

## Rating Rationale

December 28, 2022 | Mumbai

### Oxyzo Financial Services Private Limited

*Rating continues on 'Watch Developing'*

#### Rating Action

Total Bank Loan Facilities Rated	Rs.800 Crore
Long Term Rating	CRISIL A/Watch Developing (Continues on 'Rating Watch with Developing Implications')

Rs.100 Crore Long Term Principal Protected Market Linked Debentures	CRISIL PPMLD A r /Watch Developing (Continues on 'Rating Watch with Developing Implications')
Rs.100 Crore Non Convertible Debentures	CRISIL A/Watch Developing (Continues on 'Rating Watch with Developing Implications')

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*

*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings continues its ratings on the long term debt instruments of Oxyzo Financial Services Private Limited (Oxyzo Finance; part of OFB Tech Pvt Ltd (OFB group)) on **'Rating Watch with Developing Implications'**. Oxyzo Finance is a subsidiary of OFB Tech Pvt Ltd (OFB Tech), together referred to as the OFB group. Currently, CRISIL Ratings follows a consolidated approach to arrive at the ratings of Oxyzo Finance on account of common management, business synergies and financial linkages.

The ratings were placed on watch in May 2022 following the bolstering of network for OFB Tech after having raised around Rs 4576 crore of equity in fiscal 2022. Over Rs 1000 crore of the network has been utilized for acquisition of about 13 companies that would be of value addition for the products catered by OFB Tech to its customers. CRISIL Ratings also understands that OFB Tech is in process of evaluation of additional product synergistic acquisitions over the near to medium term. Additionally, Oxyzo Finance, which was a 100% owned subsidiary of OFB Tech, had directly raised equity capital of Rs 1578.16 crore in fiscal 2022 and H1 of fiscal 2023, resulting in reduction of OFB Tech's stake (including promoters) to about 80%. Further CRISIL Ratings also understands that the operational interdependence for Oxyzo Finance on OFB Tech has reduced to about 20% of the incremental business generated by end of fiscal 2022 as compared to over 35-40% during fiscal 2021.

Ratings continue on Watch with developing implications as some details around the acquired companies by OFB tech are still pending to evaluate the consolidated financials. Clarity regarding current fiscal's year-till-date performance is also pending. CRISIL Ratings will engage with the management to understand their future business strategy around deployment of equity capital and its implications on the business and financial profiles of the group. With the dilution of equity stake in Oxyzo Finance and plans to convert into a full financial services provider, CRISIL Ratings will also engage with the

management to understand the expected linkages of Oxyzo Finance with OFB group, the future business plan for the NBFC and evaluate the analytical approach for arriving at the ratings of Oxyzo Finance. Consequently, the ratings continue on watch with developing implications.

**Analytical Approach**

Currently, CRISIL Ratings has evaluated the credit risk profile of both OFB Tech and Oxyzo Finance referred to as OFB group at consolidated level on account of common management, business synergies and financial linkages.

*Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.*

**Key Rating Drivers & Detailed Description**

**Strengths:**

- **Strong synergies and risk protection mechanisms ensuring good asset quality management**

OFB group has built its book with focus on risk protection mechanisms along with underwriting practices. As on Mar-19, the BG/LC backed loan book / receivables was at just 29% and 37% for Oxyzo and OFB Tech, respectively. However, over the years, Oxyzo Finance has increased it to over 70% in Oxyzo Finance as on September 30, 2022. Apart from BG, in Oxyzo Finance, around 5% of the portfolio is fully secured through property, machinery, charge on current & fixed assets and future receivables. The consolidated portfolio backed by BG/LC is expected to be at 65-70% level on steady state basis. Consequently, 90+dpd of the portfolio backed by BG has remained low at 0.1% as on September 30, 2022.

OFB group through its business model has created one stop solution for B2B SMEs through which it provides multiple services i.e. procurement of raw material, financing for procuring raw material and business development opportunities. OFB Tech is engaged in selling raw materials to SMEs. Oxyzo Finance through its prime product called purchase financing provides financing solution to SMEs for buying raw material wherein it directly transfers the funds to supplier, therefore, ensuring high control over end usage of funds. The group has one more platform called “BidAssist” which enlists all the outstanding tenders on a daily basis from where SMEs can choose relevant tenders and increase their business. Around 35+ lakh users actively look for tender information on BidAssist which additionally acts as one of the lead acquisition channels for OFB Tech and Oxyzo. Therefore, through its business model, the group has created multiple touch points with SMEs which helps it to find early warning signals at both individual borrowers and sector level.

