Fast Credit Limited

Final Rating Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

Fast Credit Limited

Rating:

Bbb

Outlook: Stable
Issue Date: 13 Feb 2023
Expiry Date: 30 Jun 2023
Previous Rating: N/A

Industry:
Finance House

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RATING RATIONALE

Agusto & Co. hereby assigns a **"Bbb"** rating to Fast Credit Limited ("Fast Credit", "FCL" or "the Company"). The rating is supported by Fast Credit's good profitability, adequate capitalisation, competent and experienced management team and granular payroll-deductible or cash-backed loan book. However, the rating is constrained by the concentration in the loan book to the public sector, aggressive loan book growth, concentration in funding, funding mismatch and reliance on expensive purchased funds. We have also considered the impact of the weak macroeconomic fundamentals on FCL's business.

Fast Credit is licensed to operate as a finance company by the Central Bank of Nigeria (CBN). FCL provides micro credit to private and public sector employees on cash backed or payroll deductible basis. As at 31 December 2021, Fast Credit had total assets of ₦11.9 billion and gross loans and advances of ₦6.78 billion. Exposures to public sector employees constituted 91% of FCL's loan book (FGN MDAs: 91%, state government MDAs: 9%) while the balance of 9% comprised exposures to private sector employees, which were largely cash backed up to 1.2x. The Company had significant concentration to the Nigerian Police Force (NPF) in particular, with force members accounting for 79% of the portfolio. In our view, the considerable concentration to FGN employees leaves Fast Credit susceptible to defaults from delays in salary payment given the weak finances of government. However, we note that FCL focuses on uniformed personnel, whose salaries are prioritised by the FGN. The loans were well diversified by obligors, with the top 20 borrowers accounting for less than 5% of the portfolio, which was in line with our expectation for a consumer lender.

As at 31 December 2021, Fast Credit had non-performing loans (NPLs) of ₦474 million, which represented a 46% increase from ₦325 million in the prior year despite write-offs totalling ₦275 million in the review period. FCL's NPLs to gross loans ratio thus deteriorated to 7% (2020: 6.4%), which was above our benchmark of 5% for finance companies and compared unfavourably to peer Credit Direct Limited's ("Credit Direct") 6.5% for the same period. When we include the write-offs, the NPL ratio rises significantly above our benchmark to 11%. However, we note that the bulk of the NPLs written off comprised discontinued legacy SME loan products. The cumulative loan loss provision covered 96% of non-performing loans, with the portion not provided for equalling 1.2% of the Company's shareholder's funds, which is low in our view. We expect the NPL ratio to record some deterioration in the near to medium term as Fast Credit drives exposure to riskier private sector payroll loans, consumer lending and SME financing.

During the 2021 financial year, FCL generated net earnings of ₦2.88 billion and a profit before tax of ₦1.6 billion, which translated to pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 15.1% and 123% respectively. The Company's ROE due to low capital was significantly higher than Credit Direct's 40.3% in the same period. Based on unaudited accounts for the first 11 months of 2022, pre-tax profit was ₦1.78 billion, which represented 80% of the year-to-date budget and annualised ROA and ROE were in line with our expectations at 14.8% and 100.6% respectively. We expect profitability indicators to remain relatively stable in the near term upheld by wide margins.

As at 31 December 2021, Fast Credit had shareholders' funds of ₦1.57 billion, which was significantly higher than the minimum regulatory requirement of ₦100 million for finance companies. FCL had a Basel II Capital Adequacy Ratio (CAR) of 18.8%, which was in compliance with the CBN's minimum threshold of 12.5% for finance companies. When we subject capital to a stress test, the adjusted capital to risk-weighted assets ratio declined to 15.5% while adjusted capital to total loans stood at 6 times which is acceptable in our view. The Company had a debt to equity ratio of 6.98x, which was below the CBN threshold of 10x for finance companies but significantly above peer Credit Direct's 2.61x. We expect the debt to equity ratio to rise moderately in the near term but remain within the regulatory threshold as Fast Credit seeks to issue additional debt in the first quarter of 2023.

Fast Credit primarily (86.8%) funds total assets with liabilities, which largely comprised borrowings in the form of short-term unsecured investment notes issued to individuals and institutional investors. As at 31 December 2021, the Company had borrowings of ₦9.37 billion, which funded 78.6% of total assets and comprised investments from large corporates (72%), retail clients (24%) and commercial entities (3%). In 2021, FCL recorded a weighted average cost of funds (WACF) of 16.1%, which was notably higher than Credit Direct's 13.4%. We expect Fast Credit's WACF to rise moderately in the near term given the upward trend in interest rates. There was considerable concentration in the Company's funding base, with the five largest investors accounting for 76% of borrowings and funding a sizeable 60% of total assets. In our view, this level of concentration leaves Fast Credit susceptible to a significant gap in the event that large investors withdraw funds. A gap analysis showed a maturity mismatch as borrowings were insufficient to fund the risk assets in the 'above one-year' maturity bucket, which resulted in a cumulative funding gap of ₦2.9 billion. We believe that this leaves FCL highly vulnerable to repricing risk.

As at 31 December 2021, Fast Credit had liquid assets of ₦4.5 billion comprising FGN securities (50.5%), money market placement (47.6%) and bank balances (1.9%). Consequently, FCL's liquidity ratio of 48% compared favourably to peer Credit Direct's 15%. The Company had ₦1.99 billion in overdraft lines to provide a funding buffer and had drawn down ₦1.4 billion of the lines as at 30 November 2022.

