

OnlineKazFinance Microfinance Organization LLP

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OnlineKazFinance Microfinance Organization LLP

SACP: b-



Support: 0



Additional factors: 0

Anchor	b	
Business position	Moderate	-1
Capital and earnings	Adequate	+1
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
B-/Stable/B

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	Key risks
Relatively high level of digitalization	Rapid growth levels
Adequate levels of capitalization	Focus on more risky segments of clientele
Adequately priced risks	Relatively modest business volumes

Issuer Credit Rating
B-/Stable/B
<i>Kazakhstan National Scale</i>
kzBB-/--/--

We expect OnlineKazFinance Microfinance Organization LLP to continue expanding its operations in Kazakhstan, including plans to obtain a banking license. The latter, planned for 2023, can become a credit positive event supporting OnlineKazFinance's funding profile and pricing power. It will likely take time for positive effects to materialize, however.

We expect OnlineKazFinance's cost of risk to gradually improve in the long run. OnlineKazFinance will gradually build a base of recurring clients and move toward more prime segments of the market if the banking license allows it to reduce its cost of funds.

In 2022 IDF Holding carved out its Kazakhstan business. A new holding company, Solva Group Ltd., has been established in Astana International Financial Centre (AIFC) for the Kazakhstani operations of IDF Holding. Shareholders of IDF Holding now hold shares of Solva Group directly. OnlineKazFinance is the main operating entity of this new holding.

Outlook

The stable outlook on the rating reflects our view that the benefits OKF may receive from the banking license will balance ongoing execution risks related to its evolving business model and risk appetite over the next 12-18 months.

Downside scenario

We may lower the rating if we observe OKF's asset quality rapidly deteriorating, creating risks for creditors. We may also take a negative action if we see an increase in operational risks related to trans-border payments.

Upside scenario

We may raise the rating over the next 12-18 months if we perceive that OKF's progress toward a fully licensed bank is complemented with successful expansion of its digital offering of settlement products. At least adequate capitalization and consistent asset quality will be prerequisites for a positive rating action, along with a diversified and stable funding profile closer to that of conventional banks.

Key Metrics

OnlineKazFinance Microfinance Organization LLP--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue	218.6	10.4	60-65	75-80	18-22
Growth in customer loans	97.1	69.0	40-50	75-85	18-22
Net interest income/average earning assets (NIM)	27.4	16.6	16-18	18-20	15.5-17
Cost to income ratio	2.7	30.1	32-38	29-33	29-33
Return on assets	7.8	8.1	7.25-7.75	8.5-9.5	6.5-7.5
New loan loss provisions/average customer loans	19.2	7.8	7.75-8.25	7.5-8.0	7.5-8.0
Risk-adjusted capital ratio	3.7	4.8	8.25-8.75	8.0-8.5	8.5-9.0

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

Anchor: 'b' For Microfinance Companies Operating In Kazakhstan

The nonbank financial institution (NBFI) anchor for Kazakhstan is 'b', which is one notch below the anchor for domestic banks. The lower anchor relative to banks reflects the lack of central bank access, lower regulatory oversight, and higher competitive risk relative to banks. It also reflects the industry dynamics for financial companies operating in the country. NBFIs in Kazakhstan are subject to some leverage and capital adequacy ratios, along with some degree of oversight from the Agency for Regulation and Development of the Financial Markets, which we believe provides some degree of protection for creditors. In addition, although domestic banks also face heightened competitive risks, we

believe financial companies face incrementally stronger competition due, in part, to more limited funding options to finance their business model.

Business Position: A Challenger In Kazakhstani Financial Market

OnlineKazFinance is a challenger institution in the Kazakhstan context, with a total lending portfolio of about Kazakhstani tenge (KZT) 65.9 billion (about US\$145 million) on a stand-alone basis as of April 1, 2022, or about KZT75.7 billion (US\$161 million) together with a sister payday lending company. Despite OnlineKazFinance's relatively small size in nominal terms, it ranks No.4 in the Kazakh microfinance market (and No.1 in unsecured consumer lending) and estimates its market share at about 3% in micro-, small-, and midsize enterprises (MSMEs) and 1.5% in unsecured consumer lending among banks and multilateral financial institutions. The group seeks to roughly double its market share in these segments over the next few years by obtaining a banking license and expanding its product offering to settlement products.

