DavoDani Microfinance Bank Limited

Entity Rating:

Bb+

Outlook: Stable
Issue Date: 04 April 2024
Expiry Date: 30 June 2024
Previous Rating: NA

Industry:
Microfinance

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RATING RATIONALE

Agusto & Co. hereby assigns a "**Bb+**" rating to DavoDani Microfinance Bank Limited ("DavoDani MFB", "the MFB" or "the Bank"). The rating reflects DavoDani MFB's good profitability, adequate capitalisation and experienced management team. However, the rating is constrained by the MFB's high ratio of non-performing loans (NPLs) to gross loans, concentration in the deposit base, rapid loan book growth in a period of economic stress and considerable reliance on expensive tenored funds in a rising yield environment.

DavoDani MFB is licensed by the Central Bank of Nigeria (CBN) to operate as a state microfinance bank in Lagos State. The MFB provides services including short-term loans to small businesses operating in the Nigerian trade and commerce sector. As at 31 December 2022, the Bank's total assets stood at ₦4.2 billion, with gross loans and advances of ₦3.4 billion constituting the bulk at 80.6%. DavoDani MFB's loans showed considerable concentration to the trade & commerce sector, which constituted the bulk of exposures at 92.5% of the portfolio while other sectors, including health and tourism, made up a small balance of 7.5%. Although the concentration to the trade & commerce sector is consistent with the MFB's lending strategy, we believe that the portfolio's performance is overly vulnerable to the challenges in the macro environment, such as the persistent depreciation of the Naira and elevated inflation, which have led to a decline in consumer demand. Agusto & Co. believes that the Bank would benefit from having a portfolio with greater sectoral distribution, which is more resilient to macroeconomic headwinds.

As at the 2022 FYE, DavoDani MFB's portfolio-at-risk (PAR) stood at ₦339 million (2021: ₦98 million), which translated to a non-performing loans to gross loans ratio of 10.1% (2021: 4.8%), higher than our benchmark and the regulatory threshold of 5%. The significant deterioration in the MFB's NPL ratio reflects the increasing defaults arising from the rapid loan book growth in an adverse macro environment. The cumulative loan loss provision and regulatory reserves covered 42.4% of NPLs, with the portion not provided for amounting to 11.7% of shareholders' funds, indicating little buffer for future losses. Based on unaudited accounts as at 31 December 2023, NPLs to gross loans ratio improved to 6.0%, which was masked by