

NGERN TID LOR CO., LTD.

No. 189/2018
6 December 2018

FINANCIAL INSTITUTIONS

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

Last Review Date :

Date	Rating	Outlook/Alert
12/10/18	A	Alert Developing

Company Rating History:

Date	Rating	Outlook/Alert
12/10/18	A	Alert Developing
19/09/16	A	Stable
24/04/14	A-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Ngern Tid Lor Co, Ltd. (NTL) and the ratings on NTL's outstanding senior unsecured debentures to "A-" from "A" with a "stable" outlook. The downgrade reflects TRIS Rating's belief that NTL's status as a strategically important subsidiary of Bank of Ayudhya PLC (BAY) has lessened based on BAY's intention to reduce its equity stake in NTL to 50%.

The ratings continue to reflect the sustained improvements NTL has made in market position and financial performance. A steady asset quality and healthy loan loss reserve is achieved through prudent risk management practices. The ratings also reflect the strong brand name, "Ngern Tid Lor", of its core product secured personal loans. The brand name is widely recognizable by its target customers. However, a high level of competition in the consumer finance segment still constrains the ratings.

The ratings still reflect the business and financial support NTL receives from its major shareholder, BAY. The ratings on NTL are enhanced from the stand-alone rating based on the company's status as an important subsidiary of BAY.

KEY RATING CONSIDERATIONS

Support from BAY despite a weaker relationship

TRIS Rating views that BAY's intention to divest stake in NTL to 50% implies lower NTL's standing compared to other BAY's wholly-owned subsidiaries. The strong and long term commitment of BAY to NTL has appeared wavering from the change in NTL's shareholder structure.

Despite the partial divestiture, we believe NTL will still receive adequate both financial and liquidity support from BAY for its business operations and in case should it encounter a period of financial distress. NTL is BAY's microfinance arm in Thailand, serving customers that have little or no access to commercial bank loans. TRIS Rating believes that NTL will still receive business and financial support from BAY, its parent bank, as it expands.

Strong market position in secured personal loan

TRIS Rating expects NTL to maintain its competitive edge and market position, with one-third of market share and its position among the top three players. Strong brand awareness is the result of NTL's continued emphasis on its re-branding activities in the last four years. NTL is the second-largest non-bank lender of secured personal loan, based on a total outstanding loan size of Bt36.4 billion at the end of the third quarter of 2018 (unaudited).

There is high demand and growth potential for financial services from these underserved customers. Apparently the strategies to capture these customers are through extensive branch expansion as observed from the correlation between growth in branch network and outstanding loan from TRIS Rating's database. NTL had 765 branches in the third quarter of 2018, up 29% for the year, still considerably lower than its peers. This shows NTL's ability to grow further from extensive branch strategy if required. Even with fewer branches, efficiency per branches and staffs is high. In 2017, outstanding loans per branch were at Bt47.5 million per branch while outstanding loans per staff was Bt9 million per staff member. Across the industry, the averages are Bt12.4 million per branch and Bt5 million per staff.

Acceptable financial performance

TRIS Rating forecasts the return on average assets (ROAA) will stay above 3.4% and net income will grow by more than 10% year-on-year through 2020. The pressure for lower ROAA is the incorporation of expected rise in borrowing costs and a shift to higher quality customer segment causes a drop in the interest rate earned on the loan portfolio. NTL's ROAA is subjected to subtle change in operating expenses. The product mix is also a factor; NTL has fewer loans in the high-yield and high risk segment like motorcycle loans and Nano finance. Despite lowering ROAA from high provision expenses, NTL carries better cushion for future loan losses. Provisions for bad debts are more than 6 times of current level of non-performing loans (NPLs).

New regulations have been proposed for non-bank financial institutions. We believe the regulations will have no major impact on the financial performance of NTL. The current interest rates, including fees, charged by NTL is less than 28%, the limit imposed by the new regulation.

Steady asset quality and healthy loan loss reserve coverage

TRIS Rating expects the NPL ratio to remain within 1.0%-1.3% through 2020. The NPL ratio has held steady for the past four years, ranging from 0.9%-1.4%. The NPL ratio was lower than peers. This is noteworthy because NTL's target customers typically carry higher credit risk profiles. The consistent low NPL ratio is owed to NTL's prudent credit risk management.

We forecast loan loss provision will hold at 6.5% - 6.7% of outstanding loans. NTL's provision policy keeps the allowance for loan losses above 6.25% of total loans. NTL has provisions twice as high as its peers. This percentage is large enough to cover the current level of NPLs and mitigate the credit risk of NTL's target customers. For the third quarter of 2018, the NPL coverage ratio stands at 654%, much higher than peers.

Adequate leverage and asset-liability management

TRIS Rating expects debt to equity (D/E) ratio will range from 4.1-4.3 times through 2020. NTL's leverage is higher than peers but still far lower than the cap of 6 times stated in debenture covenants. We expect BAY will help recapitalize NTL if the D/E ratio exceed 5.5 times.

We believe NTL's recurring business will generate enough cash to fund its expansion plans. The company has positive gap between cash inflows from loan installments exceeding the cash outflows for interest payments and debt repayments.

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 credit facilities and business support.

RATING SENSITIVITIES

The rating 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. The ratings could be revised downward if NTL's competitive position or asset quality deteriorates significantly. In addition, any further material deterioration in the degree of importance of NTL to BAY would cause the ratings to be revised downward.

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 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).