Table 1: Financial Data for Fast Credit

	31 December 2021	31 December 2020
Total Assets	₦11.9 billion	₦10.2 billion
Net Earnings	₦2.8 billion	₦1.6 billion
Pre-tax return on average assets	15.1%	14.9%
Pre-tax return on average equity	123%	128.7%

Strengths

- Good profitability
- Adequate capitalisation
- Competent and experienced management team
- Granular payroll-deductible or cash-backed loan book

Weaknesses

- Aggresive loan book growth
- Considerable concentration to the public sector in loans
- Concentration and mismatch in funding
- Reliance on expensive purchased funds

Challenges

- Intense competition from banks and other NBFIs who have ventured into the consumer lending space
- Sustaining performance in the challenging economic climate
- Improving asset quality in the adverse business environment

COMPANY PROFILE

Fast Credit Limited ("Fast Credit", "FCL" or "the Company") was incorporated in August 2014 as a private limited liability company. The Company executed a transfer agreement and acquired Imperial Finance and Securities Limited's Central Bank of Nigeria ("CBN") licence to operate as a finance company in December 2014. As at 30 November 2022, FCL was owned by Sienna Woodford Limited (67.2%), Prime Holdings LLC (27.6%) and six other shareholders with stakes of less than 5%.

Fast Credit provides salary-based micro credit to private and public sector employees on cash backed or payroll deductible basis. The Company also provides high-yield investment products to individuals and institutional investors. FCL's head office is situated at Wings B, Motorways Complex Alausa, Ikeja, Lagos. Fast Credit has seven other operating locations in the Federal Capital Territory (FCT) and South West of Nigeria.

FCL is governed by a seven-member Board of Directors ("the Board"), which is chaired by Mr. Tunde Titilayo while the day-to-day operations are led by Mr. Emeka Iloelunachi, who is the Managing Director/CEO. Fast Credit had an average staff strength of 158 employees during the financial year ended 31 December 2021.

Table 2: Board of Directors

Directors	Position	Shareholding (Direct & Indirect)
Tunde Titilayo	Chairman	95%
Emeka Iloelunachi	Managing Director/CEO	-
Tolulope Osunsanya	Non-Executive Director	0.52%
Oyedotun Oyedeji	Non-Executive Director (Independent)	-
Stella Okuzu	Non-Executive Director	-
Funso Sobande	Non-Executive Director	-
Tumi Tiyamiyu	Non-Executive Director	-

Source: Fast Credit Limited

Business Structure

Fast Credit has ten core departments: Finance, Human Resources & Admin, Compliance & Internal Control, Fintech & Innovation, Operations & Transactional Service, Risk Management, Liability/Treasury Management, Corporate Brand, Sales and Internal Audit. The heads of Operations, Liability/Treasury Management, Corporate Brand and Risk Management are supervised by the Chief Operating Officer, who in turn reports to the Managing Director. The head of Internal Audit reports directly to the Board, with a dotted reporting line to the Managing Director. The heads of all other core functions report directly to the Managing Director. The Risk Management and Compliance & Internal Control functions have dotted reporting lines to the Board.

Business Strategy

Fast Credit's long-term goal is to grow to become one of the largest non-bank financial institutions in Nigeria. The Company is focused on secured or salary-backed lending to civil service employees, uniformed personnel and organised private sector employees with a preference for bank, telecommunications, oil & gas and other blue-chip company staff. FCL plans to increase focus on digital lending in the near to medium term, driving loan origination, initiation and disbursement by leveraging technology such as Unstructured Supplementary Service Data (USSD), web and mobile. Fast Credit offers quick turnaround and convenience to drive customer acquisition and retention. The Company is investing in automation, API integrations and machine learning and artificial intelligence solutions to raise efficiency and in preparation to enter the SME and nano lending markets in the medium term. FCL plans to introduce value added services such as electronic payments and wallets in the near term to increase the engagement with customers within the ecosystem. Fast Credit is partnering with FinTech companies and payments service banks to drive the digital expansion. The Company also intends to partner with strategic international investors to provide capital and technical knowhow. FCL offers competitive interest rates to attract funding from high net-worth individuals (HNIs) and institutional investors. Fast Credit plans to register both a commercial paper issuance programme and a bond issuance programme in Q1 2023.

Information Technology

Fast Credit uses "T-24 Transact" as the core banking application for processing, recording, monitoring and reporting transactions. The Company also has a customer onboarding application ("COA") for loan initiation, "Clirec" for finance reconciliation and reporting and a human resource and administrative platform. FCL has a web portal, USSD platform and mobile app through which loan requests are originated. An upgraded version of the mobile app including wallet and investment features is expected to be launched in the first quarter of 2023. The Company plans to complete Nigerian Inter-Bank Settlement System (NIBSS) integration in January 2023 to enable direct payment, disbursement and collection. Fast Credit's core banking application is hosted on-prem and replicated remotely at Rack Centre. The Company's other customer applications are hosted in the cloud using Microsoft Azure and Digital Ocean solutions. FCL backs up data four times daily, with the backups stored on the local network-attached storage and in the cloud using OneDrive.

