

NGERN TID LOR PLC

 No. 214/2021
 30 November 2021

FINANCIAL INSTITUTIONS

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

Last Review Date: 05/08/21

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 |

Contacts:

Sithakarn Tongphiphat, CFA, FRM
 sithakarn@trisrating.com

Pawin Thachasongtham
 pawin@trisrating.com

Jittrapan Pantaleard
 jittrapan@trisrating.com

Taweechok Jiamsakunthum
 taweechok@trisrating.com

Narumol Chamchanavivat
 narumol@trisrating.com


WWW.TRISRATING.COM

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 assessment of TIDLOR's status as a "strategic" affiliate of Bank of Ayudhya PLC (BAY, rated "AAA/stable" by TRIS Rating). The ratings take into consideration the business and financial support TIDLOR receives from BAY.

On a stand-alone basis, the ratings reflect TIDLOR's solid market position as one of the leaders in the auto title loan segment. Other factors taken into account include the company's strong capital base, healthy asset quality achieved through prudent risk management practices, and ample funding and liquidity. However, the intense competition in the consumer finance segment remains a constraint on the ratings to some extent.

KEY RATING CONSIDERATIONS

A strategic affiliate of BAY

We view TIDLOR as a strategic affiliate of BAY. The company's ratings incorporate a one-notch enhancement from its SACP assessed at "a-". BAY remains a major shareholder of TIDLOR with a 30% ownership after the initial public offering (IPO). The board of directors of TIDLOR comprises 12 members, four of which are representatives from BAY. TIDLOR's business direction and operations are controlled through the board. The company remains in BAY's full consolidated group under the consolidated supervision guidelines of the Bank of Thailand (BOT), which indirectly places the responsibility on BAY to monitor and guide the company's operation and risk management. We believe BAY will extend extraordinary support to TIDLOR if needed.

TIDLOR is part of BAY's microfinance business group with expertise in auto title loans for the underbanked segment in the domestic market. The company receives business support from BAY in the form of know-how, particularly in terms of risk management. Most of TIDLOR's risk control aligns with BAY's risk management framework.

We expect BAY to continue providing financial support to TIDLOR in the foreseeable future. At the end of September 2021, TIDLOR had THB10.1 billion outstanding credit support from BAY, representing around 27% of total outstanding borrowings. The company still has an unused credit facility with BAY of over THB15 billion.

Strong market position

We expect TIDLOR to maintain its strong market position in the auto title loan business. The company's outstanding loans stood at THB56.6 billion at the end of September 2021, an increase of 10.3% year-to-date (YTD). The stronger growth in 2021 compared with the 2020 full-year growth of 7% resulted from the improvement in market condition following the lifting of city lockdowns. This is in line with average market growth.

In the past few years, TIDLOR has focused on information technology (IT) investments which differentiate the company's business model from those of other title loan operators. While other operators focus on branch expansions as their main driver of loan growth, TIDLOR focuses on digital innovation and platform in tandem with selective branch network expansion to generate new business.

The company is also the first title loan operator to launch cash cards that enable customers to withdraw cash from the automatic telling machines (ATM). The cards provide liquidity support for TIDLOR's customers in the form of revolving loans on the existing credit lines. With the use of cash cards along with the digital lending platforms, there is less reliance on the branch network and enhanced efficiency. In terms of branch network, in the first nine months of 2021 (9M2021), the company opened 184 new branches of the total current stands at 1,260 branches, a much smaller network compared with the company's major peers. However, TIDLOR's outstanding loans per branch were higher, at THB44.9 million at the end of September 2021, compared with the major peers' average of THB11.9 million

Enhanced capital position and strong profitability

The company's capital has been strengthened to a very strong level, following its IPO in May 2021, which helped raise THB7.5 billion in new capital. At the end of September 2021, its risk-adjusted capital (RAC) ratio improved to 37.6% from 22.6% at the end of 2020 before the IPO. The capital injection will partly be used to fund its business expansion over the next few years. In the absence of aggressive loan expansions, the company should be able to maintain a RAC ratio above 30% in the medium term, which will help underpin its credit profile.

We expect the company's high profitability to continuously strengthen its capital position. The current rate of profit accumulation should help preserve its RAC ratio above 30% given a loan growth of 15% per year. The profitability measured by earnings before taxes to average risk weighted assets (EBT/ARWA) is projected to be in the range of 6.0%-6.5% in 2021-2023. In 9M2021 and 2020, the company's EBT/ARWA was 7.2% and 6.1%, respectively, thanks to lower credit costs that have been absorbed partly by management overlays and the improved efficiency seen in the lower cost to income ratio.

