

Fewchore Finance Company Limited

Final Rating Report



Research, Credit Ratings, Credit Risk Management

Fewchore Finance Company Limited

Issuer Rating:

Bbb-

Outlook: Stable

Issue Date: 6 November 2023

Expiry Date: 30 June 2024

Previous Rating: Bb+*

**Expired 30 June 2023*

Industry:

Finance Company

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RATING RATIONALE

Agusto & Co. hereby upgrades the rating assigned to Fewchore Finance Company Limited ("Fewchore Finance", "FFCL" or "the Company") to "**Bbb-**". The upgrade reflects Fewchore Finance's more established performance track record and growing market share in the finance house industry. FFCL's rating is also upheld by adequate capitalisation and risk management practices and an experienced management team. However, the rating is constrained by the Company's reliance on expensive purchased funds, high concentration risk in loans and borrowings and an aggressive loan book growth in an adverse macro-economic environment.

FFCL is a finance company licensed by the Central Bank of Nigeria (CBN) that primarily focuses on providing short-term credit facilities for local trade finance and working capital. As at 31 December 2022, the Company had total assets of ₦8.1 billion while gross loans and advances stood at ₦5.1 billion. Loans to corporates and high net-worth individuals (HNIs) for the purpose of trade financing, working capital and project financing accounted for the bulk of the loan book with 68%. Education loans granted to students to study abroad and expansion loans for schools also constituted a significant share of the portfolio with 31%. Fewchore Finance's loans showed some concentration, with exposures to two sectors – education (31%) and oil & gas (22%) jointly accounting for 53% of the portfolio. We believe that the exposures to the oil & gas sector carries significant credit risk given the disruptions and challenges in the sector occasioned by recurring oil theft and vandalism. The loans were also concentrated by obligors, with exposures to the top 20 borrowers constituting 49% of the portfolio, which leaves the Company overly susceptible to the possibility of stress in the financial condition of a few borrowers. As at the 2022 FYE, FFCL had NPLs of ₦79.4 million, translating to an NPLs to gross loans ratio of 1.5%, which was significantly below the CBN threshold of 10% and our benchmark of 5% for finance companies. The low NPL ratio reflects Fewchore Finance's lending strategy and risk management practices, which focus on funding transactions from International Oil Companies (IOCs) and other large corporates with assured off-takers and guaranteed repayment through domiciliation of proceeds. FFCL's cumulative loan loss provision fully covered the NPLs, which is good.

In 2022, the Company recorded a significantly low net interest margin (NIM) of 33.7%

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as the reliance on expensive borrowings from rate-sensitive investors translated to elevated interest expense in a period of rising interest rates. The low NIM was also due to the inability to fully reprice risk assets. Thus, FFCL's NIM compared unfavourably to peer, Fast Credit Limited's ("Fast Credit") 65.9% and Credit Direct Limited's ("Credit Direct") 78.1% for the same period. In the review year, Fewchore Finance recorded a profit before tax (PBT) of ₦238 million, which translated to pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 3.4% and 18% respectively. The Company's ROA and ROE compared unfavourably to peer, Fast Credit's 16.8% and 112% and Credit Direct's 11.8% and 47% respectively for the same period. FFCL's ROE was also slightly below the 12-month average inflation rate of 18.8% in 2022. Fewchore Finance's profitability is acceptable in our view and we expect the profitability ratios to improve moderately in the near term as cheaper funding is secured through commercial paper issuance and lending activities peak in the second half of 2023.

FFCL's capitalisation remains adequate with a capital adequacy ratio (CAR) of 18.2% as at the 2022 FYE, better than CBN's minimum of 12.5% for finance companies. As at the same date, the Company had a debt-to-equity ratio of 4.7 times, below the regulatory threshold of 10x. In the near term, we expect the debt-to-equity ratio to rise significantly but remain within the regulatory limit in the light of the planned ₦5 billion commercial paper issuance in Q4'2023.

Fewchore Finance primarily funds risk assets with proceeds of short-term debt notes issued to HNIs and mid-sized companies and overdrafts from banks. As at 31 December 2022, FFCL had borrowings of ₦6.5 billion, with the funding mix translating to a weighted average cost of funds of 14.4%, which is satisfactory compared to the estimated average WACF of 15% for a finance house in 2022. The Company's WACF is however expected to rise moderately in the near term in line with yields in the financial markets. There was significant concentration in borrowings, with the top 10 investors contributing 59%, which leaves Fewchore Finance susceptible to funding gaps arising from withdrawals. However, the Company had overdraft lines of ₦2 billion from two commercial banks to provide a funding buffer, which is satisfactory in our view.