Additionally, OFB Tech does not hold any inventory as 100% of its sales are order-backed; the minimal inventory which appears on the books is on account of inventory in transit. This protects company against any price volatility risk and inventory risk. Furthermore, as the company is trading in multiple product categories like industrial steel, infra steel, cement/RMC, polymers, petroleum derivatives, non-ferrous metals, industrial chemicals, building material, pipes, non-perishable agro commodities, etc. and also catering to clients from different sectors, hence it is not exposed to downturn in any particular industry. OFB Tech also gives unsecured credit to only good quality customers having long track record.

CRISIL Ratings understands that OFB Tech has done acquisition of 13 companies in fiscal 2022 that would bring value addition in the supply chain and would help them to increase their existing margins in the business and increase their product suite for the customers.

Having control over end usage of funds, along with a cap of ticket size on unsecured lending has ensured comfortable performance of asset quality even for unsecured purchase financing in Oxyzo Finance. The GNPA for unsecured purchase financing book stood at 1.6% as on September 30, 2022 as compared to 2.8% as on March 31, 2021. Furthermore, through its early warning signals and market intelligence owing to its business model, the group identified the key focused sectors amidst weak macro-economic environment which helped it to maintain good asset quality along with increasing the proportion of secured portfolio. All these factors have led to the group showing resilience even during pandemic year with it facing minimum asset quality challenges.

Oxyzo Finance also has unsecured long-term financing book constituting around ~3% of total portfolio as on September 30, 2022. However, the group is trying to de-grow this book as it is not the focus area owing to limited control over end usage of funds, low engagement with the customer and relatively low asset quality than other products.

Consequently, total 90+ dpd of Oxyzo Finance stood at 0.5% as on September 30, 2022 as compared to 0.7% as on March 31, 2022. These further showcase the good performance of the asset quality even during pandemic year. Having said that, as the portfolio scales up with new customer acquisitions and geographical expansion, the ability to maintain asset quality will remain a key monitorable.

- **Healthy ramp-up in scale of operations for OFB Tech**

There has been a healthy scale up in revenue for OFB Tech since the company's incorporation in Aug-2015: operating income has grown at a healthy compound-annual-growth-rate (CAGR) of 103% over the last five fiscals ended 2022; operating income was Rs 6403 crore (standalone) in fiscal 2022 as against Rs 186 crore in fiscal 2017 (operating income was Rs 7140 crore in fiscal 2022 at a consolidated level). The healthy growth has been driven by addition of products, expansion to newer geographies supporting addition of new customers, and higher volume sold to existing customers. Over the last three years, the company has successfully been able to add more products/SKUs to its portfolio and offer value added services to its clients. OFB Tech currently trades in around 27 SKUs including industrial steel, cement/RMC, polymers, petroleum derivatives, non-ferrous metals, industrial chemicals, building material, pipes, non-perishable agro commodities, etc. The company has signed MoUs and procures material from reputed OEMs in the said segments. Company has continued to diversify from north India to newer geographies in the west and south, which has helped add new customers gradually. Furthermore, company has also diversified horizontally, wherein it has started supplying different category of products to the same final customers.

- **Strong capitalisation metrics**

Capitalisation metrics are comfortable supported by regular capital infusion. The group has raised about Rs 6761 crore of equity since inception from a diverse set of sources such as private equity players, promoters and high networth individuals (HNIs) till March 2022 of which Rs 5370 crore was raised in OFB Tech and Rs 1421 has been raised in Oxyzo Finance. Consequently, the networth of OFB Tech stood at 5536.3 crore (standalone level) as on Mar 31, 2022 while Oxyzo Finance reported a networth of Rs 1392 crore as on March 31, 2022 and further to Rs 2192 crores as on September 30, 2022.

Adjusted gearing was comfortable at 0.5 time for the group as on March 31, 2022. At a standalone level, adjusted gearing was comfortable at 0.06 time for OFB Tech as on March 31, 2022 and 0.9 times for Oxyzo Finance, as on September 30, 2022. Gearing and TOL/TNW have remained sub-1 time in the past.

The adjusted gearing is expected to remain under 4 times at Oxyzo Finance level, 2 times at group level and under 1 time at OFB Tech level on a steady state basis. Furthermore, the group raised additional equity of Rs 1379 crore in January 2022 in OFB Tech and Rs 1421 crore in March 2022 and April 2022 in Oxyzo Finance. This has further boosted the networth of the group. CRISIL Ratings expects gearing to be maintained supported by regular capital raise and accretion of profits thus providing a cushion against asset-side risks.