OnlineKazFinance considers its strong digital offering to be its key competitive advantage because a rapid decision-making process and short time-to-money span adds to customers' loyalty and increases the share of recurrent clients. Recurrent clients reportedly reached 40% in May 2022 compared with 28% in 2021. The group is also entrepreneurial, adopting new products including Islamic finance and gradually testing card products through a white-labeling with RBK bank.

We consider OnlineKazFinance's management and governance to be adequate in the Kazakhstani context. As an active debt issuer in the Kazakhstan Stock Exchange and at Mintos, a peer-to-peer platform, is rather transparent. Although we understand that the founding shareholders of IDF Holding, Boris Batine and Alexander Dunaev retain their controlling stakes in the company, we do not see material risks stemming from the entrepreneurial ownership, as there are significant minority stakes owned--jointly or individually--by other individuals, and the corporate governance structure seems to be robust. We note, however, that OnlineKazFinance displays an aggressive growth strategy because it is still in an early stage of development.

Capital And Earnings: Adequate Owing To Planned Conversion Of Subordinated Debt

Our assessment of OnlineKazFinance's capital and earnings reflects an expected risk-adjusted capital ratio of 8.0%-8.5%, a sharp improvement from about 4.8% observed at year-end 2021. This improvement mostly comes from the fact that we expect existing subordinated debt at OnlineKazFinance (KZT6.5 billion or about US\$15 million as of Dec. 31, 2021) to be converted into equity upon the entity's transformation from a limited liability partnership to a joint-stock company by the end of 2022, a first step toward a banking license.

We currently do not consider OnlineKazFinance's existing subordinated debt to have equity content, even though the loans have some loss absorbing features, such as optional coupon suspension and unilateral maturity extension--introduced to mimic a perpetual feature. That being said, these loans are from the shareholders and most of them have relatively short effective maturity dates of five years.

Our projections assume the following:

- 40%-45% growth of the loan book in 2022 and 80% growth in 2023 after OnlineKazFinance receives its banking license.
- The net interest margin (NIM) will experience a slight boost in 2022-2023 thanks to increasing share of international financial institutions' lending in 2022 and the banking license in 2023. NIM will likely decline because OnlineKazFinance's focus will inevitably shift toward lower rate products to become more comparable with the existing retail offerings of competitors Bank Home Credit, Kaspi Bank, and Halyk Bank.

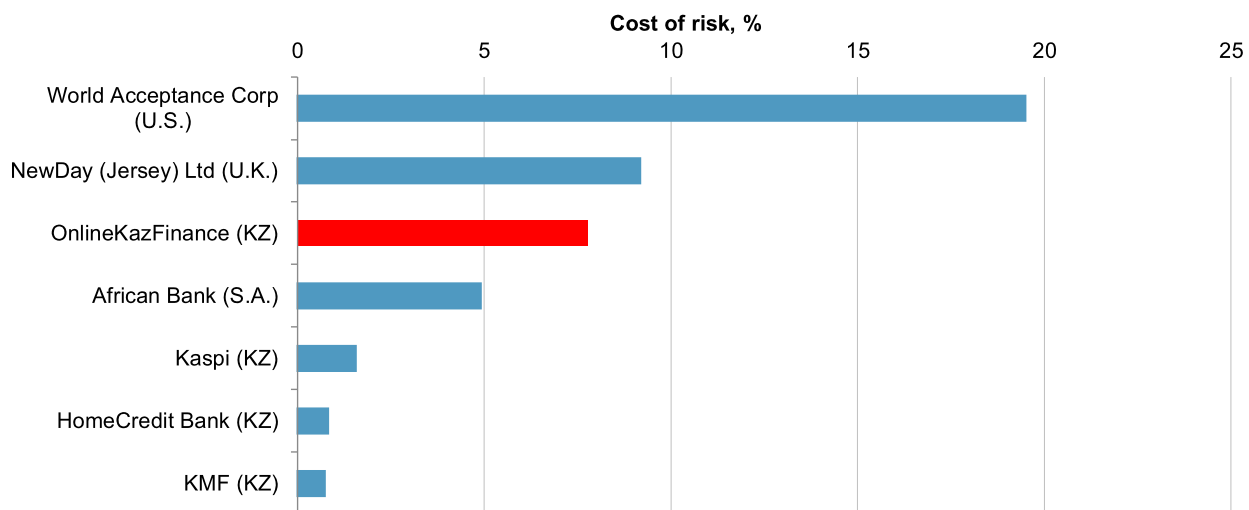
Risk Position: High Risk Clientele And Rapid Growth