Table 1: Financial Data for Fewchore Finance Company Limited

	31 December 2021	31 December 2022
Total Assets	₦6.1 billion	₦8.1 billion
Gross Earnings	₦1.5 billion	₦2.3 billion
Pre-tax return on average assets	5.2%	3.4%
Pre-tax return on average equity	22.9%	18%

Figure 1: Strengths, Weaknesses and Challenges

Strengths

- Growing market share in the finance industry
- Low NPL ratio
- Experienced management team
- Improving profitability

Weaknesses

- Reliance on expensive purchased funds
- Aggressive loan book growth
- Concentration in loans and borrowings

Challenges

- Significant exposure to fluctuations in the oil and gas industry
- Sustaining asset quality in the face of the weak macroeconomic climate
- Increasing profitability in a high inflation environment

COMPANY'S PROFILE

Fewchore Finance Company Limited ("Fewchore Finance", "FFCL" or "the Company") was incorporated as a private limited liability company in June 2017. FFCL commenced operations as a finance company in January 2018 after obtaining a provisional licence from the Central Bank of Nigeria (CBN). Fewchore Finance is owned by Mr. Adesunkanmi Balogun (34.5%), Iyamoke Investments Limited (23.3%), Dartford Energy Services Limited (7.9%), Mr. Oluwafemi Badewole (5.1%) and 17 other shareholders with stakes of less than 5%.

FFCL provides financial services including consumer and business loans, local and international trade financing and other credit facilities to individuals and mid-sized businesses. Fewchore Finance also offers high yield investment notes to high net-worth individuals (HNIs), micro, small and medium-sized enterprises (MSMEs) and retail clients. The Company's head office is situated at 10A Victoria Arobieke Street, Lekki Phase 1, Lagos. FFCL has two other branches located in Lagos State and the Federal Capital Territory (FCT).

Fewchore Finance is governed by a nine-member Board of Directors ("the Board"), which is chaired by Alh. Shehu Bayero while day-to-day business is led by Mr. Adesunkanmi Balogun, who is the Managing Director/CEO and founder. FFCL had an average of 49 employees during the financial year ended 31 December 2022.

Table 2: Board of Directors

Current Directors	Position	Shareholding
Alh. Shehu Kabir Bayero	Chairman	1.1%
Mr. Adesunkanmi Balogun	Managing Director/CEO	34.5%
Mr. Oluwafemi Badewole*	Executive Director	5.1%
Mr. Bababunmi Viavor	Non-Executive Director	0.6%
Mr. Kola Gbadamosi	Non-Executive Director	-
Mrs. Iyabode Zakari	Non-Executive Director	-
Alh. Dauda Salami	Non-Executive Director (Independent)	-
Mr. Patrick Balogun	Non-Executive Director	1.1%
Mr. Adedamola Dedeke	Non-Executive Director	0.6%

*Appointed in 2023

Business Structure

Fewchore Finance is structured along eleven core functions: Business, Internal Control, Audit & Compliance, Operations, Legal, Financial Control, Internal Audit, Corporate Communications, HR & Administration, Credit Administration & Risk Management and Information Technology. The Executive Director and Head of Business oversees all the business segment and regional teams. The Executive Director and all other unit heads report directly to the Managing Director/CEO with the exception of the Head of Internal Audit, who reports directly to the Board with a dotted reporting line to the Managing Director/CEO.

Business Strategy

Fewchore Finance's strategic imperative revolves around expanding the business size and scope to ultimately become a full-scale banking outfit. The Company focuses on providing tailored financing solutions including LPO financing, invoice discounting, working capital facilities and consumer loans to HNIs, retail clients and MSMEs primarily in the education, oil & gas, FMCG and public sectors. FFCL leverages the management team's networks and experience in the banking industry to drive liability generation and asset origination; offering competitive interest rates on short-term debt notes to HNIs and mid-sized businesses and credit to the target market. Fewchore Finance also aims to make inroads in the retail lending space by partnering with FinTech platforms and facilitate growth by accessing short to medium term financing from the money and debt capital markets in the near term. The Company is structured to operate as a "mini-bank" and plans to raise equity to secure a regional commercial banking licence in the medium term.

Information Technology

Fewchore Finance uses the web-based 'BankOne' as the core banking application for processing transactions. In the review year, FFCL launched a mobile app which is integrated with the BankOne application to provide loans and payment services to retail clients. The Company has internally developed solutions that automate HR operations, offer letters and investment certificates. Fewchore Finance applications are hosted in the cloud on the AWS and Azure platforms as part of the business continuity plan.

