

October 07, 2019

## Oxyzo Financial Services Private Limited: [ICRA]BBB(Stable) rating assigned; earlier ratings reaffirmed

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Non- Convertible Debenture	00.00	20.00	[ICRA]BBB (Stable); assigned
Commercial Paper	15.00	15.00	[ICRA]A2; reaffirmed
Non- Convertible Debenture	40.00	40.00	[ICRA]BBB (Stable); reaffirmed
LT-Market Linked Debenture	17.00	17.00	PP-MLD[ICRA] BBB (Stable); reaffirmed
Long term Bank Lines	50.00	50.00	[ICRA]BBB (Stable); reaffirmed
Issuer rating	0.00	0.00	[ICRA]BBB (Stable); reaffirmed
<b>Total</b>	<b>122.00</b>	<b>142.00</b>	

\*Instrument details are provided in Annexure 1

### Rationale

While arriving at the ratings, ICRA has taken a consolidated view of the credit profiles of OFB Tech Private Limited (OFB) and Oxyzo Financial Services Private Limited (OFSPL), hereafter referred to as the Group, owing to the common management and clientele, shared infrastructure, operational synergies like sourcing and collections, as well as the strategic importance of OFSPL to the Group.

The rating factors in the Group's comfortable capitalisation profile with a consolidated gearing of around 1.2x on a net worth of Rs. 352 crore as on June 30, 2019, which got further strengthened with an equity infusion of Rs. 243 crore at the parent (OFB Tech. Private Limited) in September 2019 leading to total consolidated net worth of Rs. 600 crore as on September 30, 2019. The ratings favourably factor in the company's improved liability profile, given the increased lender base with a large proportion of the incremental borrowings coming from small finance banks and private sector banks. ICRA has also taken note of the company's operational synergies with the parent and the business model, which offers purchase financing by combining lending and procurement as a service. This ensures better end-use monitoring along with an adequate earnings profile despite the nascent stage of operations. On a consolidated basis, the return on average assets (RoA) was 4.1% in Q1 FY2020, supported by good margins and low credit costs.

The ratings are, however, constrained by the limited track record of operations, with OFSPL starting operations in November 2017, and the modest scale with total assets under management (AUM) of Rs. 801 crore as on August 31, 2019. ICRA further takes note of the vulnerability associated with the company's portfolio, given the moderate credit quality of the underlying small and medium enterprise (SME) borrower segment. Nevertheless, the underwriting framework and risk monitoring systems set up by the company, along with its focus on end-use monitoring with the funds going directly to the supplier, mitigate the risk to some extent. Overall, going forward, OFSPL's ability to grow the portfolio while maintaining the asset quality and ensuring a prudent capitalisation level would be a key rating monitorable.

## Key rating drivers

### Credit strengths

**Comfortable capitalisation profile:** The capitalisation profile of the company was comfortable with a gearing of 2.4x on a reported net worth of Rs. 152 crore as on June 30, 2019 (2.5x as on March 31, 2019) supported by an equity infusion of Rs. 45 crore in Q1FY2020. The capitalisation profile on consolidated level was also comfortable with a gearing of around 1.2x on a net worth of Rs. 352 crores as on June 30, 2019. The capitalisation profile got further strengthened with Rs. 243 crore of equity infusion in September 2019, taking the consolidated net worth to Rs. 600 crore and thereby giving visibility in terms of meeting the growth targets. Going forward ICRA expects the group would leverage the capital to grow as per the business plans, however would maintain prudent capitalisation profile supported with regular equity raise at the parent in line with the growth plans.

**Improved diversification in liability profile:** There has been an improvement in the funding mix with the proportion of banks in the overall borrowing profile increasing from 9% as on September 30, 2018 to 48% as on June 30, 2019 along with increase in the lender base from 9 as on September 30, 2018 to 26 as on June 30, 2019. The company has also diversified the borrowing mix to include market instruments like NCDs, Market Linked Debentures and Commercial Papers. Nevertheless, given the growth plans, the company would need to continue to raise debt and diversify the lender base.

**Adequate earning profile despite nascent stages of operations:** The company on a standalone basis generated a return on average assets (ROA) of 2.1% (2.1% in FY2019) and a return on average net worth (ROE) of 7.2% in Q1FY2020 (7.3% in FY2019) supported by a moderation in the operating expenses from 8.3% in FY2019 to 6.4% in Q1FY2020 despite increase in the credit cost in Q1FY2020 with the company migrating to tighter provisioning norms with conversion to a systematically important NBFC. Going forward, the cost of operations could further moderate with improved economies of scale, leading to improved profitability indicators provided the asset quality remains under control. At a consolidated level, the return on average assets of the group stood at 3.52% for Q1FY2020 (3.2% for FY2019) supported by good margins and low credit costs.

