GCR RATINGS

Credit Rating Announcement

GCR affirms MyCredit Investments Limited BBB(NG) /A3(NG), revises Outlook to Negative

Rating Action

Lagos, 30 November 2022 - GCR Ratings ("GCR") has affirmed MyCredit Investments Limited's (trading as 'FairMoney') Nigerian national scale long-term and short-term issuer ratings of BBB(NG) and A3(NG) respectively, the outlook was revised to Negative from Stable.

Rated Entity	Rating class	Rating scale	Rating	Outlook / Watch
MyCredit Investments Limited	Long Term Issuer	National	BBB(NG)	Negative Outlook
	Short Term Issuer	National	A3(NG)	

Rating Rationale

FairMoney is a financial services player, predominantly focused on Nigeria. The entity makes up a clear majority of its wider group, under Paris based- Predictus SAS ("the parent") and alongside a sister company in India. As of HY22, FairMoney constituted 98% of group loans and 82% of group assets. The analytical approach therefore represents the strength of the broader group, but it is heavily determined by the Nigerian operations.

The ratings assigned to FairMoney is supported by moderate gearing, strong cash flow and currently robust liquidity of the group. Conversely, the volatile earnings, high credit risk and modest (albeit improving) competitive positioning against the broader Nigerian financial services sector restrain the assessment.

The competitive position remains a negative ratings factor, despite strong growth. Reportedly, FairMoney is the leading digital lender operating in Nigeria and in the top 5 in the broader domestic microfinance space. Management expects some geographic diversification, but we now expect the group to be more reliant on Nigeria for longer than our previous expectations. The Nigeria sub-group is dominated by a digital lender which represents 75% of group loans, 47% of group assets and the entire wholesale funding for the group. The other Nigerian entity is a newly acquired and Central Bank of Nigeria regulated micro-finance bank (MFB), which represents 23% of group loans and is the whole source of digital deposits for the group.

Undoubtedly, brand awareness is growing in Nigeria, witnessed by the rapid growth of the loan book and the associated users. In Nov 2022, the entity reported 7mln users. Nevertheless, in comparison to the broader financial services space in the country, the entity is small (by assets and loans). Positively, the recent addition of the microfinance bank could aid funding stability and diversify revenues if digital deposit mobilisation proves successful. The key competitive advantage of the rated entity is the speed of service, with the ability to originate and distribute loans within 5mins. Management also believe that their overall customer service and relatively gentle collections strategy is a key differentiator.

Management and governance is a neutral (best) assessment, although the rapid lending and high credit losses belies a somewhat aggressive risk appetite. A lack of audited consolidation at the group level also potentially restrains the rating. Positively, the group is building out the strength and depth of the management team.

The financial profile remains a ratings' positive despite the earnings volatility and recent increase in groupwide gearing. In the first half of 2022, the overall group recorded a loss in HY22 due to relatively weaker loan book performance and additional costs from the acquisition of the Microfinance Bank ('MFB'). We expect Nigeria to end 2022 broadly flat, as 2nd half performance has improved, but the broader loss at the group will continue.

In 2023, we expect Nigeria and the group to return to profitability as tighter lending criteria, improved scale and funding diversification all have a positive impact. Broadly we have factored into our rating the following expectations:

- 40% loan growth in 2023,
- Increased digital deposits, which helps lower cost of funds,
- Cost to income to be maintained around 25%,
- Cost of risk of around 50% (cumulative) and
- Return on assets of around 2,5%.

Using the above assumptions, alongside the €25mln of additional equity which has been raised at the parent level, we expect the group's Net Debt to EBITDA to stabilize around 2,5x at year-end 2023. At the same time, we expect interest coverage (defined as EBITDA to interest expense) to remain thin, at between 1,25x -1,5x. Positively, cash flow remains very strong with funds from operations (excluding the loan book extension) covering a strong 80% of net debt.

Funding has diversified over the past 12months, with a breakdown between institutional lenders/ capital markets (65%), retail deposits (1%) and HNWI deposits (34%). We expect the emphasis on digital deposits from the MFB to increase that contribution to around 20% over the next 12months and that a commercial paper programme will be registered in Nigeria in the short-term. Liquidity is relatively robust, supported by strong cash flows off the loan book. The GCR uses v sources ratio averages around the 1.4x level. The ratio balances the cash on hand and funds from operations (excluding the loan book extension), alongside the very short loan book, against short-term nature of the funding base (all funds mature within one year).