OWNERSHIP, MANAGEMENT & STAFF

Fewchore Finance's shareholder base, comprising 21 investors, showed moderate concentration, with the two largest shareholders – Mr. Adesunkanmi Balogun (34.5%) and Iyamoke Investments Limited (23.3%) – jointly owning 57.9% of the outstanding shares. Furthermore, we note that in the light of changes in the regulation of companies, FFCL's unissued shares were transferred to Iyamoke Investments Limited as a holding vehicle for future sale to investors. Thus, Mr. Adesunkanmi Balogun retains a sizeable 45% control of the Company's voting rights. In our view, such concentration in ownership may restrict the potential for external influences to contribute to strategic direction compared to a more diversified base of shareholders. Notwithstanding, we note that Fewchore Finance is actively seeking to raise equity from investors, which would significantly dilute the concentration in ownership.

The Board comprises seven non-executives (including one independent member) and two executives. In our view, the Board has a good mix of executive and non-executive members but the composition of independent members can be improved upon. The Board's oversight is executed through four standing committees: Board Audit Committee, Board Credit Committee, Board Remuneration & Nominations Committee and Board Risk Management Committee. All board committees meet quarterly and comprised only non-executive directors. In our view, the Board standing committees are well constituted, with the Board Audit Committee chaired by an independent director, in line corporate governance best practice.

The Managing Director/CEO, Mr. Adesunkanmi Balogun, is supported by an executive director and seven senior management staff with an average of over 10 years of experience in the financial services sector. In 2022, FFCL's staff productivity, measured by the number of times net earnings covered staff costs, was 7.3 times, which compared favourably with our benchmark of 3x and peer Fast Credit Limited's ("Fast Credit") 6.5x and Credit Direct Limited's ("Credit Direct") 3.6x for the same period. However, we note that staff productivity may be overstated given the relatively low staff cost in comparison to the makeup of the Company's workforce in the period. In our opinion, Fewchore Finance's management team has adequate experience while staff productivity is satisfactory.

Table 3: Productivity Indicators Peer Comparison

	Fewchore Finance	Fast Credit
Staff Cost per Employees (₦'000)	2,256	3,542
Net Earnings per Staff (₦'000)	16,552	22,959
Net Earnings/Staff Cost (Times)	7.3	6.5
Staff Cost/Operating Expenses	19.3%	32.4%

MANAGEMENT TEAM

Mr. Adesunkanmi Balogun is the Managing Director and founder of Fewchore Finance. Prior to establishing the Company, Mr. Balogun was a Relationship Manager for the State Oil Companies Unit at Guaranty Trust Bank Plc. Prior to this, he worked as a Relationship Manager in the Commercial Banking Unit and Midstream Unit at Fountain Trust Bank.

Mr. Balogun has a Bachelor's degree in Business Administration from Ogun State University, Ago-Iwoye and an MBA from the Lagos Business School. He also has a certificate in Corporate Finance from the London Business School. Mr. Balogun is an alumnus of the General Management Programme of the Harvard Business School, Boston, USA.

Fewchore Finance's senior management team includes:

- Oluwafemi Badewole Executive Director
- Bolatito Alalade Head, Legal
- Joseph Nkadi Head, Compliance, Systems & Control
- Taiwo Odulaja Head, Internal Audit
- Mojirola Bello Head, Operation
- Aniekan Equere Head, Corporate Communications
- Chioma Usoro Head, Oil & Gas
- Oluwabunmi Okuneye Head, Public Sector

ANALYSTS' COMMENTS

ASSET QUALITY

Fewchore Finance's activities are primarily focused around the provision of short-term credit facilities for local trade finance and working capital. The Company also offers consumer loans to retail clients. As at 31 December 2022, FFCL had total assets of ₦8.1 billion while gross loans and advances stood at ₦5.1 billion. The loan portfolio represented 63% of total assets and a 36% increase from the prior year largely driven by intensified funding mobilisation from HNIs to support penetration of the oil & gas and consumer lending spaces. However, in our view, Fewchore Finance's loan growth was aggressive given the challenges in the macro environment and the Nigerian upstream oil and gas industry, with theft and vandalism posing major threats to production. The Company's loan book growth was also aggressive in comparison to the banking industry's average loan growth of 16.5% and peer Fast Credit's and Credit Direct's 30% and 24.3% respectively in the review period. Based on unaudited accounts as at 30 June 2023, gross loans stood at ₦7.7 billion, representing a considerable 50% growth from the 2022 FYE as FFCL continued to offer attractive rates to mobilise funding to support the launch of retail loans targeted at public sector employees using a deduction at source model. We expect further growth in the loan book in the near term as Fewchore Finance plans to issue a ₦5 billion commercial paper by the end of 2023 and focus aggressively on growing the public sector employee loans to the security forces leveraging existing relationships with the federal & state governments, ministries, agencies, and parastatals.

