

NGERN TID LOR CO., LTD.

No. 198/2019
29 November 2019

FINANCIAL INSTITUTIONS

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

Last Review Date: 18/04/19

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 is enhanced from the stand-alone rating based on the company's status as an 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 rating reflects NTL's solid market position as the second largest lender 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 level; and ample funding and liquidity. However, the intense competition in the consumer finance segment still constrains the ratings to some extent.

KEY RATING CONSIDERATIONS

Strategically important subsidiary status supports ratings

NTL's company rating reflects TRIS Rating's view that NTL is a strategically important subsidiary of BAY and this has enhanced the company's stand-alone rating. NTL has continued to receive both business and financial support from BAY over the years and serves as an arm for BAY to provide auto title loans for the underbanked group.

NTL receives business support in the form of business know-hows. Representatives from BAY constitute half of the board of directors, while the other half are from BAY's strategic partner, Siam Asia Credit Access Pte., Ltd. 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 2019, 49% of outstanding borrowings were from BAY.

Solid market position

TRIS Rating expects NTL to maintain its market position as one of the top lenders in the auto title loan market as it continues to grow loan portfolio in line with the industry. NTL is the second-largest non-bank lender, with total outstanding loan of Bt45.6 billion at the end of the third quarter of 2019, expanding 14.8% year-to-date.

For the year ended 2018, NTL's outstanding loan was Bt39.7 billion, a strong growth of 50.3% year-on-year, thanks to aggressive branch expansion and competitive marketing campaign. NTL's branch expansion has been accelerated since 2016. The company opened 220 new branches in 2018. As of end-September 2019, NTL had 966 branches. We believe the growth in 2019 will normalize as the company ceased the proactive marketing campaign in January 2019. Despite that, we expect NTL to still retain its solid market position over the next few years.

Strong profitability supports capital formation

TRIS Rating believes that the company's high profitability and strong asset growth should help keep its leverage (measured by the debt to equity (D/E) ratio) at a level appropriate for its rating due to the steady rate of capital formation. We estimate the company's D/E ratio to remain below 4.5 times

through 2021 and return on average assets (ROAA) to be between 4.0%-4.5% through 2021.

The company's strong profitability is attributed to high yield and low funding cost. However, there are two factors constraining the company's profitability level: 1) high operating expenses 2) large provision expenses despite relatively low delinquency due to prudent risk management practice. The high operating expenses is derived from investments in back-office system and personnel. Nonetheless, the investments help ensure that the system can support the existing scale of business as well as future expansion and diversification plans, while also reduce the operational risk.

Prudent risk management supports healthy asset quality

We expect NTL's asset quality will remain healthy thanks to prudent risk management practice and efficient risk management platform. As a subsidiary of BAY, NTL places great emphasis on risk management and adopts risk management framework similar to the bank standard. As a result, the company has set up a dedicated team to focus on risk optimization. Over the year, we continue to see improvement in risk tools and platform of the company. For example, NTL is one of the few companies in the industry to incorporate credit data from the National Credit Bureau (NCB) to analyze customer risk profile.

We expect that the company's non-performing loan (NPL) ratio, (loans of more than three months past due divided by total loans) is unlikely to exceed 2.0% through 2021, compared with 1.3% at the end of September 2019. Any potential deterioration in asset quality could be due to the weakening economy and the company's optimization of risk appetite given higher yield and ample loan loss reserve level, which reflect the risk-adjusted pricing doctrine that is used by the company. Despite that, the company's NPL ratio is considered low given the high credit risk profile of the company's target customers. The consistent NPL ratio is owed to NTL's prudent credit risk management.

Moreover, the company's provisioning policy has been one of the most conservative in the industry thanks to prudent risk policy as seen in the company's large surplus of provisions. At the end of 2018, the company's ratio of loan loss reserve to NPLs (NPL coverage) is at 609%, significantly higher than direct peers. However, we expect the company's NPL coverage to decline from the current level after TFRS9 implementation in 2020 as the required provisions based on TFRS9 model are likely to be lower than the credit costs the company has been applying.

Ample funding and liquidity

NTL's financial flexibility stems from its status as one of BAY's subsidiaries. BAY provides ample amount of funding, which is sufficient to support the company's expansion plans. In 2019, the company has a strategy to diversify the funding sources outside of BAY. As of September 2019, the company had secured the credit facilities with two financial institutions and in the approval process of additional credit lines with multiple financial institutions. 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 52% of total borrowings as of September 2019. 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 2019-2021 are:

- New loan to grow around 10% per year
- D/E ratio to remain below 4.5 times
- Overall loan yield to remain between 17%-19%
- Credit cost¹ to remains below 2.1%
- Operating expenses to total income² ratio to remains between 55%-56%

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. The support NTL receives from its parent bank is expected to continue, especially the financial support.

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

² Total income = Interest income + Non-interest income

RATING SENSITIVITIES

The rating upside would arise if NTL improves its market position, continues to deliver strong financial performance, and controls credit cost at an acceptable level.

The ratings could be revised downward if NTL’s competitive position or asset quality deteriorates significantly or the D/E ratio rises higher than 4.5 times.