MANAGEMENT TEAM

Mr. Emeka Iloelunachi is the Managing Director/CEO of FCL. He has over 17 years of experience in banking operations, credit analysis, product management, sales/marketing management and retail banking gained at Diamond Bank Plc, Page International Financial Services Limited and Fast Credit.

Mr. Iloelunachi holds a Bachelor's degree in Marketing from Enugu State University of Science and Technology, an M.Sc. in Marketing from the University of Lagos and an MBA (International Business) from the University of Liverpool, United Kingdom. He is a Certified Card and Payment Professional (CICPP) of Lafferty Institute of Retail Banking Academy and Member of the Chartered Institute of Bankers of Nigeria (CIBN) and the Nigerian Institute of Management (NIM). Mr. Iloelunachi is also a Member of the Institute of Directors (IOD) and a Fellow of the Institute of Credit Administration (ICA), where he is the Chairman of the institute's MSME subcommittee. He is a Fellow of the Chartered Institute of Loan & Risk Management (CILRM).

Fast Credit's senior management team includes:

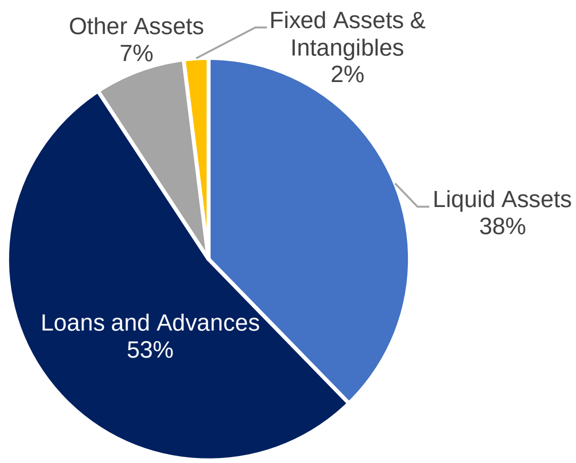
▪ Adetola Okunade	Chief Operating Officer
▪ Idechi Amucheazi	Chief Fintech and Innovation Officer
▪ Abiola Ogunsola	Chief Financial Officer
▪ Olabisi Omoregie	Head, HR/Administration
▪ Sunday Oludayo	Group Head, Consumer Lending
▪ Rotimi Asumah	Chief Risk Officer
▪ Daniel Ugoro	Head, Internal Audit
▪ Abolade Ojo	Head, Compliance

ANALYSTS' COMMENTS

ASSET QUALITY

As at 31 December 2021, Fast Credit had total assets of ₦11.9 billion, representing a 16% increase from ₦10.2 billion in 2020. FCL's asset growth was driven largely by increased borrowings, which supported a rise in risk asset origination. Based on unaudited accounts as at 30 November 2022, total assets stood at ₦14.2 billion, representing a 20% increase from the end of 2021 as the Company used additional borrowings (overdraft) of ₦1.3 billion and retained earnings to drive asset growth. We expect a significant increase in total assets in the near term as FCL seeks to access additional funding from the debt capital market via a bond issuance in the first quarter of 2023 and leverage digital solutions to push retail products to attract low-cost deposits. We also believe that the planned expansion of state government and private sector payroll lending will support growth in the Company's assets in the medium term.

Figure 1: Breakdown of Assets



Fast Credit primarily lends to employees of Federal Government of Nigeria (FGN) Ministries, Departments and Agencies (MDA), particularly in the security agencies. As at 31 December 2021, FCL's gross loans and advances stood at ₦6.78 billion, which represented a 34% increase from the ₦5.05 billion recorded in the prior period. The growth in the loan book was supported by the deployment of digital solutions to improve access to product offerings and the forging of new employer partnerships to extend market coverage. In our view, the loan book growth was aggressive in comparison to peer Credit Direct Limited's ("Credit Direct") portfolio growth of 4.5% in the same period and given the declining consumer purchasing power, rising inflation and heightened credit risk in the macro environment. However, we note that the Company's loan book growth was more conservative than the banking industry's loan growth of 37.8% in the review period. Fast Credit charged borrowers a monthly interest rate of 3.5%, which was higher than the max lending rate of 2.33% per month in the banking industry in the review period. The Company faces minimal repricing risk as customers are not very rate sensitive while rates can be adjusted based on market conditions without significant push back for its public sector employee loans. In addition, interest is paid on the amount borrowed and not the outstanding loan amount. Based on unaudited accounts as at 30 November 2022, FCL had gross loans and advances of ₦10.86 billion. This represented a considerable 60% increase from 2021 as the Company continued to leverage technology and partnerships to grow the clientele base. We believe that the loan book growth in 2022 was overly aggressive given the macro challenges and political uncertainties in the environment. In our view, this rapid loan book growth implies a sharp increase in unseasoned loans.

As at 31 December 2021, exposures to public sector employees constituted 91% of FCL's loan book (FGN MDAs: 91%, state government MDAs: 9%) while the balance of 9% comprised exposures to private sector employees, which were largely cash backed up to 1.2x. The Company had significant concentration to the Nigerian Police Force (NPF) in particular, with members of the force accounting for 79% of the portfolio. In our view, the considerable concentration to FGN employees leaves Fast Credit susceptible to defaults from delays in salary payment due to weak public finances. However, we note that FCL's strategy focuses on lending to uniformed personnel, whose salaries are prioritised by the FGN and the employers generally demand discipline in meeting obligations as and when due. The Company's loans were moderately diversified by region, with obligors in the South-West constituting 31% of the portfolio while borrowers in the other regions made up the balance of 69%. Notwithstanding, we expect a modest dispersion in the distribution of the portfolio by region in the near to medium term following discussions with various state government MDAs across the country. The loans were, however, well diversified by obligors, with the top 20 borrowers accounting for less than 5% of the portfolio, which was in line with our expectation for a consumer lender.