As at the 2022 FYE, time loans granted to corporates and HNIs for the purpose of trade financing, working capital and project financing accounted for the largest share of Fewchore Finance's loan portfolio with 68%. Education loans also constituted a significant share of the portfolio with 31% while other loan products made up a small fraction (1%). The skew of the loan book was consistent with the Company's strategic focus on providing credit facilities to vendors of International Oil Companies (IOCs), indigenous oil companies and some mid-sized companies. FFCL's loan portfolio showed some concentration, with exposures to two sectors – education (31%) and oil & gas (22%), jointly accounting for 53% of the portfolio. The balance of the loan book was moderately diversified, with relatively modest exposures to construction (6%), agriculture (5%) and other sectors (18%). Fewchore Finance's exposure to the education sector largely constituted loans granted to students to study abroad and to schools for expansion projects. We believe that the dominance of education loans supports the portfolio quality given the strict security structures implemented for such exposures. The oil & gas exposures on the other hand leave the Company's loan book overly susceptible to the significant disruption and challenges in the sector. FFCL's loans also had notable concentration by region, with exposures to obligors domiciled in the South-West constituting 75% of the portfolio given the headquarters in Lagos and presence in Ibadan. Exposures to obligors domiciled in other regions collectively made up the balance (25%) of the loan book. However, we anticipate a moderate change in the geographical distribution of the loan portfolio in the near term as Fewchore Finance leverages the presence in Port Harcourt to further grow oil & gas exposures. The loans were also concentrated by obligors, with exposures to the top 20 borrowers constituting 49% of the portfolio. We believe that this leaves the Company overly

susceptible to the possibility of stress in the financial condition of a few obligors. However, we note that the largest exposure to a single obligor equated to 17% of FFCL's shareholders' funds, which was within the 20% regulatory limit.

As at 31 December 2022, Fewchore Finance had non-performing loans to gross loans ratio of 1.5% (2021: 1.6%), which was significantly below the CBN threshold of 10% and our benchmark of 5% for finance companies. The low NPL ratio is reflective of the Company's lending strategy and risk management practices, which focus on funding transactions from reputable IOCs and other large corporates with assured off takers and guaranteed repayment through domiciliation of proceeds. FFCL's cumulative loan loss provision fully covered the NPLs, which is good in our view. Based on unaudited accounts as at 30 June 2023, NPLs stood at ₦61 million, representing a 23% decline from 2022 as Fewchore Finance continued to focus on originating quality loans and tightening transaction dynamics, repayment and collateral structures to ensure efficient collections and recovery. Thus, the NPL ratio improved to 0.8%, which was significantly better than our benchmark. We expect the NPL ratio to remain stable in the near term despite the Company's foray into public sector lending given the low-risk target market and the conservative risk management practices.

As at the 2022 FYE, Fewchore Finance had liquid assets of ₦1.9 billion, which represented 24% of total assets. The bulk (52%) of liquid assets comprised placements with two commercial banks while bank balances (40%) and investments in quoted equities (8%) of tier 1 banks and a large manufacturer made up the balance. A sizeable 59% of placements constituted an exposure to an unrated tier 3 bank that equated to a considerable 42% of shareholders' funds. We believe that this leaves the Company overly susceptible to deterioration in the financial condition of an unrated institution. Nonetheless, we note that the FFCL had a corresponding overdraft line of ₦1 billion from the institution and the placement was fully paid down at maturity in January 2023. The balance of 41% of placements was held with an investment-grade commercial bank. Based on unaudited accounts as at 30 June 2023, liquid assets stood at ₦1.6 billion and primarily (69.5%) comprised placements with three investment-grade commercial banks, while cash & bank balances (28.4%) and holdings of listed equities (2.1%) accounted for the balance.

In our opinion, Fewchore Finance's asset quality is satisfactory.

RISK MANAGEMENT

The Board has the primary responsibility for risk management oversight including defining the overall risk appetite and reviewing the enterprise risk management (ERM) framework, policies and methodologies. The Board delegates this responsibility to two committees: the Board Risk Management Committee (BRMC) and Board Credit Committee (BCC). The BRMC has oversight of Fewchore Finance's ERM framework and ensures that the established risk policies, processes and methodologies are robust and effective. The BCC considers approval requests for credit facilities above the executive management's limits. The Board committees are supported by three management committees: Asset & Liability Management Committee, Management Credit

Committee (MCC) and Criticized Assets Committee, and the Company's executive management, which oversees the implementation of the ERM framework.

Fewchore Finance is exposed to credit risk predominantly from lending activities. The Company's Credit Policy (CP) guides the origination, monitoring and recovery of loans. Appraisals of new loan requests are conducted by the credit administration sub-unit within the context of the internal risk acceptance criteria, which primarily considers the transaction dynamics, cash flow, repayment source and credit history. FFCL has a credit scorecard which takes into consideration the obligor's financial health, number of years in business, marketability of security/collateral and creditworthiness of the transaction's principal before loan approval and disbursement. Fewchore Finance's loans are all secured with the exception of the salary-backed loans. The Company relies on domiciliation of proceeds, bank and personal guarantees and other collateral ranging from legal mortgages, to motor vehicles, machinery and other movable properties, with a coverage ratio of 125%–150%.

