

NGERNTURBO CO., LTD.

No. 78/2023
2 May 2023

FINANCIAL INSTITUTIONS

Company Rating: BBB-
Outlook: Stable

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RATIONALE

TRIS Rating assigns a company rating of “BBB-” to Ngernturbo Co., Ltd. (TURBO), with a “stable” rating outlook. The rating reflects the company’s strong capital base, moderate earnings capacity, and acceptable risk position. The rating is constrained by the company’s modest market position in the title loan business and relatively short track record of operations as well as our concerns over the uncertain economic environment that could pressure its asset quality. Intense competition in the auto title loan industry could also affect TURBO’s future profitability.

KEY RATING CONSIDERATIONS

Capital to remain strong

TURBO’s capital is assessed as “strong” and is likely to remain so in the medium term. Its stronger capital base is a key positive rating factor. The current capital level, measured by a risk-adjusted capital (RAC) ratio of 26% at the end of 2022, is sufficient to support the company’s growth targets, in our view. However, with no capital increase and our assumptions of 30% growth in outstanding loans and a conservative dividend pay-out policy, we estimate its RAC to gradually decline to the 18%-22% range in 2023-2025, although it will continue to be assessed as “strong”.

Business expansion and improving efficiency to help sustain profitability

TURBO’s net profit has improved substantially since 2021, propelled by portfolio expansion that helped generate stronger revenue growth and better control of expenses. We expect the company to maintain the positive momentum over the next few years as it continues to expand its business and improve efficiency.

In spite of that, the company’s earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), is assessed as “moderate” with a ratio of 5.8% in 2022, compared to a direct peer average of 6.5%. Over the next few years, we believe TURBO’s operating profit could be pressured by higher credit cost, given the potential weakening of asset quality as the economic recovery remains uncertain. We expect its EBT/ARWA to decline to the range of 4%-5% in 2023-2025 but it will still be assessed as “moderate”.

On a positive note, we expect the company to be able to keep its operating expenses under control. The ratio of operating expenses to total income should decline to around 53% in 2023-2025, from 55%-60% in 2021-2022, due to improving economies of scale and efficiency. This should help keep its return on average assets (ROAA) in the 4% range over the next few years.

Modest business position

The rating on TURBO is constrained by its modest market position and relatively short track record of operations, compared with major peers. Nonetheless, portfolio growth in recent years has been exceptionally strong. The portfolio reached THB7.6 billion at the end of 2022, from THB372 million at inception in 2018, representing a compound annual growth rate (CAGR) of 113%.

The robust growth so far has been the result of an effective marketing strategy and rapid expansion of the branch network. At the end of 2022, the number of

TURBO's branches increased to 778, from 122 at the end of 2018. The company aims to increase this figure to around 1,000 branches by the end of 2025. Its branch network is currently spread across Greater Bangkok and the central, northeastern and eastern regions. Although the network is less extensive compared with major peers and is likely to expand at a slower pace going forward, owing to the company's selective growth strategy and increased use of information technology (IT) to support business operations, we view this positively.

In terms of loan portfolio expansion, we estimate that TURBO's loan portfolio will continue to expand at a decent rate, backed mainly by title loans, the demand for which remains strong, an active marketing strategy and expansion of the branch network. Its target of 30% growth in outstanding loans per year is not aggressive in our view, taking into consideration the modest size of its portfolio.

Asset quality should remain manageable due to cautious growth strategy

We view TURBO's risk position as "moderate", in line with most other title loan operators rated by TRIS Rating, given the high credit risk profile of its target customers. Its impressive growth targets combined with intense competition in the title loan segment could create additional pressure on asset quality if loan underwriting and collection are not managed efficiently.

The ratio of total non-performing or stage-3 loans (NPL) to total loans (NPL ratio) increased to 2.8% at the end of 2022, from 1.9% at the end of 2021, with NPL formation also on an uptrend. A similar trend has been observed for most direct peers, owing to the weaker credit profile of the low-income group. In the longer term, the company aims to keep its NPL ratio below 3%. In our view, this would need to be supported by prudent loan approvals, efficient debt collections, stable NPL formation, and accelerated NPL write-offs.

