

SRISAWAD CORPORATION PLC

No. 95/2024
4 June 2024

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Ratings:	
Guaranteed	BBB+
Outlook:	Stable

Last Review Date: 07/12/23

Company Rating History:

Date	Rating	Outlook/Alert
28/06/19	BBB+	Stable
05/06/17	BBB	Stable
06/01/17	BBB	Alert Developing
26/12/14	BBB	Stable

Contacts:

Jantana Taveeratanasilp

jantana@trisrating.com

Siriwan Weeramethachai

siriwan@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 Srisawad Corporation PLC (SAWAD) and the ratings on its outstanding guaranteed debentures at “BBB+” with a “stable” outlook. The ratings on SAWAD are supported by the company's strengthened market position in the title loan and new motorcycle hire purchase (HP) businesses. However, this is offset by its eroded capital position due to rapid portfolio expansion and weakened earnings from increased credit costs.

While the ratings continue to be supported by SAWAD's well diversified funding source and sufficient liquidity, continuously weakening of capital position, asset quality, and earnings could put pressure on the ratings.

KEY RATING CONSIDERATIONS

Strengthened market position

We raised our assessment of SAWAD's business position to “strong” from “adequate”, supported by the company's long-standing expertise in the title loan business as well as its continuous loan and branch expansion. With 5,534 branches at the end of March 2024, its branch network is the second largest among title loan operators.

In June 2023, SAWAD further consolidated its presence in the title loan business through a 49% share buyback transaction in Fast Money Co., Ltd. (FM), a joint venture between Government Savings Bank (GSB, rated “AAA/Stable”).

Furthermore, since 2021 SAWAD has expanded its reach beyond title loans by venturing into the new motorcycle HP market, operated by its subsidiary, Srisawad Capital 1969 PLC (SCAP). SCAP's portfolio grew strongly from just THB5.6 billion at the end of 2021 to reach THB31.5 billion at the end of the first quarter of 2024 (1Q24), solidifying its position as one of the largest lenders in this segment.

Overall, SAWAD's consolidated outstanding loans reached THB98.7 billion at the end of 1Q24, up 53% year-on-year (y-o-y). However, this year we expect loan growth to decelerate as the company emphasizes asset quality management, as evidenced by a slower growth of 2% year-to-date (y-t-d). That said, looking ahead, we still expect title loans to be the company's main growth engine, while strategically slowing down its new motorcycle HP expansion.

While strong and steady credit growth has strengthened SAWAD's business position, continuation of rapid growth could potentially weaken its capital position and asset quality if not well managed. This could ultimately put pressure on the ratings.

Eroding capital but anticipating stabilization

Although SAWAD's active expansion of new motorcycle HP in the past few years has had positive implication on its business position, this has been offset by the negative impact due to capital erosion. The rapid decline in its risk-adjusted capital (RAC) ratio compelled us to reassess capital position as “strong” from “very strong”. At the end of 1Q24, the RAC ratio stood at 22.6%, a significant drop from the past five-year average of about 40%.

In 2024-2026 we project SAWAD's RAC ratio to remain relatively stable, hovering around 21%-22%. This projected stability is based on our assumption that SAWAD is likely to expand new loans more prudently, particularly for higher-risk new motorcycle HP. We also expect SAWAD to effectively manage its capital by using stock dividends to conserve capital. An expansion in new motorcycle HP above our base-case scenario could put pressure on the company's capital position and the ratings.

Earnings capability deteriorated

In addition to eroding capital position, SAWAD's earnings capacity measured by the ratio of earnings before taxes to average risk-adjusted assets (EBT/ARWA) has also been adversely impacted by rising credit and funding costs, similar to other title loan operators. We thus reassessed its earnings capacity as "moderate" from "adequate". SAWAD's EBT/ARWA has declined from 8.7% in 2022 to 5.9% in 2023. In 1Q24, the ratio fell further to 4.6% due to higher costs, lower non-interest income, and narrower spreads.

We expect SAWAD's net profit to drop slightly in 2024 before recovering in 2025-2026 and EBT/ARWA to be maintained in the 4%-5% range over the next few years. This is premised on our assumptions of lower yield, slower loan expansion, and higher operating and funding costs. A few factors that could place earnings capability under pressure are: 1) a decline in proportion of new motorcycle HP charged at higher rates before the interest rate cap in 2023; 2) lower interest income from slower loan expansion; and 3) higher costs related to the new motorcycle HP business, including credit costs and operating expenses (commission for dealers and loss on sale of repossessed assets), compared with traditional title loans.