Table 3: Fewchore Finance's Loan Approval Limit

S/N	Approving Authority	Limits
1.	Board of Directors	Over ₦200 million
2.	Managing Credit Committee	Up to ₦200 million
3.	Managing Director	Up to ₦100 million
4.	Executive Director	Up to ₦20 million

Source: Fewchore Finance Company Limited

The loan monitoring & documentation sub-unit under the Credit Administration & Risk Management function oversees the collection and monitoring of loans. FFCL receives loan repayments largely through bank payments (direct debits, transfers or post-dated cheques). Fewchore Finance appoints a project team per transaction to monitor obligor performance via scheduled and unscheduled visits and regular reviews of documentation on use of proceeds and domiciliation accounts. Where a customer misses a repayment date, the loan monitoring officer sends two demand letters within 21 days of the default. Relationship officers also initiate contact immediately through a physical visit to the customer's business location to investigate the default and reassess the capacity to repay. Where the client has lost the capacity to repay, the facility is transferred to the recovery and legal team for further negotiation and realisation of pledged collateral.

Fewchore Finance is also exposed to credit risk from money market investments. The Company, in line with investment policy, is expected to make placements with investment grade credit quality institutions. However, we note that based on the terms of a transaction and relationships, FFCL may also place funds with unrated counterparties. Fewchore Finance manages interest rate risk by largely staying on the shorter end of the yield curve for both assets and liabilities. The Company also ensures that there is no exposure to currency risk by only lending in foreign currency for transactions that will be settled between the parties in the same currency.

In our opinion, Fewchore Finance's risk management practice is adequate for current business operations.

EARNINGS AND PERFORMANCE

Fewchore Finance generates earnings primarily from interest income and fees & commission on loans. During the 2022 financial year, FFCL generated net earnings of ₦811 million, representing a 50% increase from ₦539 million in the prior year supported by the rise in loan disbursements from opportunities in the oil & gas and education sectors. However, the Company recorded a significantly low net interest margin (NIM) of 33.7% (2021: 36.7%) as the reliance on expensive borrowings from rate-sensitive investors translated to elevated interest expense following multiple hikes in the monetary policy rate in the review period. The low NIM was also due to Fewchore Finance's inability to fully reprice risk assets to match the increasing cost of borrowings due to the rate sensitivity of clients in the target segments. Thus, FFCL's NIM compared unfavourably to peer, Fast Credit's 65.9% and Credit Direct's 78.1% for the same period. Net interest income constituted the largest share of the Company's net earnings with 86% while non-interest income comprising fees & commission made up the balance of 14%. Based on unaudited accounts as at 30 June 2023, Fewchore Finance had net earnings of ₦609 million, representing an annualised increase of 50% due to the significant growth in the loan book. We expect a moderate increase in net earnings in the near term as FFCL plans to access cheaper funds from the money market to reduce cost of borrowings, drive loan disbursements and improve interest margins.

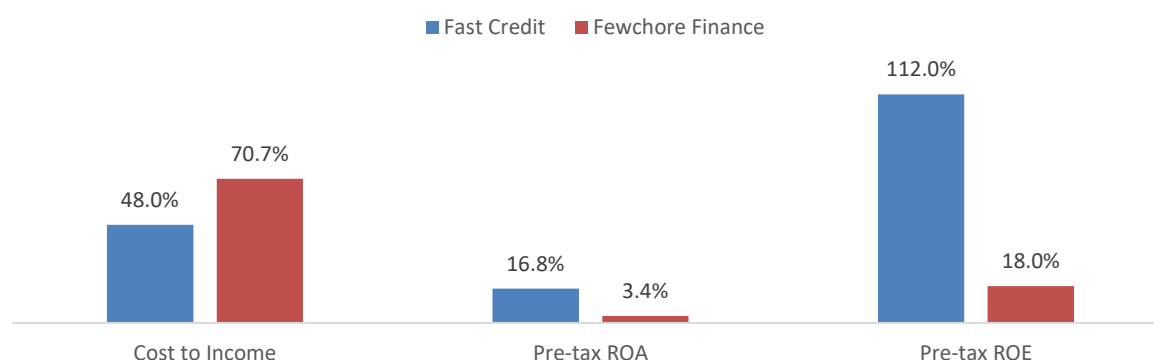
In 2022, FFCL recorded a loan loss expense of ₦48 million, translating to loan loss expense to interest income and cost of risk ratios of 2.2% and 1% respectively, which were better than our expectations for a finance company. Nonetheless, the Company incurred operating expenses of ₦573 million, a 101% spike from 2021 largely due to the significant rise in consultancy fees following the engagement of a new auditor and other costs associated with funding raise and business expansion plans. The significant rise in OPEX was also driven by the increase in loan transaction related costs and personnel expenses following an upward review of staff salaries. Consequently, the cost-to-income ratio¹ (CIR) deteriorated significantly to 70.7% (2021: 53%), which compared unfavourably with Fast Credit's 47% for the same period. Based on unaudited accounts for the six months to June 2023, the CIR improved to 66% due largely to increased earnings. We expect the CIR to improve moderately in the near term as Fewchore Finance accesses cheaper funds and implements cost optimisation initiatives such as early office closure to reduce funding and energy costs.