The healthy growth in non-interest income of 22.8% y-o-y in 9M2021 has also helped support revenue this year despite pressure on loan yields. This was driven by the strong growth in the insurance brokerage business. In 9M2021, the company's non-life insurance premium and fee income grew 25% and 28% y-o-y, respectively. We view this as a positive development as a greater revenue contribution from fee-based income should help stabilize TIDLOR's revenue in the long run.

Prudent risk management supports healthy asset quality

We expect TIDLOR's asset quality to remain healthy in the medium term, thanks to the prudent risk culture and effective risk management system. As part of BAY's full consolidated group, TIDLOR places great emphasis on risk management and adopts a similar framework as that of the bank. At the end of September 2021, TIDLOR's non-performing loans (stage-3 loans) to total loans (NPL ratio) stood at 1.41%, a low level compared with peers. However, NPLs could rise from this level as the BOT's debt relief program is set to expire by the end of 2021. As of September 2021, TIDLOR had 14% of the total loan portfolio remaining in the debt relief programs, compared with 2% at the end of 2020. The increase was due to the extension of the debt moratorium during city lockdowns in the third quarter of 2021.

The high level of allowance for expected credit loss (ECL) has helped absorb part of credit costs in 2021. We expect the company to gradually utilize the high reserve level as appropriate over the next 1-2 years which should slowly diminish the NPL coverage ratio over time. We estimate credit cost to be around 1%-2% in the medium term.

Ample funding and liquidity

TIDLOR's financial flexibility stems from its status as an affiliate of BAY and a listed company. Over the past years, TIDLOR has diversified its funding sources to include various financial institutions. As of September 2021, TIDLOR had total credit lines from other financial institutions of around THB14.7 billion and USD100 million, on top of around THB25 billion from BAY. As of September 2021, the unused credit facility from BAY was around THB15 billion. Short-term borrowings, including the current portion of long-term debts, accounted for approximately 47% of the total borrowings as of September 2021. Monthly loan payments from TIDLOR's customers, plus the secured credit lines from BAY and other financial institutions, should be more than sufficient to fill the liquidity gap in a timely manner.

New products to alleviate the impact from slower growth and yield pressure for title loan operators

Auto title loan operators have enjoyed robust loan growth in the past, with the average loan growth of the top-three operators in the range of 30%-40% per annum before the Coronavirus Disease 2019 (COVID-19) pandemic. With intensifying competition, the larger loan base, and COVID-19 impacts, industry growth slowed down significantly in 2020 and improved slightly in 2021. The top-three operators' average loan growth in 9M2021 was 11% YTD similar to the average growth in 2020 of 13%. Nonetheless, we expect the growth of auto title loans to remain in the double-digit range in the medium term, driven by credit demand from vulnerable groups.

As for loan yields, the average yield of auto title loans has been under pressure due to the BOT's interest rate ceiling at 24% per annum. Despite that, on a risk-adjusted basis, it remains one of the more lucrative businesses compared with other types of lending and has consequently attracted new operators into the market over recent years. Although the increased competition has inevitably driven the average loan yield of the operators to a level below 20% in 2020, they have adapted to the competitive environment by continuously launching new products and services with higher yields such as new motorcycle leasing, buy-now-pay-later financing, and fee income generators like insurance products to alleviate the yield pressure. In the longer term, we expect these new products to help sustain strong financial performance for title loan operators.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TIDLOR's operations in the period 2021-2023 are as follows:

- New loans to grow around 25% in 2021 and expand by 15%-20% per year thereafter.
- RAC ratio to remain above 30%.
- Overall loan yield to remain between 17%-18%.
- Credit cost¹ to remain between 1%-2%.
- Operating expense to total income² ratio to remain between 54%-55%.

RATING OUTLOOK

The "stable" outlook is based on our expectation that TIDLOR will maintain its strong capital base and leading market position 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 company improves business stability by continuously strengthening its market position while maintaining strong asset quality and sound financial performance.

The ratings could be revised downward if TIDLOR's competitive position or asset quality deteriorates significantly causing the RAC ratio to fall below 25%.

If there are material changes in TRIS Rating's view on the degree of importance of TIDLOR to the BAY Group, the ratings could also be revised to reflect the view.