Asset quality deteriorates but should be manageable

We assess SAWAD's risk position as "moderate", similar to other title loan companies, due to its high-risk customer base. Despite its recent deterioration of asset quality, evidenced by increased non-performing loan (NPL) formation and rising credit costs, we expect these metrics to stay within manageable levels in the coming years.

At the end of March 2024, the company's NPL ratio increased to 3.23% from 2.49% at the end of March 2023. Consequently, credit cost rose to 2.3% in 2023 compared with 0.2% in 2022. The credit cost remains high so far this year, at 2.0% in 1Q24 (annualized).

With our assumption of an elevated NPL formation ratio and higher NPL write-offs, we estimate SAWAD's NPL ratio to gradually ascend to about 4%-5% by 2026 from about 3% in the recent years. This could be driven by weakening asset quality of the new motorcycle HP portfolio acquired during its rapid expansion phase. Nevertheless, we believe its overall asset quality to remain manageable, thanks to the low loan-to-value (LTV) policy for title loans and more stringent underwriting of new motorcycle loans. Improved debt collection, accelerated asset repossession, and NPL write-offs should also help support asset quality management.

The company plans to refocus on title lending, whose delinquency remains lower than new motorcycle HP products. For unsecured personal loan business, which accounts for 3% of total loans, overall current credit risk remains minimal as the product is offered to the high-income segment.

In terms of provisioning policy, we view that SAWAD exhibits a lower level of conservatism compared with its industry peers. This is evidenced by the NPL coverage ratio, which stood at 55.6% at the end of March 2024, compared with a range of 121%-264% for other title loan operators. We expect its NPL coverage to remain at a 50% range in 2024-2026. Material weakening of asset quality and NPL coverage could have negative implication on its ratings.

Sufficient funding and liquidity profile

We assess SAWAD's funding position as "adequate". This is supported by its solid equity base and diversified sources of funds, thanks to the company's ability to access both equity and debt capital markets. As of March 2024, the company's funding structure comprised 51% long-term and 49% short-term borrowings.

Outstanding debentures amounted to THB47.0 billion, of which THB13.6 billion will mature within the next 12 months. The company's outstanding debentures are unconditional and irrevocable, and guaranteed by Srisawad Power 2014 Co., Ltd., a 100% owned subsidiary of SAWAD that contributes more than 30% of the consolidated earnings. This should help mitigate risk from structural subordination. As of March 2024, SAWAD's priority debt was 7%.

We view the company's liquidity position as adequate. As of March 2024, the company had THB34.0 billion of credit facilities from several financial institutions, 9% or THB3.2 billion are readily available for drawdown if needed.

Challenges and risks remain for title loan operators

In 2023, the aggregate outstanding loans of title loan operators under supervision of the Bank of Thailand (BOT) continued to grow strongly by 36% y-o-y. However, the growth rate has clearly slowed down in 2024. As of the end of 1Q24, aggregate loans of title loan operators reported by the BOT expanded by 6% YTD, as a result of stricter underwriting of the lenders.

With uneven economic recovery, weakened debt serviceability of borrowers, and high interest rates likely to continue, we expect credit expansion in 2024 to decelerate from the previous years. At the same time, financial performance of title loan operators has also been pressured by intense competition and weaker asset quality, resulting in higher credit costs and narrower interest spread. These negative factors will likely remain the major challenges for the title loan operators in the medium term.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SAWAD's operations in 2024-2026 are as follows:

- Outstanding portfolio to grow by around 20%.
- Interest spread to stay around 12-13%.
- NPL ratio to remain below 4.5%.
- NPL coverage ratio to stay around 50%-55%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SAWAD's capital position will remain strong. We also expect SAWAD's market position to remain strong and its financial performance and asset quality to be well managed, in line with our base-case scenario.

RATING SENSITIVITIES

An upward revision is unlikely in the near term but could occur if the company's capital position strengthens materially with RAC ratio rising well above 25%, while EBT/RWA hovers above 8% and asset quality metrics show notable improvement for sustained period.

Conversely, the ratings and/or outlook could be revised downward if SAWAD's asset quality weakens significantly causing credit cost to rise to the level that EBT/RWA falls below 3.5% for a prolonged period. A downgrade could also occur if the company expands consolidated loan portfolio aggressively to the point that the RAC ratio falls below 20% over the next few years.

COMPANY OVERVIEW

In 1979, the Kaewbootta Family, the founder and current major shareholder of SAWAD, started providing secured personal loans. In 2007, the family sold the entire business, run by Srisawad International 1991 Co., Ltd. (SI), to a financial institution.