With our assumption of higher NPL write-offs of 2% to average loans in 2023-2025, compared with the level of around 1.2% in the past, and NPL formation of 3%, the NPL ratio is likely to stay within the target. We also estimate credit cost to increase marginally to around 3% of average loans over the next few years. Based on these assumptions, the NPL coverage ratio of TURBO should remain at a healthy level of above 100%. Given the company's cautious and selective growth strategy, we expect it to be able to mitigate asset quality and provisioning risk over the next few years.

Expanding funding sources is a positive move

We assess TURBO's funding profile as "moderate". We believe the company has sufficient funding to support future growth as it continues to actively expand funding sources. As of April 2023, the company had available credit facilities from various financial institutions totaling THB9.3 billion, 43% of which were undrawn. Currently the company has plans to diversify its funding sources by securing more long-term borrowings from financial institutions and several international funds, which should help support its expansion plan.

Without new funding sources, the ability to secure additional credit facilities from commercial banks in the future may prove challenging, in our view, due to the requirement for the loans to be secured by receivables, particularly in a weak credit environment where banks are tightening credit underwriting. As of December 2022, the company's priority debt to total debt ratio was around 65%.

Adequate liquidity

In our opinion, TURBO has an adequate liquidity profile. Based on the company's estimates, cash received from customer payments over the next 12 months will total approximately THB3.2 billion, while the company's repayments of obligations will be approximately THB1.4 billion. Apart from credit facilities available from banks, TURBO also has access to revolving shareholder loans. At the end of 2022, its outstanding shareholder loans amounted to THB2 billion. Additional shareholder loans may be available to support repayment of short-term debt obligations if needed.

Challenges and risks remain for title loan operators

In 2022, the average growth of outstanding title loans for the three largest operators of title loans remained high at 40% year-on-year (y-o-y). This robust growth is likely to continue in the medium term, supported by network expansion, the aggressive growth targets of existing operators, entry of new players, and strong loan demand. That said, we have observed a number of key developments and challenges that have impacted title loan operators and need to be monitored. Firstly, declining interest spreads due to competitive pricing and higher funding costs are squeezing profitability. Rising credit risk from aggressive growth strategies, coupled with the weaker credit profile of customers, has resulted in higher credit costs for most operators. Moreover, aggressive loan growth targets have also led to eroded capital, which, if continued, could impact the credit profile of rated companies.

BASE-CASE ASSUMPTIONS

TRIS Rating’s base-case assumptions for TURBO’s operations in 2023-2025 are as follows:

- Outstanding loans to grow by 36% in 2023 and 30% per annum in 2024-2025.
- Spread to be around 17%.
- Credit cost to be in the range of 3%.

RATING OUTLOOK

The “stable” outlook is based on TRIS Rating’s expectation that TURBO will at least 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.

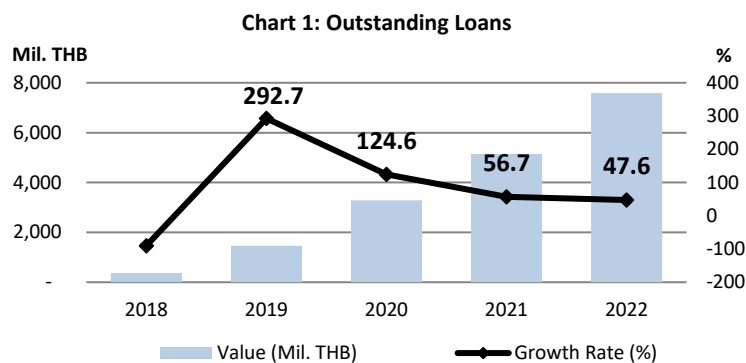
RATING SENSITIVITIES

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% for a sustained period. On the contrary, the rating could be revised downward if the company’s capital position weakens materially, with the RAC ratio falling below 15% for a prolonged period, or if asset quality significantly deteriorates such that credit cost increases significantly above our base case assumptions.

