November 12, 2020

OFB Tech Private Limited: [ICRA]BBB+ (Stable) rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based	200	[ICRA]BBB+ (Stable); Assigned

**Instrument details are provided in Annexure-1*

Rationale

While assigning the rating, ICRA has taken a consolidated view of the credit profiles of OFB Tech Private Limited (OFB) and Oxyzo Financial Services Private Limited (Oxyzo; wholly owned by OFB), hereafter referred to as the OFB Group, owing to the common management and customers, shared infrastructure, operational synergies like sourcing and collections, as well as the strategic importance of Oxyzo to the Group.

The rating factors in the OFB Group's improved scale and operating cost structure, resilient performance despite the challenging operating environment, and continued improvement in the funding profile. While the ongoing challenging environment amid the Covid-19 pandemic is likely to lead to some weakening in the asset quality and profitability, ICRA notes that the Group has sufficient capital buffer to absorb any asset-side shocks without impairing its financial profile significantly from the current level. ICRA also draws comfort from the increase in the share of the secured asset base to over 65% (from about 35% in March 2019) and the Group's ability to curtail the portfolio under moratorium (for the lending operations) during the forbearance period to a very low level without a major dip in collections or a spike in delinquencies. Furthermore, the Group is well capitalised for its near-term growth requirements with a consolidated gearing of 1.4 times as on September 30, 2020. The capitalisation level has been supported by regular equity raisings to enable growth without high dependence on borrowings. The Group raised equity aggregating over Rs. 313 crore in FY2020, whereby the consolidated net worth more than doubled to Rs. 620 crore as on March 31, 2020 from Rs. 275 crore as on March 31, 2019.

The Group's funding profile continues to improve with the proportion of banks in the overall borrowing mix increasing further to about 60% in September 2020 from 38% as of March 31, 2019. Also, the Group has been expanding the lender base and had active relationships with about 32 lenders as on September 30, 2020, including private sector banks, public sector banks, non-banking financial companies (NBFCs) and other lending institutions. The average cost of borrowing for OFB Tech has declined to 8.6% in Q2 FY2021 from 10.72% in Q3 FY2020 with incremental borrowings at an average cost of 8.25% in Q2 FY2021. The Group's liquidity position remains adequate with sizeable on-balance sheet and off-balance sheet liquidity buffers (~35% of borrowings) in the form of cash & cash equivalents aggregating Rs. 132 crore, unutilised working capital lines of about Rs. 82 crore and undrawn sanctions of Rs. 98 crore as on September 30, 2020.

The ratings are, however, constrained by the limited track record of group's lending operations that started three years ago in November 2017. Thus, its ability to manage the asset quality through economic cycles is yet to be established. Portfolio vulnerability is expected to remain high, considering the moderate credit quality of the underlying borrowers with a sizeable portion (though declining) of the lending being in the form of unsecured loans to SME borrowers. However, ICRA notes that the loan book is granular and the group has set up a good underwriting framework along with adequate internal controls, monitoring and risk management processes, thus mitigating the risk to some extent. Also, the relatively short-term nature of the portfolio and the high proportion of business from repeat customers provide comfort.

Nevertheless, high growth can pose challenges such as maintaining the asset quality and the liability profile. Hence, the Group's ability to maintain strong collection efficiency, borrowing trajectory and underwriting standards to ensure the maintenance of the asset quality will remain a key monitorable.

Key rating drivers and their description

Credit strengths

Well capitalised for near-term growth requirements – The OFB Group is well capitalised for near-term growth requirements with a consolidated gearing of 1.4 times as on September 30, 2020. The capitalisation level has been supported by regular equity raisings to enable growth without high dependence on borrowings. The Group raised equity aggregating over Rs. 313 crore in FY2020, whereby the consolidated net worth more than doubled to Rs. 620 crore as on March 31, 2020 from Rs. 275 crore as on March 31, 2019. 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.