During the 2022 financial year, the Company recorded a profit before tax (PBT) of ₦238 million (2021: ₦254 million). This translated to lower pre-tax return on average assets (ROA) and pre-tax return on average equity (ROE) of 3.4% (2021: 5.2%) and 18% (2021: 22.9%) respectively. Fewchore Finance's ROA and ROE compared unfavourably to peer, Fast Credit's 16.8% and 112% and Credit Direct's 11.8% and 47% respectively for the same period. FFCL's ROE was also slightly below the 12-month average inflation rate of 18.8% in 2022. Based on unaudited accounts for the six months to 30 June 2023, pre-tax profit was ₦204 million, representing 35% of the full year budget while annualised ROA and ROE improved and were in line with our expectations at 4.3% and 26.8% respectively. We expect the Company's profitability ratios to improve

¹ Measured by net earnings less loan loss provisions to operating expenses

moderately in the near term as cheaper funding is secured and lending activities peak in the second half of the year. However, the inability of Fewchore Finance to reprice lending rates in line with the rising yield environment will remain a threat to the sustainability of earnings.

Figure 2: Profitability Peer Comparison



Source: Fast Credit Limited and Fewchore Finance Company Limited

In our opinion, Fewchore Finance's profitability is acceptable.

CAPITAL & LEVERAGE

As at 31 December 2022, Fewchore Finance had shareholders' funds of ₦1.4 billion, which was significantly higher than the minimum regulatory requirement of ₦100 million for finance companies. The Company's shareholders' funds have recorded a marked increase due to the capitalisation of deposit for shares of ₦465 million in the review year and accretion to reserves. The core capital had a good composition, primarily comprising revenue reserves (41%), share premium (32%) and share capital (7%) while other reserves accounted for a smaller balance (20%). As at the 2022 FYE, FFCL's capital adequacy ratio stood at 18.2% (2021: 15.6%), which was better than the regulatory minimum of 12.5% but compared unfavourably to Fast Credit's and Credit Direct's 27.4% and 23.3% respectively for the same period. Based on unaudited accounts as at 30 June 2023, Fewchore Finance had shareholders' funds of ₦1.6 billion while CAR remained in line with our expectation at 18%.

As at the 2022 FYE, FFCL had a debt-to-equity ratio of 4.7 times (2021: 4.0x), which was below the regulatory threshold of 10x for finance companies. Based on unaudited accounts as at 30 June 2023, the Company's debt to equity ratio was higher at 5.6x. However, we expect this ratio to rise significantly but remain below the regulatory threshold in the near term as Fewchore Finance issues a ₦5 billion commercial paper in Q4'2023.

In our opinion, the Company's capital is adequate for current business risks while leverage is satisfactory.

LIQUIDITY & FUNDING

Fewchore Finance primarily funds risk assets with proceeds of short-term debt notes issued to HNIs and mid-sized companies and overdrafts from banks. As at 31 December 2022, FFCL had borrowings of ₦6.5 billion, which funded 81% of total assets and represented a 37% increase from the prior period. The growth was supported by the competitive rates offered to HNIs and institutional investors. In the review period, the Company also drew on an overdraft line with a commercial bank to provide a liquidity buffer. Consequently, Fewchore Finance recorded a weighted average cost of funds (WACF) of 14.4%, which was higher than Credit Direct's 14.1% but notably better than peer Fast Credit's 17.4%. In the near term, we expect FFCL's WACF to rise moderately as yields trend upwards in the financial markets following multiple increases in the CBN's benchmark rate in 2022-2023.

