Tam Finans Faktoring A.S.

Key Rating Drivers

Standalone Ratings: Tam Finans Faktoring A.S.'s ratings are driven by its standalone financial strength and reflect the company's small franchise, a business model focused on higher-risk small businesses operating in a challenging operating environment, and a growing regulatory burden on the sector. The ratings also reflect its consistently strong profitability, limited credit losses despite the inherently high-risk business model, a granular portfolio, low market risk, a liquid balance sheet and diversified, albeit largely secured, funding sources.

High Leverage a Rating Constraint: Tam Finans's gross debt/tangible equity ratio (end-2022: 9.8x; end-2021: 9.4x) was considerably higher than the sector average (6.9x; end-2021: 4.7x). Capital is tightly managed as its shareholder (a private equity firm) is focused on maximising return on equity given their long-term intention to exit with the best possible returns.

Fitch Ratings believes that Tam Finans's consistently high leverage results in a weak buffer against potential losses. High inflation may erode Tam Finans's ratios in 2023 if internal capital generation remains below inflation. The risks are partly offset by adequate profitability, full retention of profits, a granular portfolio mitigating big-ticket losses, and limited market risk.

Limited Market Risk; Funding Constraints: Tam Finans's funding and liquidity position are supported by its highly liquid balance sheet. Around 90% of assets are short-term factoring receivables with an average maturity of around 100 days. Exposure to market risk is low given the absence of foreign-exchange (FX) exposures and low sensitivity to interest-rate risk, as maturities of assets and liabilities are broadly matched.

Stable and Sound Profitability: Fitch assesses Tam Finans's profitability on a risk-adjusted basis, with return on assets (ROA) being a better indicator than return on equity due to the company's high leverage. Despite its small size and high-risk customer base, Tam Finans's pre-tax income/average assets since 2018 averaged 5.0%, slightly above the sector average (4.7%).

Cost/Income Higher than Average Tam Finans's average cost/income since 2018 is 57%, which is considerably higher than the sector average of 32%. Its business model is cost-intensive due to small ticket sizes and the labour-intensive nature of sales, which highlights the importance of gaining further scale.

Adequately-Managed Credit Risk: Tam Finans's impaired receivables/gross receivables was low (end-2022: 0.6%; end-2021: 2%), and well below the sector average (1.6%). However, due to accelerated write-off policies at Tam Finans, Fitch includes other indicators in its asset quality analysis, such as provisioning coverage ratio, impairment charges/average gross receivables (cost of risk) and new NPL generation. Coverage of NPLs with loss provisions at Tam Finans was high at 254% at end-2022, well above the sector average (107%).

Average cost of risk and new NPL inflows since 2018 were above the sector averages. Fitch assesses Tam Finans's larger credit losses in conjunction with its wider profit margins and believes that its asset quality is adequately managed given its high-risk business model.

Ratings

Foreign Currency

Long-Term IDR	B-
Short-Term IDR	B

Local Currency

Long-Term IDR	B
Short-Term IDR	B

National Rating

National Long-Term Rating	A-(tur)

Sovereign Risk (Turkiye)

Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B
Country Ceiling	B

Outlooks

Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (May 2023)

National Scale Rating Criteria (December 2020)

Related Research

Turkish Factoring Sector Dashboard: 1H22 (September 2022)

Emerging Europe Finance and Leasing Companies Outlook 2023 (November 2022)

Fitch Affirms 3 Turkish Bank Subsidiaries; Outlook Negative (January 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Further deterioration in the domestic operating environment, affecting our assessment of asset quality and earnings, which in turn would lead to a lower tolerance for leverage, could lead to a downgrade. A material and sustained increase in leverage to above 10x, assuming a broadly unchanged operating environment, could also lead to downgrade of the IDRs primarily due to weakened access to funding and liquidity, as could a sharp deterioration in asset quality or profitability that increases solvency risk.

