

NGERN TID LOR CO., LTD.

No. 76/2017

23 November 2017

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

Company Rating History:

Date	Rating	Outlook/Alert
19/09/16	A	Stable
24/04/14	A-	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Ngern Tid Lor Co., Ltd. (NTL) and also affirms the ratings of NTL's outstanding senior unsecured debentures at "A". At the same time, TRIS Rating assigns the rating of "A" to NTL's proposed issue of up to Bt3,250 million in senior unsecured debentures. The ratings reflect NTL's strong risk management systems, nationwide branch network, and diversified customer base. The ratings also reflect NTL's strong brand name, "Srisawad Ngern Tid Lor", in secured personal loans and brand name recognition among its target customers. The ratings of NTL are enhanced from its stand-alone rating to reflect the business and financial support it receives as a wholly-owned subsidiary of Bank of Ayudhya PLC (BAY). However, high competition in the consumer finance segment still constrains the ratings. The company's target group of customers is sensitive to changes in economic conditions. In addition, the upward trend in loan delinquency rate will be closely monitored and is expected to be controlled at an acceptable level.

NTL was originally named CFG Services Co., Ltd. (CFGs) but was renamed NTL in October 2015. NTL, a part of BAY, a financial service conglomerate, is currently classified as a non-solo consolidated subsidiary. As a subsidiary of BAY, NTL has the ability to borrow from BAY to fund increases in the loan portfolio. NTL receives other benefits from the strong ties with BAY, including referrals and the know-how of BAY's lending system. NTL has continuously developed its operating systems, including the risk management and information technology (IT) systems. The company has been closely supervised and monitored by its parent bank and is indirectly regulated by the Bank of Thailand (BOT) through the parent bank.

NTL provides lending services for low-income customers who have little or no formal income documentation. NTL's customers can use their vehicles, such as cars, pick-up trucks, commercial trucks, motorcycles, and tractors, as collateral. The company currently uses the brand name "Srisawad Ngern Tid Lor", which is well-known among its target customers and all the companies using vehicles to secure personal loans. NTL uses a quick turnaround time as a key strategy to attract customers. The risk inherent in its base of target customers is partly mitigated by the small size of the loans that NTL makes, plus its nationwide customer base. In addition, the risk is controlled by NTL's stringent underwriting policies and loan monitoring process. The company has expanded its customer base to include small- and medium-sized enterprises (SMEs). NTL can gain economies of scale by making larger loans to SMEs. However, outstanding loans made to SMEs still comprise a small portion of the portfolio.

There is high demand for financial services from underserved clients. NTL's loan portfolio has grown rapidly. The loan portfolio rose from Bt1,673 million in 2009 to Bt20,979 million in 2016, a compound annual growth rate (CAGR) of 43.5%. The loan portfolio grew to Bt24,661 million at the end of September 2017 (unaudited). NTL's operating systems are considered strong and are adequate to support its businesses.

The ratio of NTL's non-performing loans (or NPLs, loans more than 90 days past due) to total loans fell from 1.8% at the end of 2011, the year of widespread flooding, to 0.6% at the end of 2012. However, the ratio climbed steadily to 1.4%

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at the end of 2016. Despite the recent rise, NTL's NPL ratio was low, particularly in light of its customers, who typically carry high credit risk profiles. The expense for bad debts and doubtful accounts decreased from 2.7% of average loans in 2015 to 2.3% in 2016. At the end of September 2017, the NPL ratio dropped slightly to 1.3% (unaudited). NTL has maintained a conservative provisioning policy. The ratio of the allowance for loan losses against total loans must beat 6.25%. This percentage is large enough to cover the current level of NPLs and mitigate the credit risk of NTL's target customers. TRIS Rating expects NTL to control asset quality at an acceptable level.

Net income has risen continuously, climbing from Bt147 million in 2011 to Bt870 million in 2016. Return on average assets (ROAA) dropped slightly to 4.3% in 2014 and 4.1% in 2015, from 4.7% in 2013, but improved to 4.5% in 2016. Based on the unaudited financial statements, net income for the first nine months of 2017 was Bt984 million, up 40.9% from the same period in 2016. The ROAA for the same period went up to 5.7% (annualized).

NTL has good asset-liability management, under the control of its parent bank. The company has financial flexibility from the support it receives from BAY. NTL is categorized as a subsidiary in the non-solo consolidation group. Firms in this group face a limitation in the amount of financial support they can receive from a parent bank. Despite this limitation, the maximum limit on the credit facility that BAY is able to provide to NTL remains large enough to support NTL's expansion efforts. The company has leveraged the financial support it receives from BAY since it became a subsidiary.

