

NGERN TID LOR CO., LTD.

No. 202/2020

26 November 2020

FINANCIAL INSTITUTIONS

Company Rating:	A-
Issue Ratings:	A-
Senior unsecured	
Outlook:	Stable

Last Review Date: 25/09/20

Company Rating History:

Date	Rating	Outlook/Alert
06/12/18	A-	Stable
12/10/18	A	Alert Developing
19/09/16	A	Stable
24/04/14	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Ngern Tid Lor Co., Ltd. (NTL) and the ratings on NTL's outstanding senior unsecured debentures at "A-" with a "stable" outlook. The rating on NTL incorporates a rating enhancement from the stand-alone rating as we view NTL as a strategically important subsidiary of Bank of Ayudhya PLC (BAY, rated "AAA/Stable" by TRIS Rating). The ratings consider the business and financial support NTL receives from BAY.

On a stand-alone basis, the ratings reflect NTL's solid market position as one of the largest lenders of auto title loans. Other factors taken into account include: healthy asset quality achieved through prudent risk management practices; strong profitability, which supports capital accretion and hence helps keep leverage position at acceptable levels; and ample funding and liquidity. However, the intense competition in the title loan market constrains the ratings to some extent.

KEY RATING CONSIDERATIONS

Strategically important subsidiary status supports ratings

We view NTL as a strategically important subsidiary of BAY. The company's ratings incorporated an enhancement from the stand-alone rating. With BAY being a major shareholder of NTL, we expect business and financial support BAY provides to NTL is likely to continue in the foreseeable future. NTL is part of BAY's microfinance lending group with expertise in auto title loans for the underbanked segment in the domestic market.

NTL receives business support in the form of business know-hows, particularly in terms of risk management. NTL's board of directors comprise four members from each of its major shareholder: BAY and Siam Asia Credit Access Pte., Ltd. and one current managing director. In 2020, NTL added three independent members to its board, making it 12-member board. NTL's business direction and operations are controlled through the board. As for financial support, BAY has been providing credit line for NTL's business expansion. At the end of September 2020, 40% of outstanding borrowings and 94% of unused credit facilities were from BAY.

Solid market position

We expect NTL to maintain its strong market position. NTL is the second-largest lender in title loan market in terms of total outstanding loans. Within the title loan market, NTL is the largest lender of title loans backed by passenger cars and pick-up trucks. The company's outstanding loan stood at THB48 billion at the end of 2019, an increase of 20.8% year-on-year (y-o-y). NTL's loans as of September 2020 stood at THB48.7 billion, following a decelerating growth due to economic fallout from the Coronavirus Disease 2019 (COVID-19), although this is largely in line with other non-bank lenders.

Traditionally, the title loan industry relies on branch network expansion to support loan growth. However, we have noticed NTL's strategy has diverged from competitors. Although its proportion of branches has declined, it has managed to maintain its market share and sustain growth. In 2020, due to the COVID-19, the company limited its branch expansion by adding only 60 branches in the first nine months of 2020 to 1,060 branches as of September

2020, compared with 187 branches opened in 2019. New branches openings are expected to resume in 2021. In parallel, NTL will continue to leverage its online platform and technology using proprietary mobile applications and partnering with social media operators for new loan underwriting.

Strong profitability supports capital formation

We expect the company's high profitability to continue ascertaining the strength of its capital position at the current ratings. The current rate of profit accumulation should help preserve its risk adjusted capital (RAC) ratio above 20%. The profitability measured by earnings before taxes to average risk weighted assets (EBT/ARWA) is projected to be in the range of 6.0%-6.5% in 2020-2022. For the year ended 2019, the company's EBT/ARWA was 6.3%.

In terms of financial performance, the return on average assets (ROAA) has been maintained in the range of 4.0%-5.2% over the past several years, despite increased loan loss provisions and operating expenses. This was driven by the higher interest income in line with the loan expansion over the last few years and stronger non-interest income from insurance brokerage.

