

NGERN TID LOR PLC

No. 230/2023
23 November 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 25/10/23

Company Rating History:

Date	Rating	Outlook/Alert
27/05/21	A	Stable
11/01/21	A-	Alert Developing
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 PLC (TIDLOR) and the ratings on TIDLOR's outstanding senior unsecured debentures at "A" with a "stable" outlook. At the same time, TRIS Rating assigns the "A" rating to TIDLOR's proposed issue of up to THB5 billion senior unsecured debentures maturing within four years inclusive of an allotment option of THB1 billion.

This new issue rating replaces the issue rating previously assigned on 25 October 2023, following TIDLOR's request to increase the issue size from up to THB4 billion. The company intends to use the proceeds from the proposed debenture issue for business expansion.

The ratings incorporate a one-notch enhancement from TIDLOR's stand-alone credit profile (SACP) assessed at "a-" level. The enhancement reflects our view of TIDLOR's status as a strategic affiliate of Bank of Ayudhya PLC (BAY, rated "AAA/Stable"). The ratings take into consideration the business and financial support TIDLOR receives from BAY.

The SACP takes into consideration TIDLOR's strong market position, as one of the largest lenders in the auto title loan segment. The company also has a strong capital base, adequate risk position, as well as adequate funding and liquidity. The potential decline in asset quality and higher funding cost leading to lower profitability act as rating constraints to some extent.

KEY RATING CONSIDERATIONS

Strategic affiliate of BAY

BAY is currently the largest shareholder with a 30% stake in TIDLOR. There is also strong integration in terms of board representation. Representatives from BAY constitute one third of TIDLOR's 12-member board of directors (BOD) chaired by BAY's Chief Risk Officer. TIDLOR's strategic directions and operations are monitored through the board.

TIDLOR is a member of BAY's full consolidated group under the Bank of Thailand's (BOT) consolidated supervision. Parts of TIDLOR's risk management policies align with the group's overall risk management policy. We also believe BAY is likely to extend extraordinary support to TIDLOR, if needed, given the reputation risk.

BAY's commitment to the company is evidenced through substantial financial support in the forms of readily accessible credit facilities. At the end of September 2023, outstanding borrowings from BAY totaled THB430 million, while the unused credit facility remained at THB24.5 billion. This underscores the available financial backing, providing a significant resource for the company's operational needs.

Strong business position

We assess TIDLOR's business position as strong, supported by TIDLOR's position as the second largest auto title loan operator by assets. TIDLOR's steady growth in revenue contribution from insurance brokerage and geographical coverage continue to promote diversification.

The company is one of the leading providers of auto title loans and non-life insurance brokerage (mainly motor insurance). The company's outstanding loans stood at THB91.9 billion at the end of September 2023, an increase of 13% year-to-date (YTD).

However, the company has been extending new loans at a more measured pace than previous years. This strategic shift is attributed to TIDLOR's commitment to prioritizing the control of asset quality, as evidenced by its decision to slow down new branch openings in the first half of 2023 (1H23).

The stable contribution of non-interest income from the insurance brokerage business continues to support TIDLOR's "strong" diversification. At the end of 2022, the ratio of non-interest income to total revenue remains around 18%, keeping pace with the fast-growing core lending business. In the first nine months of 2023 (9M23), non-interest income grew to THB2.4 billion, up 26.5% year-on-year (y-o-y). In 9M23, the company's non-life insurance premium grew 28% y-o-y.

Strong capital position

TIDLOR's capital position remains strong and serves as a key support for its ratings. As of September 2023, the company's risk-adjusted capital (RAC) ratio stood at 29.6%, a slight decline from 30.8% at the end of 2022. We believe the company will maintain the RAC ratio above 25% over the next three years. This is based on our assumption of its growth rates of around 10%-15% per year and a 25% cash dividend payout.

Continuing profit challenges

TRIS Rating anticipates a challenging in the company's profitability in the next few years driven by high credit costs and rising funding costs. On a positive note, the company's yield improved to 17.9% in 3Q'23 from 17.6% in 2Q'23, and if this trend continues, it could limit the impact on earnings to some extent. For 9M23, the profitability measured by earnings before taxes (EBT) to average risk weighted assets or EBT/ARWA dropped to 5.5% from 6.3% in 2022. The decline was driven primarily by a surge in non-performing loan (NPL) formations and written-off amounts, resulting in increased credit cost.

In 2024, we expect a more pronounced impact from TIDLOR's rising funding costs considering that around 40% of borrowings are set to expire and need to be refinanced at higher cost. The still-weak economy could affect the company's target low-income customers, potentially leading to elevated credit cost over the next year. As a result, we anticipate that these factors will contribute to lowering EBT/ARWA to around 5% in 2023-2024, indicating potential headwinds for the company's profitability in the near future. Nonetheless, this should still have no impact on the ratings.