### Credit challenges:

**Relatively recent vintage and limited portfolio seasoning:** The Company's business operations are of a recent vintage as it started its operations in November 2017<sup>1</sup> and thus portfolio has limited seasoning; ICRA however notes that a high proportion of business from the repeat customers (where the company already has a track record of prepayments) provides comfort to some extent. ICRA notes that so far, the asset quality indicators for the group have been under control with consolidated gross NPA% of 0.86% as on June 30, 2019; nevertheless, the overall challenges in the operating environment has impacted the credit profile of SME borrowers and the ability of the company to maintain the asset quality through economic cycles is yet to be established.

**Moderate portfolio vulnerability:** The portfolio vulnerability is expected to remain high considering the moderate credit quality of the underlying borrowers with a significant proportion (52% of the overall loan book as on June 30, 2019 at the NBFC and 45% on consolidated basis) of lending in form of unsecured loans to SME borrowers. However, ICRA notes that the company has a granular book (average ticket size reduced from Rs. 59 lakhs as on September 30, 2018 to Rs. 36 lakhs in June 30, 2019) and has set up good underwriting framework along with adequate internal controls and risk management processes, thus mitigating the risk to some extent. Also, relatively short-term nature of the portfolio (with

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<sup>1</sup> The parent OFB Tech has been in the same operations since August 2015 with many of the customers having vintage of more than 2 years and multiple credit cycles.

interest being serviced monthly) and high proportion of business from repeat customers (where company already has a track record of prepayments) has helped the company in keeping the asset quality under control.

### Liquidity Position: Adequate

The liquidity profile of the company is adequate with positive cumulative mismatches in all the ALM buckets within one year supported by the relatively short tenured nature of loans with a total maturity of Rs. 470 crore as against repayments of Rs. 190 crore as on June 30, 2019. Liquidity profile is further supported by the availability of Rs. 80 crore of unencumbered liquid investments as on June 30, 2019 at the parent entity which can be utilized in case of need and Rs. 87<sup>2</sup> crore of sanctioned and unutilized credit lines. The liquidity profile has further improved post the equity infusion of Rs. 243 crore in September 2019.

### Rating sensitivities

**Positive triggers** – Maintaining current asset quality on a sustained basis and a prudent capitalization profile with a consolidated gearing of less than 2.0x and the gearing at the NBFC less than 3.0x on a sustainable basis.

**Negative triggers** – Significant deterioration in the asset quality indicators with consolidated gross NPA% being higher than 2.5% on a sustained basis; which may affect the financial risk profile of the group.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Non-Banking Finance Companies</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	<b>OFB Tech Pvt. Ltd.</b> By virtue of being a wholly owned subsidiary of OFB Tech, there are significant operational and managerial synergies with the parent. Also, there has been demonstrated support in the form of regular capital infusion. ICRA expects the support to be forthcoming going forward as well given the strategic importance of the company, availability of excess capital at the parent level and need for capital likely to remain high for OFSPL.
Consolidation / Standalone	Consolidated <u>with Parent - "OFB Tech Pvt. Ltd."</u>

### About the company:

OXYZO is a non-deposit accepting non-banking financial company ("NBFC") which started its operations in November 2017 and presently provides unsecured and secured purchase finance loans to small and medium enterprises<sup>3</sup> ("SMEs") for financing the purchase of raw materials that is used in their core business. The company is a part of the "OFB Group of Companies" comprising of OFB Tech and Oxyzo Financial Services Private Limited, with OFB Tech being the holding company of Oxyzo Financial Services Private Limited.

The total portfolio of Oxyzo Financial Services Private Limited (OFSPL) stood at Rs. 519 crore as on June 30, 2019 (Rs. 640 crore as on August 31, 2019) as against Rs. 360 crore on March 31, 2019. On the consolidated basis the total AUM of the Group stands at around Rs. 801 crore as on August 31, 2019 as against Rs. 456 crore on March 31, 2019.

<sup>2</sup> Rs. 107 crore of sanctioned and unutilized bank lines are available at the Consolidated Levels.

<sup>3</sup> SMEs are categorized as entities with revenue of Rs. 2-100 crore.

The company reported a PAT of Rs. 2.32 crore in Q1FY2020 on a total asset base of Rs. 542.37 crore as against a PAT of Rs. 4.75 crore on an asset base of Rs. 379.36 crore in FY2019. On consolidated levels the group reported a PAT of Rs. 14.59 crore on a Total Assets base of Rs. 602.98 crores in FY2019 against a PAT of Rs. -0.97<sup>4</sup> crore on a total asset base of Rs. 205.63 crore in FY2018. The net worth of the consolidated entity stood at Rs. 357 crore on August 31, 2019 (Rs. 600 crore post equity infusion in September 2019). On standalone basis the net worth of Oxyzo financial services stood at Rs. 152 crore and a gearing of 2.42x as on June 30, 2019.