Adequate liability profile for current scale of operations – The Group's funding profile continues to improve, with the proportion of banks in the overall borrowing mix increasing further to 60% in September 2020 from 38% as of March 31, 2019 (at the consolidated level). Also, the Group has been expanding the lender base and has developed relationships with about a dozen private sector banks (including four small finance banks) and two public sector banks, besides about two dozen NBFCs and other lending institutions. The Group has also diversified its borrowing mix to include market instruments like NCDs and market linked debentures (24% of total borrowings as of August 2020) and commercial papers (2%). Moreover, while the average cost of borrowing for OFB Tech has declined to 8.6% in Q2 FY2021 from 10.72% in Q3 FY2020 with incremental borrowings at an average cost of 8.25% in Q2 FY2021, the average cost of borrowing for the NBFC has declined to 12.0% in Q2 FY2021 from 13.61% in Q1 FY2020 with incremental borrowings at an average cost of 10.81% in Q2 FY2021 compared to 12.83% in Q1 FY2020. 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. As bank funding is relatively scalable and cost competitive, the ability to increase/sustain the share of the same in the overall funding mix will be critical for the targeted growth while maintaining a competitive cost of funds.

Satisfactory earnings profile trajectory – Notwithstanding the growing and early stage of operations, OFB has seen a 60% CAGR in gross merchandise value (GMV) to Rs. 1,174 crore in FY2020 from Rs. 460 crore in FY2018, while reporting a steady improvement in the OPBDITA margins to 4.0% in H1 FY2021 from 1.2% in FY2018. Also, as the GMV is predominantly backed by BG/LC, OFB has witnessed negligible bad debts historically. ICRA also notes that OFB has a multi-brand multi-product approach with established relationships (MOUs) with suppliers. Moreover, the company does not carry inventory on its books, thus, minimising pricing volatility risk. Overall, OFB Group reported a net profit of Rs. 32 crore with a return on average assets (RoA) of 3.1% in FY2020, despite the increased credit provisioning for its lending operations amid the Covid-19 pandemic. The improvement in profitability (adjusted for tax-related impact in the previous year) was supported by a moderation in the operating expenses to 5.6% of the average managed assets for the Group in FY2020 from 8.6% in the previous year, following the improved scale of operations. Going forward, further improvement in operating efficiencies with scale, while keeping good control on the asset quality, will remain imperative for achieving healthy profitability. On a provisional basis, while the Group achieved a net profit of Rs. 26 crore with RoA of 3.4% and RoNW of 8.0% in H1 FY2021, Oxyzo at standalone level reported a net profit of Rs. 18 crore with RoA of 3.5% and RoNW of 10.7% in H1 FY2021.

Credit challenges

Relatively recent vintage of the lending operations, though performance trajectory has been satisfactory with multiple loan cycles despite challenging environment – The group's lending operations are of a recent vintage as it started operations in November 2017. Thus, the lending operations are yet to establish its ability to manage the asset quality through economic cycles. Nevertheless, ICRA draws comfort from the Group's satisfactory performance trajectory over the past three years despite the challenging operating environment. Also, it is noted that a high proportion of the business is from repeat customers, where the Group already has a track record of prepayments.

High pace of growth in relation to existing scale of operations – The OFB Group has achieved a sharp growth in its scale of operations during the past two years, wherein its assets under management (AUM) expanded to Rs. 1,185 crore as on March 31, 2020 from Rs. 467 crore in March 2019 and Rs. 145 crore in March 2018. Though the Group has scaled up its borrower base and has established a presence across 16 industrial hubs in 15 states, it plans to continue to grow at a high double-digit CAGR over the medium term. In this context, ICRA believes high growth can pose challenges such as maintaining the asset quality and liability profile. Hence, the Group's ability to maintain strong collection efficiency, borrowing trajectory and underwriting standards to ensure the maintenance of the asset quality will remain a monitorable.