NTL has strengthened its capital base through some recent recapitalizations. BAY, the parent bank, recently 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. In May 2014, NTL increased paid-up capital by Bt1,800 million. The recapitalization strengthened the ratio of shareholders' equity to total assets to 24.9% at the end of June 2014, from 15% at the end of 2013. The ratio remained steady at 23.6% at the end of 2014. In the third quarter of 2015, NTL added Bt300 million more in paid-up capital. Owing to the debt-funded expansion, the ratio of shareholders' equity to total assets dropped to 22.7% at the end of 2015 and 22.4% at the end of 2016. The continued financial support from BAY helps mitigate concerns over any deterioration in NTL's capital ratio.

Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that NTL will maintain its market position and deliver satisfactory performance. Loan quality is expected to be controlled at an acceptable level. Support from the parent bank will continue.

The rating and/or outlook upside case would arise if NTL improves its market position, keeps growing, continues to deliver strong financial performance, and controls credit cost at an acceptable level. The ratings and/or outlook could be revised downward if NTL's competitive position or asset quality deteriorates significantly. In addition, should there be any change in TRIS Rating's view of the strategic importance of NTL to the BAY Group, the ratings and/or outlook may change.

Ngern Tid Lor Co., Ltd. (NTL)
Company Rating: A

Issue Ratings:

NTL17DA: Bt600 million senior unsecured debentures due 2017	A
NTL181A: Bt1,200 million senior unsecured debentures due 2018	A
NTL185A: Bt1,000 million senior unsecured debentures due 2018	A
NTL187A: Bt1,000 million senior unsecured debentures due 2018	A
NTL187B: Bt1,200 million senior unsecured debentures due 2018	A
NTL180A: Bt500 million senior unsecured debentures due 2018	A
NTL18DA: Bt1,000 million senior unsecured debentures due 2018	A
NTL195A: Bt1,300 million senior unsecured debentures due 2019	A
NTL197A: Bt1,700 million senior unsecured debentures due 2019	A
NTL190A: Bt600 million senior unsecured debentures due 2019	A
NTL19DA: Bt275 million senior unsecured debentures due 2019	A
NTL205A: Bt1,700 million senior unsecured debentures due 2020	A
NTL20NA: Bt1,000 million senior unsecured debentures due 2020	A
NTL20DA: Bt400 million senior unsecured debentures due 2020	A
Up to Bt3,250 million senior unsecured debentures due within 5 years	A

Rating Outlook: Stable

Financial Statistics
Unit: Bt million

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
Total assets	21,190	17,165	13,871	10,359	6,769
Total loans	20,979	16,876	13,555	10,060	6,481
Allowance for doubtful accounts	1,384	1,109	868	646	429
Short-term borrowings	6,132	5,020	3,643	3,981	2,757
Long-term borrowings	9,336	7,533	6,456	4,410	2,516
Shareholders' equity	4,737	3,894	3,267	1,555	1,153
Net interest income	3,356	2,579	2,079	1,559	1,175
Bad debts and doubtful accounts	439	413	329	281	187
Non-interest income	710	707	592	458	333
Operating expenses	2,539	2,080	1,687	1,235	990
Net income	870	632	517	401	246

Key Financial Ratios
Unit: %

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
Profitability					
Net-interest income/average assets	17.50	16.62	17.16	18.35	20.17
Net-interest income/total income	73.96	69.10	67.26	66.44	67.74
Operating expenses/total income	55.97	55.74	54.58	52.66	57.07
Operating profit/average assets	5.67	5.11	5.40	5.89	5.69
Return on average assets	4.54	4.07	4.27	4.72	4.22
Return on average equity	20.15	17.65	21.43	29.42	23.83
Asset Quality					
Non-performing loans/total loans	1.36	1.28	0.92	0.69	0.64
Bad debts and doubtful accounts/average loans	2.32	2.72	2.79	3.44	3.47
Allowance for doubtful accounts/total loans	6.60	6.57	6.40	6.42	6.63
Allowance for doubtful accounts/non-performing loans	486.17	512.04	699.27	937.50	1,029.16
Capitalization					
Shareholders' equity/total assets	22.36	22.69	23.56	15.01	17.04
Shareholders' equity/total loans	22.58	23.08	24.10	15.46	17.79
Debt to equity (time)	3.47	3.41	3.25	5.66	4.87
Liquidity					
Short-term borrowings/total liabilities	37.27	37.83	34.36	45.22	49.10
Total loans/total assets	99.01	98.32	97.72	97.12	95.74

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