As at 31 December 2021, Fast Credit had non-performing loans (NPLs) of ₦474 million, which represented a 46% increase from ₦325 million in the prior year despite write-offs totalling ₦275 million in the review period. FCL's NPLs to gross loans ratio thus deteriorated to 7% (2020: 6.4%), which was above our benchmark of 5% for finance companies but below the CBN threshold of 10%. The NPL ratio also compared unfavourably to peer Credit Direct's 6.5% for the same period. When we factored in the write-offs, the NPL ratio rose significantly above our benchmark to 11%. However, we note that the bulk of the NPLs written off comprised legacy SME loan products that were discontinued in 2019. The cumulative loan loss provision covered 96% of non-performing loans, with the portion not provided for amounting to 1.2% of the Company's shareholder's funds, which was acceptable in our view. Based on unaudited accounts as at 30 November 2022, NPLs stood at ₦317 million, representing a 33% decline from 2021 as Fast Credit intensified loan monitoring and collections efforts. Therefore, FCL's NPL ratio declined to 3.5%, which was better than our benchmark for finance companies. However, we expect the NPL ratio to record some deterioration in the near to medium term as the Company drives exposure to the riskier private sector payroll loans, consumer lending and SME financing given the lack of risk management and underwriting track in these segments. In addition, we expect a higher credit charge in the near term as the weak economic cycle persists.

As at the 2021 FYE, Fast Credit had liquid assets of ₦4.5 billion (2020: ₦5.2 billion) representing 37.7% of total assets and comprising FGN bonds (50.5%), money market placements (47.6%) and bank balances (1.9%). While we consider FGN bonds to be low-risk, the long duration of these securities results in significant interest rate risk. However, we note that the possibility of loss due to movements in yields is mitigated by FCL's strategy to hold to maturity. The money market placements comprised exposures to commercial banks that we consider to be of investment-grade credit quality. However, the portfolio showed concentration, with the largest counterparty exposure accounting for 63% of placements and 86% of the Company's shareholders' funds, which significantly exceeded our 20% single entity threshold. In our view, this leaves Fast Credit overly exposed to the possibility of a deterioration in the financial condition of one institution. Agusto & Co. expects the asset quality of Fast Credit to remain threatened by the weak economic growth and the low purchasing power of most Nigerians.

Overall, we believe that FCL's asset quality is satisfactory

RISK MANAGEMENT

The Board is responsible for the establishment and review of Fast Credit's enterprise risk management (ERM) framework and internal control systems. The Board discharges these responsibilities through the Board Audit, IT & Risk Committee (BAIRC) and Board Credit Committee (BCC), which are chaired by non-executive directors. The BAIRC and BCC monitor the Company's risk profile in line with the approved risk appetite and ensure that the established risk management policies, processes and methodologies are robust and effective. The board committees are supported by FCL's management committee, which comprises the Managing Director/CEO and departmental heads.

Fast Credit is exposed to credit risk predominantly from lending activities. Loan requests are initiated by the sales team on the customer onboarding application (COA). Preliminary credit appraisals are conducted by the customer service group (CSG), which validates basic customer information. Credit analysts carry out a further review comprising verification of financial information, analysis of disposable income, assessment of cash flow, measurement of debt service coverage and checks with credit bureaus. Public sector employee loans have an average size of ₦180,000 and all requests are reviewed by credit analysts. On the other hand, a scorecard that has been tested over time is used to review private sector payroll loan requests. However, credit analysts carry out a second level review for requests above ₦200,000. The bulk (91.2%) of the private sector employee loans was backed by cash that provided cover of 1.2x of the outstanding exposure. The Company plans to complete the integration of the scorecard into the mobile app to automate the process by Q1 2023. FCL makes use of a white labelling platform 'Periculum' for bank statement reviews and analytics. Fast Credit is working with an international partner to acquire software that will provide a machine learning/artificial intelligence engine to assess requests for nano loan products to be introduced in the near to medium term. The Chief Risk Officer, Managing Director or the Board approves the loan request in line with the relevant authority limit.

Table 3: Fast Credit's Loan Approval Limit

S/N	Approving Authority	Limits

1.	Board of Directors	Above ₦5 million
2.	Managing Director	Up to ₦5 million (above ₦5 million if cash collateralised)
3.	Chief Risk Officer	Up to ₦1 million

Source: Fast Credit Limited

The portfolio management, collections and recovery sub-unit of the ERM team oversees the collection and monitoring of loans at the Company. Public sector loans are deducted at source from the employer and where a repayment is missed, it is re-presented to the employer for deduction in the following month. For private sector loans, the portfolio management team monitors balances in the loan portfolio daily to detect early warning signs and prepares a report weekly. Where a repayment is missed, the customer is contacted via email and telephone within the next five days and an unscheduled/scheduled visit on the sixth day. Repayments overdue for 30 days are handed to the recovery unit, which employs moral suasion and legal proceedings where necessary. In the event of termination of employment, critical illness or death of a customer, FCL has credit life insurance with reputable underwriters to minimise the loss on the facility

In our opinion, Fast Credit's risk management is adequate for current operations. However, risk management and underwriting practice has to be improved to support Fast Credit's growth ambitions.