Portfolio vulnerability – Portfolio vulnerability is expected to remain high, considering the moderate credit quality of the underlying borrowers with a sizeable portion (though declining) of the lending being in the form of unsecured loans to SME borrowers. However, ICRA notes that the loan book is granular and the group has set up a good underwriting framework along with adequate internal controls and risk management processes, thus mitigating the risk to some extent. Also, the relatively short-term nature of the portfolio (with interest being serviced monthly) and the high proportion of business from repeat customers provide comfort. While the ongoing challenging operating environment amid the Covid-19 pandemic is likely to lead to some weakening in the asset quality, especially in select segments, Oxyzo's asset quality indicators have been under control so far with a gross NPA of 1.2%, as on September 30, 2020. Going forward, the group's ability to maintain a comfortable asset quality will remain a monitorable as the economic slowdown has impacted the credit profile of SME borrowers.

Liquidity position: Adequate

Given the low leverage and short-tenor loans extended, the asset liability maturity (ALM) profile is characterised by positive cumulative mismatches across all the near-term buckets, even after assuming a stressed collection efficiency of 80%. Further, notwithstanding the high growth targets and associated liquidity needs, the Group's liquidity profile is supported by the availability of sizeable on-balance sheet and off-balance sheet liquidity buffers (~35% of borrowings) with cash & cash equivalents aggregating Rs. 132 crore, unutilised working capital lines of about Rs. 82 crore and undrawn sanctions of Rs. 98 crore as on September 30, 2020.

Rating sensitivities

Positive triggers – ICRA could change the outlook to Positive or upgrade the ratings if the group is able to profitably scale up its business operations while sustaining the current performance trajectory.

Negative triggers – Pressure on the ratings could emerge if the Group's leverage increases significantly beyond 3 times on a sustained basis or the asset quality indicators deteriorate considerably, thereby translating into weak profitability.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Financial Consolidation and Rating Approach](#) [ICRA's Credit Rating Methodology for Non-Banking Finance Company](#)
Parent/Group Support	-
Consolidation/Standalone	ICRA has taken a consolidated view of the credit profiles of OFB and Oxyzo, given the common management and clientele, shared infrastructure, operational synergies like sourcing and collections, as well as the strategic importance of Oxyzo to the Group.

About the company

OFB Tech Private Limited (OFB), incorporated in August 2015, is a multi-brand and multi-product platform for raw material fulfilment and marketing services to small and medium enterprises (SMEs) under the brand OfBusiness. It is also the holding company of Oxyzo Financial Services Private Limited (Oxyzo), which commenced lending operations in November 2017 and 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. As of September 30, 2020, the promoters held 30.76% in OFB with the rest primarily being held by private equity investors including Matrix Partners India, Creation Capital, Zodius Capital, Falcon Edge, and Norwest Venture Partners.

OFB's consolidated loan book stood at Rs. 1,325 crore as on September 30, 2020 compared to Rs. 1,185 crore as on March 31, 2020 and Rs. 467 crore as on March 31, 2019. It achieved a consolidated PAT of Rs. 25 crore in H1 FY2021 after reporting a consolidated PAT of Rs. 32 crore on a total asset base of Rs. 1,445 crore in FY2020. OFB's consolidated net worth stood at Rs. 647 crore as on September 30, 2020 with a gearing of 1.4 times.

Oxyzo Financial Services Private Limited (Oxyzo)

Oxyzo is a Gurgaon-based NBFC, which commenced lending operations in November 2017. It primarily provides secured and unsecured purchase finance loans to SMEs for financing the purchase of raw materials that are used in their core business. The company is a part of the OFB Group of Companies comprising OFB and Oxyzo, with the latter being wholly owned by OFB.

Oxyzo's loan book, at the standalone level, stood at Rs. 912 crore as on March 31, 2020 compared to Rs. 362 crore as on March 31, 2019 and Rs. 82 crore as on March 31, 2018. As of March 31, 2020, about 42% of the loan book was unsecured while 53% was secured by bank guarantees and about 5% by tangible assets. Purchase finance accounted for a 78% share in the loan book with the balance comprising term loans (16%) and loan against property & machinery finance (6%).

