May 14, 2024

OFB Tech Private Limited - Ratings reaffirmed

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term/ Short-term – Fund-based	2,290.00	2,390.00	[ICRA]A+ (Stable)/ [ICRA]A1+; reaffirmed
Long-term/ Short-term – Unallocated	210.00	110.00	[ICRA]A+ (Stable)/ [ICRA]A1+; reaffirmed
Short-term - Commercial Paper^	330.00	330.00	[ICRA]A1+; reaffirmed
Total	**2,830.00**	**2,830.00**	

Rationale

While arriving at the ratings, ICRA has considered the consolidated financials of OFB Tech Private Limited (OFB/Group) and its subsidiaries (details provided in Annexure II), considering the strong operational, financial and managerial linkages within the Group. However, OFB's subsidiary, Oxyzo Financial Services Limited (Oxyzo) and its subsidiaries, which were included earlier, have been excluded considering the separate management and limited operational and financial linkages with the Group.

The ratings reaffirmation factors in the extensive experience of the Group's promoters in the commerce business, which supports its growth prospects. The ratings are also supported by a healthy increase in the revenues of the Group (with a diversified revenue base across various product categories), a comfortable capital structure and healthy debt coverage metrics. The healthy revenue growth has been driven by increased penetration, which helped in adding new customers, and higher volumes sold to existing customers. Further, the Group acquired units for entering basic processing and manufacturing to improve the profit margins and offer additional value to its customers. Going forward, the Group will focus on strengthening its backward and forward integration of the units for basic processing and manufacturing, which is likely to further improve its profitability. Moreover, the ratings derive comfort from the Group's strong liquidity position, supported by its healthy cash accruals and moderate utilisation of working capital limits, leaving a buffer for any urgent requirement.

The ratings, however, are constrained by the intense competition in the low value additive trading business, which results in thin profit margins. As the Group mainly deals in metals and agricultural commodities, its operations remain susceptible to the changes in Government policies, as well as fluctuations in agro-climatic conditions. The ratings also factor in the vulnerability of profitability to foreign exchange rate fluctuations and volatility in the prices of commodities. Nevertheless, the Group's risk mitigation policies on forex movements and price volatility provide some comfort. Further, the Group had recently acquired various units in different sectors for entering basic processing and manufacturing, exposing it to the risks of stabilising and generating adequate returns on these investments.

The Stable outlook on the long-term rating emphasises ICRA's opinion that the Group is likely to sustain its operating metrics and strong liquidity position through healthy growth in revenue and improved profitability in the near term by deriving benefits from the acquired manufacturing segment, sound risk management policies and comfortable financial profile.

Key rating drivers and their description

Credit strengths

Large scale of operations – The Group has registered a healthy increase in its revenues during the last two years ended in March 2023. The operating income of the Group increased to Rs. 14,835 crore in FY2023 from Rs. 1,555 crore in FY2021 with a CAGR of 113%. The healthy growth has been driven by growth in aggregation business bundled with processing and manufacturing business. Going forward, the Group would focus on strengthening its backward and forward integration for basic processing.

Diversified business profile – The Group's revenue stream is diversified, given its presence in nine different categories, which include construction and industrial steel, non-ferrous, ferro alloys, polymers, industrial chemicals, energy and petroleum, agri-commodities, building materials, apparel etc. In five business verticals, OFB has achieved reasonable scale and experience. With the synergies obtained from the acquired companies since FY2022, the overall scale and EBIDTA of the Group are expected to improve in FY2024 and FY2025 due to additional business and higher profit margins from processing and manufacturing segments.

Established relationship with a diversified customer and supplier base – The Group sources materials from a diversified supplier base due to which it is largely protected against pricing risk. The Group gets discounted rates as it purchases in bulk from the suppliers on a regular basis. The Group has developed strong relationship with its suppliers and customers, which resulted in repeat orders.

Comfortable capital structure and healthy debt protection metrics – The Group is backed by the renowned private equity investors like Softbank, Tiger Global, Zodius Capital, Falcon Edge, Matrix Partners India etc. with total fund raising of Rs. 5,370 crore till date. Consequently, the Group's net worth is strong with low reliance on external long-term debt, resulting in comfortable capital structure. Its TD/TNW stood at 0.3 times as on March 31, 2023. Moreover, with deployment of funds from the private equity investors and internal accruals, the average working capital utilisation of the Group stood moderate at ~54% in the last 12 months ending on January 31, 2024. With adequate internal accruals and low interest cost, the Group's debt protection metrics were healthy with interest coverage and DSCR of 4.2 times and 2.2 times, respectively as on March 31, 2023.

Credit challenges

Thin profit margin owing to primarily trading nature of business – The Group's profit margin remained thin with an OPBDITA of 1.4% and 2.0% in FY2022 and FY2023, respectively, owing to primarily trading nature of the operations, intense competition from organised and unorganised players, and the inherent cyclicality as well as volatility associated with commodities. However, ICRA expects that the Group's OPBIDTA would improve in FY2024 and FY2025 due to additional businesses and synergies derived from the processing and manufacturing segments.

