

Press Release

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TRIS Rating Assigns "A/Stable" Rating to Senior Unsecured Debt Worth Up to Bt1,200 Million of "NTL"

TRIS Rating has assigned the rating of "A" to the proposed issue of up to Bt1,200 million in senior unsecured debentures of Ngern Tid Lor Co., Ltd. (NTL), formerly known as CFG Services Co., Ltd. (CFGS). At the same time, TRIS Rating has affirmed the company rating and the ratings of the outstanding senior unsecured debentures of NTL at "A". The outlook remains "stable". 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, higher competition in the consumer finance segment constrains the ratings. Also, the company's target group of customers is sensitive to changes in economic conditions. In addition, the upward trend in delinquency rate will be closely monitored and is expected to be controlled at an acceptable level.

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 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. If the strategic importance of NTL to its parent bank increases, this would also be a boost for the ratings. The ratings or outlook could be revised downward should there be any factors which would significantly deteriorate NTL's asset quality, competitive position, or level of support from the parent bank.

NTL was originally named CFGS but was renamed NTL in October 2015. NTL is currently classified as a non-solo consolidated subsidiary, part of BAY, a financial service conglomerate. As a subsidiary of BAY, NTL has the ability to borrow from BAY to fund an expansion of the loan portfolio. NTL receives other benefits from the strong ties with BAY, including referrals and 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. Quick turn-around time is a key strategy to attract customers. The risk inherent in its base of target customers is partly mitigated by the small sizes of 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.

There is high demand for financial services from underserved clients. In addition, NTL can draw on funds from its parent bank. As a result, NTL's loan portfolio has grown rapidly. The loan portfolio rose from Bt1,673 million in 2009 to Bt16,876 million in 2015, or a compound annual growth rate (CAGR) of 47%. The loan portfolio grew to Bt19,947 million at the end of September 2016 (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 1.3% at the end of 2015. Despite the rise, NTL's NPL ratio was relatively low, particularly in light of NTL's customers, who typically carry a high credit risk profile. At the end of September 2016, the NPL ratio increased slightly to 1.4% (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.

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NTL's interest yield has been affected by direct competition from peers, a change in the composition of pledged assets, and the expansion of the loan portfolio to include customers with stronger credit profiles. The interest yield fell steadily from 28.2% in 2011 to 19.9% in 2015 while the funding costs ranged from 3.9%-5% over the same period. As a result, the interest spread dropped from 23.8% in 2011 to 15.9% in 2015. If NTL can control the quality of the loan portfolio, the interest spread will be high enough to deliver outstanding financial performance.

Net income rose continuously, climbing from Bt147 million in 2011 to Bt632 million in 2015. The return on average assets (ROAA) rose from 3.5% in 2011 to 4.2% in 2012 and 4.7% in 2013. The ROAA dropped slightly to 4.3% in 2014 and 4.1% in 2015. Based on the unaudited financial statements, net income for the first nine months of 2016 was Bt698 million, up 30.2% from the same period in 2015. The ROAA for the same period went up slightly to 5% (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.

After a recapitalization in 2009, NTL's capital base has gradually increased due to solid performance. However, the improvement was not enough to support the substantial growth in the loan portfolio. As a result, the ratio of shareholders' equity to total assets slipped from 29.1% in 2009 to 15% at the end of 2013.

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 sufficient capital in order to keep its debt equal to or no more than 7 times of the capital. In May 2014, NTL increased its 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. 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 continuously to 22.7% at the end of 2015 and 17.9% at the end of September 2016. The continued financial support from BAY helps mitigate concerns over any deterioration in NTL's capital ratio.

Ngern Tid Lor Co., Ltd. (NTL)

Company Rating:

A

Issue Ratings:

NTL171A: Bt500 million senior unsecured debentures due 2017	A
NTL177A: Bt500 million senior unsecured debentures due 2017	A
NTL177B: Bt500 million senior unsecured debentures due 2017	A
NTL17DA: Bt600 million senior unsecured debentures due 2017	A
NTL185A: Bt1,000 million senior unsecured debentures due 2018	A
NTL187A: Bt1,000 million senior unsecured debentures due 2018	A
NTL18OA: 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
NTL19OA: Bt600 million senior unsecured debentures due 2019	A
NTL19DA: Bt275 million senior unsecured debentures due 2019	A
NTL20NA: Bt1,000 million senior unsecured debentures due 2020	A
NTL20DA: Bt400 million senior unsecured debentures due 2020	A
Up to Bt1,200 million senior unsecured debentures due within 2018	A
Rating Outlook:	Stable

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