

# NGERNTURBO PLC

No. 79/2024  
10 May 2024

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 02/05/23

Company Rating History:		
Date	Rating	Outlook/Alert
02/05/23	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Ngernturbo PLC (TURBO) at “BBB-” with a “stable” outlook. The rating reflects the company’s strong capital base, moderate market position in title loan business, sufficient funding, and adequate liquidity position.

However, these supporting factors are offset by our concerns over TURBO’s weakened earnings capacity caused by asset quality deterioration and higher operating costs. The uncertain economic environment is likely to sustain pressure on the company’s asset quality. Intense competition in the auto title loan industry could also affect TURBO’s future profitability.

## KEY RATING CONSIDERATIONS

### Capital position to remain strong

TURBO’s capital, assessed as “strong”, remains its key rating strength. Its risk-adjusted capital (RAC) ratio stood at 19.1% at the end of 2023. We view that the current capital level is sufficient to support the company’s growth targets.

In the medium term, based on our assumption of 13%-17% outstanding loan growth and a zero-dividend payout in 2024-2026, the RAC will likely still be within the strong range. The company’s upcoming initial public offering (IPO) could further enhance its capital position, which may have a positive impact on the rating.

In terms of financial leverage, its adjusted debt, excluding shareholder loans, to equity (D/E) ratio stood at 1.6 times at the end of December 2023, far below the adjusted D/E covenant on its debt obligations of 3.5 times.

### Gradual expansion expected

Although TURBO’s market position remains modest compared with major peers, we expect the company to continue strengthening its business position over the next few years by increasing its loan portfolio size in line with the expansion of its branch network. However, we expect the growth to be gradual as the company implemented stricter loan underwriting processes.

In 2023, TURBO’s loan portfolio grew strongly. At the end of December 2023, its outstanding loans reached THB10.6 billion, a 40% increase year-on-year (y-o-y). The solid growth was mainly driven by strong loan growths in existing branches and an increased market coverage as the company expanded its network across the southern region in 2023.

At the end of 2023, TURBO had 1,030 branches in total, a 32% y-o-y increase or 252 new branches. Outstanding loans per branch stood at around THB10 million at the end of 2023, still less than peers in the industry. We expect TURBO to ramp up productivity to achieve loans per branch of around THB13 million in the next three years.

According to TURBO’s management, the company aims to open 60 branches per annum in 2024-2026, compared to a few hundred opened branches in the previous 2-3 years as it aims to focus on operating efficiency. We take a positive view on its less aggressive growth target given the uncertain economic environment, intense competition, and high interest rates.

Based on the planned expansion, we estimate TURBO’s outstanding loans to increase by 13%-17% per year in 2024-2026, possibly reaching THB16 billion

by the end of 2026. The growth would be driven mainly by title loans, for which demand remains strong, as well as branch network expansion and improvement in operating efficiency.

### **Asset quality control remains a challenge**

Declining asset quality is a key factor contributing to the weakening of TURBO's earnings capacity in 2023. TURBO's asset quality deteriorated considerably following the uncertain economic conditions of the past few years.

The NPL ratio increased to 3.1% at the end of 2023 from 2.8% year earlier, while NPL formation rose in the upward trend. The company's accelerated write-off policy reflected in the higher ratio of write-offs to average loans at 3.3% in 2023 compared to 1.2% - 1.3% in the previous two years. These resulted in credit cost (provisions for expected credit loss or ECL to average loans) rising to 5.5% in 2023 from 2.7% in 2022.

In TRIS Rating view, it's possible that NPLs could increase over the next few years if the company pursues aggressive business expansion in a competitive environment with ongoing economic challenges. To address its asset quality issue, TURBO has implemented stricter underwriting policies, such as lower loan to value (LTV), and accelerated its debt collection process. TRIS Rating expects these measures to gradually result in improved asset quality over the medium term.

In the longer term, the company aims to keep its NPL ratio below 3.5%. In our view, this would need to be supported by prudent loan approvals, efficient debt collections, and accelerated NPL write-offs. With our base-case assumption of NPL write-offs of 3.0%-3.8% of average loans in 2024-2026, and NPL formation of 3.5%-4.7%, the NPL ratio is likely to stay within the target. We also estimate credit cost to stay in the range of 3.5%-4.7% of average loans over the next few years. Based on these assumptions, TURBO's NPL coverage ratio should remain at a healthy level of around 116%. As of December 2023, NPL coverage stood at 121%, higher than peers in the auto title loan industry.

### **Higher cost pressure on earnings capabilities**

We expect TURBO's financial performance to remain under pressure in the medium term. TURBO's earnings capability as measured by earnings before taxes to average risk weighted assets (EBT/ARWA) declined significantly to 1.4% in 2023, compared with 5.6% in 2022.