Credit cost to remain high

With the current downturn in the economic environment, the company's credit cost has risen since 9M23 due to increased write-offs and higher losses on repossessed vehicles. We expect credit cost to remain elevated in 2024, given the company's policy to preserve high allowance for expected credit loss (ECL) as seen from high NPL coverage and allowance for ECL to total loans. Despite this, we believe the impact from rising credit risk should be mitigated by the company's prudent risk culture as aligned with the BAY Group's effective risk management system. Its strong capital level also buffers against the potentially higher credit losses. We expect the company's NPLs to remain one of the lowest among peers. As of September 2023, its NPL ratio was at 1.51%.

Ample funding and liquidity

TIDLOR's financial flexibility stems from its status as an affiliate of BAY and a listed company. Over the past few years, TIDLOR has continued to strengthen its relationship with various financial institutions. As of September 2023, TIDLOR had total credit lines of around THB53 billion and USD100 million. Also, the credit line from BAY was THB25 billion, of which only 2% was utilized. These credit facilities serve as financial resources for future business expansion.

In terms of liquidity, monthly loan payments from TIDLOR's customers, plus the secured credit lines from BAY and other financial institutions, should be more than sufficient to meet liquidity needs. Short-term borrowings, including the current portion of long-term debts, accounted for around 35% of the total borrowings as of September 2023.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TIDLOR's operations in the period 2023-2025 are as follows:

- Outstanding loans to grow around 10%-15% in 2023-2025.
- RAC ratio to remain above 25%.
- Overall loan yield to remain between 17%-18%.
- Credit cost¹ to remain above 3% in 2023 and around 2.5%-3% in 2024-2025.
- Operating expense to total income² ratio to remain between 50%-52%.

¹ Credit cost = Expected credit loss/average loans

² Total income = Interest income + non-interest income

RATING OUTLOOK

The “stable” outlook is based on our expectation that TIDLOR will maintain its strong capital base and leading market position in the auto title loan business while delivering satisfactory financial performance. We also expect TIDLOR to control its asset quality at an acceptable level.

RATING SENSITIVITIES

The ratings could be upgraded only if the SACP of TIDLOR is revised upwards. This could occur if the company improves its business position by continuously strengthening its market position while maintaining strong asset quality and sound financial performance. Further rating enhancement due to group support is unlikely.

The ratings could be downgraded if the SACP is revised downwards, or we remove the rating enhancement. The SACP could be revised downwards if TIDLOR’s business position weakens materially, or asset quality deteriorates to the point that earnings capacity declines significantly or RAC ratio falls well below 25%.

The rating enhancement could be removed if we view the degree of importance of TIDLOR to the BAY Group as weakening materially. This could be caused by a dilution of BAY’s shareholding in TIDLOR.

COMPANY OVERVIEW

Post-initial public offering (IPO), TIDLOR was a 30% owned subsidiary of BAY, the fifth-largest commercial bank in Thailand. TIDLOR’s main business covers title loans secured against vehicles. It also offers other financial services including insurance brokering. TIDLOR provides lending services for low-income customers (underbanked) who have little or no formal income documentation. TIDLOR’s customers can use their vehicles’ title on cars, pick-up trucks, commercial trucks, motorcycles, and tractors, as collateral.

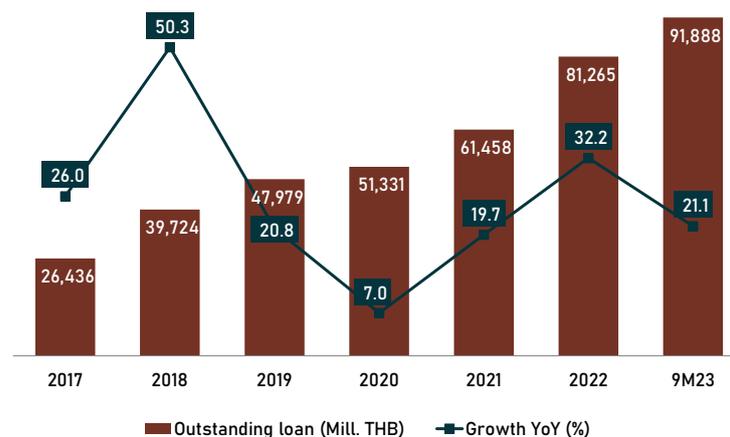
BAY, the parent bank of TIDLOR, is a foreign majority-owned commercial bank. Thus, TIDLOR's status consequently changed to a foreign company. Under the Foreign Business Act, TIDLOR is required to maintain enough capital to keep the amount of debt equal to or no more than 7 times the amount of registered capital.