Oxyzo reported a profit after tax (PAT) of Rs. 21 crore in FY2020 on a total asset base of Rs. 965 crore against PAT of Rs. 4 crore on an asset base of Rs. 378 crore in FY2019. In H1 FY2021, the company reported a PAT of Rs. 18 crore, on a provisional basis, on an asset base of Rs. 1,132 crore. Oxyzo's net worth stood at Rs. 362 crore as on September 30, 2020 with a gearing of 2.1 times. It reported a gross stage 3% of 1.2% as on September 30, 2020 (0.9% as of March 31, 2020).

Key financial indicators – OFB Tech Private Limited (standalone)

Amounts in Rs. crore	FY2019	FY2020	H1 FY2021
	Audited	Audited	Provisional
Operating Income (OI)	594.1	698.8	387.1
OPBDITA/ OI	1.2%	3.1%	4.0%
Profit After Tax (PAT)	13.1	13.8	8.4
PAT/ OI	2.2%	2.0%	2.2%
Return on Capital Employed (%)	5.9%	4.9%	4.0%
Return on Average Equity (%)	7.3%	3.2%	2.8%
Net Worth	273.7	600.2	609.1
Debtors	105.0	273.2	288.6
Total Assets	329.6	778.0	760.4
Total Debt/ Net Worth (times)	0.18	0.27	0.22
Total Outside Liabilities/ Net Worth (times)	0.20	0.30	0.25
OPBDITA/ Interest (times)	1.4	2.9	6.1

Source: OFB Tech Private Limited, ICRA research

Key financial indicators – OFB Tech Private Limited (consolidated)

Amounts in Rs. crore	FY2019	FY2020	H1 FY2021
	Audited	Audited	Provisional
PAT	17.1	32.3	25.3
Net Worth	275.3	620.1	647.0
Assets under Management	466.7	1,185.3	1,324.8
Total Assets	607.4	1,445.1	1,568.1
Return on Average Assets	4.2%	3.1%	3.4%
Return on Average Equity	9.5%	7.2%	8.0%
Gearing (times)	1.1	1.3	1.4

Source: OFB Tech Private Limited, ICRA research

Key financial indicators – Oxyzo Financial Services Private Limited (standalone)

Amounts in Rs. crore	FY2019	FY2020	H1 FY2021
	Audited	Audited	Provisional
PAT	4.0	21.1	18.1
Net Worth	102.3	318.6	362.0
Assets under Management	361.7	912.0	1,036.3
Total Assets	377.5	964.6	1,132.2
Return on Average Assets	1.7%	3.1%	3.5%
Return on Average Equity	6.4%	10.0%	10.7%
Gearing (times)	2.6	2.0	2.1
CRAR	29.5%	35.1%	34.7%
Gross Stage 3 %	1.0%	0.9%	1.2%
Net Stage 3 %	0.7%	0.3%	0.4%
Net Stage 3/Net Worth %	2.6%	0.8%	1.0%

Source: Oxyzo, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					Nov 12, 2020	-	-	-
1	Fund-based CC	Long Term	200.0	73.78*	[ICRA]BBB+ (Stable)	-	-	-

*Source: ICRA research; Amount in Rs. crore; *Outstanding as on October 25, 2020*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit/ WCDL	NA	8.4%	NA	70.0	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL	NA	9.0%	NA	30.0	[ICRA]BBB+ (Stable)
NA	Cash Credit/ WCDL*	NA	NA*	NA	100.0*	[ICRA]BBB+ (Stable)

*Source: OFB; *unallocated/ yet to be placed*

Analyst Contacts

Karthik Srinivasan
+91-22-6114 3444
karthiks@icraindia.com

Manushree Saggar
+91-124-4545316
manushrees@icraindia.com

Deep Inder Singh
+91-124-4545830
deep.singh@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999