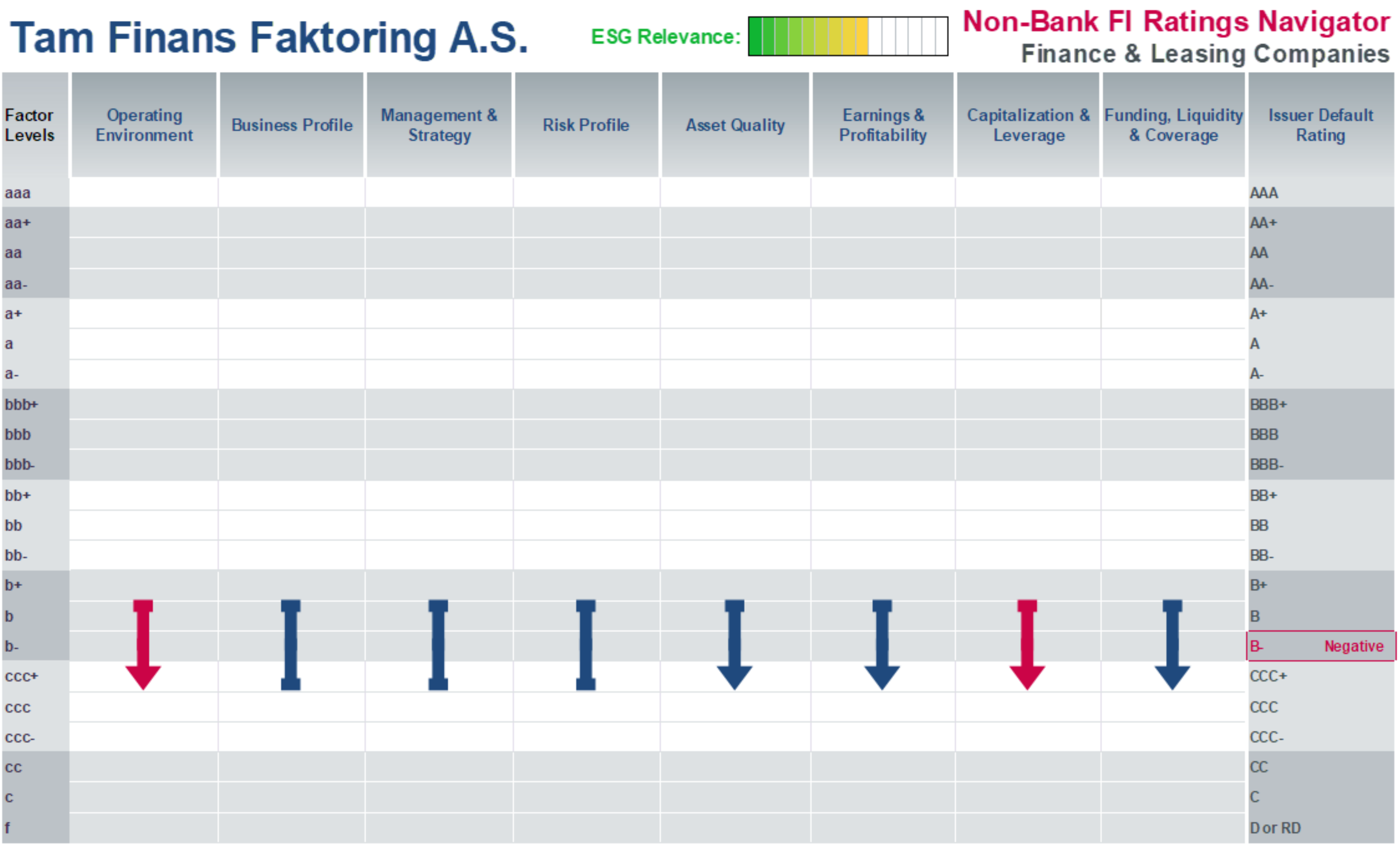
Deterioration of the above factors relative to domestic peers' could lead to a downgrade of the National Rating.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Stabilisation of Turkiye's operating environment, coupled with Tam Finans's resilient performance, could lead to a revision of the Outlook to Stable.

Materially lower leverage and an improved franchise, while maintaining other financial metrics at current levels, could lead to an upgrade of the National Rating, indicating improved creditworthiness relative to other domestic peers'.

Ratings Navigator



Business Profile and Key Qualitative Factors

Business Profile

Adequate Niche Franchise

Tam Finans started its operations in 2012 to serve micro SMEs in Turkiye. The founding shareholders were Actera Group (a private equity fund established in Turkiye) and the EBRD (with a 9.5% share). Tam Finans has grown to control a 3.4% market share in Turkiye's competitive factoring sector as of 2022. It operates in Turkiye via 39 branches, 15 mobile teams, and had 671 employees at end-2022. The headcount is 4x–5x larger than at captive factoring companies due Tam Finans's reliance on physical sales teams on penetrating small-ticket loans.