In 2023, TURBO's net profit declined to THB132 million, a 61% decrease y-o-y, despite portfolio expansion that helped generate stronger revenue growth. The drop was caused by high credit cost due to weakening asset quality and rising operating costs. The ratio of operating expenses to total income increased to 60% in 2023, from 56% in 2022, mainly related to the accelerated branch expansion.

The company's ability to manage credit risk and control costs will be key to its future financial performance. We project EBT/ARWA to improve to the range of 2.4%-2.8% in 2024-2026, assuming a 17% interest spread and 3.5%-4.7% credit cost. However, this level of earnings would still be assessed as "moderate".

We expect its operating expenses to total income to fall to the mid-50% range in 2024-2026 due to improving economies of scale and efficiency. We also anticipate an improvement in interest income from credit expansion. In addition, the company intends to generate more non-interest income from insurance premium by selling various types of products.

### **Moderate funding profile with adequate liquidity**

We continue to assess TURBO's funding profile as "moderate". As of December 2023, TURBO's credit facilities from various financial institutions totaled TH10.5 billion, of which THB2.3 billion or 22% were available for drawdowns. The ample credit lines suggest that the company has sufficient funding to support medium term growth. However, we consider TURBO to have less financial flexibility than major peers due to the requirement for credit facilities to be secured by receivables.

TURBO has a satisfactory liquidity position. According to the company's projections, its anticipated cash inflow is more than doubles the amount of its obligation over the next 12 months. Apart from the credit facilities offered by banks, TURBO also has the option of utilizing revolving shareholder loans. At the end of 2023, its existing shareholder loans stood at THB2 billion. Additional loans could potentially be accessed to support repayment of short-term debt obligations if required.

### **Debt structure**

The company's debt structure comprised 45% short-term obligations and 55% long-term. Of the total long-term debts, 37% have a current portion that will be maturing within one year. As of December 2023, the company's priority debt to total debt ratio was 72%. This is due to the requirement for most of its bank borrowings to be secured by receivables, which implies that TURBO's ability to secure additional credit facilities in the future could be limited in a stress scenario. The high priority debt ratio suggests a significant subordination risk for the company's unsecured obligations, according to TRIS Rating's "Issue Rating Criteria".

## Challenges remain for title loan operators

In 2023, the average growth of outstanding title loans for the three largest operators of title loans stood at 25%. Credit growth is likely to continue in the medium term, supported by network expansion and sustained demand for loans. However, we expect overall loan growth of the rated title loan operators to decelerate from the past. Indeed, the growth has slowed down since the third quarter of 2023 with average loan growth of 16% year-to-date (y-t-d) in the first nine months of 2023 compared to 32% growth in 2022. This is largely due to an increased focus on asset quality.

Meanwhile, we observe several key developments and challenges that have impacted title loan operators and need to be monitored. First, there has been a noticeable decline in interest spreads due to competitive pricing strategies and increased funding costs, resulting in diminished profitability. Additionally, heightened credit risk stemming from aggressive growth strategies, coupled with the deteriorating credit profiles of borrowers, has led to increased credit costs for most operators.

## BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TURBO's operations in 2024-2026 are as follows:

- Outstanding loans to grow by 13%-17% per annum.
- Spread to be around 17%.
- Credit cost to be in the range of 3.5%-4.7%.
- Operating expenses to total income in the mid-50% range.

## RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that TURBO will maintain its current market position, capital position, and earnings capability. The outlook also takes into consideration our anticipation that the company's asset quality will remain manageable amid an uncertain economic environment.

## RATING SENSITIVITIES

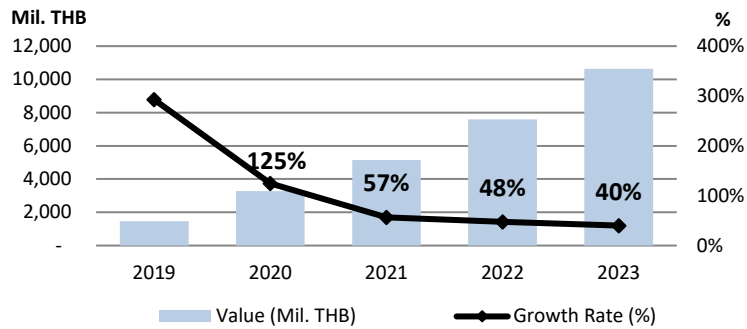
An upward revision on the rating and/or outlook could occur if the company's capital base is materially strengthened, with the RAC ratio hovering well above 25% and EBT/ARWA remaining above 4% for a sustained period. On the contrary, the rating could be downgraded if the company's asset quality deteriorates and/or operating performance weakens materially with EBT/ARWA falling below 1.5% or the RAC ratio falling below 15% for an extended period.