COMPANY OVERVIEW

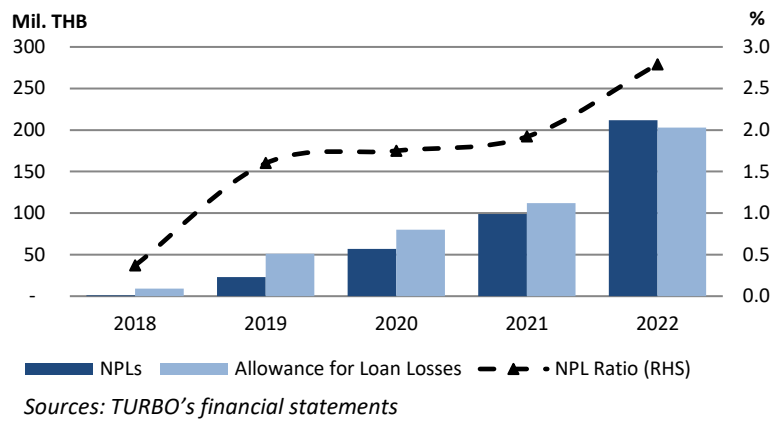
TURBO was founded in 2017 by Mr. Sutach Ruangsuttipap and Tangmitrphracha family to offer title loan services, with initial registered capital of THB1 billion. The company mainly offered title loans in Greater Bangkok and provinces in the north eastern region. It also started offering nano-finance services in 2022. In December 2022, Kasikorn Vision Co., Ltd., a subsidiary of Kasikorn Bank PLC (KBANK), became a strategic partner with a THB1.2 billion capital injection. As of December 2022, Mr. Sutach and the Tangmitrphracha family remained the major shareholder with an 88.8% stake while Kasikorn Vision held 10% and other shareholders 1.2%. As of December 2022, outstanding loans comprised title loans (92%) and nano-finance (8%). Collateralized loans comprised loans for passenger cars and pick-up trucks (54%), motorcycles (22%), lands (16%), and other collaterals and unsecured loans (8%).

KEY OPERATING PERFORMANCE



Sources: TURBO’s financial statements

Chart 2: Asset Quality



FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Year Ended 31 December				
	2022	2021	2020	2019	2018
Total assets	8,808	6,020	3,765	1,926	567
Total loans	7,592	5,143	3,282	1,461	372
Allowance for expected credit loss	203	112	80	51	9
Short-term debts	3,980	3,685	2,255	807	28
Long-term debts	2,323	1,214	654	438	26
Shareholders' equity	2,351	1,011	775	619	467
Net interest income	1,127	726	427	120	15
Expected credit loss	167	87	52	49	9
Non-interest income	462	412	184	82	14
Operating expenses	984	757	504	495	166
Earnings before taxes	438	295	54	(180)	(146)
Net income	350	235	43	(145)	(117)

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Profitability					
Net interest income/average assets	15.20	14.84	15.01	9.61	3.77
Non-interest income/average assets	6.23	8.43	6.47	6.58	3.40
Operating expenses/total income	55.42	59.84	72.49	144.38	559.11
Operating profit/average assets	5.91	6.03	1.91	(14.42)	(35.85)
Earnings before taxes/average risk-weighted assets	5.83	6.14	1.99	(15.30)	(38.26)
Return on average assets	4.72	4.81	1.53	(11.66)	(28.71)
Return on average equity	20.84	26.36	6.23	(26.67)	(32.81)
Asset Quality					
Receivable in stage 3/total loans	2.79	1.92	1.75	1.60	0.37
Expected credit loss/average loans	2.63	2.06	2.21	5.34	4.96
Allowance for expected credit loss/receivable in stage 3	95.62	113.41	139.32	218.50	660.95
Capitalization					
Risk-adjusted capital ratio	25.91	16.95	21.35	33.94	88.95
Debt/equity (times)	2.75	4.95	3.86	2.11	0.21
Funding and Liquidity					
Stable funding ratio	79.17	54.81	54.47	38.53	25.09
Liquidity coverage measure (times)	0.04	0.02	0.06	0.12	1.56
Short-term debts/total liabilities	61.63	73.56	75.42	61.82	27.79

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Ngernturbo Co., Ltd. (TURBO)

Company Rating:

BBB-

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

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