

NGERN TID LOR PLC

No. 212/2024
19 November 2024

FINANCIAL INSTITUTIONS

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

Last Review Date: 04/09/24

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 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. Key rating strengths include strong capital base, adequate risk management, and sufficient funding and liquidity. However, rating constraints arise from a decline in asset quality, coupled with higher funding costs, which have led to lowered profitability.

KEY RATING CONSIDERATIONS

Strategic affiliate of BAY

BAY remains the largest shareholder of TIDLOR with a 30% stake. BAY influences TIDLOR's strategy and operations through its board representation, with four out of 11 members being representatives from BAY. The bank's Chief Risk Officer (CRO) serves as the chairman of the board.

TIDLOR remains part of BAY's non-solo consolidated group under the Bank of Thailand's (BOT) consolidated supervision. Furthermore, BAY's CRO chairs TIDLOR's risk management committee, ensuring alignment with the group's risk management policies according to the consolidated supervision guidelines. We believe BAY is likely to extend extraordinary support to TIDLOR, if needed, considering the reputation risk.

Ample funding and liquidity

TIDLOR benefits from its affiliation with BAY and strong relationships with financial institutions, both domestic and international, including the International Finance Corporation (IFC) and the Asian Development Bank (ADB). These connections are broader than those of most other rated non-bank entities.

As of September 2024, TIDLOR had total credit lines of around THB58 billion and USD50 million. TIDLOR has ample liquidity to meet its debentures obligations of the THB19.4 billion maturing in 2025. The secured credit lines from BAY and other financial institutions, should be more than sufficient to meet the company's liquidity needs.

Strong business position

TRIS Rating assesses TIDLOR's business position as 'strong', supported by its status as the second-largest title loan operator by total assets. As of September 2024, TIDLOR's outstanding loans stood at THB102.7 billion, reflecting a 5.4% year-to-date (YTD) and 12% year-on-year (y-o-y) growth. Although loan growth has decelerated, it aligns with industry trends due to the company's strategic decision to prioritize improving asset quality amidst a high credit risk environment. This strategy is expected to continue, with a more measured approach to portfolio expansion, targeting around 10% loan growth per annum.

A significant factor contributing to TIDLOR's steady growth, despite relative few new branches, is the transformation of its product from term loan lending to revolving loan extensions through the TIDLOR card, which also allows withdrawals via a mobile phone application. This feature enhances the company's capacity to retain customers.

Growing insurance brokerage supports revenue diversification

TIDLOR's insurance brokerage business has seen steady growth, which has helped support the company's overall business diversification. In 2023, the company ranked as the second-largest non-life insurance broker, with insurance premiums of THB8.7 billion and a 3.1% market share. The contribution of non-interest income from insurance brokerage activities has continued to make up a significant part of TIDLOR's overall business and may further enhance the company's business position in the future.

At the end of 2023, the ratio of non-interest income to total revenue was 18%, keeping pace with growth in the core lending business. In the first nine months of 2024 (9M24), non-interest income grew to THB2.7 billion, up 13% y-o-y, while non-life insurance premiums increased by 19% y-o-y. The insurance brokerage business may continue to grow, benefiting from a larger insurance customer base compared to title loans. This could further strengthen the company's income streams.

Capital remains strong, supporting ongoing credit growth.

TIDLOR will likely maintain a strong capital position. This remains one of the key supports for the ratings. As of September 2024, the company's risk-adjusted capital (RAC) ratio stood at 29.4%, an increase from 28.5% at the end of 2023. We forecast the company's RAC ratio of 28%-30% over the next two years. We project loan growth of about 10% per year with a 20% cash dividend payout for 2024-2026, consistent with management guidance and the company's risk appetite.

Credit costs to stay high

The uneven recovery of the economy combined with high household debt, and rising living costs, has significantly impacted low-income households and smaller businesses, both of which are key customer segment of TIDLOR. These factors have resulted in an increase in the company's non-performing loans (NPLs) ratio, which rose to 1.9% at the end of September 2024 from 1.5% at the end of 2023, driven primarily by the four-wheeler and truck segments.

NPL formation, write-offs, and asset repossessions have grown in recent years while a drop in secondhand vehicle prices in 2023 has led to higher losses on repossessions. As a result, credit costs increased to 3.3% in 2023, up from 2.2% in 2022. The ratio remained high at 3.6% in 9M24.

We project that the company's credit costs to remain elevated in 2024-2025. This outlook reflects our view that the economic recovery will proceed, albeit at a slow pace, and is therefore likely to continue to impact the company's key customer segments.

Challenging credit environment pressure profitability

In 9M24, the company reported a net income of THB3.2 billion, up 10.3% y-o-y. This met our expectations as higher lending yields offset increased provisions and funding costs. The overall yield rose to 18.2% in 9M24 from 17.4% in 2023. We expect yield to stay around 18%, given the management's focus on yield enhancement.

The company's earnings before taxes to average risk weighted assets (EBT/ARWA) fell from 6.3% in 2022 to 5.3% in 2023 and slightly improved to 5.3% in 9M24. The company has managed the increase in credit costs effectively, cushioned by improvements in yield. We anticipate the ratio to stabilize around 5% in 2024-2025, with ongoing pressure from elevated credit and funding costs. While profitability may be moderated compared to historical levels, we do not expect this to have a material impact on the ratings.