Monoline Business Model

Tam Finans operates in the small-ticket factoring segment, which results in high operating costs. Its customer base mainly consists of micro SMEs that are not covered by other financial institutions. Most of the time these institutions are not "bankable" due to very high inherent credit risk – such as no credit history, small size, no proper financials, lack of collateral, and so forth. This is a large market with lucrative returns but also inherently higher credit risk. Tam Finans positions itself as a fintech company and data-based decision-making lies at the heart of operations. An automated credit approval and monitoring model is at the centre of credit decisions. Its digital capabilities are key to Tam Finans's competitive position and business performance, enabling the company to manage large numbers of transactions at speed. The share of digitally completed transactions has increased to an average 82% in 2022 (2021 average: 65%).

Tam Finans's sales volumes rely heavily on physical teams on the ground, which keeps the operating costs high. Consequently, in the past five financial years, Tam Finans's average operating expenses/operating revenues ratio stood at 57% (sector average: 32%). This gap has recently been narrowing in favour of Tam Finans, with the help of economies of scale. Stable business inflows must cover high costs and maintain operating profitability.

Operating Environment

The non-bank financial institutions market is still developing in Turkiye, the shallow market and access to medium and long-term lira funding is almost non-existent, while long-term foreign-currency funding is provided mostly by IFIs. The regulatory framework for the leasing and factoring sectors is weaker than that for banks and investment firms. The only direct prudential requirement for NBFIs is a minimum equity/assets ratio of 3%. Fitch views this as a loose requirement. There are no regulatory requirements regarding liquidity.

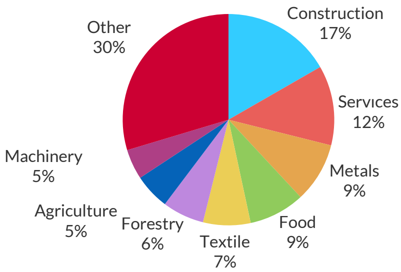
New Interest Rate Cap Regulation

At end-2022, the Central Bank of Turkiye announced new regulatory measures for factoring companies, which requires factoring companies to hold government securities as reserves against their factoring receivables if the interest rate on the receivables exceeds a certain threshold. The credit impact of the new rules is likely to be negative. The negative impact on profitability will be partly offset by a moderation in the unsustainably fast growth. According to implementation details, factoring firms can only apply around 28% compounded interest rate on their receivables. Tam Finans's yields on its portfolio was much higher during Q422 and the company mitigates the price cap impact by increasing its commissions. According to the management, the combined impact is a moderate loss in margins, partly mitigated by the lowered risk by moving away from the riskiest customers.

Management and Strategy

Tam Finans's focus is to continue building its competitive advantages in the micro and SME segments by building its fintech capabilities. In our view, the shareholders' priority is to maintain a high return on equity, which will enable high valuation multiples, given the ultimate aim to exit from the investment with good returns. The focus on profitability means that leverage is kept high and may also increase risks given the constant pressure to deliver profits. At the same time, Tam Finans has achieved low credit losses and good profitability in its risky and small-ticket segment over the past five years. Since 2018, the average cost of risk was 2.5%, compared to an average ROAE of 35%.

Receivables by Sector
End-9M22



Source: Fitch Ratings, Tam Finans

Risk Profile

Adequately-Managed Credit Risk

Tam Finans targets higher-risk borrowers in the micro and SME segment. The client base is underbanked due to its generally short operational history, insufficient financials and lack of collateral. This business model is inherently risky and exposes the company to elevated credit risks. The entity relies on its data-based automated credit underwriting models to keep the cost of risk manageable while benefitting from high yields.

Tam Finans's adequate asset quality reflects its operations in the volatile Turkish operating environment and its focus on mostly underbanked SMEs, which are more vulnerable to macroeconomic volatility. This is partly balanced out by full recourse to ultimate drawers (usually larger commercial and corporates), the absence of FX exposure, highly granular and liquid portfolio, a record of high margins, moderate NPL costs since 2018, and a history of strong provisioning.

The risks are partly offset by Tam Finans's policy of avoiding FX business. Concentrations on borrowers/customers or originators/drawers are very low as a consequence of the focus on the mass. Its top-20 loans make up only 1.7% of total outstanding receivables. The largest sector exposure is with construction at 17% of total receivables (as of end-September 2022) and this is mainly unchanged compared to the previous year.

Fast Growth

The company has been growing consistently faster than the sector in the recent years, including 2022. Fitch believes the extraordinarily high inflation in Turkiye is the main driver of this, as well as the intention to achieve higher profitability by pushing economies of scale. The rapid growth has so far not led to higher credit losses, given the short tenor of assets. In Fitch's view, fast growth record exposes the company to elevated credit risks. Tam Finans considers that some increase in NPL generation is likely in 2023. Fitch believes risks might increase, especially depending on the market conditions after the May 2023 elections in Turkiye. Shareholder support in the form of equity injections (the latest was in 2018) and full retention of profits have partly offset these risks.

Market Risk Limited

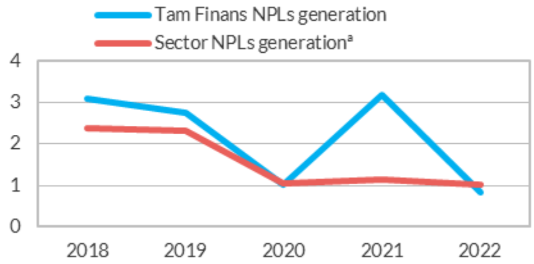
Exposure to market risk is low given the absence of FX exposures and low sensitivity to interest rate risk as maturities of assets and liabilities are matched. The impact of a 10% depreciation of the currency would have less than 1% impact on net profits. All of its receivables have fixed-rate yields, and 90% of total funding is also fixed-rate. Floating-rate borrowing is short-term and any potential interest rate volatility impact on the P&L and equity is also very limited. The short-term nature of its balance sheet allows the company to reprice assets in line with changes in funding costs. Operations in the Turkish operating environment with high dollarisation and dependence on external inflows exposes Tam Finans to indirect market risks – such as borrowers or originators with high FX exposure – which may threaten their solvency and increase the credit risk for Tam Finans.

Financial Profile

Asset Quality/Performance

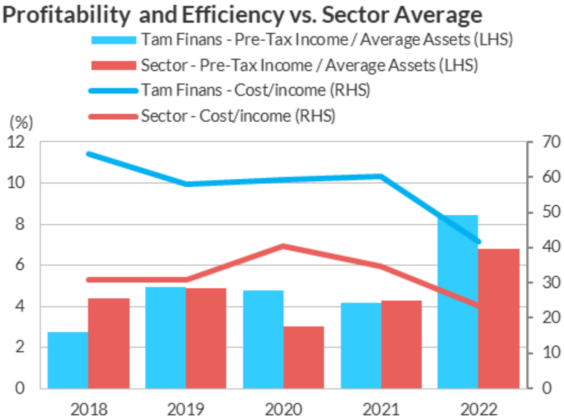
Tam Finans's NPL ratio was very low at end-2022, at 0.6%, well below the sector average of 1.6%. Coverage of NPL's with loss provisions at was also comfortably high at 254% at end-2022, well above sector average (107%). Average cost of risk and new NPL inflows since 2018 were above the sector averages. Fitch assesses Tam Finans's larger credit losses in conjunction with its wider profit margins and believes that its asset quality is adequately managed given its high-risk business model.

NPL Generation vs Sector Average
(% of gross receivables)



[a] NPLs at YE20 are 180+ days overdue
Source: Fitch Ratings, Tam Finans, BRSA

Profitability and Efficiency vs. Sector Average



Source: Fitch Ratings, Tam Finans, BRSA

Earnings and Profitability

Tam Finans's profitability is supported by the high margins that are reflective of its business model. The net interest margin (NIM) has consistently been above the sector average, except for in 2022 where the margins remained substantially below the sector average. Tam Finans's high average funding costs kept margins low last year. At the same time, unorthodox monetary policies in Turkiye resulted in interest caps on financing, which eventually led factoring companies to charge extra fees on their financing, thereby compensating lower interest income through higher fees. Hence, NIM trends and comparisons are distorted by new regulations and the operating environment.

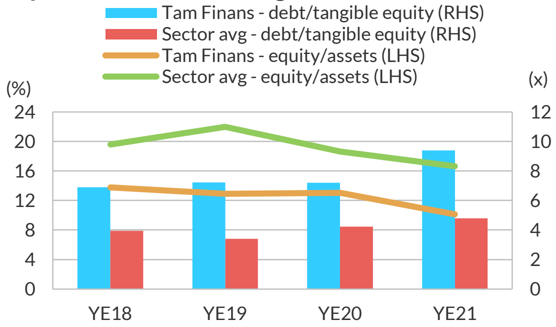
Nominal profitability significantly increased in 2022; however, in Fitch's opinion, profitability indicators were significantly distorted due to very high nominal growth, driven by the extraordinary high inflation in Turkiye. The company has achieved reasonable level of cost of risk since 2018, which is a key to positive bottom-line profitability. It also has sufficient scale to cover operating expenses. The NIM has averaged 9.6% since 2018 (sector average: 6.9%). However, better margins are partly offset by Tam Finans's above-average cost base due to its focus on smaller clients.

The combined impact indicates a similar profitability level to the rest of the sector. The core earnings and profitability ratio of pre-tax income/average assets has averaged 5.0% since 2008, in line with the sector average of 4.7%.

Capital and Leverage

Tam Finans's gross debt/tangible equity ratio (end-2022: 9.8x; end-2021: 9.4x) was considerably higher than the sector average (end-2022: 6.9x; end-2021: 4.8x). Capital is tightly managed as its shareholder (a private equity firm) is focused on maximising return on equity given the long-term intention to exit with best possible returns. Fitch believes that high leverage results in a weak buffer against potential losses.

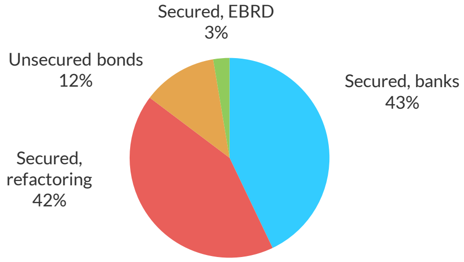
Capitalisation & Leverage



Source: Fitch Ratings, TFF, BRSA

Local-Currency Non-Equity Funding

End-2022



Source: Fitch Ratings, Tam Finans

Funding, Liquidity and Coverage

Tam Finans's highly liquid balance sheet supports its funding and liquidity position, with around 90% of assets being represented by factoring receivables with average maturity of less than 100 days. The company has no currency or maturity mismatch between assets and liabilities. However, reliance on secured funding (around 88% of total non-equity funding at end-2022) constrains the company's funding position. The company is aiming to increase the share of unsecured domestic bonds in its funding mix but is constrained by capital markets regulation limiting the issuance to triple its paid-in capital.

The company has prudent internal policies in place to manage its liquidity. These policies address different time gaps, duration mismatches, concentration risks and overall funding limits. In our view, combined with the short duration on the balance sheet, Tam Finans's liquidity risks are adequality addressed.

Environmental, Social and Governance Considerations

FitchRatings **Tam Finans Faktoring A.S.**

Non-Bank FI Ratings Navigator
Finance & Leasing Companies

Credit-Relevant ESG Derivation

Tam Finans Faktoring A.S. has 5 ESG potential rating drivers

- Tam Finans Faktoring A.S. has exposure to fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	6	issues	2
	3	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	2	Regulatory risks, emissions fines or compliance costs related to owned equipment, which could impact asset demand, profitability, etc.	Operating Environment
Energy Management	2	Investments in or ownership of assets with below-average energy/fuel efficiency which could impact future valuation of these assets	Risk Profile
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk profile & management; catastrophe risk; credit concentrations	Business Profile; Asset Quality

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	n.a.	n.a.
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above	Operating Environment; Risk Profile; Asset Quality
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile; Management & Strategy; Earnings & Profitability; Capitalization & Leverage; Funding,
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core activities	Business Profile; Earnings & Profitability

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Management & Strategy

G Scale: 5, 4, 3, 2, 1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Financials

Balance Sheet

(TRYm)	2018 IFRS	2019 IFRS	2020 IFRS	2021 BRSA	2022 BRSA
Assets					
Cash & equivalents	2	21	17	84	136
Gross receivables	**635**	**883**	**1,161**	**1,932**	**4,102**
Memo: Impaired receivables included above	25	37	10	38	24
Less: Receivable loss allowances	26	41	23	42	61
Net receivables	**609**	**842**	**1,138**	**1,890**	**4,041**
Goodwill and intangible assets	9	15	18	23	33
Deferred tax assets	8	12	17	30	69
Fixed assets	16	39	40	74	108
Other assets	8	10	14	45	165
Total assets	**653**	**938**	**1,244**	**2,145**	**4,552**
Liabilities					
Short-term secured debt (refactoring)	362	392	357	578	1,638
Short-term secured debt	183	326	552	847	1,659
Short-term unsecured debt	0	38	104	299	468
Long-term secured debt	3	10	20	100	102
Total borrowings	**549**	**766**	**1,033**	**1,824**	**3,866**
Other liabilities	14	51	49	103	257
Total liabilities	**563**	**817**	**1,082**	**1,928**	**4,123**
Total equity	**90**	**121**	**162**	**217**	**428**
Total liabilities and equity	**653**	**938**	**1,244**	**2,145**	**4,552**
Exchange rate, USD/TRY	5.29	5.94	7.43	13.34	18.72

Source: Fitch Ratings, Tam Finans Faktoring A.S.

Income Statement

(TRYm)	2018 IFRS	2019 IFRS	2020 IFRS	2021 BRSA	2022 BRSA
Revenues					
Interest income	245	212	231	418	817
Net fees and commissions	24	80	57	143	345
Other revenues	1	2	1	11	75
Total revenues	**271**	**294**	**289**	**572**	**1,237**
Expenses					
Interest expenses	163	144	116	291	652
SG&A expenses	72	87	103	169	245
Impairment charges	18	24	19	42	58
Total expenses	**253**	**255**	**237**	**502**	**955**
Pre-tax income	**18**	**39**	**52**	**71**	**282**
Income tax	3	8	11	15	69
Net income	**15**	**31**	**41**	**55**	**214**
Memo: Common dividends relating to the period	0	0	0	0	0

Source: Fitch Ratings, Tam Finans Faktoring A.S.

Summary Analytics

	2018	2019	2020	2021	2022
Asset quality metrics (%)					
Impaired receivables/gross receivables	3.95	4.23	0.89	1.95	0.59
Impaired receivables generation	3.1	2.8	1.0	3.2	1.2
Receivable loss allowances/impaired receivables	103.7	110.8	219.4	112.3	253.5
Net impaired receivables/tangible equity	-1.2	-3.8	-8.6	-2.4	-9.4
Impairment charges/average gross receivables	2.8	3.2	1.8	2.7	1.9
Growth of gross receivables	-3.1	39.0	31.4	66.4	112.4
Earnings and profitability metrics (%)					
Pre-tax income/average assets	2.7	4.9	4.8	4.2	8.4
Pre-impairment op. profit/average assets	5.5	7.9	6.5	6.6	10.2
Pre-tax income/average equity	23.3	37.1	36.7	37.2	87.5
Net income/average assets	2.3	3.9	3.8	3.3	6.4
Net income/average equity	19.4	29.7	29.0	29.2	66.2
Operating expenses/operating revenues	66.6	57.9	59.3	60.2	41.8
Impairment charges/pre-impairment op. profit	50.2	38.0	26.4	37.1	17.1
Interest income/average gross receivables	38.0	27.9	22.6	27.1	27.1
Interest expense/average debt	28.4	21.9	12.9	20.4	22.9
Net interest income/average net receivables (NIM)	13.3	9.3	11.6	8.4	5.6
Risk adjusted NIM	10.4	6.0	9.7	5.7	3.6
Capitalisation and leverage metrics					
Debt/tangible equity (x)	6.9	7.2	7.2	9.4	9.8
Tangible equity/tangible assets (%)	12.4	11.5	11.7	9.2	8.8
Equity/total assets (%)	13.8	12.9	13.0	10.1	9.4
Internal capital generation (%)	39.4	34.8	33.7	34.1	97.2
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Funding and liquidity metrics (%)					
Unsecured debt/total debt	0.0	5.0	10.1	16.4	12.1
Short-term debt/total debt	99.4	98.7	98.0	94.5	97.4

Source: Fitch Ratings, Tam Finans Faktoring A.S.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.