#### About OFB Tech Pvt. Ltd.

OFB Tech Pvt. Ltd. (OFB) is the holding company of OFSPL. It provides a platform for raw material fulfilment and marketing services to the SMEs. As on August 31, 2019 the company is majorly held by the promoters and the promoter's group with around 36.52% (42% as on September 30, 2018) of the entire shareholding with the rest being held by Private equity investors like Matrix partners India (19.54%), Creation Investments (18.66%), Zodius technologies (8.85%), Falcon edge (8.78%) and Indiblu investment advisors (1.98%) with the rest 5.66% being held by Angels and the ESOP holders.

On consolidated levels the total Asset under management stood at around Rs. 801 crores as on August 31, 2019. The net worth on consolidated levels stood at around Rs. 600 crores post equity infusion in September 2019. The company has an active base of 1,25,000+ customers availing services across marketing along with raw material procurement coupled with lending. The company has a geographically diversified portfolio with presence in over 14 states.

#### Key financial indicators - Oxyzo Financial Services Private Limited (Standalone)

Amounts in Rs. Crore	FY 2018	FY2019	Q1FY2020
PAT	0.2	4.8	2.3
Net Worth	25.0	105.1	152.4
Assets under management	82.0	358.0	519.0
Total Assets	86.2	379.4	541.8
Total Managed Assets	86.2	379.4	541.8
Return on Average Assets	0.6% <sup>5</sup>	2.0%	2.0%
Return on Average Equity	3.0% <sup>6</sup>	7.3%	7.2%
Gearing (times)	2.3	2.5	2.4
CRAR	30.2%	29.5%	28.3%
Gross NPA %**	0.0%	1.0%	1.1%
Net NPAs%**	0.0%	0.66%	0.48%

Source: Oxyzo Financial Services Private Limited; ICRA Research

\*\* PAR values

<sup>4</sup> This includes the one-time expense of raising the equity, adjusting for the same the PAT of the company stands at around Rs. 5.4 crore.

<sup>5</sup>Adjusted for the beginning of the operations in November 2017, Yearend reported figure is 0.2%

<sup>6</sup>Adjusted for the infusion of equity from November 2017 to March 2018. Yearend reported number would be 0.7%

## Key Financial Indicators – OFB Tech Pvt. Ltd. (Consolidated)

Amounts in Rs. Crore	FY 2018	FY2019	Q1FY2020
PAT	-1.0	15.0	4.93
Net Worth	85.2	277.0	352
Assets under management	192.0	456.0	665
Total Assets	205.6	603	834
Total Managed Assets	205.6	603	834
Return on Average Assets	-0.6%	3.2%	3.52%
Return on Average Equity	-1.1%	8.05%	6.27%
Gearing (times)	1.3	0.6	1.2
Gross NPA%**	0.0%	0.79%	0.86%
Net NPA%**	0.0%	0.52%	0.38%

Source: OFB Tech. Private Limited; ICRA Research

\*\*PAR Values

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	07-Oct-19	FY2019			FY2018	FY2017
						25-Mar-19	08-Jan-19	Dec-18		
1	Issuer Rating	N/A	N/A	N/A	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	N/A	N/A
2	Bank Line Programme	Long Term	50	50	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	N/A	N/A	N/A
3	NCD	Long Term	40	40	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB (Stable)	N/A	N/A	N/A
4	Commercial Paper	Short Term	15	15	[ICRA] A2	[ICRA] A2	[ICRA] A2	N/A	N/A	N/A
5	LT-Market Linked Debenture	Long Term	17	17	PP-MLD[ICRA] BBB (Stable)	PP-MLD[ICRA] BBB (Stable)	N/A	N/A	N/A	N/A
6	NCD (Proposed)	Long Term	20	0	[ICRA] BBB (Stable)	N/A	N/A	N/A	N/A	N/A

Source: ICRA research

### 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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
					(Rs. crore)	
N/A	Issuer Rating	N/A	N/A	N/A	0	[ICRA] BBB (Stable)
N/A	Long Term Bank Line 1	December- 2018	N/A	October-2019	25	[ICRA] BBB (Stable)
N/A	Long Term Bank lines (Proposed)	N/A	N/A	N/A	25	[ICRA] BBB (Stable)
INE04VS07032	NCD	January-2021	N/A	March-2023	10	[ICRA] BBB (Stable)
INE04VS07057	NCD	July-2019	N/A	June-2022	10	[ICRA] BBB (Stable)
INE04VS07065	NCD	July-2019	N/A	Sept-2021	10	[ICRA] BBB (Stable)
INE04VS07073	NCD	July-2019	N/A	July-2021	10	[ICRA] BBB (Stable)
N/A	Commercial Paper	N/A	N/A	7-365 Days	15	[ICRA] A2
INE04VS07040	LT-Market Linked Debenture	February- 2019	N/A	March-2022	17	PP-MLD [ICRA] BBB (Stable)

Source: Oxyzo Financial Services Private Limited

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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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