

NGERN TID LOR PLC

No. 25/2024
19 March 2024

FINANCIAL INSTITUTIONS

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

Last Review Date: 23/11/23

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. At the same time, TRIS Rating assigns a rating of "A" to TIDLOR's proposed issue of up to THB4 billion senior unsecured debentures maturing within four years inclusive of over-allotment option of up to THB1 billion. The company intends to use the proceeds from the new debentures for debt refinancing.

The ratings incorporate a one-notch enhancement from TIDLOR's stand-alone credit profile (SACP) assessed at "a-". 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. The company also has a strong capital base, adequate risk position, as well as adequate funding and liquidity. The potential decline in asset quality and higher funding cost leading to lower profitability act as rating constraints to some extent.

TIDLOR's performance in 2023 was in line with our expectations. At the end of December 2023, TIDLOR's outstanding loan portfolio stood at THB97.5 billion, a 19.9% growth year-on-year (y-o-y). Net income was THB3.8 billion, up 4% y-o-y, compared with 15% y-o-y in 2022. The lower net profit growth in 2023 was attributed to higher credit costs and increased funding costs. Credit costs escalated to 3.3% in 2023 from 2.2% in 2022, driven by higher allowances for expected credit losses (ECL) due to deterioration of credit quality in line with wide industry, an active write-off policy, and an increase in management overlay. Funding costs also rose to 2.9% in 2023 from 2.5% in 2022.

In terms of asset quality, TIDLOR's non-performing loan (NPL) ratio dropped slightly to 1.45% at the end of 2023, supported by strong loan growth and active write-off policy. However, NPL formation increased to 2.6% in 2023 from 2.2% in 2022. We expect the trend of TIDLOR's asset quality in 2024 to be similar with that seen in 2023 and remain manageable. On a positive note, allowance for ECL remained stronger than its direct peers with NPL coverage ratio at 282% at the end of December 2023.

As for capital, although TIDLOR's risk-adjusted capital (RAC) ratio dropped to 28.9% at the end of 2023 from 30.8% at the end of 2022, capitalization remains one of its credit strengths that help underpin its ratings. The company's profitability measured by earnings before taxes to average risk weighted assets (EBT/ARWA) declined to 5.2% in 2023 compared with 6.3% in 2022 but continues to support our current assessment of capital and earnings.

We expect the company's credit cost and funding cost to remain elevated in 2024, exerting pressure on the company's profitability. Despite that, we believe a robust risk management culture under BAY's guidance together with an upward adjustment of loan yield since the third quarter of 2023 should help sustain its profitability.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

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 only 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. Further rating enhancement due to group support is unlikely.

The ratings could be downgraded if the SACP is revised downwards, or we remove the rating enhancement. 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 RAC ratio falls well below 25%.

The rating enhancement could be removed if we view the degree of importance of TIDLOR to the BAY Group as weakening materially. This could be caused by a dilution of BAY’s shareholding in TIDLOR.

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Ngern Tid Lor PLC (TIDLOR)

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| Company Rating: | A |
| Issue Ratings: | |
| TIDLOR244A: THB2,500 million senior unsecured debentures due 2024 | A |
| TIDLOR244B: THB2,850 million senior unsecured debentures due 2024 | A |
| TIDLOR247A: THB3,000 million senior unsecured debentures due 2024 | A |
| 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 |
| TIDLOR268A: THB1,000 million senior unsecured debentures due 2026 | A |
| TIDLOR26NA: THB2,100 million senior unsecured debentures due 2026 | A |
| TIDLOR278A: THB800 million senior unsecured debentures due 2027 | A |
| TIDLOR27NA: THB1,000 million senior unsecured debentures due 2027 | A |
| Up to THB4,000 million senior unsecured debentures due within 4 years inclusive of over-allotment option of up to THB1,000 million | A |
| Rating Outlook: | Stable |

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