Challenges and risks remain for title loan operators

In 2023, the outstanding loans of title loan operators under the BOT's supervision grew by 36% y-o-y. However, growth has slowed in 2024. By the end of 9M24, loans were up by only 10% YTD due to tightened underwriting. Factors such as an uneven economic recovery, weakened borrower debt serviceability, and high interest rates are expected to slow credit expansion further in 2024. Intense competition and weaker asset quality have strained financial performance, pushing up credit costs and reducing interest spreads. These challenges will likely persist for title loan operators in the medium term.

BASE-CASE ASSUMPTIONS

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

- Outstanding loans to grow by around 10% in 2024-2026.
- RAC ratio to remain above 25%.
- Overall loan yield to remain around 18%.
- Credit cost¹ to remain below 4% in 2024 and gradual improve in 2025-2026.
- Operating expense to total income² ratio to remain below 50%.

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 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.

The ratings may be downgraded if there is a downward revision of the SACP or removal of the rating enhancement. The rating enhancement could be removed if we determine that the importance of TIDLOR to the BAY Group has significantly weakened. This could occur due to a reduction in BAY's shareholding in TIDLOR, or if the level of operational integration and funding support decreases substantially.

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 the RAC ratio falls well below 25% for a sustained period.

COMPANY OVERVIEW

TIDLOR's main business covers title loans secured against vehicles. The company 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 is also that of 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 a 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's shareholdings in TIDLOR declined to 30%.

In April 2024, TIDLOR announced a restructuring plan to form Tidlor Holdings. The restructuring plan was approved by shareholders in June 2024. The plan is currently undergoing approval from relevant regulatory authorities. After the approval, Tidlor Holdings will launch a tender offer to swap shares with TIDLOR's existing shareholders. Upon completion of the tender offer, Tidlor Holdings will be listed on the Stock Exchange of Thailand (SET), and TIDLOR will be delisted.

¹ Credit cost = Expected credit loss/average loans

² Total income = Interest income + non-interest income

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Sep 2024	Year Ended 31 December			
		2023	2022	2021	2020
Total assets	106,550	100,148	84,727	66,525	53,336
Total loans	102,700	97,457	81,265	61,458	51,331
Allowance for expected credit loss	4,461	3,981	3,199	2,611	2,763
Short-term debts	31,160	32,779	20,149	20,527	10,852
Long-term debts	41,866	36,399	36,602	21,498	28,944
Shareholders' equity	30,814	28,424	25,422	22,405	11,749
Net interest income	11,897	13,703	11,297	8,704	7,557
Expected credit loss	2,719	2,986	1,583	414	582
Non-interest income	2,717	3,427	2,742	2,222	1,824
Operating expenses	7,915	9,401	7,923	6,559	5,772
Earnings before taxes	3,980	4,744	4,533	3,953	3,027
Net income	3,186	3,790	3,640	3,169	2,416

Unit: %

	Jan-Sep 2024	Year Ended 31 December			
		2023	2022	2021	2020
Profitability					
Net interest income/average assets	15.35 *	14.82	14.94	14.52	14.86
Non-interest income/average assets	3.51 *	3.71	3.63	3.71	3.58
Operating expenses/total income	48.31	49.55	51.87	54.44	54.66
Operating profit/average assets	5.13 *	5.13	5.99	6.60	5.95
Earnings before taxes/average risk-weighted assets	5.29 *	5.27	6.30 **	6.98 **	6.13**
Return on average assets	4.11 *	4.10	4.81	5.29	4.75
Return on average equity	14.34 *	14.08	15.22	18.56	22.91
Asset Quality					
Non-performing loans/total loans	1.88	1.45	1.58	1.19	1.66
Expected credit loss/average loans	3.62 *	3.34	2.22	0.73	1.17
Allowance for expected credit loss/non-performing loans	230.57	282.07	248.90	356.57	325.07
Capitalization					
Risk-adjusted capital ratio	29.41	28.46	30.34 **	35.18 **	21.54**
Debt/equity (time)	2.46	2.52	2.33	1.97	3.54
Liquidity					
Stable funding ratio	105.35	98.64	115.38	112.36	133.37
Liquidity coverage measure (times)	0.10	0.05	0.11	0.19	0.12
Short-term debts/total liabilities	41.74	45.70	33.97	46.52	26.09

* Annualized

** Risk-weighted assets remove intangible assets from calculation

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- Group Rating Methodology, 7 September 2022

Ngern Tid Lor PLC (TIDLOR)

Company Rating:	A
Issue Ratings:	
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
TIDLOR25NA: THB1,900 million senior unsecured debentures due 2025	A
TIDLOR267A: THB3,400 million senior unsecured debentures due 2026	A
TIDLOR268A: THB1,000 million senior unsecured debentures due 2026	A
TIDLOR260A: THB1,035 million senior unsecured debentures due 2026	A
TIDLOR26NA: THB2,100 million senior unsecured debentures due 2026	A
TIDLOR26DA: THB1,500 million senior unsecured debentures due 2026	A
TIDLOR273A: THB2,000 million senior unsecured debentures due 2027	A
TIDLOR274A: THB1,500 million senior unsecured debentures due 2027	A
TIDLOR278A: THB800 million senior unsecured debentures due 2027	A
TIDLOR278B: THB2,000 million senior unsecured debentures due 2027	A
TIDLOR27NA: THB1,000 million senior unsecured debentures due 2027	A
TIDLOR283A: THB500 million senior unsecured debentures due 2028	A
TIDLOR288A: THB600 million senior unsecured debentures due 2028	A
TIDLOR280A: THB465 million senior unsecured debentures due 2028	A
Rating Outlook:	Stable

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