As at 31 December 2022, investments from HNIs accounted for the bulk of FFCL's short-term debt notes with 73% while funding from mid-sized corporates made up the smaller balance of 27%. There was significant concentration in the borrowings, with the top 10 investors contributing 59% of the total and funding a sizeable 46% of total assets. We believe that this level of concentration and reliance on funding from a small group of yield-hunting investors leaves the Company susceptible to a significant gap in the event of withdrawals. We however note that Fewchore Finance plans to reduce reliance on HNIs by diversifying the funding base via the issuance of commercial papers in Q4'2023. As at the 2022 FYE, FFCL's borrowings were skewed towards the short end, with 50% maturing within 180 days. Notwithstanding, the maturities of the borrowings adequately matched the maturities of the loans in all but the 0-90 days bucket. However, the excess funding in the above 180 days buckets was sufficient to cover the funding gap, which mitigated the exposure to repricing risk. Based on unaudited accounts as at 30 June 2023, borrowings stood at ₦8.7 billion, representing a 34% rise from 2022 as the Company continued to offer attractive rates for funding to drive loan book growth.

Table 5: Funding Gap Analysis

	0-90 days	91-180 days	181-360 days	>360 days
Loans	4,823,325	229,150	66,550	14,308
Borrowings	430,116	2,767,418	3,147,028	46,753
Gap/(Excess)	4,393,209	(2,538,268)	(3,080,478)	(32,445)
Cumulative Gap/(Excess)	4,393,209	1,854,941	(1,225,537)	(1,257,982)

As at the 2022 FYE, Fewchore Finance had liquid assets of ₦1.9 billion and a liquidity ratio of 30.6%, which was better than the regulatory minimum of 10% for finance companies and peer, Credit Direct's 26.6% but compared unfavourably to Fast Credit's 43.8% and for the same period. FFCL had overdraft lines of ₦2 billion from two commercial banks to provide a funding buffer, which is satisfactory in our view. As at June 2023, only 1% of the lines had been drawn. We expect the Company's liquidity ratio to remain above the CBN minimum in the near term.

In our opinion, Fewchore Finance's funding and liquidity profile can be improved upon.

OUTLOOK

In the second quarter of 2023, Nigeria posted a 2.51% year-on-year real GDP growth, marking an improvement from the previous quarter's 2.31%, primarily attributed to the service sector. However, the annual inflation rate continued on an upward trajectory, reaching 25.8% in August; the highest level in 18 years, leading to lower disposable income and heightened credit risk. To combat the persistent inflation, the CBN has implemented multiple interest rate hikes, with the benchmark rate reaching 18.75% in July. This has resulted in elevated yields in the financial markets. While the declining purchasing power and disposable income are likely to drive a surge in demand for credit from businesses and households, it will also lead to a concurrent rise in the risk of loan defaults.

Fewchore Finance's growth strategy in the near to medium term focuses on leveraging FinTech platforms to drive expansion in the retail lending space while deepening the footprint and expanding the client base in the core target markets. Despite significant disruptions in the oil & gas sector, we expect asset quality to remain satisfactory with stable NPL ratio. We expect profitability to improve moderately driven by increased lending activities and access to relatively cheaper funding from the money market. We believe that the Company's capital will remain adequate for business risks while leverage will remain satisfactory in the near term. We expect FFCL's funding profile to improve moderately in the near term following the proposed ₦5 billion commercial paper issuance in Q4'2023.

Based on the aforementioned, we hereby attach a '**stable**' outlook to the rating.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION	31-Dec-20		31-Dec-21		31-Dec-22	
	₹'Mn		₹'Mn		₹'Mn	
ASSETS						
Cash & equivalents	505	13.7%	1,566	25.8%	791	9.8%
Marketable securities	167	4.5%	401	6.6%	150	1.9%
Placements					1,012	12.5%
Liquid Assets	673	18.2%	1,967	32.4%	1,954	24.1%
Direct loans and advances - Gross	2,868	77.5%	3,765	62.1%	5,133	63.3%
Less: Cumulative loan loss provision	(144)	-3.9%	(76)	-1.3%	(125)	-1.5%
Total Loans - Net	2,724	73.6%	3,689	60.8%	5,007	61.8%
Interest receivables	157	4.2%	206	3.4%	408	5.0%
Other receivables	34	0.9%	52	0.9%	224	2.8%
Total other assets	191	5.2%	259	4.3%	633	7.8%
Total Fixed Assets & Intangibles	110	3.0%	149	2.5%	127	1.6%
Total Assets	3,699	100.0%	6,065	100.0%	8,104	100.0%
CAPITAL & LIABILITIES						
Tier 1 Capital (Core Capital)	994	26.9%	1,226	20.2%	1,420	17.5%
Short-term borrowings	2,650	71.6%	4,763	78.5%	6,391	78.9%
Taxation payable	26	0.7%	35	0.6%	82	1.0%
Other accounts payable	28	0.8%	24	0.4%	56	0.7%
Overdraft	-	-	-	-	154	1.9%
Total Capital & Liabilities	3,699	100.0%	6,065	100.0%	8,104	100.0%