EARNINGS AND PERFORMANCE

Fast Credit generates earnings primarily from the interest income on loans to salary earners. During the 2021 financial year, FCL generated net earnings of ₦2.88 billion, a 72.3% rise from ₦1.67 billion in the prior year driven largely by growth in risk assets from a broader market reach. However, the Company recorded a lower net interest margin (NIM)[1] of 66.5% (2020: 70.6%) as the interest rates on borrowings rose following the record lows due to the COVID-19 pandemic in 2020. Fast Credit's NIM compared unfavourably to peer Credit Direct's 83% for the same period and recorded a weighted average cost of funds (WACF) of 16.1%, which was notably higher than peer Credit Direct's 13.4%. FCL's earnings is dominated by net interest income which contributed 89% of net earnings while administrative fees and commission on loans and advances made up the remaining 11%. Based on unaudited accounts for the 11 months to 30 November 2022, the Company had net earnings of ₦3.24 billion, representing an annualised increase of 22.5%. We expect to see a moderate increase in net earnings in the near term as Fast Credit continues to expand coverage and product offerings through digitalisation.

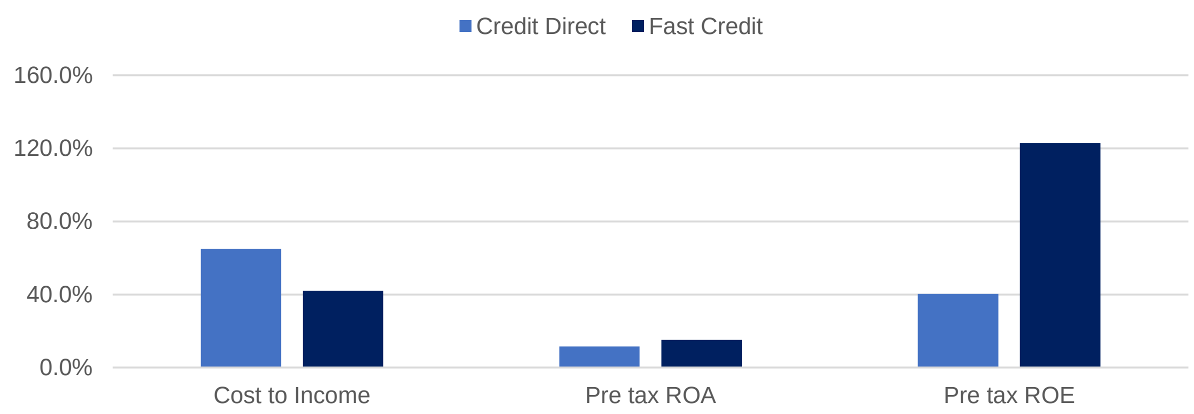
In the review period, FCL recorded operating expenses (OPEX) of ₦934 million, representing a 29% increase from ₦725 million in the prior period due largely to higher staff cost and director related allowances. In the same period, Fast Credit had write-offs of NPLs from a discontinued product totalling ₦275 million. Notwithstanding, the cost-to-income ratio (CIR) was largely unchanged from the prior period at 42% (2020:

[1] NIM is measured as net interest spread to interest income

43%) despite the significant inflationary pressures in the environment due to growth in net earnings. The Company's CIR compared favourably to peer Credit Direct's 65% for the same period. FCL's operating expense to average asset ratio stood at 11% and also compared favourably to peer Credit Direct's 21.4%. Based on unaudited accounts for the 11 months to 30 November 2022, the CIR deteriorated slightly to 45% as personnel cost rose following an upward compensation review and increase in staff strength. However, we expect the CIR to remain relatively stable in the near term as the rise in net earnings offsets cost increases.

During the 2021 financial year, Fast Credit recorded a pre-tax return on average assets (ROA) of 15.1% (2020: 14.9%) and a pre-tax return on average equity (ROE) of 123% (2020: 129.2%). FCL's ROE was significantly higher than Credit Direct's 40.3% in the same period and the 12-month average rate of inflation of 17%. Based on unaudited accounts for the first 11 months of 2022, pre-tax profit was ₦1.78 billion, which represented 80% of the year-to-date budget while annualised ROA and ROE remained in line with our expectations at 14.8% and 100.6% respectively. We expect profitability indicators to remain relatively stable in the near term upheld by lending activities as well as wide margins on its loan portfolio.

Figure 2: Profitability Peer Comparison



Source: Credit Direct Limited and Fast Credit Limited

We consider the Company's profitability to be good.

Capital & Leverage

As at 31 December 2021, Fast Credit had shareholders' funds of ₦1.57 billion, representing a 36.8% increase from ₦1.15 billion at the end of the prior year due to growth in retained earnings. Consequently, FCL's capital was significantly higher than the minimum regulatory requirement of ₦100 million for finance companies. The Company's core capital had a good composition, comprising share capital (26%), share premium (2%), statutory reserve (17%) and revenue reserve (54%). Based on unaudited accounts as at 30 November 2022, FCL had shareholders' funds of ₦2.3 billion, representing a 45% increase from 2021 due to further accretion to reserves while the share of total assets funded by equity improved to 16%.

