capitalisation profile.

Further, Oxyzo (standalone) has been expanding the lender base and has developed relationships with banks, 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 and commercial papers. Oxyzo'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 60% as on March 31, 2021 (at the consolidated level). Going forward, given the target growth plans, the Group 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 and evolving business model** – The OFB Group has achieved a sharp growth in its scale of operations. The consolidated revenue had grown to Rs. 7,269 crore from Rs. 1,757 crore in FY2021(3 year CAGR of 124%). The growth trajectory is expected to continue with the multi-brand multi-product diversification approach for OFB, further supported by acquisition of 13 companies in FY2022 which are likely to bring value addition in the supply chain and improve margins in the existing business and increase their product suite for the customers. At a standalone level, OFB has achieved a strong scale-up in the trading business with monthly gross merchandise value (GMV) runrate increasing to ~Rs. 940 crore in H1FY2023 compared to ~Rs. 650 crore in FY2022 and ~Rs. 162 crore in FY2021. While 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 Group 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, liability profile, and product quality/service standards. Moreover, with the Group having sufficient equity capital and given its ambitious growth aspirations, further evolution of the business model, including forays into new segments and/or backward integration through the inorganic or organic route, cannot be ruled out. In this regard, the Group's risk appetite as well as its ability to profitably scale up its operations while charting a prudent roadmap and maintaining the current business risk mix will remain key monitorables.

Any inorganic or organic expansion, significantly altering the company's business risk profile and leverage trajectory and/or impacting the profitability will be a credit negative. Nonetheless, as OFB has scaled up its operations and expanded its target segments to encompass product categories such as steel, non-perishable agri-commodities, non-ferrous metals, chemicals and building materials for customers from different sectors, its exposure to concentration risk has alleviated. Also, despite its foray into diverse supply chains/product categories, the company continues to operate without inventory/price risk as majority of its trading sales continue to be order-backed.

**Exposure to intense competition and exposure to vulnerable borrowing profile for unsecured lending portfolio** – While the OFB Group has deployed a differentiated tech-driven business model by offering raw material procurement, lending and market servicing under one roof, its trading business remains exposed to competition. Also, the performance of the legacy trading industry has been characterised by thin and volatile margins due to the exposure to price and inventory risks, which necessitates financial leverage to generate adequate returns for shareholders. In this regard, the OFB Group has adopted a prudent approach for its trading business and undertakes only order-backed sales to avoid price and inventory risk and hence volatile margins. However, its ability to continue a profitable scale-up without excessive leverage, while consistently providing acceptable service levels/delivery times to customers without taking exposure to inventory/price risk, remains to be seen.

Also, although the Group has managed to grow the lending business via Oxyzo while maintaining a high share of secured loans. 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

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 consolidated cash & liquid investments aggregating Rs. 2,967 crore and unutilised funding lines of about Rs. 804 crore as on September 30, 2022 against total borrowing of ~Rs. 2,391 crore as on September 30, 2022. OFB on standalone basis had cash and liquid investments of ~Rs. 2,116 crore and unutilised funding lines of Rs. 561 crore against total debt of Rs. 366 crore as on September 30, 2022.

## Rating sensitivities

**Positive factors** – ICRA could change the outlook to Positive or upgrade the rating if the Group is able to significantly scale up its operations and demonstrate a sustained improvement in profitability over the medium term while adhering to the stated policy on business risk and leverage and maintaining a comfortable asset quality trajectory in the lending operations.

**Negative factors** – Pressure on the rating could emerge if the Group's leverage increases significantly on a sustained basis (consolidated TOL/TNW >1.5x) or the business risk aspects deviate considerably from the understanding articulated in the key rating considerations. Deterioration in the asset quality indicators and/or trading margins, translating into weak profitability and/or liquidity, will also be a credit negative.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | ICRA's Credit Rating Methodology for Non-Banking Finance Companies<br>Corporate Credit Rating Methodology<br>Rating Approach - Consolidation |
| **Parent/Group Support** | - |
| **Consolidation/Standalone** | Consolidated financials of OFB; ICRA has considered the consolidated credit profile of OFB Tech Private Limited (OFB) and its subsidiaries including Oxyzo Financial Services Private Limited (Oxyzo) given the operational linkages, common management, shared infrastructure, as well as the strategic importance of both the businesses to each other. |

# About the company

Incorporated in 2015, OFB provides raw material fulfilment, value addition 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, non-ferrous metals, 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 27.2% 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. Group's loan book (Oxyzo)/trade receivables (Commerce), at the consolidated level, stood at Rs. 3,550 crore as on March 31, 2022 against Rs. 1,747 crore in March 2021. It achieved a consolidated PAT of Rs. 201 crore in FY2022 compared to Rs. 56 crore in FY2021.

