

NGERN TID LOR PLC

No. 223/2022
30 November 2022

FINANCIAL INSTITUTIONS

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

Last Review Date: 05/09/22

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. The ratings incorporate a one-notch enhancement from TIDLOR's stand-alone credit profile (SACP) assessed at "a-" level. The enhancement reflects our assessment 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 and gradually improving market position, as one of the largest lenders in the auto title loan segment. The company also has very strong capital base, adequate risk position as well as adequate funding and liquidity. The intense competition in the consumer finance segment and the uncertain economic and regulatory environment, exacerbated by higher inflation remain rating constraints to some extent.

KEY RATING CONSIDERATIONS

A strategic affiliate of BAY

The company's ratings incorporate a one-notch enhancement from its SACP based on TRIS Rating's assessment of TIDLOR's group status as a strategic affiliate of BAY. This is mainly supported by BAY's position as the largest shareholder of TIDLOR, despite the 30% ownership. The status also reflects integration in terms of board representation. Representatives from BAY constitute one third of TIDLOR's 12-member board of directors chaired by BAY's Chief Risk Officer. TIDLOR's strategic directions and operations are monitored through the board.

Despite BAY's disposal of TIDLOR shares in 2018 and 2021, the company remains part of BAY's full consolidated group under the Bank of Thailand's (BOT) consolidated supervision. Parts of TIDLOR's risk management policies are aligned with the group's overall risk management policy. We believe BAY is likely to extend extraordinary support to TIDLOR, if needed, given the reputation risk.

BAY has been providing financial support to TIDLOR in the form of credit facilities and that can be readily drawn down, and we expect this to continue in the foreseeable future. At the end of September 2022, outstanding borrowings from BAY was THB8.1 billion, representing around 16% of total outstanding borrowings. The company still has an unused credit facility of THB16.9 billion.

Strong business position

In our view, TIDLOR has a strong business position, supported by its solid market position, notable growth in insurance brokerage and geographic 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 THB75.9 billion at the end of September 2022, an increase of 23.4% year-to-date (YTD) following the 19.7% year-on-year (y-o-y) growth in 2021. The stronger growth in 2022 was driven by improved market conditions, its introduction of TIDLOR cash card, and expansion of the branch network. So far this year, the company added 288 branches to its nationwide network of 1,574 branches in total at the end of September 2022.

The contribution from insurance brokerage business has gradually increased over the past three years to 18%-20% of total revenue, keeping pace with the fast-growing core lending business. The brokerage business has become an important stable revenue contribution that helps underpin TIDLOR's 'strong' business diversity. In the first nine months of 2022 (9M2022), the company's non-life insurance premium grew 37% y-o-y.

TIDLOR is the only title loan operator that focuses on information technology (IT) investments, which has led to better operational efficiency. The combination of TIDLOR cash card and improved internal systems and operational platform has enabled its branch staff to be more productive. This can be observed by higher outstanding loans per branch and staff, compared to peers.

Strong capital position and adequate profitability

TIDLOR's capitalization remains very strong, with a risk-adjusted capital (RAC) ratio of 31.8% at the end of September 2022, a moderate decline from 35.8% at the end of 2021, driven from strong loan growth. Based on our assumption of 15%-25% loan growth per year and 25% cash dividend payout, we believe TIDLOR will be able to maintain capitalization at a 'very strong' level with the RAC ratio above 25%. This should be supported by recurring fee revenue from the insurance brokerage business and decent profitability. In 9M2022 and 2021, the profitability measured by earnings before taxes (EBT) to average risk weighted assets or EBT/ARWA was at 6.7% and 6.9%, respectively. However, higher funding cost and rising credit cost following the expiration of the debt relief program could potentially pressure the EBT/ARWA ratio down to a moderate level below 6% in 2023-2024.

Rising bad debts mitigated by prudent risk management

We expect TIDLOR's adequate risk management and underwriting standards to help mitigate the potential rise in credit risk, thanks to the prudent risk culture that aligns with the group and the effective risk management system. TIDLOR's non-performing loans (stage-3 loans) to total loans (NPL ratio) remains one of the lowest among peers, at 1.52% at the end of September 2022. This was a modest increase from 1.19% at the end of 2021, which is in line with our expectation given the ending of the debt relief program, coupled with the uncertain economic conditions and high inflation. As of September 2022, TIDLOR had less than 1% of the total loan portfolio remaining in the debt relief programs, compared with 14% a year ago.

We expect company's credit cost to return to the normal level above 2% in the medium term as we believe the company's excess reserves have largely been utilized. Given signs of asset quality deterioration, such as rising NPL formation in the second quarter of 2022 (2Q22) and 3Q22, we expect this to add additional pressure to the company's credit cost in the short-to-medium term. However, despite the pressure, we believe that with a robust risk management culture, relatively high provisioning to peers, and strong capital level should retain the current ratings at least for the next few years. Looking forward, we believe operating cost reduction from innovation will provide some buffer against the normalization of key asset quality metrics to some extent.