OnlineKazFinance operates in a high-risk segment as evidenced by a cost of risk of about 8%, much higher than that of retail-focused banks in Kazakhstan, although it is gradually moving toward near-prime segments. It is also in a high growth mode, with lending book compound annual growth rate expected to be at about 60% over 2022-2023. Although such growth rates are not uncommon among financial institutions in early stages of development, they are typically associated with higher chances of increased cost of risk relative to the firm's expectations.

This is somewhat balanced by the fact that this lending seems to be well priced: with net interest margin of 16% in 2021 (8% after adjusting for risk) credit costs would have to more than double for OnlineKazFinance to suffer a loss. Moreover OnlineKazFinance scoring is built based on IDF Holding's experience in the wider range of countries. We also believe that as OnlineKazFinance increases the share of recurring customers, its cost of risk will gradually improve. We also note that OnlineKazFinance benefits from relatively good inhouse collection that achieves recovery of about 50% in default.

OnlineKazFinance's Cost Of Risk Is High Compared With Most Peers

Cost of risk, 2021



f--Forecast. KZ--Kazakhstan. S.A.--South Africa. Source: S&P Global Ratings.
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Funding And Liquidity: Amortized Loan Portfolio Reduces Liquidity Pressure

We consider OnlineKazFinance's funding and liquidity profiles to be adequate, despite relatively modest headline funding and liquidity metrics. There are few reasons for that, notably:

- OnlineKazFinance's loan portfolio is relatively short term. While the group extends consumer loans of up to five years and MSME loans of up to three years, amortization schedules (40% of the book has effective maturity within one year) and high interest rates result in a steady inflow of funds.
- The funding attracted at Mintos and other investment platforms is linked to specific loans extended and diversified similar to retail deposits. Moreover, portfolio management strategies offered by Mintos and other similar programs imply a material portion of rollover funding.

Support: No Uplift To The SACP

In 2022 IDF Holding carved out its Kazakhstan business and established a new holding company, Solva Group Ltd., and transferred it to its shareholders. We believe that OnlineKazFinance, which is the main operating entity of this new holding, is sufficiently insulated from activities in other countries, including Russia, despite having the same Russian shareholders.

Additional Rating Factors

No additional factors affect this rating.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
- N/A					- N/A					- Transparency and reporting - Risk management, culture, and oversight.				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental and social factors have a neutral impact on our view on OnlineKazFinance's creditworthiness. Although the company recognizes possible social impacts on its activities and is focusing on enabling female entrepreneurs, for example, and reducing its carbon footprint, among other activities, we believe these factors have marginal impact on its creditworthiness. Governance factors are a moderately negative factor in our view. OnlineKazFinance's corporate

governance practices compare favorably with those of some local peers, but we believe the company is not immune from the weaknesses in governance and transparency we have observed in Kazakhstan over the past few years.

Key Statistics

Table 1

OnlineKazFinance Microfinance Organization LLP--Business Position				
--Fiscal year end Dec. 31--				
(%)	2021	2020	2019	2018
Total assets	66,662.6	43,425.1	19,153.3	5,729.9
Gross receivables	64,311.8	38,066.5	19,317.5	6,339.5
Operating revenues	13,212.1	11,963.5	3,755.0	1,223.1
Net income after extraordinary	4,449.4	2,450.0	1,180.5	(143.1)
% Change in operating revenue	10.4	218.6	207.0	N.M.
Net interest margin (%)	16.6	27.4	21.7	N/A

N/A--Not applicable. N.M.--Not meaningful.

Table 2

OnlineKazFinance Microfinance Organization LLP--Capital & Earnings				
--Fiscal year end Dec. 31--				
(%)	2021	2020	2019	2018
Debt/ATE (x)	8.0	7.3	6.9	14.2
Adjusted common equity/total adjusted capital (%)	100.0	100.0	100.0	100.0
Noninterest expenses/operating revenues (%)	30.1	26.8	15.0	46.6
Net interest income/operating revenues (%)	64.1	67.1	77.6	59.9
Fee income/operating revenues (%)	30.2	27.6	21.5	46.1
Return on average assets (%)	8.1	7.8	9.5	N/A
Core earnings/average managed assets (%)	8.1	7.8	9.5	N/A

N/A--Not applicable.