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

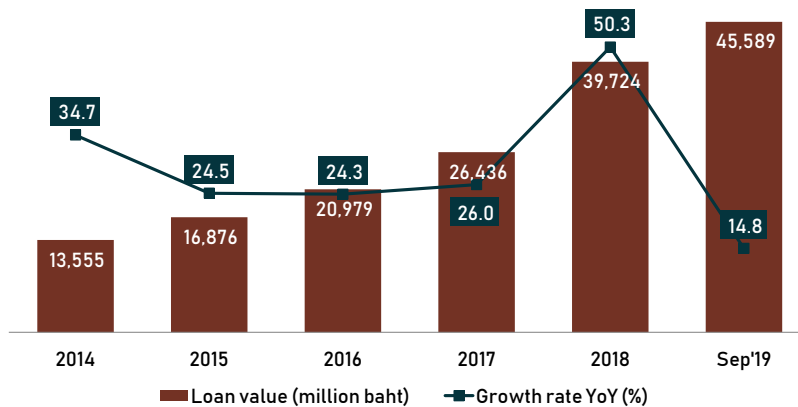
NTL was a 99.99% owned subsidiary of BAY, the fifth-largest commercial bank in Thailand. NTL’s main business is personal loan secured against vehicles. It also offers other financial services such as unsecured personal loans, insurance broker, and Nano finance. NTL provides lending services for low-income customers 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. has completed the 50% acquisition of NTL from BAY. Siam Asia Credit Access Pte., Ltd. is consortium of CVC Capital Partners – Asia Fund IV and Equity Partners Limited.

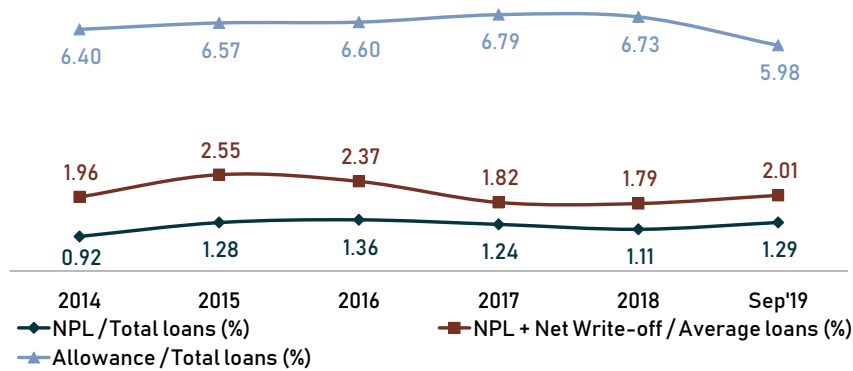
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: NTL
* Year-to-date growth for Sep-19

Chart 2: Asset Quality



Source: NTL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total assets	40,081	26,841	21,190	17,165	13,871
Total loans	39,724	26,436	20,979	16,876	13,555
Allowance for doubtful accounts	2,675	1,796	1,384	1,109	868
Short-term borrowings	13,192	7,597	6,132	5,020	3,643
Long-term borrowings	17,885	11,902	9,336	7,533	6,456
Shareholders' equity	7,345	5,994	4,737	3,894	3,267
Net interest income	5,722	4,400	3,356	2,579	2,079
Bad debts and doubtful accounts net of bad debt recovery	1,031	516	439	413	329
Non-interest income	1,193	912	808	707	592
Operating expenses	4,254	3,239	2,637	2,080	1,687
Net income	1,306	1,247	870	632	517

Unit: %

	----- Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Profitability					
Net-interest income/average assets	17.10	18.32	17.50	16.62	17.16
Net-interest income/total income	75.60	75.84	72.40	69.10	67.26
Operating expenses/total income	56.20	55.84	56.89	55.74	54.58
Operating profit/average assets	4.87	6.48	5.67	5.11	5.40
Return on average assets	3.90	5.19	4.54	4.07	4.27
Return on average equity	19.58	23.25	20.15	17.65	21.43
Asset Quality					
Non-performing loans/total loans	1.11	1.24	1.36	1.28	0.92
Bad debts and doubtful accounts/average loans	3.12	2.18	2.32	2.72	2.79
Allowance for doubtful accounts/total loans	6.73	6.79	6.60	6.57	6.40
Allowance for doubtful accounts/non-performing loans	608.95	549.60	486.17	512.04	699.27
Capitalization					
Shareholders' equity/total assets	18.33	22.33	22.36	22.69	23.56
Shareholders' equity/total loans	18.49	22.67	22.58	23.08	24.10
Debt to equity (times)	4.46	3.48	3.47	3.41	3.25
Liquidity					
Short-term borrowings/total liabilities	40.30	36.44	37.27	37.83	34.36
Total loans/total assets	99.11	98.49	99.01	98.32	97.72

RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018
- Group Rating Methodology, 10 July 2015

Ngern Tid Lor Co., Ltd. (NTL)

Company Rating:	A-
Issue Ratings:	
NTL19DA: Bt275 million senior unsecured debentures due 2019	A-
NTL19DB: Bt1,300 million senior unsecured debentures due 2019	A-
NTL205A: Bt1,700 million senior unsecured debentures due 2020	A-
NTL207A: Bt2,000 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-
NTL217A: Bt1,900 million senior unsecured debentures due 2021	A-
NTL21DA: Bt1,500 million senior unsecured debentures due 2021	A-
NTL221A: Bt4,000 million senior unsecured debentures due 2022	A-
NTL22DA: Bt450 million senior unsecured debentures due 2022	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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