



Affordable Housing in Kenya, & Cytonn Weekly #16/2018

Private Equity

Tala, a mobile-based lending firm headquartered in California has raised Kshs 6.5 bn (USD 64.8 mn) in Series C funding (the third round of capital injection from external investors). Tala has operations in Kenya, Tanzania, USA and the Philippines. The funding is to be spent on product development and personnel development ahead of the planned product launch in Mexico and India later this year. Tala raised Kshs 1.0 bn (USD 10.0 mn) in Series A funding on Sep 3rd, 2015, Kshs 3.0 bn (USD 29.9 mn) in Series B funding on Feb 22nd, 2017, bringing the total amount raised since it began its operations to Kshs 10.5 bn (USD 104.7 mn). Tala's latest funding comprised of Kshs 5.0 bn (USD 49.9 mn) in equity funding and Kshs 1.5 bn (USD 15.0 mn) debt. Tala offers loan amounts between Kshs 1,000.0 and Kshs 50,000.0, at weekly and monthly interest rates of 11.0% and 15.0%, respectively. So far, the firm has disbursed Kshs 30.0 bn (USD 299.9 mn) to 1.3 mn borrowers in Kenya, Tanzania and the Philippines, with Kenya taking up Kshs 27.9 bn (USD 278.2 mn), 93.0% of the total loans disbursed. Tala is the third mobile app-based lender to raise fresh funds to expand operations in Kenya after (i) Jumo raised Kshs 300 bn (USD 3.0 mn), and (ii) Branch International recently raised Kshs 7.0 bn (USD 697.9 mn). The continued increase in investments and funding of microfinance institutions in Kenya is in a bid to grow the institutions loan books since their loans are easily accessible compared to banks, by use of mobile phones and because their credit standards are less stringent. The private sector credit growth remains below the CBK target of 12.0%- 15.0%, having come in at 2.1% in February 2018. Despite the interest rate cap and reduced lending, bank funding still accounts for 95.0% of business funding in Kenya compared to 40.0% in developed markets. This highlights the need to diversify funding sources and enable borrowers to tap into alternative avenues of funding that are more flexible compared to loans from commercial banks.

Private equity investments in Africa remain robust as evidenced by the increasing investor interest, which is attributed to; (i) rapid urbanization, a resilient and adapting middle class and increased consumerism, (ii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, (iii) the attractive valuations in Sub Saharan Africa's markets compared to global markets, and (iv) better economic growth projections in Sub Saharan Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Saharan Africa. Going forward, the increasing investor interest and stable macro-economic environment will continue to boost deal flow into African markets.