As at 31 December 2021, the Company had a Basel II Capital Adequacy Ratio (CAR) of 18.8% (2020: 18.3%), which was in compliance with the CBN minimum of 12.5% for finance companies. When we subject capital to a stress test, Fast Credit's adjusted capital to risk-weighted assets ratio declines to 15.5% while adjusted capital to total loans stood at 6 times which remains acceptable in our view. As at the same date, FCL had a debt to equity ratio of 6.98x (2020: 8.07x), which was below the regulatory threshold of 10x for finance companies but significantly above peer Credit Direct's 2.61x. Based on unaudited accounts as at 30 November 2022, the Company's debt to equity was lower at 5.5x. However, we expect the debt-to-equity ratio to rise moderately in the near term but remain within the regulatory threshold as Fast Credit seeks to issue additional debt in the first quarter of 2023.

In our opinion, FCL's capital is adequate for current business risks while leverage is acceptable.

LIQUIDITY & FUNDING

Fast Credit primarily (86.8%) funds total assets with liabilities, which largely comprised borrowings in the form of short-term unsecured investment notes issued to individuals and institutional investors. As at 31 December 2021, FCL had borrowings of ₦9.37 billion, which funded 78.6% of total assets and represented a 79% YoY increase spurred by competitive investment rates ranging from 4% to 22.5% per annum. In the review period, the Company recorded a weighted average cost of funds (WACF) of 16.1%, which was notably higher than peer Credit Direct's 13.4%. We expect Fast Credit's WACF to rise moderately in the near term given the upward trend in the interest rate environment following the multiple increases in the CBN's monetary policy rate (MPR). We note FCL's heavy reliance on credit-sensitive purchased funds and considerable concentration in funding sources.

As at 31 December 2021, FCL's borrowings comprised investments from large corporates (72%), retail clients (24%) and commercial entities (3%). There was considerable concentration in the Company's funding base, with the top five investors accounting for 76% of borrowings and funding a sizeable 60% of total assets. The largest investor contributed a considerable 33% of borrowings. In our view, this level of concentration leaves Fast Credit susceptible to a significant gap in the event that large investors withdraw funds. However, we note that at least 80% of the borrowings are behaviourally medium tenored in nature and regularly rolled over. A gap analysis as at 31 December 2021 showed a maturity mismatch as borrowings were insufficient to fund the risk assets in the 'above one-year' maturity bucket, which resulted in a cumulative funding gap of ₦2.9 billion. Similarly, liquid assets were sufficient to cover 53% of liabilities maturing within a year. We believe that this leaves FCL highly vulnerable to repricing risk. Based on unaudited accounts as at 30 November 2022, the Company's borrowings remained relatively flat at ₦9.8 billion. We expect borrowings to increase moderately in the near term as Fast Credit deploys digital solutions to mobilise funds from retail investors and executes plans to issue a series I bond in 2023.

Table 4: Funding Gap Analysis

	0-90 days	91-180 days	181-360 days	>360 days
Loans	213,675	587,652	2,176,754	3,799,917
Borrowings	128,769	657,890	7,678,974	904,676
Gap/(Excess)	84,906	(70,238)	(5,502,220)	2,895,241
Cumulative Gap/(Excess)	84,906	14,668	(5,487,522)	2,895,241

As at 31 December 2021, FCL had liquid assets of ₦4.5 billion comprising FGN securities (50.5%), money market placement (47.6%) and bank balances (1.9%). Consequently, FCL had a liquidity ratio of 48%, which compared favourably to peer Credit Direct's 15% for the same period. Based on unaudited accounts as at 30 November 2022, the liquidity ratio dropped to 35.1%, which remained above our benchmark. The Company had ₦1.99 billion in overdraft lines from three financial institutions to provide a funding buffer and had drawn down ₦1.4 billion of the lines as at 30 November 2022. Given the wholesale nature of FCL's funding and the fact that the bulk of their loans are above one year, the Company may be subject to vulnerability in times of financial stress.

In our view, FCL's liquidity and funding profile is satisfactory.

OWNERSHIP, MANAGEMENT & STAFF

As at 30 November 2022, Fast Credit's share capital was fully paid up at ₦500 million. Mr. Tunde Titilayo – the founder and largest shareholder – directly and indirectly owns 95% of FCL outstanding shares. In our view, such concentration in ownership tends to engender unilateral decision-making and restrict the potential for external influences to contribute to the development of the Company compared to a more diversified base of shareholders.

Table 5: Major change in Shareholding Structure

Investor	Shareholding
Sienna Woodford Limited	67.2%
Prime Holdings LLC	27.6%

Fast Credit's seven-member Board comprised the Managing Director and six non-executive directors including one independent member. In our view, the Board has a good mix of executive and non-executive directors. However, we believe that the quality of governance and succession planning can be improved with additional independent members and an executive director respectively. The Board is chaired by Mr. Tunde Titilayo and has oversight functions executed through four standing committees: Board Audit, IT & Risk Committee, Board Governance Committee, Board Finance & General-Purpose Committee and Board Credit Committee. All board committees meet at least once every quarter and are chaired by non-executive directors. However, the Audit, IT & Risk and Credit committees lack independent members, which falls short of best practices in our view. There were three exits and replacements on the Board in 2022 with the exit of private equity investor Synergy Capital Limited following the achievement of its investment objectives.