INCOME STATEMENT FOR THE YEAR ENDED	31-Dec-20		31-Dec-21		31-Dec-22	
	₦' Mn		₦' Mn		₦' Mn	
Interest income	801	89.4%	1,419	96.2%	2,219	95.2%
Interest expense	(411)	-45.8%	(898)	-60.9%	(1,472)	-63.1%
Loan loss expense	(56)	-6.4%	(37)	-2.6%	(48)	-2.1%
Net Interest Income	333	37.2%	483	32.8%	698	29.9%
Fees & Commissions	21	2.5%	18	1.3%	28	1.2%
Other Income	73	8.2%	37	2.5%	84	3.6%
Net Earnings	428	47.8%	539	36.6%	811	34.8%
Staff costs	(57)	-6.4%	(79)	-5.4%	(110)	-4.7%
Depreciation expense	(19)	-2.1%	(36)	-2.5%	(52)	-2.3%
Other operating expenses	(174)	-19.5%	(169)	-11.5%	(409)	-17.6%
Total Operating Expenses	(250)	-27.9%	(285)	-19.3%	(573)	-24.6%
Profit (Loss) Before Taxation	178	19.9%	254	17.2%	238	10.2%
Tax (Expense) Benefit	(16)	-1.8%	(19)	-1.3%	(60)	-2.6%
Profit (Loss) After Taxation	162	18.1%	234	15.9%	177	7.6%
Gross Earnings	896	100.0%	1,475	100.0%	2,332	100.0%
Auditors	Olayinka Oyebola & Co.		Olayinka Oyebola & Co.		Deloitte	
Opinion	CLEAN		CLEAN		CLEAN	

KEY RATIOS	31-Dec-20	31-Dec-21	31-Dec-22
PROFITABILITY & EARNINGS			
Net interest margin	48.7%	36.7%	33.7%
Loan loss expense/Interest income	7.1%	2.7%	2.2%
Operating expenses/Net earnings	58.5%	52.9%	70.7%
Return on average assets	12.1%	5.2%	3.4%
Return on average equity	52.3%	22.9%	18.0%
EARNINGS MIX			
Net Interest Income	77.8%	89.7%	86.1%
Fees & Commissions	5.1%	3.4%	3.5%
Other income	17.1%	6.9%	10.4%
EFFICIENCY INDICATORS			
Operating expenses/average loan portfolio	12%	9%	13%
Adjusted operating expenses/average loan portfolio	11%	8%	12%
LIQUIDITY & FUNDING			
Direct & indirect loans/Total assets & contingents	73.6%	60.8%	61.8%
Total loans - net/Total lcy deposits	69.4%	54.9%	64.1%
Inter-bank takings/Total loans - net	97.3%	129.1%	127.6%
Borrowings (₺'Mn)	(2,650)	(4,763)	(6,391)
Liquid assets/Net inter-bank takings	25.4%	41.3%	30.6%
ASSET QUALITY RATIOS			
Performing Loans (₺'Mn)	2,805	3,704	5,053
Portfolio at Risk (₺'Mn)	63	61	79
Portfolio at Risk /Total loans - Gross	2.2%	1.6%	1.5%
Loan loss provision/Total loans - Gross	5%	2%	2.4%
Loan loss provision/Portfolio at Risk	227%	124%	158%
CAPITAL ADEQUACY & LEVERAGE RATIOS			
Adjusted capital/risk weighted assets	24%	15.6%	18.17%
Tier 1 capital/Adjusted capital	100%	100%	100%
Adjusted Capital / Net Loans	2.80	3.09	3.60
Core capital unimpaired by losses (₺'Mn)	994	1,226	1,420
STAFF INFORMATION			
Average number of employees	50	68	49
Staff cost per employee (₺'Mn)	1.1	1.2	2.3
Net earnings per staff (₺'Mn)	8.6	7.9	16.5
Staff cost/Net earnings	13.3%	14.7%	13.6%
Staff costs/Operating expenses	22.8%	27.7%	19.3%

RATING DEFINITIONS

Aaa	A financial institution of the best financial condition and strongest capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
Aa	A financial institution of very good financial condition and strong capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
A	A financial institution of good financial condition and strong capacity to meet its obligations relative to all other issuers in the same country.
Bbb	A financial institution of satisfactory financial condition and adequate capacity to meet its obligations as and when they fall due relative to all other issuers in the same country.
Bb	A financial institution with satisfactory financial condition but limited capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
B	A financial institution with weak financial condition and weak capacity to meet obligations as and when they fall due relative to all other issuers in the same country.
C	A financial institution with very weak financial condition and very weak capacity to meet obligations as and when they fall due are relative to all other issuers in the same country.
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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