- **Adequate earnings profile during initial stage of operations itself**

At consolidated level, the group turned profitable in fiscal 2019 and has been profitable since then, earning healthy return on managed assets (RoMA). RoMA at consolidated level was around 4.4% for fiscal 2022 as compared to 2.6% in fiscal 2021.

Oxyzo Finance has been making profits since inception. While in the initial stages, the earnings profile was constrained by operating expenses, the same has improved to 2.4% in fiscal 2022 (stable for the first half ended September 30, 2022) from 8.3% in fiscal 2019 thereby supporting the earnings profile. Additionally lower borrowing costs as well as controlled credit costs have resulted in ROMA improving to 4.4% (annualized) for the first half ended September 30, 2022 as against 2.7% for fiscal 2022.

At standalone level, as OFB Tech is engaged in trading business, the operating margin is modest; however the same has improved over the last four fiscals ended 2021. Company's operating margin turned positive in fiscal 2018. The operating margin was 3% in fiscal 2021 and fiscal 2020. The operating margin has been supported by improved pricing (supported by stronger aggregation volumes across limited set of direct manufacturers & suppliers and MoU benefits) and by the

interest income from customers for credit sales. The operating margin however moderated to 1.4% during FY22 due to higher revenue share from agro-commodities segment which is relatively lower margin segment. However, with increasing revenue share from industrial goods segment, the operating margin is expected to gradually rebound to previous levels. Debt protection metrics are comfortable, with interest cover and net cash accruals to adjusted debt of 5.1 times and 0.43 time, respectively in fiscal 2022.

Earnings profile of the group has been supported by decreasing operating expenses owing to operating leverage kicking in with scale and controlled credit costs. Having said that, the ability to keep the credit cost under control as the portfolio scales further up along with maintaining adequate NIMs with competition expected to come in will remain key monitorables.

#### **Weaknesses:**

- **Ability to profitably scale up operations with high pace of growth**

OFB Tech has significantly scaled up its operations over the last 2 years, especially during the last nine months of fiscal 2022. Operating income has grown by ~360% in fiscal 2022 over previous year. The monthly revenue has been on an increasing trend. OFB Tech has also forward integrated partially in order to provide value addition to its customers. The company has plans to further increase its trading volumes by ~300% in fiscal 2023 too. In light of the same, CRISIL Ratings believes that a sharp scale up of operations may bring it with attendant operational risk challenges linked to product quality, debtor management etc. Furthermore, there has been consistent capital infusion by marquee investors and the same is expected to continue to support the business risk profile going forward. OFB Tech has raised around Rs 4576 crore of equity in fiscal 2022. Of this, over Rs 1000 crore has been utilized for acquisition of about 13 companies that would be of value addition for the products catered by OFB Tech to its customers. Hence, the sustenance of offtake of business from the newly acquired companies, the future business strategy around deployment of equity capital, growth plans, foray into new business segments, integration in supply chain and its implications on the business and financial profiles of the group will remain key rating monitorables.

- **Inherent vulnerability of the asset quality metrics for the unsecured lending portfolio for the group**

The focus of OFB group has been to grow the AUM with significant share of secured exposures in the medium term. However, around 24% of the consolidated AUM comprises of unsecured<sup>[1]</sup> loans. Given the fact that the scale up happened recently, the track record of the lending operations is limited. While the performance in unsecured purchase financing was marginally impacted with GNPA being at 4.7% as on Mar-20, the same has improved to 1.6% as on September 30, 2022. Hence, owing to limited track record of operations, the performance on asset quality of unsecured loans remain a key monitorable.

- **Moderately large working capital requirement and exposure to competition for trading operations**

OFB Tech has moderately large working capital requirements as reflected in gross current assets of 87 days (~76 days net off cash) as on March 31, 2022, largely driven by debtors of 53 days (debtor days are calculated against net sales i.e. excluding GST). However, 55-75% of the company's debtors are secured by LC/BG. Also, the product categories that company trades are currently dominated by fragmented distributors and they remain exposed to intense competition. OFB Tech, however, has presence across multiple brands and products, and offers additional services to its customers which can be a competitive edge.

