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microcred

PRESS RELEASE:

Microcred Senegal's ratings review

WARA affirms Microcred Senegal's long-term rating at BBB; outlook revised to "positive"

Microcred Senegal (MCS), the second largest microfinance institution in Senegal by the size of its credit portfolio, is still rated BBB by WARA. The outlook is revised to "positive" from "stable".

Dakar, 28/09/17 — **West Africa Rating Agency** (WARA) announces today the publication of its rating review on Microcred Senegal (**MCS)**. On WARA's regional rating scale, the long-term rating of MCS is affirmed at '**BBB**', in the investment-grade category, while its short-term rating remains '**w-4**'. The ratings reflect MCS's rapid success, balanced growth and healthy financial performance. MCS has managed to position itself as a major Decentralized Financial System (DFS) in Senegal. The outlook is revised to **positive** from stable.

At the same time, on its international scale, WARA affirms MCS ratings and revises its outlook; the ratings thus become: iB/Positive/iw-6.

WARA justifies these ratings by the fact that MCS's governance is rigorous: shareholder's appetite for risk is moderate, incentives and control mechanisms are well executed, and management is prudent. In addition, MCS's competitive positioning is not only already robust, but it also tends to improve: ranking second in terms of the size of its credit portfolio, MCS does not hide its ambition to become the domestic leading player in the medium term. Furthermore, MCS's financial performance is strong: despite a still high cost-to-income ratio, MCS's margins are fat and its policy to systematically reinvest it earnings allows it to internally build up the capital necessary to support its steady growth pace. MCS's credit portfolio is granular and its quality is excellent: notwithstanding the absence of geographic diversification beyond the borders of Senegal, MCS's credit portfolio is highly diversified, be it by sector or counterpart. Moreover, its portfolio at risk (PAR) is the lowest in the market, and its provisioning policy is particularly conservative. Finally, the group's operating support is permanent: thanks to two agreements with the Paris-based holding company of Microcred Group, MCS receives unabated external technical assistance, and can, when needed, benefit from its parent's support in terms of funding. This is a key competitive advantage. Having said that, the macroeconomic environment in Senegal remains fragile and volatile. Indeed, the country is still dependent on its primary sector, where international prices are under pressure; directly or indirectly, microfinance institutions' balance sheets naturally reflect this risk of a structural nature. Consequently, the amount of credit risk carried by micro-financial portfolios tend to be potentially high and cyclical. MCS's business model also puts its liquidity under pressure. On the liability side, raising savings remains a difficult task, whereas on the asset size, the balance sheet is actively used; as a result, asset and liability management is not an easy thing for MCS, which dependence vis-à-vis lending banks is high. This risk is however mitigated by the fact that long-tenor resources fund short-dated assets, which enjoy quick rotation rates. MCS would likely benefit from a more holistic approach to the management of the risks it faces (be they financial, operational, regulatory, legal or tax risks). Finally, MCS is subject to regular pressure on its human and capital resources.

The outlook attached to MCS's ratings is positive.

An upgrade of MCS's rating depends on: i) a structural improvement in Senegal's macroeconomic environment; ii) the success of its "mass market" strategy, which consists on offering innovative products to new client communities, via alternative distribution channels; iii) its stronger capacity to raise domestic savings, in order to dilute the risk of dependence towards domestic banks and international lenders; and iv) the gradual reinforcement of its equity base, in the context of ambitious and sustained balance sheet growth, where credit exposures hold the lion's share.

A downgrade of MCS's would be the consequence of: i) a gradual decline of market share in either deposits or loans, or the human resource risk materializing, especially in case MCS loses a high number of talents to competitors; ii) heightened volatility within the domestic macroeconomic environment, which in turn would lead to an inflated PAR; iii) a strategy that WARA would consider excessive in terms of financial leverage, capable of weakening the institution's position in terms of capital or liquidity; iv) either one agreement or the other between MCS and its parent group being called off; v) the incremental emergence of concentration risks in the credit portfolio; or vi) a governance framework that would be viewed by WARA as more lenient, especially when it comes to audit, compliance and field controls.

With a **positive** outlook, WARA signals that the probability of favorable scenarios is higher to that of unfavorable ones in the medium term, which means in other words that MCS's ratings carry more chances of upgrades than risks of downgrades, under the constraint of Senegal's national ceiling, which WARA currently keeps at 'A-'.

The methodology that WARA uses for the rating of MCS is that for banks, published for the first time on the 15th of July 2012, subsequently revised in September 2016, and available on WARA's website: www.emergingmarketsratings.com

The sources of information used WARA for the rating of MCS are essentially non-public pieces of information obtained during a series of meetings with the management of MCS, in the course of May 2017. This information, together with sources in the public domain, are considered by WARA as relevant and sufficient to carry out MCS's ratings.

Finally, WARA emphasizes that the ratings of MCS are solicited and participating, i.e. they are the result of a rating request from MCS, and that the management team of the company has had active and transparent collaboration with WARA's analytical team.

MCS's long-term rating of '**BBB**' is 1 notch above the minimum rating accepted by CREPMF for issuing debt without a third-party guarantee.

The full rating report is available on request via email: infos@rating-africa.org

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