## Key financial indicators

| OFB (standalone) | FY2019 | FY2020 | FY2021 | FY2022 |
|---|---|---|---|---|
| | Audited | Audited | Audited | Audited |
| Operating Income (OI) | 594.1 | 698.8 | 1,379.0 | 6,404.0 |
| OPBDITA/ OI | 1.2% | 3.1% | 3.0% | 1.4% |
| Profit after Tax (PAT) | 13.1 | 13.8 | 19.8 | 123.5 |
| PAT/ OI | 2.2% | 2.0% | 1.4% | 1.9% |
| Return on Capital Employed (%) | 5.6% | 4.6% | 4.2% | 5.4% |
| Return on Average Equity (%) | 7.3% | 3.2% | 2.8% | 3.9% |
| Net Worth | 273.7 | 600.2 | 826.1 | 5,536.3 |
| Debtors^ | 105.0 | 273.2 | 349.2 | 929.5 |
| Total Assets^ | 329.5 | 777.9 | 1,131.4 | 6,060.1 |
| Total Debt*/ Net Worth (times) | 0.3 | 0.3 | 0.3 | 0.1 |
| Total Outside Liabilities/ Net Worth (times) | 0.3 | 0.4 | 0.4 | 0.1 |
| OPBDITA/ Interest (times) | 1.4 | 2.9 | 3.4 | 4.3 |

***Source:*** *OFB, ICRA Research; *Including bill discounting; ^ Excluding bills discounted; 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 (Rs. crore) | Amount Outstanding (Rs. crore)# | Date and rating | | Date & Rating in FY2022 | | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | Mar 30, 2023 | Mar 22, 2023 | Mar 22, 2022 | Nov 02, 2021 Oct 05, 2021 | Nov 12, 2020 | - |
| **1** | **Bank Facilities - Fund Based** | LT | 2,000 | 228.9* | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | **[ICRA]A+ (Stable)** | **[ICRA]BBB+ (Stable)** | - |
| **2** | **Commercial Paper** | ST | 330 | 0.0# | **[ICRA]A1+** | **[ICRA]A1+** | **[ICRA]A1+** | - | - | - |

***Source:*** *ICRA Research; Note: LT: Long term; ST: Short term; *As on September 30, 2022; #As on March 28, 2023*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long Term - Fund Based | Simple |
| Commercial Paper | Very Simple |

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 March 28, 2023

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Bank Facilities - Fund Based | NA | NA | NA | 2,000.0 | [ICRA]A+ (Stable) |
| NA* | Commercial Paper | NA | NA | NA | 330.0 | [ICRA]A1+ |

***Source:*** *OFB, ICRA Research. *Proposed*

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

## Annexure-II: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| OFB Tech Private Limited | Rated Entity | Full Consolidation |
| Oxyzo Financial Services Private Limited | Subsidiary | Full Consolidation |
| Omat Business Private Limited | Subsidiary | Full Consolidation |
| OAgri Farm Private Limited | Subsidiary | Full Consolidation |
| OFG Manufacturing Business Private Limited | Subsidiary | Full Consolidation |
| Laxmi Foils Private Limited | Subsidiary | Full Consolidation |
| Accordd Organics Private Limited | Subsidiary | Full Consolidation |
| Dhara Foods Private Limited | Subsidiary | Full Consolidation |
| Sri Mukha Road Products & Civil Labs Pvt Ltd | Subsidiary | Full Consolidation |
| Constro Solutions Limited | Subsidiary | Full Consolidation |
| Gvr Nutries Private Limited | Subsidiary | Full Consolidation |
| Shree Sidhbali Ispat Limited | Subsidiary | Full Consolidation |
| Noble Tech Industries Private Ltd | Subsidiary | Full Consolidation |
| Mayurank Foods Private Limited | Subsidiary | Full Consolidation |
| Samruddhi Organics Farm (India) Pvt Ltd | Subsidiary | Full Consolidation |
| Shree Ravi Trading & Manufacturing Pvt Ltd | Subsidiary | Full Consolidation |
| E-mox Manufacturing Pvt Ltd | Subsidiary | Full Consolidation |

## Corrigendum

Revised the text to "ICRA has considered the consolidated credit profile of OFB Tech Private Limited (OFB) and its subsidiaries including Oxyzo Financial Services Private Limited (Oxyzo)" from "ICRA has taken a consolidated view of the credit profiles of OFB Tech Private Limited (OFB) and its subsidiaries including Oxyzo Financial Services Private Limited (Oxyzo)" on page 1 in Rationale section and page 4 in Analytical Approach section on the document dated March 30, 2023.

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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.

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## ICRA Limited

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