Table 6: Board Changes in February 2022

Director Exits	Director Appointments
Tokunbo Ogunfodun	Stella Okuzu
Yinka Odeleye	Funso Sobande
Segun Onakomaiya	Tumi Tiyamiyu

The Company's management team is led by Mr. Emeka Iloelunachi, who is the Managing Director/CEO. He is supported by eight other senior management personnel. The senior management team members have more than 12 years of experience on average in fields including risk management, banking, finance, human resources and operations. Fast Credit had an average staff strength of 158 employees in the review year, up from 128 in 2020. FCL's staff productivity (measured by the number of times net earnings covered staff costs) was 7.3 times (2020: 5.4x), which was notably better than our benchmark of 3x and peer Credit Direct's 3.5x for the same period.

Table 7: Productivity Indicators Peer Comparison

	Credit Direct	Fast Credit
Staff Cost per Employees (₦'000)	4,658	2,492
Net Earnings per Staff (₦'000)	16,217	18,262
Net Earnings/Staff Cost (Times)	3.5	7.3
Staff Cost/Operating Expenses	44.2%	32.6%

In our opinion, Fast Credit's corporate governance structure can be improved with the addition of independent members and an executive director to the board of directors. Nonetheless, we consider the management team to be experienced while staff productivity is satisfactory.

OUTLOOK

The Nigerian economy expanded by 2.25% in the third quarter of 2022. However, this was a decline from the 3.54% GDP growth recorded in the second quarter. The Q3 2022 GDP figures marked the slowest growth since recovery from the COVID-19 pandemic began. This slowdown is attributable to domestic economic challenges such as insecurity concerns, inflationary pressures, currency depreciation and subpar crude oil production. This led the Monetary Policy Committee of the CBN to increase the MPR to 16.5% in November 2022 to combat the price instability. The political climate in Nigeria is also characterised by uncertainties given the forthcoming 2023 general elections. Nonetheless, we forecast a GDP best-case scenario growth rate of 7% and a worst-case growth rate of 3% in 2023.

Given the planned expansion of private sector payroll loans, consumer lending and SME financing, we expect some deterioration in the NPL ratio but asset quality will remain satisfactory in the near term. We expect Fast Credit's profitability to remain stable upheld by loan growth while efficiency gains help to keep costs from rising sharply in spite of the inflationary pressures. We believe that capital will remain adequate for business risks in the near term as FCL seeks strategic international investors while leverage should remain within the acceptable threshold.

Based on the aforementioned, we assign a **stable** outlook to the rating.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-21		31-Dec-20		31-Dec-19	
	=N='000		=N='000		=N='000	
ASSETS						
Cash & equivalents	84,153	0.7%	1,883,964	18.3%	159,641	6.4%
Government securities	2,270,670	19.0%	869,948	8.5%		
Placements	2,142,246	18.0%	2,483,743	24.2%		
Liquid Assets	**4,497,069**	**37.8%**	**2,753,912**	**51%**	**159,641**	**6.4%**
Direct loans and advances - Gross	6,777,998	56.9%	5,054,733	49.2%	2,220,860	88.6%
Less: Cumulative loan loss provision	(455,147)	-3.8%	(483,034)	-4.7%	(247,434)	-9.9%
Direct loans & advances - net	**6,322,851**	**53.0%**	**4,571,699**	**44.5%**	**1,973,426**	**78.7%**
Tax recoverable	63,303	0.5%	50,367	0.5%	28,244	1.1%
Other accounts receivable	804,057	6.7%	189,567	1.8%	226,579	9.0%
Total Other Assets	**867,360**	**7.3%**	**239,934**	**2.3%**	**254,823**	**10.2%**
Property, plant & equipment - for own use	143,582	1.2%	147,976	1.4%	63,849	2.5%
Goodwill & other intangible assets	91,535	0.8%	77,829	0.8%	55,016	2.2%
Total Fixed Assets & Intangibles	**235,117**	**2.0%**	**225,805**	**2.2%**	**118,865**	**4.7%**
TOTAL ASSETS	**11,922,397**	**100.0%**	**10,275,093**	**100.0%**	**2,506,755**	**100.0%**
CAPITAL & LIABILITIES						
TIER 1 CAPITAL (CORE CAPITAL)	**1,573,992**	**13.2%**	**1,150,609**	**11.2%**	**319,444**	**12.7%**
Total Deposit Liabilities	**9,370,309**	**78.6%**	**8,657,330**	**84.3%**	**1,920,439**	**76.6%**
Taxation payable - deferred	58,187	0.5%			1,886	0.1%
Taxation payable - current	519,874	4.4%	323,260	3.1%	137,215	5.5%
Other accounts payable	400,035	3.4%	143,894	1.4%	122,099	4.9%
Total Other Liabilities	**978,096**	**8.2%**	**467,154**	**4.5%**	**261,200**	**10.4%**
TOTAL CAPITAL & LIABILITIES	**11,922,397**	**100.0%**	**10,275,093**	**100.0%**	**2,506,755**	**100.0%**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED	31-Dec-21		31-Dec-20		31-Dec-19	
	₦'000		₦'000		₦'000	
Interest income	3,833,435	92.5%	2,510,379	93.3%	1,043,279	90.8%
Interest expense	(1,285,437)	-31.0%	(738,754)	-27.4%	(264,328)	-23.0%
Loan loss expense	26,432	0.6%	(277,801)	-10.3%	(18,166)	-1.6%
Net Revenue From Funds	2,574,430	62.1%	1,493,824	55.5%	760,785	66.2%
Non-Interest Income	310,922	7.5%	181,187	6.7%	105,323	9.2%
Net Earnings	**2,885,352**	**69.6%**	**1,675,011**	**62.2%**	**866,108**	**75.4%**
Staff costs	(393,697)	-9.5%	(309,572)	-11.5%	(231,743)	-20.2%
Depreciation expense	(83,735)	-2.0%	(52,708)	-2.0%	(18,198)	-1.6%
Other operating expenses	(731,885)	-17.7%	(363,175)	-13.5%	(180,299)	-15.7%
Total Operating Expenses	(1,209,317)	-29.2%	(725,455)	-27.0%	(430,240)	-37.5%
Profit (Loss) Before Taxation	1,676,035	40.4%	949,556	35.3%	435,868	37.9%
Tax (Expense) Benefit	(506,939)	-12.2%	(301,137)	-11.2%	(108,971)	-9.5%
Profit (Loss) After Taxation	**1,169,096**	**28.2%**	**648,419**	**24.1%**	**326,897**	**28.5%**
Gross Earnings	**4,144,357**	**100.0%**	**2,691,566**	**100.0%**	**1,148,602**	**100.0%**
AUDITORS	**KPMG Professional Services**		**KPMG Professional Services**		**KPMG Professional Services**	
	CLEAN		**CLEAN**		**CLEAN**	