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

In May 2021, TIDLOR was listed on the Stock Exchange of Thailand (SET). The company received new capital from its IPO of around THB7.5 billion. BAY shareholdings in TIDLOR declined to 30%.

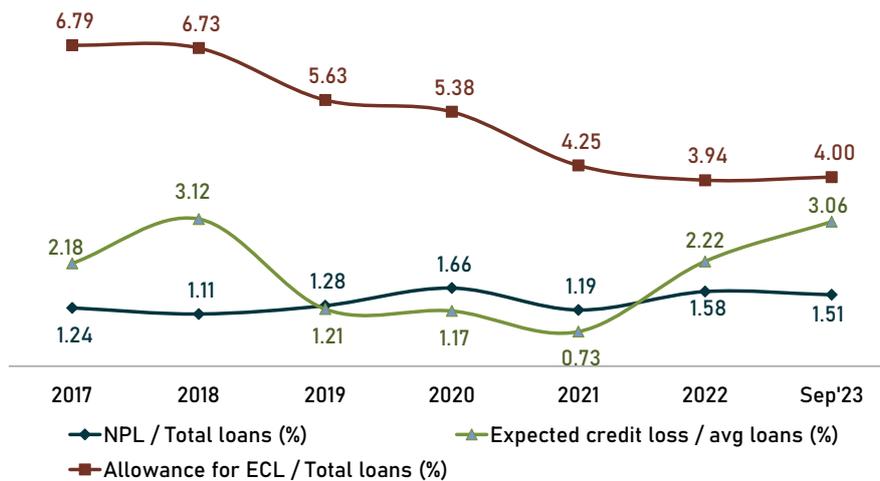
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: TIDLOR

Chart 2: Asset Quality



Source: TIDLOR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2023	Year Ended 31 December			
		2022	2021	2020	2019
Total assets	94,522	84,727	66,525	53,336	48,411
Total loans	91,888	81,265	61,458	51,331	47,979
Allowance for expected credit loss	3,678	3,199	2,611	2,763	2,702
Short-term debts	23,023	20,149	20,527	10,852	17,406
Long-term debts	41,803	36,602	21,498	28,944	19,761
Shareholders' equity	27,565	25,422	22,405	11,749	9,346
Net interest income	10,007	11,297	8,704	7,557	6,630
Expected credit loss	1,986	1,583	414	582	531
Non-interest income	2,398	2,742	2,222	1,824	1,823
Operating expenses	6,799	7,923	6,559	5,772	5,168
Earnings before taxes	3,620	4,533	3,953	3,027	2,753
Net income	2,889	3,640	3,169	2,416	2,202

Unit: %

	Jan-Sep 2023	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Profitability					
Net interest income/average assets	14.89 *	14.94	14.52	14.86	14.98
Non-interest income/average assets	3.57 *	3.63	3.71	3.58	4.12
Operating expenses/total income	49.59	51.87	54.44	54.66	54.64
Operating profit/average assets	5.39 *	5.99	6.60	5.95	6.22
Earnings before taxes/average risk-weighted assets	5.49 *	6.25	6.90	6.05	6.30
Return on average assets	4.30 *	4.81	5.29	4.75	4.98
Return on average equity	14.54 *	15.22	18.56	22.91	26.38
Asset Quality					
Non-performing loans/total loans	1.51	1.58	1.19	1.66	1.28
Expected credit loss/average loans	3.06 *	2.22	0.73	1.17	1.21
Allowance for expected credit loss/non-performing loans	264.44	248.90	356.57	325.07	438.85
Capitalization					
Risk-adjusted capital ratio	29.59	30.80	35.83	22.56	19.49
Debt/equity (time)	2.43	2.33	1.97	3.54	4.18
Liquidity					
Stable funding ratio	106.63	111.86	109.51	129.29	103.20
Liquidity coverage measure (times)	0.06	0.11	0.19	0.12	0.03
Short-term debts/total liabilities	34.39	33.97	46.52	26.09	44.56

* Annualized

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Ngern Tid Lor PLC (TIDLOR)

Company Rating:	A
Issue Ratings:	
TIDLOR244A: THB2,500 million senior unsecured debentures due 2024	A
TIDLOR244B: THB2,850 million senior unsecured debentures due 2024	A
TIDLOR247A: THB3,000 million senior unsecured debentures due 2024	A
TIDLOR258A: THB1,850 million senior unsecured debentures due 2025	A
TIDLOR258B: THB2,350 million senior unsecured debentures due 2025	A
TIDLOR259A: THB6,500 million senior unsecured debentures due 2025	A
TIDLOR268A: THB1,000 million senior unsecured debentures due 2026	A
TIDLOR278A: THB800 million senior unsecured debentures due 2027	A
Up to THB5,000 million senior unsecured debentures due within 4 years inclusive of over-allotment of up to THB1,000 million	A
Rating Outlook:	Stable

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