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 diversify its funding sources. As of September 2022, TIDLOR had total credit lines from other financial institutions of around THB18 billion and USD100 million. This is on top of the THB25 billion credit line from BAY, of which THB16.9 billion was unused. Short-term borrowings, including the current portion of long-term debts, accounted for approximately 37% of the total borrowings as of September 2022. Monthly loan payments from TIDLOR's customers, plus the secured credit lines from BAY and other financial institutions, should be more than sufficient to fill liquidity needs.

Challenges and risks remain for the title loan operators

In the first nine months of 2022, the average growth of outstanding title loans for the three largest operators of title loans remained high at 31% y-o-y. This robust growth is likely to continue in the medium term, as supported by network expansion, the aggressive growth targets of existing operators, entrance of new players, and strong loan demand. That said, we observe key developments and challenges that have impacted the title loan operators and need to be monitored. Firstly, declining interest spreads due to competitive pricing and higher funding costs are squeezing their profitability. The rising credit risk from aggressive growth strategy, coupled with the weaker credit profile of customers have resulted in higher credit costs for most operators. Moreover, aggressive loan growth target has also led to eroded capital, which, if continuing, could impact the credit profile of rated companies.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TIDLOR's operations in the period 2022-2024 are as follows:

- New loans to grow around 30% in 2022 and expand by 20%-25% per year thereafter.
- RAC ratio to remain above 25%.
- Overall loan yield to remain between 17%-18%.
- Credit cost¹ to remain between 2.0%-2.5%.
- Operating expense to total income² ratio to remain between 52%-54%.

RATING OUTLOOK

The "stable" outlook is based on our expectation that TIDLOR will maintain its strong capital base and leading market position 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 if the company improves business stability by continuously strengthening its market position while maintaining strong asset quality and sound financial performance.

The ratings could be revised downward if TIDLOR's competitive position or asset quality deteriorates significantly causing the RAC ratio to fall below 25%.

If there are material changes in TRIS Rating's view on the degree of importance of TIDLOR to the BAY Group, the ratings could also be revised to reflect the view.

COMPANY OVERVIEW

Post-IPO, TIDLOR was a 99.99% 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.

TIDLOR has strengthened its capital base through a series of recapitalizations. The ongoing financial support from BAY helps mitigate concerns over any deterioration in TIDLOR's capital ratio. BAY, the parent bank, became a foreign majority-owned commercial bank. 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. Siam Asia Credit Access is the consortium of CVC Capital Partners – Asia Fund IV and Equity Partners Limited.

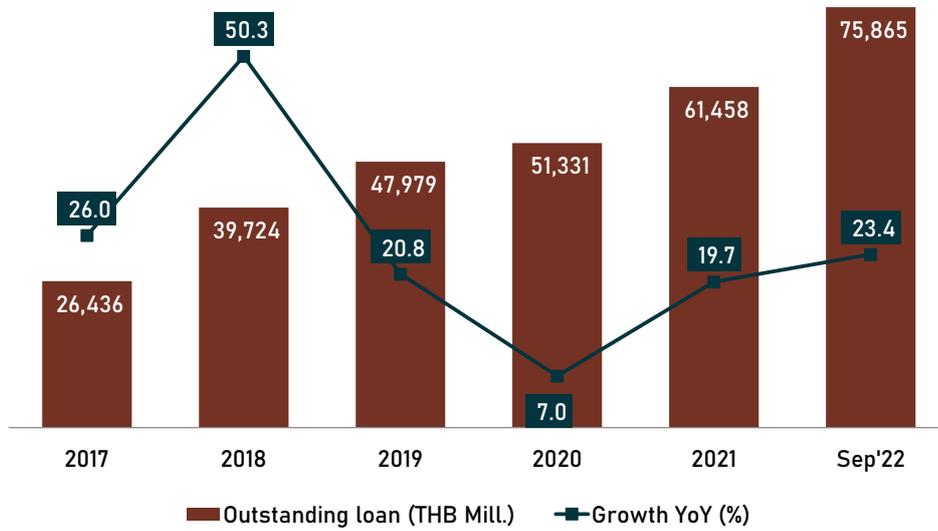
In May 2021, TIDLOR was listed on the Stock Exchange of Thailand (SET). The company received new capital from its IPO of around THB7.5 billion. BAY and SACA's shareholding in TIDLOR dropped to 30% and 25%, respectively.