COMPANY OVERVIEW

Post-IPO, TIDLOR was a 99.99% owned subsidiary of BAY, the fifth-largest commercial bank in Thailand. TIDLOR's main business is personal loan secured against vehicles. It also offers other financial services including unsecured personal loan and 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, such as cars, pick-up trucks, commercial trucks, motorcycles, and tractors, as collateral.

TIDLOR has strengthened its capital base through a series of recapitalizations. The ongoing financial support from BAY helps mitigate concerns over any deterioration in TIDLOR's capital ratio. BAY, the parent bank, became a foreign majority-owned commercial bank. TIDLOR's status consequently changed to a 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 capital.

On 28 February 2019, Siam Asia Credit Access Pte., Ltd. (SACA) completed the 50% acquisition of TIDLOR from BAY. Siam Asia Credit Access is the consortium of CVC Capital Partners – Asia Fund IV and Equity Partners Limited.

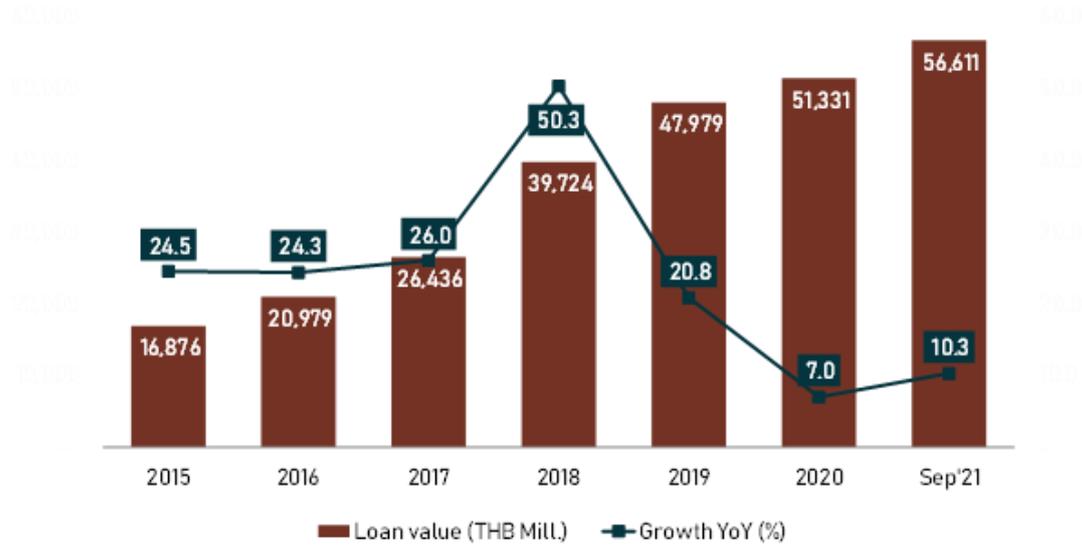
In May 2021, TIDLOR was listed on the Stock Exchange of Thailand (SET). The company received new capital from its IPO of around THB7.5 billion. BAY and SACA's shareholding in TIDLOR dropped to 30% and 25%, respectively.