Over the next few years, we expect the company's profitability to improve as credit cost is likely to decline due to the surplus position of loan loss reserves, which we believe should be adequate to absorb any unexpected credit losses. Although the investment in back-office and information technology (IT) as well as personnel may pressure profitability in the medium term, the systems should help support future business growth and diversification with less reliance on expansion of physical branches. We also expect the systems to mitigate operational risk and credit risk.

A noteworthy development in the recent years is the strong and steady growth in non-interest income. For NTL, the majority of non-interest income derives from its insurance brokerage business. In 2019, revenue from insurance brokerage accounted for 67% of total non-interest income, compared with 53% in 2018, while the non-interest income to total revenue increased to 19% in 2019 from 15% in 2018. NTL's insurance brokerage market share has consistently risen from 2.3% at the beginning of 2018 to 4.7% in June 2020. We view this as a positive development as a greater revenue contribution from fee-based income should help stabilize NTL's revenue in the long run.

Prudent risk management supports healthy asset quality

We expect NTL's asset quality to remain healthy in the medium term, thanks to prudent risk culture and effective risk management system. As a subsidiary of BAY, NTL places great emphasis on risk management and adopts similar framework as that of the bank. The company has also set up a dedicated team to focus on risk optimization. Over the years, we continue to see improvement in risk management tools. Apart from using its own proprietary credit scoring model and data analytics, NTL is one of the few title loan providers to incorporate credit data from the National Credit Bureau (NCB) to analyze customer risk profile.

At the end of September 2020, NTL's non-performing loans (stage-3 loans) to total loans (NPL ratio) stood at 1.21%, a very low level compared with peers. Nonetheless, we expect the increase in NPLs after the expiration of debt forbearance program to be moderate as the majority of borrowers under the debt relief programs have already resumed normal debt repayments.

Prior to the new accounting standard TFRS9, the company's provisioning was already at the highest level among its direct peers with the ratio of loan loss reserve to NPLs (NPL coverage) rising above 600% in 2018. This includes the excess reserve which has been reclassified as management overlays in September 2020 to be used as loss absorption in the future. Moreover, the new Expected Credit Loss (ECL) model under the TFRS9 also required lower provisions than the previous reserve model used by NTL. Overtime, the level of NPL coverage is expected to slowly decline from the current level to reflect the ECL model once all the surplus reserve is exhausted. Even in that scenario, we believe its NPL coverage will remain higher than peers.

Ample funding and liquidity

NTL's financial flexibility stems from its status as one of BAY's subsidiaries. Over the past year, NTL has diversified its funding sources to include other financial institutions with additional credit lines of THB8 billion. As of September 2020, NTL has the credit lines from other financial institutions around THB15.6 billion. This has further enhanced its funding flexibility, while the credit facilities from BAY can be used as the last resort. As of September 2020, the unused credit line from BAY was over THB15 billion. Meanwhile, there are no major mismatches in its asset and liability structure. Short-term borrowings, including the current portion of long-term debts, accounted for approximately 40% of total borrowings as of September 2020. Monthly loan payments from NTL's customers, plus the secured credit lines from BAY and other financial institutions, are more than sufficient to fill the liquidity gap in a timely manner.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the period 2020-2022 are:

- New loan to slow down around 15% in 2020 and expand by 10%-20% per year thereafter
- RAC ratio to remain above 20%
- Overall loan yield to remain between 18%-19%
- Credit cost¹ to remain between 1%-2%
- Operating expense to total income² ratio to remain between 55%-56%

RATING OUTLOOK

The "stable" outlook is based on our expectation that NTL will maintain its leading market position and deliver satisfactory performance. We also expect NTL to control its asset quality at an acceptable level, and that the company will continue receiving supports from its parent bank, especially financial support.

RATING SENSITIVITIES

The rating upside would arise if the company maintains strong asset quality in the medium to long-term, while continues to retain solid market position and deliver sound financial performance or the RAC ratio rises well above 25%.

The ratings could be revised downward if NTL's competitive position or asset quality deteriorates significantly or the RAC ratio falls below 15%.

If there are any changes in the degree of importance of NTL to the BAY Group, the ratings may also change.

COMPANY OVERVIEW

In 1980, Srisawad Petchabun Co., Ltd. began to offer personal loans secured against vehicles in Phetchabun Province. In 1991, after the expansion it changed its name to Srisawad International (1991) Co., Ltd. which was later sold in 2007 to the AIG Financial Group and the name was changed to CFGS Co., Ltd. (CFGS). Two years later in 2009, BAY acquired AIG, making BAY the ultimate owner of CFGS. In October 2015, CFGS became Ngern Tid Lor Co., Ltd. (NTL).

NTL was a 99.99% owned subsidiary of BAY, the fifth-largest commercial bank in Thailand. NTL's main business is personal loan secured against vehicles. It also offers other financial services such as unsecured personal loans, insurance broker, and Nano finance. NTL provides lending services for low-income customers (underbanked) who have little or no documentation of formal income documentation. NTL's customers can use their vehicles, such as cars, pick-up trucks, commercial trucks, motorcycles, and tractors, as collateral.

NTL has strengthened its capital base through a series of recapitalizations. The ongoing financial support from BAY helps mitigate concerns over any deterioration in NTL's capital ratio. BAY, the parent bank, became a foreign-majority owned commercial bank. NTL's status consequently changed to a foreign company. Under the Foreign Business Act, NTL is required to maintain enough capital to keep the amount of debt equal to or no more than 7 times the amount of capital.

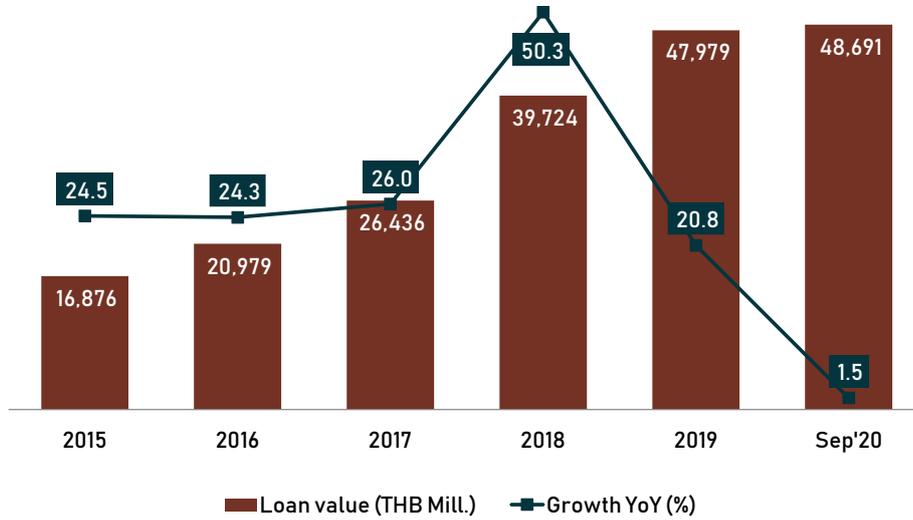
On 28 February 2019, Siam Asia Credit Access Pte., Ltd. completed the 50% acquisition of NTL from BAY. Siam Asia Credit Access was consortium of CVC Capital Partners – Asia Fund IV and Equity Partners Limited.

¹ Credit cost = Bad debts and doubtful accounts net of bad debt recovery / Average loans