Intense competition limits pricing flexibility – The Group faces intense competition from organised and unorganised players, given the low entry barriers in the business as well as the asset light model, limiting its pricing flexibility and bargaining power. The presence of numerous unorganised players in the commodities trading industry makes the Group's sales vulnerable to volatility in the prices of commodities. However, ICRA notes that the Group maintains low inventory risk in aggregation business with around 80% back-to-back orders. The overall working capital cycle of the Group stood in the range of 30-37 days.

Susceptible to changes in Government policies, demand-supply situation and agro-climatic conditions – The import of raw material and finished products are susceptible to Government regulations. Any adverse change in import/ export duties on commodities may affect the product's competitiveness. Further, any change in the policies related to domestic consumption of any commodity and restriction on its export could impact the Group's business and profitability. As the Group is also involved in agro-commodity trading and processing, it remains exposed to agro-climatic risks, changing crop patterns and associated cyclicality in the business.

Exposed to risks associated with recent acquisitions – The Group had recently acquired various units in the matured target sectors for adding basic processing and manufacturing to its operations, exposing it to the risks of generating adequate returns and stabilisation. The Group has implemented sound risk management practices in the acquired companies, which include separate teams and deployment of centralised teams for pricing, accounts, compliance, etc. However, owing to limited track record of the Group in the manufacturing segment, its ability to stabilise these acquired businesses and subsequently improve the profitability would be monitored.

Liquidity Position – Strong

The Group's liquidity is strong, supported by its adequate fund flow from operations of Rs. 139.1 crore in FY2023, which is likely to sustain in the near-term. The Group's large free cash balances, minimal long-term debt repayments and cushion available in the form of undrawn bank lines (buffer of around Rs. 1,028 crore in working capital limits as on January 31, 2024) would continue to provide comfort to the company's liquidity and operations. The utilisation of working capital limit remained low at an average of 54% during the past 12 months ending in January 2024. As on December 31, 2023, the Group had free cash and cash equivalent of ~Rs. 210.0 crore and investments in liquid instruments (majorly bonds) of Rs. 915 crore. Overall, the Group's liquidity is likely to remain strong in the near-term.

Rating sensitivities

Positive factors – The long-term rating could be upgraded in case of a significant increase in the Group's revenues and profitability on a sustained basis while maintaining strong liquidity and comfortable debt coverage metrics.

Negative factors – Pressure on the Group's ratings could arise if there is a sharp decline in its revenues and profitability, resulting in lower cash flows and weakening of debt coverage metrics on a sustained basis. Any significant stretch in the working capital cycle or any unanticipated large debt-funded capex/ investments, impacting the Group's liquidity position, could also be a trigger for ratings downgrade. Specific credit metrics that could result in ratings downgrade include TOL/TNW of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated approach of subsidiaries and step-down subsidiaries of OFB Tech Private Limited, considering the strong operational, financial and managerial linkages with the Group (excluding Oxyzo Financial Services Limited and its subsidiaries). The details of the entities considered for consolidation are there in Annexure II.

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 primarily trades in bulk raw materials and does basic processing in sectors 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. The company had raised equity capital of Rs. 5,370 crore over multiple rounds till date and the promoters continue to hold a 27.37% stake in OFB Tech. The rest of the stake is primarily held by private equity investors including SoftBank Group, Matrix Partners India, Tiger Global, Creation Capital, Zodius Capital, Falcon Edge, and Norwest Venture Partners.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	6,839.5	14,834.6
PAT	131.8	266.7
OPBDIT/OI*	1.4%	2.0%
PAT/OI	1.9%	1.8%
Total outside liabilities/Tangible net worth (times)**	0.2	0.4
Total debt/OPBDIT (times)	5.7	5.5
Interest coverage (times)	6.7	4.2

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore

Source: Company; ICRA Research

**OPBIDA/OI would be 1.7% and 2.6% in FY2022 and FY2023 respectively considering other related items*

***Tangible net worth does not include minority interest*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022		
					May 14, 2024	Mar 31, 2024	Mar 30, 2023	Mar 22, 2023	Mar 22, 2022	Nov 02, 2021	Oct 05, 2021
1	Fund-based – Cash Credit	Long-term	0.00	--	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund-based facilities	Long-term/ Short-term	2,390.00	--	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-	-	-
3	Unallocated	Long-term/ Short-term	110.00	--	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-	-	-
4	Commercial Paper^	Short-term	330.00	Nil	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-

^Proposed

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term/ Short-term – Fund-based	Simple
Long-term/ Short-term – Unallocated	Not applicable

Short-term – 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 analyzing 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, is available on ICRA's website: Click Here

Annexure-I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**Long-term/ Short-term – Fund-based**	NA	NA	NA	2,390.00	[ICRA]A+ (Stable)/[ICRA]A1+
NA	**Long-term/ Short-term – Unallocated**	NA	NA	NA	110.00	[ICRA]A+ (Stable)/[ICRA]A1+
NA	**Short-term – Commercial Paper^**	NA	NA	NA	330.00	[ICRA]A1+