## COMPANY OVERVIEW

TURBO was founded in 2017 by Mr. Sutach Ruangsuttipap and the Tangmitrphracha Family to offer title loan services, with initial registered capital of THB1 billion. The company mainly offered title loans in Greater Bangkok and provinces in the northeastern region. It also started offering nano-finance services in 2022. In December 2022, Kasikorn Vision Co., Ltd., a subsidiary of Kasikorn Bank PLC (KBANK), became a strategic partner with a THB1.3 billion capital injection. As of December 2023, Mr. Sutach and the Tangmitrphracha Family remained the major shareholder of TURBO with an 88.8% stake while Kasikorn Vision held 10% and other shareholders held 1.2%. As of December 2023, outstanding loans comprised title loans (86%) and nano-finance (14%). Collateralized loans comprised loans for passenger cars and pick-up trucks (51%), motorcycles (21%), land (14%), and other collaterals and unsecured loans (14%).

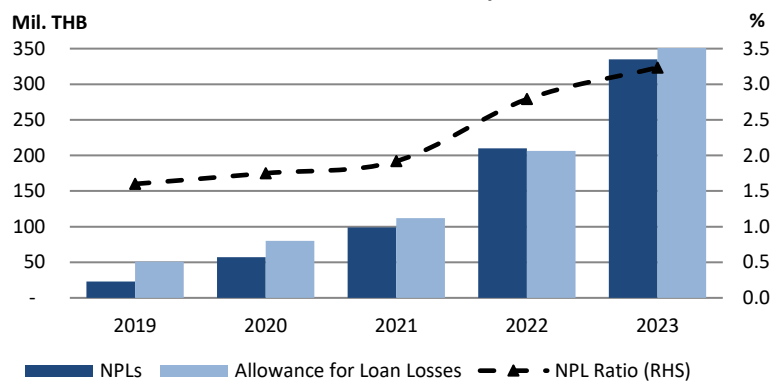
**KEY OPERATING PERFORMANCE**

**Chart 1: Outstanding Loans**



Sources: TURBO's financial statements

**Chart 2: Asset Quality**



Sources: TURBO's financial statements

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Year Ended 31 December				
	2023	2022 **	2021	2020	2019
Total assets	12,112	8,794	6,020	3,765	1,926
Total loans	10,632	7,589	5,143	3,282	1,461
Allowance for expected credit loss	406	206	112	80	51
Short-term debts	5,362	3,980	3,685	2,255	807
Long-term debts	4,127	2,323	1,214	654	438
Shareholders' equity	2,471	2,339	1,011	775	619
Net interest income	1,705	1,124	726	427	120
Expected credit loss	504	171	87	52	49
Non-interest income	401	469	412	184	82
Operating expenses	1,447	999	757	504	495
Earnings before taxes	156	423	295	54	(180)
Net income	132	338	235	43	(145)

\* Consolidated financial statements

\*\* Restated financial statements for 2022

Unit: %

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
<b>Profitability</b>					
Net interest income/average assets	16.31	15.17	14.84	15.01	9.61
Non-interest income/average assets	3.84	6.33	8.43	6.47	6.58
Operating expenses/total income	59.64	56.15	59.84	72.49	144.38
Operating profit/average assets	1.49	5.71	6.03	1.91	(14.42)
Earnings before taxes/average risk-weighted assets	1.42	5.63	6.14	1.99	(15.30)
Return on average assets	1.26	4.57	4.81	1.53	(11.66)
Return on average equity	5.47	20.20	26.36	6.23	(26.67)
<b>Asset Quality</b>					
Receivable in stage 3/total loans	3.15	2.77	1.92	1.75	1.60
Expected credit loss/average loans	5.53	2.68	2.06	2.21	5.34
Allowance for expected credit loss/receivable in stage 3	121.36	98.21	113.41	139.32	218.50
<b>Capitalization</b>					
Risk-adjusted capital ratio	19.13	25.78	16.95	21.35	33.94
Debt/equity (times)	4.10	2.76	4.95	3.86	2.11
<b>Funding and Liquidity</b>					
Stable funding ratio	79.64	79.16	54.81	54.47	38.53
Liquidity coverage measure (times)	0.04	0.04	0.02	0.06	0.12
Short-term debts/total liabilities	55.62	61.65	73.56	75.42	61.82

#### RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Issue Rating Criteria, 15 June 2021

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**Ngernturbo PLC (TURBO)**

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**Company Rating:**

BBB-

**Rating Outlook:**

Stable

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