² Total income = Interest income + Non-interest income

KEY OPERATING PERFORMANCE

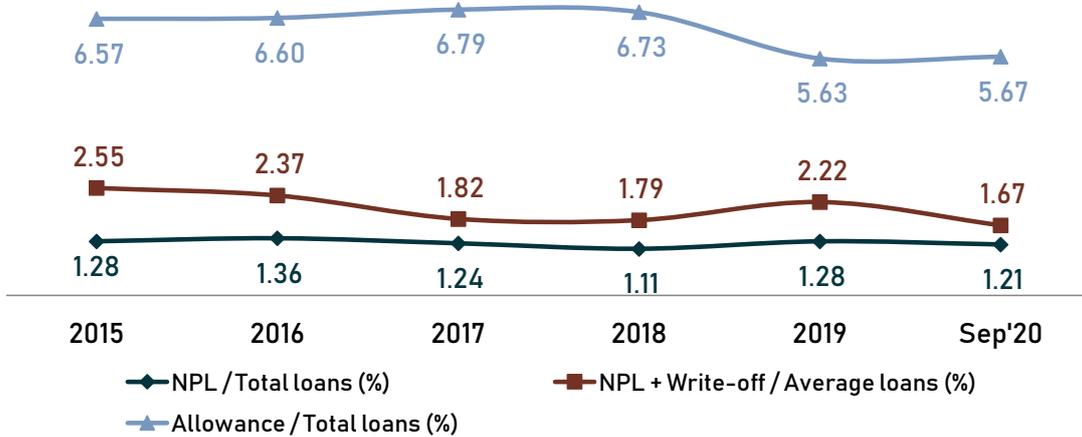
Chart 1: Outstanding Loans



Source: NTL

* Year-to-date growth for Sep-20

Chart 2: Asset Quality



Source: NTL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total assets	48,678	40,081	26,841	21,190	17,165
Total loans	47,979	39,724	26,436	20,979	16,876
Allowance for doubtful accounts	2,702	2,675	1,796	1,384	1,109
Short-term borrowings	17,405	13,192	7,597	6,132	5,020
Long-term borrowings	19,688	17,885	11,902	9,336	7,533
Shareholders' equity	9,346	7,345	5,994	4,737	3,894
Net interest income	6,630	5,722	4,400	3,356	2,579
Bad debts and doubtful accounts net of bad debt recovery	385	1,031	516	439	413
Non-interest income	1,823	1,193	912	808	707
Operating expenses	5,314	4,254	3,239	2,637	2,080
Net income	2,202	1,306	1,247	870	632

Unit: %

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Profitability					
Net-interest income/average assets	14.94	17.10	18.32	17.50	16.62
Net-interest income/total income	70.10	75.60	75.84	72.40	69.10
Operating expenses/total income	56.19	56.20	55.84	56.89	55.74
Operating profit/average assets	6.20	4.87	6.48	5.67	5.11
Earnings before taxes/average risk-weighted assets	6.30	4.95	6.58	5.76	5.20
Return on average assets	4.96	3.90	5.19	4.54	4.07
Return on average equity	26.38	19.58	23.25	20.15	17.65
Asset Quality					
Non-performing loans/total loans	1.28	1.11	1.24	1.36	1.28
Bad debts and doubtful accounts/average loans	0.88	3.12	2.18	2.32	2.72
Allowance for doubtful accounts/total loans	5.63	6.73	6.79	6.60	6.57
Allowance for doubtful accounts/non-performing loans	438.85	608.95	549.60	486.17	512.04
Capitalization					
Risk-adjusted capital ratio	19.49	18.61	22.70	22.66	23.11
Shareholders' equity/total loans	19.48	18.49	22.67	22.58	23.08
Debt to equity (times)	4.21	4.46	3.48	3.47	3.41
Liquidity					
Stable funding ratio	135.77	135.56	140.86	142.00	144.60
Liquidity coverage measure (times)	0.04	0.05	0.06	0.05	0.06
Short-term borrowings/total liabilities	44.25	40.30	36.44	37.27	37.83
Total loans/total assets	98.56	99.11	98.49	99.01	98.32

RELATED CRITERIA

- Nonbank Financial Institution Rating Methodology, 17 February 2020
- Group Rating Methodology, 10 July 2015

Ngern Tid Lor Co., Ltd. (NTL)

Company Rating:	A-
Issue Ratings:	
NTL20DA: THB400 million senior unsecured debentures due 2020	A-
NTL21DA: THB1,500 million senior unsecured debentures due 2021	A-
NTL217A: THB1,900 million senior unsecured debentures due 2021	A-
NTL221A: THB4,000 million senior unsecured debentures due 2022	A-
NTL22DA: THB450 million senior unsecured debentures due 2022	A-
NTL224A: THB3,400 million senior unsecured debentures due 2022	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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