

**Rating Action: Moody's assigns Ba3/NP issuer ratings to Letshego Holdings (Botswana)**

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Global Credit Research - 07 Jun 2011

**First-time ratings**

Limassol, June 07, 2011 -- Moody's Investors Service has today assigned the following issuer ratings to consumer financial services provider Letshego Holdings Limited (Letshego): long and short-term global scale ratings of Ba3/Not-Prime. All ratings carry a stable outlook.

**RATINGS RATIONALE**

Moody's notes that the ratings reflect Letshego's (i) niche, but narrow franchise in Botswana and its growing presence in the sub-Saharan region; (ii) developing regulatory status; (iii) concentrated and vulnerable funding base; and (iv) rapid growth model in consumer lending to the formally employed. The ratings also reflect the company's historically strong net interest income generation, efficient operations, low leverage and good credit performance.

Letshego was founded in 1998 and has grown rapidly due to its efficient credit management infrastructure, which has ensured a fast credit approval and disbursement process. It has also built a good level of insight into the consumer lending business and an expansionary model into Africa. The ratings take into account the company's good presence in its business niche, which is, nevertheless, subject to high credit risk given that the loans are typically extended to low-income customers. Although loans are unsecured, Moody's notes that the payroll deduction model, which the company uses across all markets in which it operates, ensures the repayment of the loans directly from the employer. Moreover, the vast majority of clients are government employees, which, to some extent, further mitigates the risks of a customer non-payment. As a result, Letshego has kept credit costs at relatively low levels, accounting for 1.68% of the total loan book at financial year-end 2011. Nonetheless, the rapid credit growth which averaged at around 50% annually in the past five years and the lengthening of the maturity of the credit portfolio could eventually lead to higher-than-historical impairment levels.

Despite the expansion of Letshego's African footprint in recent years, its franchise remains small (with group assets of USD353 million at end-January 2011) and is vulnerable to increasing competitive pressures from local banks that have started to target the same business segment as Letshego. Furthermore, the ratings take into consideration the still developing regulatory frameworks which are lacking in most countries in which the company operates, including Botswana. Moody's also observes that operating conditions, including corruption, rule of law and government financial strength (as per World Bank guidance) vary widely from country to country, and expose Letshego to operational and country-specific risks.

Letshego's financial fundamentals are good, as reflected in the company's strong earnings power (with RoAA of 22% as at January 2011), low debt leverage and high capitalisation (with shareholders' equity-to-total assets ratio of 72% as of January 2011). However, Letshego's liquidity and funding are key challenges and represent a constraint to the company's ratings. To this end, Moody's believes that the company needs to take further steps to diversify and broaden its funding base in order to ensure the sustainability of the inflow of funds.

**PRINCIPAL METHODOLOGIES**

The principal methodology used in this rating was Analyzing The Credit Risks Of Finance Companies published in October 2000.

Letshego Holdings Limited is headquartered in Gaborone of Botswana and, as at 31 January 2011, had total assets of BWT2.427 billion (USD353 million).

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Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

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