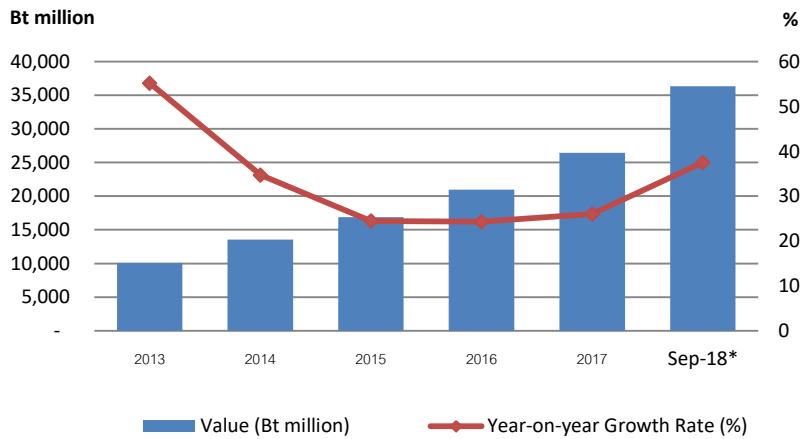
NTL is a 99.99% owned subsidiary of BAY, the fifth-largest commercial bank in Thailand. NTL's main business is personal loan secured against vehicles. It also offers other financial services such as unsecured personal loans, insurance broker, and Nano finance. NTL provides lending services for low-income 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 8 October 2018, Siam Asia Credit Access Pte., Ltd. announced it will make a strategic investment in NTL by buying 50% stake from BAY. However, this transaction is still subject to regulatory approval and other hurdles. Siam Asia Credit Access Pte., Ltd. is consortium of CVC Capital Partners – Asia Fund IV and Equity Partners Limited. CVC is a private equity fund founded in 1981. They invest in Europe, the US, and Asia and work with management teams to create sustainable long-term value. Equity Partners Limited was founded to manage the investments of the Chearavanont family.

KEY OPERATING PERFORMANCE

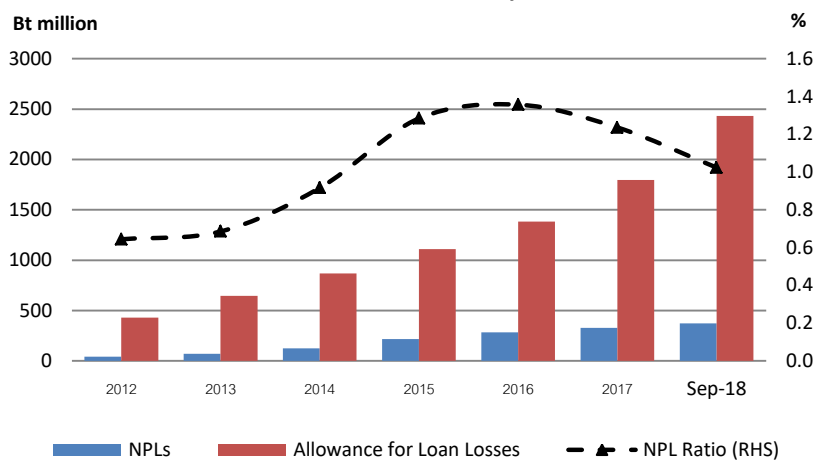
Chart 1: Outstanding Loans



Source: NTL

* Year-to-date growth for Jun-18

Chart 2: Asset Quality



Source: NTL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Total assets	26,841	21,190	17,165	13,871	10,359
Total loans	26,436	20,979	16,876	13,555	10,060
Allowance for doubtful accounts	1,796	1,384	1,109	868	646
Short-term borrowings	7,597	6,132	5,020	3,643	3,981
Long-term borrowings	11,902	9,336	7,533	6,456	4,410
Shareholders' equity	5,994	4,737	3,894	3,267	1,555
Net interest income	4,400	3,356	2,579	2,079	1,559
Bad debts and doubtful accounts	516	439	413	329	281
Non-interest income	912	808	707	592	458
Operating expenses	3,239	2,637	2,080	1,687	1,235
Net income	1,247	870	632	517	401

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Profitability					
Net-interest income/average assets	18.32	17.50	16.62	17.16	18.35
Net-interest income/total income	75.84	72.40	69.10	67.26	66.44
Operating expenses/total income	55.84	56.89	55.74	54.58	52.66
Operating profit/average assets	6.48	5.67	5.11	5.40	5.89
Return on average assets	5.19	4.54	4.07	4.27	4.72
Return on average equity	23.25	20.15	17.65	21.43	29.42
Asset Quality					
Non-performing loans/total loans	1.24	1.36	1.28	0.92	0.69
Bad debts and doubtful accounts/average loans	2.18	2.32	2.72	2.79	3.44
Allowance for doubtful accounts/total loans	6.79	6.60	6.57	6.40	6.42
Allowance for doubtful accounts/non-performing loans	549.60	486.17	512.04	699.27	937.50
Capitalization					
Shareholders' equity/total assets	22.33	22.36	22.69	23.56	15.01
Shareholders' equity/total loans	22.67	22.58	23.08	24.10	15.46
Debt to equity (time)	3.48	3.47	3.41	3.25	5.66
Liquidity					
Short-term borrowings/total liabilities	36.44	37.27	37.83	34.36	45.22
Total loans/total assets	98.49	99.01	98.32	97.72	97.12

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:	
NTL18DA: Bt1,000 million senior unsecured debentures due 2018	A-
NTL191A: Bt2,000 million senior unsecured debentures due 2019	A-
NTL195A: Bt1,300 million senior unsecured debentures due 2019	A-
NTL197A: Bt1,700 million senior unsecured debentures due 2019	A-
NTL190A: Bt600 million senior unsecured debentures due 2019	A-
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-
NTL20NA: Bt1,000 million senior unsecured debentures due 2020	A-
NTL20DA: Bt400 million senior unsecured debentures due 2020	A-
NTL21DA: Bt1,500 million senior unsecured debentures due 2021	A-
NTL22DA: Bt450 million senior unsecured debentures due 2022	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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