Table 3

OnlineKazFinance Microfinance Organization LLP Risk-Adjusted Capital Framework Data			
(Mil. KZT)	Exposure*	S&P Global RWA	Average S&P Global RW (%)
Credit risk			
Government & central banks	2,671	0	0
Of which regional governments and local authorities	0	0	0
Institutions and CCPs	0	0	87
Corporate	0	0	501
Retail	61,236	102,059	167
Of which mortgage	0	0	0
Securitization§	0	0	0
Other assets†	3,598	8,994	250

Table 3

OnlineKazFinance Microfinance Organization LLP Risk-Adjusted Capital Framework Data (cont.)			
Total credit risk	67,505	111,054	165
Credit valuation adjustment			
Total credit valuation adjustment	--	0	--
Market Risk			
Equity in the banking book	0	0	0
Trading book market risk	--	0	--
Total market risk	--	0	--
Operational risk			
Total operational risk	--	24,773	--
(Mil. KZT)	Exposure	S&P Global RWA	% of S&P Global RWA
Diversification adjustments			
RWA before diversification	--	135,827	100
Total Diversification/ Concentration Adjustments	--	57,225	42
RWA after diversification	--	193,051	142
(Mil. KZT)		Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio			
Capital ratio before adjustments		6,465	4.8
Capital ratio after adjustments†		6,465	3.3

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. KZT -- Kazakhstran Tenge. Sources: Company data as of Dec. 31 2021, S&P Global Ratings.

Table 4

OnlineKazFinance Microfinance Organization LLP--Risk Position				
	--Fiscal year end Dec. 31--			
(%)	2021	2020	2019	2018
Growth in gross receivables (%) (YoY)	68.95	97.06	204.72	N.M.
Nonperforming assets/receivables + other real estate owned (%)	5.09	6.80	6.68	9.34
Net charge-offs/average gross receivables (%)	1.03	0.06	N/A	N/A
New loan loss provisions/average gross receivables (%)	7.80	19.20	13.58	N/A
Loan loss reserves/gross receivables (%)	4.78	8.80	10.74	13.78
Loan loss reserves/gross nonperforming assets (%)	93.91	129.43	160.81	147.59

N/A--Not applicable.

Table 5

OnlineKazFinance Microfinance Organization LLP--Funding & Liquidity				
	--Fiscal year end Dec. 31--			
(%)	2021	2020	2019	2018
Stable funding ratio (%)	71.41	71.27	51.69	25.09
Liquidity coverage metric (x)	0.21	0.29	0.07	0.02

Table 5

OnlineKazFinance Microfinance Organization LLP--Funding & Liquidity (cont.)				
--Fiscal year end Dec. 31--				
(%)	2021	2020	2019	2018
Stable funding ratio (%)	71.41	71.27	51.69	25.09
Liquidity coverage metric (x)	0.21	0.29	0.07	0.02

Microfinance organization OnlineKazFinance LLP--Rating Component Scores	
Issuer Credit Rating	B-/Stable/B
SACP	b-
Anchor	b
Economic risk	
Industry risk	
Business position	Moderate
Capital and earnings	Adequate
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Group Rating Methodology , July 1, 2019

- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Kazakhstan-Based OnlineKazFinance Ratings Raised To 'B-' On Corporate Restructuring; Off CreditWatch; Outlook Stable, July 26, 2022

Ratings Detail (As Of August 30, 2022)*

OnlineKazFinance Microfinance Organization LLP

Issuer Credit Rating	B-/Stable/B
<i>Kazakhstan National Scale</i>	kzBB-/--/--

Issuer Credit Ratings History

26-Jul-2022		B-/Stable/B
14-Apr-2022		CCC+/Watch Dev/C
31-Aug-2021		B/Stable/B
26-Jul-2022	<i>Kazakhstan National Scale</i>	kzBB-/--/--
14-Apr-2022		kzB+/Watch Dev/--
31-Aug-2021		kzBB+/-/--

Sovereign Rating

Kazakhstan	BBB-/Stable/A-3
<i>Kazakhstan National Scale</i>	kzAAA/--/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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