GCR
RATINGS

CREDIT RATING ANNOUNCEMENT

GCR affirms DLM Capital Group Limited's national scale issuer ratings of BBB-$_{(NG)}$/A3$_{(NG)}$ respectively; Outlook Stable

Rating action

Lagos, 31 October 2024 - GCR Ratings (GCR) has affirmed DLM Capital Group Limited's national scale long-term and short-term issuer ratings of BBB-$_{(NG)}$ and A3$_{(NG)}$ respectively, with a Stable Outlook.

Rated entity	Rating class	Rating scale	Rating	Outlook
DLM Capital Group Limited	Long Term Issuer	National	BBB-$_{(NG)}$	Stable
	Short Term Issuer	National	A3$_{(NG)}$	

Rating rationale

The ratings on DLM Capital Group Limited (DLM or the parent) are hinged on the creditworthiness of the parent company and its seven subsidiaries: Links Microfinance Bank Limited, Citihomes Finance Company Limited, DLM Trust Company Limited, DLM Asset Management Limited, DLM Securities Limited, DLM Advisory Limited and DLM FX Trading Limited, collectively referred to as "the group". The ratings affirmation reflects the group's good capitalisation metrics, adequate liquidity, concentrated funding base, modest competitive position, and an intermediate risk assessment.

DLM operates a diversified business model that entrenches various operations within the Nigerian capital market and financial services. However, the group's modest competitive position reflects the relatively low market share but evolving operations of its subsidiaries across the various sub-segments. DLM continues to build a digital footprint across all key subsidiaries, particularly through its microfinance subsidiary which has gained traction since its acquisition in 2021 with plans for further growth through the imminent license upgrade via recapitalisation. Additionally, the planned launch of new funds by the asset management subsidiary could support growth and the group's competitive position over the short to medium term. Operating revenues have grown over the years, registering a 3-year CAGR of 75.9% in 2023. Furthermore, the group's ROA and ROE remain sound at 5.2% and 21.2% respectively as of July 2024 (December 2023: 9.9%; 39.0% respectively).

Although sustainability assessment is neutral to the rating, we noted the likely overriding influence of the major shareholder and the Group Chief Executive Officer who also chairs the boards of most of the subsidiaries within the group. However, this is somewhat balanced by independent directors on the board.

DLM's capital and leverage remain positive to the ratings, underpinned by the group's capital level growing largely in tandem with the total assets. Consequently, the GCR financial leverage ratio (measured as GCR core capital to total on-balance sheet assets less cash) was relatively stable at 22.7% as of 31 July 2024 (December 2023: 23.2%) and expected to remain above 20% over the next 12-18 months. Additionally, the successful recapitalisation of Links MFB could positively impact our assessment of capital and leverage.

DLM's risk profile is considered intermediate and a slight negative to the ratings. The loan exposures of NGN6.4 billion (USD4.0 million) as of 31 July 2024 comprise retail credits and structured finance facilities to selected medium and large corporates. The structured finance facilities are held as investment securities on balance sheet and are accounted for on an amortised basis. As of 31 December 2023, the group's asset quality metrics compare favourably with peers, with the non-performing loan (NPL) ratio and credit loss ratio registered at 2.3% (December 2022: 2.3%) and 3.5% (December 2022: 1.7%) respectively. Loan loss reserve coverage of non-performing loans was sufficient at 550.3% as of 31 December 2023 (December 2022: 102.9%) and collateral cover for the loan book remains adequate. However, obligor concentration exists in the loan portfolio, with the top 20 largest exposures accounting for 54.8% of gross loans and advances as of 31 December 2023, largely constituting the structured finance facilities. Sectorial distribution of the loan book reflects increased dominance by the public sector at 35.1% of gross loans as of 31 December 2023, largely attributed to increased disbursements of payroll loans which are usually collected through salary deduction at source by leveraging the Integrated Payroll and Personnel Information System (IPPIS) platform. We expect DLM's risk profile to remain stable despite anticipated growth in the loan portfolio over the next 12-18 months.

DLM is largely funded by purchased deposits and commercial papers issued in the debt capital market. The group's funding base increased by 16.4% to NGN32.6 billion as of July 2024 (December 2023: NGN28.0 billion; December 2022: NGN15.2 billion), reflecting the growth in purchased deposits and commercial papers issued. However, concentration in the depositors' base is noted as the top 20 depositors accounted for 45.8% of total funding as of 31 December 2023 (December 2022: 50.5%). Liquidity remains adequate, with the GCR liquid assets to customers deposits registering at 59.2% as of July 2024 (December 2023: 56.7%; December 2022: 35.3%). In addition, liquidity is supported by a committed line of credit with a bank at c. NGN5.1 billion as of June 2024. Over the rating horizon, we expect DLM's funding base to remain moderately diversified and stable with liquidity coverage ratios remaining adequate.

Outlook statement

The stable outlook reflects our expectation that DLM will continue to grow and diversify operations. Additionally, we expect the GCR leverage ratio to be sustained at over 20% over the next 12-18 months, predicated on good internal capital generation and the planned recapitalisation of the microfinance subsidiary. The funding structure could improve on account of an expanded business, supporting liquidity over the outlook period. While we do not envisage a significant change in the group's risk profile, the fragile macroeconomic may result in higher NPLS and credit losses.

Rating triggers

A rating upgrade could be triggered by a significant improvement in the competitive position supported by the growth in subsidiaries, while maintaining the GCR leverage ratio above 20% and the liquidity metrics at sound levels. Furthermore, diversification in the funding base could be positively considered. Conversely, the ratings could be downgraded should the GCR leverage ratio fall below 20%. Additionally, negative rating action could result from a significant deterioration in asset quality metrics, such that the NPL ratio and credit loss ratio register above 5% and 3% respectively.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Financial Institutions, May 2024
GCR Ratings Scale, Symbols & Definitions, May 2023
GCR Country Risk Scores, August 2024
GCR Financial Institutions Sector Risk Score, August 2024

Ratings history

DLM Capital Group Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	BBB-(NG)	Stable	November 2022
Short Term issuer	Initial	National	A3(NG)		--
Long Term issuer	Last	National	BBB-(NG)	Stable	October 2023
Short Term issuer	Last	National	A3(NG)		--

Risk score summary

Rating Components & Factors	Score
Operating environment	**6.00**
Country risk score	3.50
Sector risk score	2.50
Business profile	**(2.25)**
Competitive position	(2.25)
Sustainability	0.00
Financial profile	**2.25**
Capital and Leverage	2.75
Risk	(0.25)
Funding and Liquidity	(0.25)
Comparative profile	**0.00**
Group support	0.00
Peer comparison	0.00
Total Risk Score	**6.00**

Glossary

Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Commercial Paper	Commercial paper is a negotiable instrument with a maturity of less than one year.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Financial Leverage	The degree to which a company uses debt and equity in its capital structure.
Insurance	Provides protection against a possible eventuality.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.

Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Rating Horizon	The rating outlook period
Retention	The net amount of risk the ceding company keeps for its own account.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securities	Various instruments used in the capital market to raise funds.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.

Salient points of accorded rating

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited financial statement as of 31 December 2023
- Unaudited management account as of July 2024
- Other relevant information
- Exchange rate source: Central Bank of Nigeria USD1.00= NGN1,611.21 (31 July 2024); USD1.00 = NGN899.39 (31 December 2023)

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