Source: Company; ^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
OMAT Business Private limited	100.00%	Full Consolidation
OAGRI Farm Private Limited	100.00%	Full Consolidation
OFG Manufacturing Businesses Private Limited	100.00%	Full Consolidation
Laxmi Foils Private Limited	100.00%	Full Consolidation
Accordd Organics Private Limited	100.00%	Full Consolidation
Omat West Limited (Formerly known As Shree Sidhbali Ispat Limited)	100.00%	Full Consolidation
Sri Mukha Road Products and Civil Labs Pvt Ltd	100.00%	Full Consolidation
Constro Solutions Limited	100.00%	Full Consolidation
Noble Tech Industries Pvt Ltd	100.00%	Full Consolidation
Wonderblues Apparels Private limited	100.00%	Full Consolidation
Pitambar Solvex Pvt Ltd	100.00%	Full Consolidation
Mayurank Foods Private limited	51.30%	Full Consolidation
Samruddhi Organics Farm (India) Pvt Ltd	51.00%	Full Consolidation
Shree Ravi Trading & Manufacturing Pvt Ltd	51.12%	Full Consolidation
E-mox Manufacturing Pvt Ltd	51.00%	Full Consolidation
SMW Ispat Private Limited	87.91%	Full Consolidation
Koeleman India Private limited	97.77%	Full Consolidation
Candor Foods Private limited	51.05%	Full Consolidation
Candor Dates Private Limited	49.03%	Full Consolidation
Dhara Foods Private Limited	55.00%	Full Consolidation
Tracecost Private Limited	51.78%	Full Consolidation
Saivana Garments Pvt Ltd	70.00%	Full Consolidation
Gvr Nutries Private limited	51.12%	Full Consolidation
Gujarat Foils Limited	100.00%	Full Consolidation
Ofbey Chem Pvt Ltd	100.00%	Full Consolidation
Tracecost Inc	51.78%	Full Consolidation

Source: Annual report of the Group; As on March 31, 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.

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.

For more information, visit www.icra.in

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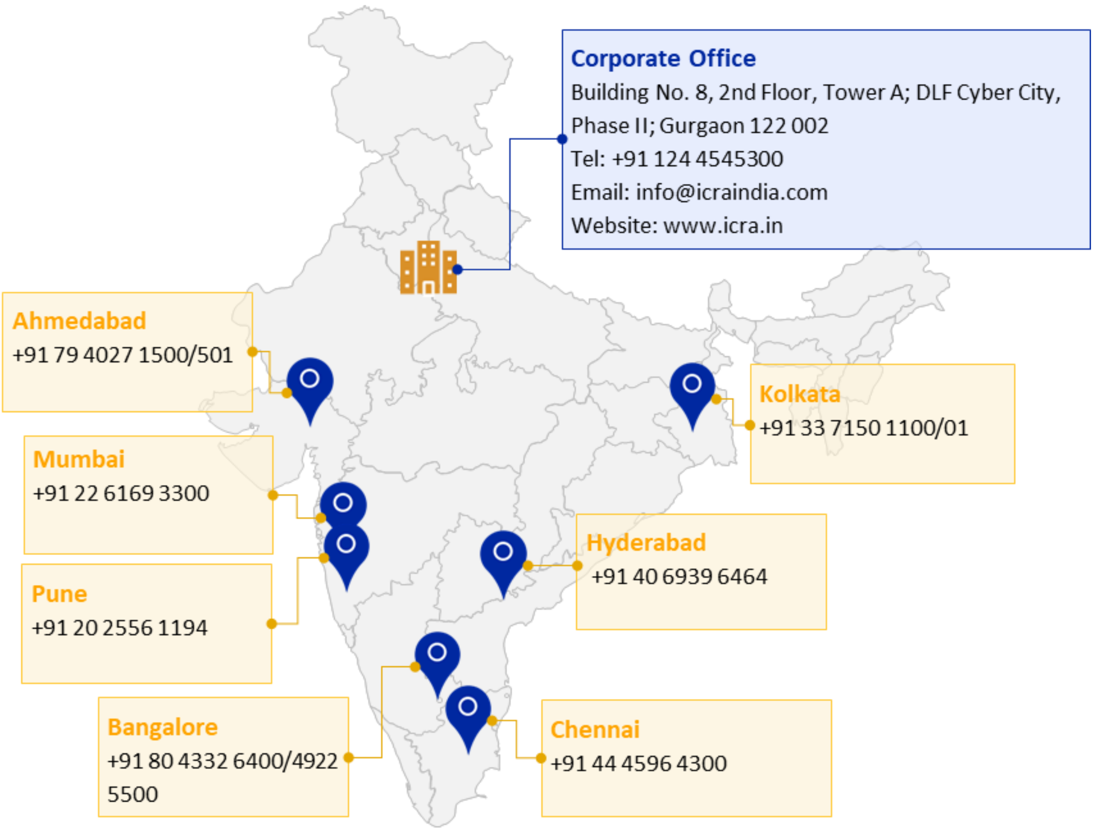

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