¹ Credit cost = Expected credit loss / Average loans

² Total income = Interest income + non-interest income

KEY OPERATING PERFORMANCE

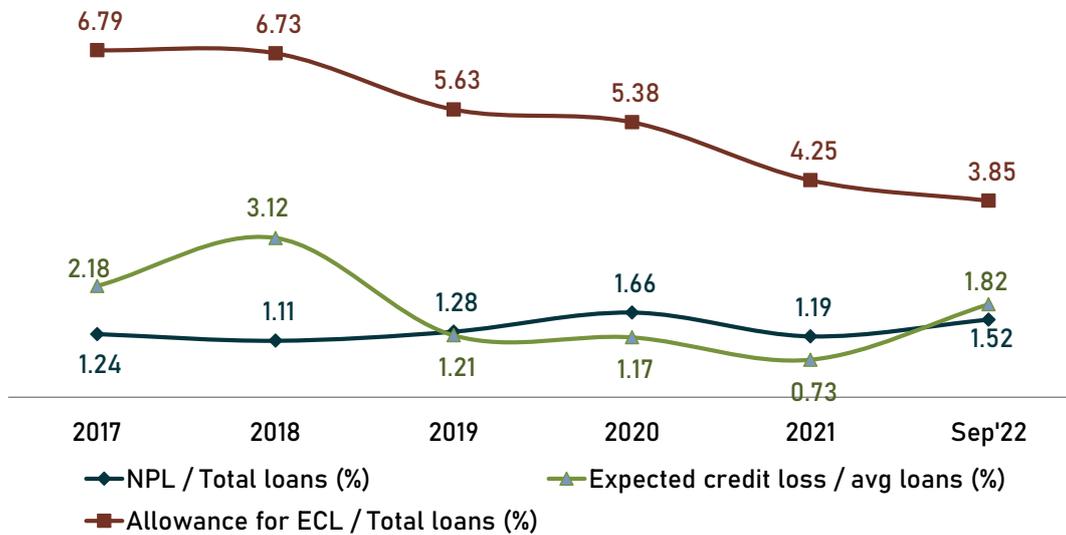
Chart 1: Outstanding Loans



Source: TIDLOR

* Year-to-date growth for Sep-22

Chart 2: Asset Quality



Source: TIDLOR

* Nine-month expected credit loss to average loans for Sep-22

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	79,114	66,525	53,336	48,411	40,081
Total loans	75,865	61,458	51,331	47,979	39,724
Allowance for expected credit loss	2,918	2,611	2,763	2,702	2,675
Short-term debts	19,683	20,527	10,852	17,406	13,192
Long-term debts	32,806	21,498	28,944	19,761	17,921
Shareholders' equity	24,600	22,405	11,749	9,346	7,345
Net interest income	8,144	8,704	7,557	6,630	5,722
Expected credit loss	937	414	582	531	1,031
Non-interest income	1,895	2,222	1,824	1,823	1,193
Operating expenses	5,584	6,559	5,772	5,168	4,254
Earnings before taxes	3,517	3,953	3,027	2,753	1,631
Net income	2,823	3,169	2,416	2,202	1,306

Unit: %

	Jan-Sep 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Profitability					
Net interest income/average assets	14.91 *	14.52	14.86	14.98	17.10
Non-interest income/average assets		3.58	3.58	4.12	3.57
Operating expenses/total income	51.20	54.44	54.66	54.64	56.20
Operating profit/average assets	6.44 *	6.60	5.95	6.22	4.87
Earnings before taxes/average risk-weighted assets	6.71 *	6.90	6.05	6.30	4.95
Return on average assets	5.17 *	5.29	4.75	4.98	3.90
Return on average equity	16.01 *	18.56	22.91	26.38	19.58
Asset Quality					
Non-performing loans/total loans	1.52	1.19	1.66	1.28	1.11
Expected credit loss/average loans	1.82 *	0.73	1.17	1.21	3.12
Allowance for expected credit loss/non-performing loans	253.52	356.57	325.07	438.85	608.95
Capitalization					
Risk-adjusted capital ratio	31.82	35.83	22.56	19.49	18.61
Debt/equity (time)	2.22	1.97	3.54	4.18	4.46
Liquidity					
Stable funding ratio	111.40	109.51	129.29	103.20	112.00
Liquidity coverage measure (times)	0.09	0.19	0.12	0.03	0.05
Short-term debts/total liabilities	36.11	46.52	26.09	44.56	40.30

* 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:	
TIDLOR22DA: THB450 million senior unsecured debentures due 2022	A
TIDLOR234A: THB1,000 million senior unsecured debentures due 2023	A
TIDLOR234C: THB5,450 million senior unsecured debentures due 2023	A
TIDLOR236A: THB300 million senior unsecured debentures due 2023	A
TIDLOR238A: THB4,000 million senior unsecured debentures due 2023	A
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
TIDLOR259A: THB6,500 million senior unsecured debentures due 2025	A
Rating Outlook:	Stable

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