¹ Credit cost = Expected credit loss / Average loans

² Total income = Interest income + non-interest income

KEY OPERATING PERFORMANCE

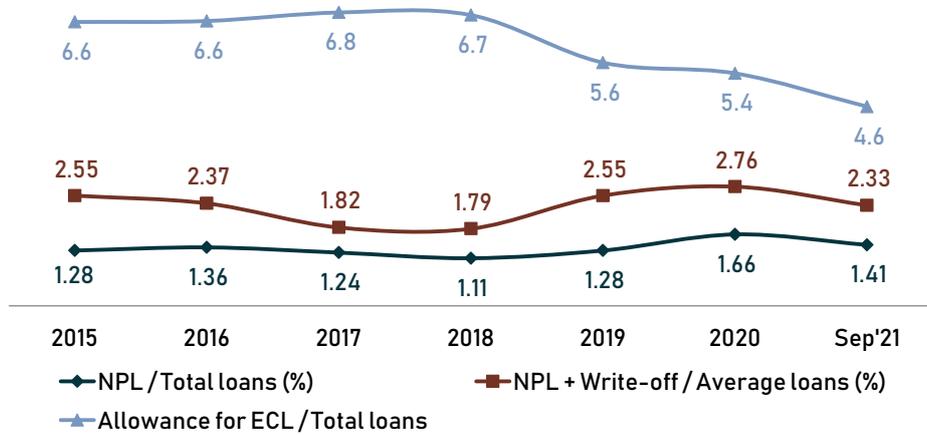
Chart 1: Outstanding Loans



Source: TIDLOR

* Year-to-date growth for Sep-21

Chart 2: Asset Quality



Source: TIDLOR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

| | Jan-Sep 2021 | ----- Year Ended 31 December ----- | | | |
|------------------------------------|-----------------|------------------------------------|--------|--------|--------|
| | | 2020 | 2019 | 2018 | 2017 |
| Total assets | 61,646 | 53,336 | 48,411 | 40,081 | 26,841 |
| Total loans | 56,611 | 51,331 | 47,979 | 39,724 | 26,436 |
| Allowance for expected credit loss | 2,611 | 2,763 | 2,702 | 2,675 | 1,796 |
| Short-term debts | 18,145 | 10,842 | 17,406 | 13,192 | 7,597 |
| Long-term debts | 20,240 | 28,853 | 19,688 | 17,885 | 11,902 |
| Shareholders' equity | 21,618 | 11,749 | 9,346 | 7,345 | 5,994 |
| Net interest income | 6,341 | 7,557 | 6,630 | 5,722 | 4,400 |
| Expected credit loss | 304 | 582 | 531 | 1,031 | 516 |
| Non-interest income | 1,524 | 1,824 | 1,823 | 1,193 | 912 |
| Operating expenses | 4,601 | 5,772 | 5,168 | 4,254 | 3,239 |
| Earnings before taxes | 2,961 | 3,027 | 2,753 | 1,631 | 1,557 |
| Net income | 2,374 | 2,416 | 2,202 | 1,306 | 1,247 |

* Consolidated financial statements

Unit: %

| | Jan-Sep 2021 | ----- Year Ended 31 December ----- | | | |
|---|-----------------|------------------------------------|--------|--------|--------|
| | | 2020 | 2019 | 2018 | 2017 |
| Profitability | | | | | |
| Net interest income/average assets | 14.71 ** | 14.86 | 14.98 | 17.10 | 18.32 |
| Non-interest income/average assets | 3.53 ** | 3.58 | 4.12 | 3.57 | 3.80 |
| Operating expenses/total income | 52.75 | 54.66 | 54.64 | 56.20 | 55.84 |
| Operating profit/average assets | 6.87 ** | 5.95 | 6.22 | 4.87 | 6.48 |
| Earnings before taxes/average risk-weighted assets | 7.20 ** | 6.05 | 6.30 | 4.95 | 6.58 |
| Return on average assets | 5.50 ** | 4.75 | 4.98 | 3.90 | 5.19 |
| Return on average equity | 18.97 ** | 22.91 | 26.38 | 19.58 | 23.25 |
| Asset Quality | | | | | |
| Non-performing loans/total loans | 1.41 | 1.66 | 1.28 | 1.11 | 1.24 |
| Expected credit loss/average loans | 0.75 ** | 1.17 | 1.21 | 3.12 | 2.18 |
| Allowance for expected credit loss/non-performing loans | 326.03 | 325.07 | 438.85 | 608.95 | 549.60 |
| Capitalization | | | | | |
| Risk-adjusted capital ratio | 37.58 | 22.56 | 19.49 | 18.61 | 22.70 |
| Debt/equity (time) | 1.85 | 3.54 | 4.18 | 4.46 | 3.48 |
| Liquidity | | | | | |
| Stable funding ratio | 113.60 | 127.50 | 101.60 | 101.12 | 117.42 |
| Liquidity coverage measure (times) | 0.23 | 0.12 | 0.03 | 0.05 | 0.06 |
| Short-term debts/total liabilities | 45.33 | 26.07 | 44.56 | 40.30 | 36.44 |

* Consolidated financial statements

** Annualized

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Ngern Tid Lor PLC (TIDLOR)

| | |
|---|--------|
| Company Rating: | A |
| Issue Ratings: | |
| TIDLOR21DA: THB1,500 million senior unsecured debentures due 2021 | A |
| TIDLOR221A: THB4,000 million senior unsecured debentures due 2022 | A |
| TIDLOR224A: THB3,400 million senior unsecured debentures due 2022 | A |
| TIDLOR22DA: THB450 million senior unsecured debentures due 2022 | A |
| TIDLOR228A: THB1,000 million senior unsecured debentures due 2022 | A |
| TIDLOR234A: THB1,000 million senior unsecured debentures due 2023 | A |
| TIDLOR238A: THB4,000 million senior unsecured debentures due 2023 | A |
| TIDLOR244A: THB2,500 million senior unsecured debentures due 2024 | A |
| Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2021, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria