

RATING ACTION COMMENTARY

Fitch Revises Tam Finans Faktoring's Outlook to Stable; Affirms at 'B'

Fri 09 Apr, 2021 - 11:00 AM ET

Fitch Ratings - Frankfurt am Main - 09 Apr 2021: Fitch Ratings has revised Tam Finans Faktoring A.S.'s (TFF) Outlook to Stable from Negative, while affirming the company's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'B'. A full list of rating actions is detailed below.

The revision of the Outlook reflects Fitch's expectation that TFF's performance will remain resilient in 2021 following adequate results in 2020, while stronger GDP growth - in a still uncertain domestic environment - should not present material near-term downside risks for TFF's performance.

KEY RATING DRIVERS

TFF's ratings reflect the company's small franchise, a largely secured funding profile and a business model focused on higher-risk small businesses operating in a challenging operating environment. The ratings also reflect the company's record of limited credit losses for the business model, a granular portfolio, low market risk, a liquid balance sheet and increasingly diversified funding sources.

TFF is an independent Turkish factoring company accounting for 2.6% of sector assets at end-2020. The company has demonstrated its ability to maintain adequate performance during Turkey's 2018 economic crisis and the pandemic in 2020. TFF

focuses on higher-risk under-banked businesses with short credit history and of small scale, making them vulnerable to macroeconomic volatility and exposing TFF to high credit risks. The business model assumes high operating costs due to small ticket sizes and the labour-intensive nature of sales that highlights the importance of scale in the business.

TFF has demonstrated limited credit losses relative to the sector average. This is supported by an IT-based scorecard and monitoring tools, which automatically collect and analyse large amount of data on borrowers and receivables originators. The impaired receivables (90+ days overdue) ratio was 1.4% at end-2020 (end-2019: 4.2%) versus the sector average ratio of 3.9% (180+ days overdue). This is underpinned by low single-name concentrations both with regard to customers and originators of receivables.

TFF's growth (31% in 2020) has exceeded the sector average (28%), but the short-term nature of factoring receivables results in moderate portfolio seasoning risks. Despite high growth TFF's debt/tangible equity remained unchanged at 7.2x during 2020, supported by high margins, small credit losses and full profit retention. Leverage is considerably above the sector average of 4.2x, but this is partly balanced by TFF's more granular portfolio and absence of foreign-exchange (FX) risk.

TFF's margins (12% in 2020) compare well with the sector average (6%) and domestic and international peers'. Reliance on own sales channels and small ticket sizes require TFF to maintain sufficient scale of business to recover high operating costs and impairment charges. However, the company has demonstrated its ability to grow even under a challenging environment and increasing competition. Pre-tax return on average assets was sound at 4.8% in 2020 (sector: 3%).

A high share of secured funding (90% of total non-equity funding at end-2020) and a mostly encumbered receivables portfolio in favour of banks and other factoring companies constrains TFF's funding. This is partly balanced by availability of committed credit lines from EBRD (unutilised amount at about 10% of total borrowings at end-2020), a fairly short-term balance sheet, where 92% of assets mature in about 120 days, and negligible maturity mismatches between assets and liabilities.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Sustained strengthening of the franchise/business scale supported by a more conservative leverage profile with the maintenance of current financial performance indicators underpinned by a stable operating environment.
- Upgrade of the National Rating would require a larger scale, stronger capitalisation and improved funding profile relative to domestic peers'.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Deteriorating operating environment that affects our forward-looking assessment of asset quality and earnings, which in turn would lead to a lower tolerance for leverage. Deterioration in funding access would also be negative.
- Sharp increase in impaired receivables or deterioration of profitability to the below-sector average that would increase solvency risk.
- Deterioration of the above factors relative to domestic peers would also lead to a downgrade of the National Rating.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

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

RATING ACTIONS

| ENTITY/DEBT | RATING | | | PRIOR |
|---------------------------|-----------------|--------------------------------|----------|--------------------------------|
| Tam Finans Faktoring A.S. | LT IDR | B Rating Outlook Stable | Affirmed | B Rating Outlook Negative |
| | ST IDR | B | Affirmed | B |
| | LC LT IDR | B Rating Outlook Stable | Affirmed | B Rating Outlook Negative |
| | LC ST IDR | B | Affirmed | B |
| | Natl LT | BBB(tur) Rating Outlook Stable | Affirmed | BBB(tur) Rating Outlook Stable |

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Behruz Ismailov

Director

Primary Rating Analyst

+49 69 768076 116

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Luca Vanzini

Senior Analyst

Secondary Rating Analyst

+49 69 768076 143

Feedback

Mark Young

Managing Director

Committee Chairperson

+44 20 3530 1318

MEDIA CONTACTS**Adrian Simpson**

London

+44 20 3530 1010

adrian.simpson@thefitchgroup.com

Louisa Williams

London

+44 20 3530 2452

louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Non-Bank Financial Institutions Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Tam Finans Faktoring A.S.

EU Issued, UK Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN

ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-](https://www.fitchratings.com/rating-definitions-document)

[DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH

RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other

reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to

provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

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.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Non-Bank Financial Institutions Middle East Asia-Pacific Europe Turkey

Feedback