KEY RATIOS	31-Dec-21	31-Dec-20	31-Dec-19
PROFITABILITY RATIOS			
Net interest margin	66.5%	70.6%	74.7%
Operating expenses/Net earnings	41.9%	43.3%	49.7%
Staff expense/net earnings	13.6%	18.5%	26.8%
Return on average assets (pre-tax)	15.1%	14.9%	34.8%
Return on risk weighted assets (average)	27.3%	26.2%	38.0%
Return on average equity (pre-tax)	123.0%	129.2%	272.9%
LIQUIDITY RATIOS			
Direct & indirect loans/Total assets & contingents	53.0%	44.5%	78.7%
Total loans - net/Total lcy deposits	53.2%	42.1%	92.3%
Inter-bank takings/Total loans – net	148.2%	189.4%	97.3%
Borrowings	(9,370,309)	(8,657,330)	(1,920,439)
Liquid assets/Net inter-bank takings	48%	60.5%	8.3%
ASSET QUALITY RATIOS			
Performing Loans	6,303,348	4,729,572	1,732,567
Non-Performing Loans	474,650	325,161	488,293
Non-performing loans/Total loans – Gross	7.0%	6.4%	22.0%
Loan loss provision/Total loans – Gross	6.7%	9.6%	11.1%
Loan loss provision/non-performing loans	96%	149%	51%
CAPITAL ADEQUACY RATIOS			
Risk-weighted assets/Total assets & contingents	61.5%	48.3%	91.4%
Adjusted capital/risk weighted assets	20.2%	21.6%	11.5%
Tier 1 capital/Adjusted capital	100.0%	100.0%	100.0%
Total loans - net/Adjusted capital	4.27	4.26	7.46
EARNINGS MIX			
Net revenue from funds	89.2%	89.2%	87.8%
Commissions	0.0%	0.5%	1.5%
Fees & other income	10.8%	10.3%	10.7%
STAFF INFORMATION			
Average number of employees	158	128	
Staff cost per employee (N'000)	2,492	2,419	
Net earnings per staff (N'000)	18,262	13,086	
Staff cost/Net earnings	13.6%	18.5%	26.8%
Staff costs/Operating expenses	32.6%	42.7%	53.9%

RATING DEFINITIONS

Aaa	A financial institution of impeccable financial condition and overwhelming capacity to meet obligations as and when they fall due. Adverse changes in the environment (macroeconomic, political and regulatory) are unlikely to lead to deterioration in financial condition or an impairment of the ability to meet its obligations as and when they fall due. In our opinion, regulatory and/or shareholder support will be obtained, if required.
Aa	A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due. Adverse changes in the environment (macroeconomic, political and regulatory) will result in a slight increase the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain strong. Although regulatory support is not assured, shareholder support will be obtained, if required.
A	A financial institution of good financial condition and strong capacity to meet its obligations. Adverse changes in the environment (macroeconomic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution. However, financial condition and ability to meet obligations as and when they fall due should remain largely unchanged. In our opinion, shareholder support should be obtainable, if required.
Bbb	A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due. It may have one major weakness which, if addressed, should not impair its ability to meet obligations as and when due. Adverse changes in the environment (macroeconomic, political and regulatory) will result in a medium increase in the risk attributable to an exposure to this financial institution.
Bb	Financial condition is satisfactory and ability to meet obligations as and when they fall due exists. May have one or more major weaknesses. Adverse changes in the environment (macroeconomic, political and regulatory) will increase risk significantly.
B	Financial condition is weak but obligations are still being met as and when they fall due. Has more than one major weakness and may require external support, which, in our opinion, is not assured. Adverse changes in the environment (macroeconomic, political and regulatory) will increase risk significantly.
C	Financial condition is very weak. Net worth is likely to be negative and obligations may already be in default.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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