Outlook Statement

The outlook is negative to reflect the risk that the group continues its rapid growth without a commensurate improvement in the quantum and stability of earnings. However, our core scenario expects the FairMoney group to continue moderated but rapid loan growth, with better asset quality, and we also expect the Nigerian entities and the wider group to return to profitability. As a result, leverage and cash flow indicators should become stronger by YE23. This will retain the rating outlook to stable.

Rating Triggers

We could lower the ratings on FairMoney if the expected return to strong profitability doesn't materialise in 2023. Without strong earnings generation and risk/ operating cost control, the leverage and cash flow metrics will likely look weaker than our expectations and the rating be lowered. In short, a return on assets of less than 25%, net debt to EBITDA of over 2,5x or reduction in strong cash flows could all bring down the ratings at HY23.

Whilst unlikely in the medium term, if the earnings can improve and remain stable, we could raise the ratings if the entity continues (even at a slower pace) its rapid customer acquisition and retention. Returning to a strong group-wide leverage level on a sustainable basis (net debt to EBITDA of under 2x) could improve the ratings.

Analytical Contacts

Primary analyst	Matthew Pirnie	Group Head of Ratings
Johannesburg, ZA	MatthewP@GCRratings.com	+27 11 784 1771
Secondary analyst	Ife Hafuna	Associate Analyst
Lagos, NG	ifeoluwah@GCRratings.com	+234 1 904 9462
Committee chair	Corné Els	Deputy Sector Head Financial Institutions
Johannesburg, ZA	CorneE@GCRratings.com	+27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
Criteria for Financial Services Companies, January 2022
GCR Rating Scale, Symbols & Definitions, January 2022
GCR Country Risk Scores, October 2022
GCR Financial Institutions Sector Risk Score, October 2022

Ratings History

MyCredit Investments Limited

Rating class	Review	Rating scale	Rating	Outlook	Date
Long Term Issuer	Initial/last	National	BBB(NG)	Stable	October 2021
Short Term Issuer	Initial/last	National	A3(NG)	n/a	October 2021

Risk Score Summary

Rating Components & Factors	Risk scores
Operating environment	**6.75**
Country risk score	3.75
Sector risk score	3.00
Business profile	**(2.50)**
Competitive position	(2.50)
Management and governance	0.00
Financial profile	**2.00**
Cash flow and Leverage	1.00
Earnings vs. Risk	(0,50)
Liquidity	1.50
Comparative profile	**0.00**
Group support	0.00
Peer analysis	0.00
Total Score	**6.25**

Glossary

Asset/s	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital Markets	The part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term debt securities.
Capital	The sum of money that is invested to generate proceeds.
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.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
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.
Gearing	Gearing (or leverage) refers to the extent to which a company is funded by debt and can be calculated by dividing its debt by shareholders' funds or by EBITDA.
Income	Money received, especially on a regular basis, for work or through investments.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Lender	A credit provider that is owed debt obligations by a debtor.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
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).
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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.
Short Term	Current; ordinarily less than one year.

For a detailed glossary of terms utilized in this announcement please click here

Salient Points of Accorded Ratings

GCR affirms that a.) no part of the ratings were 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 rating has been disclosed to MyCredit Investments Limited. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

MyCredit Investments Limited participated in the rating process via telephonic management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from MyCredit Investments Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 December 2021;
- Unaudited financial results as at 30 June 2022,
- Management Information on treasury and risk parameters and
- Other publicly available information.

CREDIT RATINGS ISSUED BY GCR ARE GCR'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY GCR (COLLECTIVELY, PUBLICATIONS) MAY INCLUDE SUCH CURRENT OPINIONS. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE. SEE APPLICABLE GCR RATING SCALES, SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY GCR'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS") AND OTHER OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by GCR from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. GCR adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources GCR considers to be reliable including, when appropriate, independent third-party sources. However, GCR is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by GCR.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.

GCR hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) rated by GCR have, prior to assignment of any credit rating, agreed to compensate GCR for the provision of those credit ratings opinions and services rendered by it. GCR also maintains policies and procedures to address the independence of GCR's credit ratings and credit rating processes.