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<sup>[1]</sup> Unsecured includes Unsecured long-term loans, unsecured purchase financing loans, semi-secured loans with 20% FLDG and unsecured trade receivables

#### **Liquidity: Strong**

As on September 30, 2022, the asset-liability maturity profile of Oxyzo Finance was comfortable with positive cumulative gaps in the up to one-year bucket. As on November 30, 2022, Oxyzo had adequate liquidity balance of Rs 1220 crore. This balance, without factoring in any further collections or accretions, covers the estimated debt outflow for 6 months of Rs 1169 crores.

#### **Rating Sensitivity factors**

##### **Upward Factors**

- Asset quality remaining comfortable with GNPA remaining under 2.0% as the portfolio scales up
- Substantial ramp up in operations with earnings and capitalisation metrics continuing to remain comfortable

### Downward Factors

- Any adverse movement in asset quality with GNPA increasing beyond 4% and earnings profile of the group getting impacted
- Reduction in share of secured BG / LC backed assets under management from desired level
- Any steep decline in revenue and an operating margin below 2% or sizeable provision for bad debts
- Stress in capitalisation metrics with significant jump in adjusted gearing while scaling up the portfolio

### About the Company: - Oxyzo Finance Pvt Ltd.

Oxyzo Finance 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. Additionally, small proportion of portfolio also included secured and unsecured long-term financing to SMEs. The company is a subsidiary of OFB Tech Pvt Ltd and operates as a branch-based hub and spoke model with presence across 70+ industrial clusters in 15 states.

### OFB Tech Pvt Ltd

OFB Tech Private Limited (OFB), incorporated on 24th August 2015, is engaged in trading of products like steel, cement, polymer, etc. and catering to SME centric B2B business entities and corporates. It is also the parent company of the group having a brand name “Ofbusiness”. The group is a technology-enabled SME focussed services platform which combines services such as product fulfilment and new growth opportunities along with lending in the manufacturing and contracting SME segment. The Group is backed by private equity investors including Matrix Partners India, Creation Capital, Zodius Capital, Falcon Edge, and Norwest Venture Partners. As on March 31, 2022, promoters held around 27.37% with rest primarily being held by private equity investors.

### Key Financial Indicators: Oxyzo Finance (Standalone)

Particulars	Unit	Sep-22	Mar-22^	Mar-21^
Total Assets	Rs crore	4270	3439	1645
Advances	Rs crore	3329	2540	1384
Total Income	Rs crore	248	313	198
Profit After Tax (PAT)	Rs crore	85	69	40
GNPA	%	1.0	1.0	1.2
Adjusted gearing	Times	0.9	1.4	2.6
Return on managed assets	Times	4.4*	2.7	3.2

^IND-AS

^^/-GAAP

\*Annualised

### OFB Tech - (Consolidated)

Particulars	Unit	Dec-21^	Mar-21^	Mar-20^
Total Assets	Rs crore	6187	3116	1445
Advances	Rs crore	2014	1384	901
Trade receivables	Rs crore	793	349	277
Total Income**	Rs crore	341	283	187
Profit After Tax (PAT)	Rs crore	118	60	32
GNPA (NBFC)	%	1.6	1.2	0.9
Adjusted gearing	Times	0.5	1.7	1.3
Return on managed assets	Times	3.4*	2.6	3.2

^IND-AS

^^/-GAAP

\*Annualised

\*\*Includes Revenue from sale of products – Purchase of stock-in trade-Transport and other direct costs-Change in inventories for stock in trade

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users may also call the Customer Service Helpdesk with queries on specific instruments.

**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs. Cr)	Complexity Level	Rating outstanding
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	12.62	NA	CRISIL A/Watch Developing
NA	Non Convertible Debentures^	NA	NA	NA	0.1	Simple	CRISIL A/Watch Developing
INE04VS07248	Non Convertible Debentures	28-Jun-21	11.24%	27-Jun-25	51.9	Simple	CRISIL A/Watch Developing
INE04VS07255	Non Convertible Debentures	22-Jul-21	REPO RATE + SPREAD	22-Jul-23	48	Simple	CRISIL A/Watch Developing
NA	Long Term Principal Protected Market Linked Debentures^	NA	NA	NA	43	Highly complex	CRISIL PPMLD A r/Watch Developing
INE04VS07222	Long Term Principal Protected Market Linked Debentures	16-Jun-21	G-SEC LINKED	17-Oct-22	11	Highly complex	CRISIL PPMLD A r/Watch Developing
INE04VS07230	Long Term Principal Protected Market Linked Debentures	16-Jun-21	G-SEC LINKED	16-Feb-23	11	Highly complex	CRISIL PPMLD A r/Watch Developing
INE04VS07263	Long Term Principal Protected Market Linked Debentures	24-Sep-21	G-SEC LINKED	24-Sep-23	35	Highly complex	CRISIL PPMLD A r/Watch Developing

NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	10	NA	CRISIL A/Watch Developing
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	30	NA	CRISIL A/Watch Developing
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	2	NA	CRISIL A/Watch Developing
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	25	NA	CRISIL A/Watch Developing
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	45	NA	CRISIL A/Watch Developing
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	75	NA	CRISIL A/Watch Developing
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	150	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	30-Dec-23	20	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	24-Dec-23	41.25	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	09-Dec-23	60	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	30-Nov-25	105.42	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	16-Dec-24	14.5	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	24-Nov-23	12.59	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	01-Dec-24	45.7	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	22-Sep-24	110.84	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	22-Sep-23	22.58	NA	CRISIL A/Watch Developing
NA	Term Loan	NA	NA	26-Jul-23	17.5	NA	CRISIL A/Watch Developing

^Yet to be issued

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
OFB Tech Pvt Ltd*	Full	Parent
OFG Manufacturing Business Private Limited	Full	Subsidiary of the same parent

\*excluding the acquired entities where financials are awaited

Annexure - Rating History for last 3 Years

	Current	2022 (History)	2021	2020	2019	Start of 2019
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Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund Based Facilities</b>	LT	800.0	CRISIL A/Watch Developing	29-09-22	CRISIL A/Watch Developing	06-05-21	CRISIL A/Stable		--		--	--
			--	05-05-22	CRISIL A/Watch Developing		--		--		--	--
			--	08-03-22	CRISIL A/Stable		--		--		--	--
<b>Non Convertible Debentures</b>	LT	100.0	CRISIL A/Watch Developing	29-09-22	CRISIL A/Watch Developing	06-05-21	CRISIL A/Stable		--		--	--
			--	05-05-22	CRISIL A/Watch Developing		--		--		--	--
			--	08-03-22	CRISIL A/Stable		--		--		--	--
<b>Long Term Principal Protected Market Linked Debentures</b>	LT	100.0	CRISIL PPMLD A r /Watch Developing	29-09-22	CRISIL PPMLD A r /Watch Developing	06-05-21	CRISIL PPMLD A r /Stable		--		--	--
			--	05-05-22	CRISIL PPMLD A r /Watch Developing		--		--		--	--
			--	08-03-22	CRISIL PPMLD A r /Stable		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit & Working Capital Demand Loan	150	Kotak Mahindra Bank Limited	CRISIL A/Watch Developing
Cash Credit & Working Capital Demand Loan	10	IDBI Bank Limited	CRISIL A/Watch Developing
Cash Credit & Working Capital Demand Loan	30	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A/Watch Developing
Cash Credit & Working Capital Demand Loan	2	Axis Bank Limited	CRISIL A/Watch Developing
Cash Credit & Working Capital Demand Loan	25	RBL Bank Limited	CRISIL A/Watch Developing
Cash Credit & Working Capital Demand Loan	45	IndusInd Bank Limited	CRISIL A/Watch Developing
Cash Credit & Working Capital Demand Loan	75	IDFC FIRST Bank Limited	CRISIL A/Watch Developing
Proposed Long Term Bank Loan Facility	12.62	Not Applicable	CRISIL A/Watch Developing



Term Loan	20	SBM Bank (India) Limited	CRISIL A/Watch Developing
Term Loan	41.25	AU Small Finance Bank Limited	CRISIL A/Watch Developing
Term Loan	60	The Federal Bank Limited	CRISIL A/Watch Developing
Term Loan	105.42	Bandhan Bank Limited	CRISIL A/Watch Developing
Term Loan	14.5	IDBI Bank Limited	CRISIL A/Watch Developing
Term Loan	12.59	Suryoday Small Finance Bank Limited	CRISIL A/Watch Developing
Term Loan	45.7	Axis Bank Limited	CRISIL A/Watch Developing
Term Loan	110.84	IDFC FIRST Bank Limited	CRISIL A/Watch Developing
Term Loan	22.58	Utkarsh Small Finance Bank Limited	CRISIL A/Watch Developing
Term Loan	17.5	Ujjivan Small Finance Bank Limited	CRISIL A/Watch Developing

*This Annexure has been updated on 28-Dec-22 in line with the lender-wise facility details as on 07-Mar-22 received from the rated entity.*

## Criteria Details

Links to related criteria
<a href="#">Rating Criteria for Finance Companies</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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