In 2014, SAWAD was listed on the Stock Exchange of Thailand (SET). After an initial public offering (IPO) in May 2014, its paid-up capital climbed by THB250 million to THB1 billion. SAWAD used the IPO proceeds to pay off some debts and expand the loan portfolio.

SAWAD's major shareholder is the Kaewbootta Family, holding approximately 50% of the company's shares. In addition, SAWAD has three active affiliates: FM, which provides unsecured personal loans; SWP Asset Management Co., Ltd., formerly Srisawad Asset Management Co., Ltd., which offers debt collection services and purchases and manages distressed assets; and Srisawad International Holding Co., Ltd., a new subsidiary, established to invest in other loan providing companies. SAWAD, as the parent company, offers secured personal loans made against all kinds of vehicles (e.g., used motorcycles, cars, trucks, and other types of vehicles), land, or properties.

In 2019, Cathay Financial Holding Co., Ltd. injected THB2.6 billion into the company and became SAWAD's strategic partner, holding 9.5% of the company's shares. SAWAD also increased its shareholding in Srisawad Finance PLC (BFIT) to 82% in 2019, from 45% in 2018.

In November 2020, the company increased its equity stake in SCAP to 65% from 5% with THB192.5 million of investment to expand its personal loan business.

In March 2021, the company entered into a joint investment with GSB in FM, a wholly-owned subsidiary of SAWAD, to operate the auto title loan business. GSB invested THB1.5 billion (THB1.3 billion of newly issued shares and THB198.9 million of existing shares from SAWAD), while SAWAD also subscribed to the newly issued shares for THB1.3 billion. GSB and SAWAD currently hold 49% each, making FM no longer SAWAD's subsidiary.

Also, in March 2021, SCAP, another subsidiary of SAWAD, acquired an 85% equity stake in S Leasing Co., Ltd. (SLS) for THB42.5 million. Therefore, SCAP currently holds 90% of SLS from a prior stake of 5%. The purpose of the investment is to expand the new motorcycle HP business.

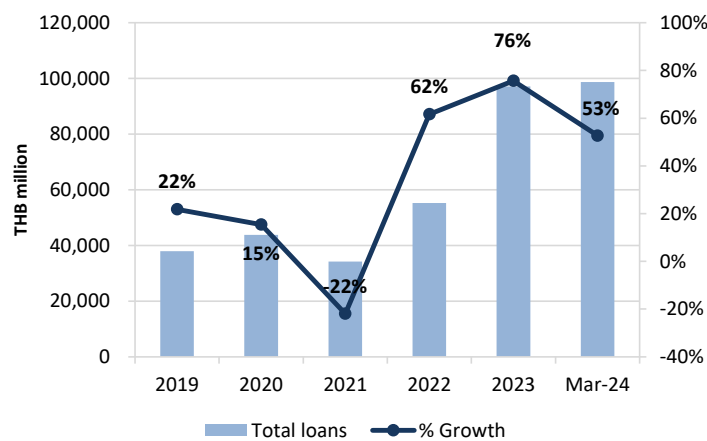
In April 2022, SCAP acquired 100% of Cathay Leasing Co., Ltd. (CTL), which provides new motorcycle HP, for THB39.77 million from Mr. Pratya Sermsuksakulchai (75% of shares) and Cathay Holdings Co., Ltd. (25% of shares). The aim of the investment is to expand the new motorcycle HP business.

In September 2022, BFIT, an 82%-owned subsidiary of SAWAD returned its finance business license to the BOT. As part of SAWAD’s group business restructuring, BFIT undertook a share swap by issuing 750 million new shares at THB24 per share totaling THB18 billion to acquire 100% of the shares of SCAP from SAWAD (65% shares in SCAP), Mr. Wichit Phayuhanaveechai (10% share in SCAP), and from nine other shareholders (the remaining 25% shares in SCAP). At the end of March 2024, the proportion of new motorcycle HP loans was 32% of total loans, a drop from from 37% at the end of March 2023.

After the completion of the transaction in 3Q22, SAWAD’s shareholding in BFIT decreased from 81.64% to 72.05%. BFIT changed its name to SCAP 1969, consolidated SCAP’s business through an Entire Business Transfer (EBT), started running SCAP’s existing business, and ran down BFIT’s existing portfolio. SCAP has a 90% stake in SLS and 100% in CTL, which both operate new motorcycle HP business, while SCAP itself operates unsecured personal lending.

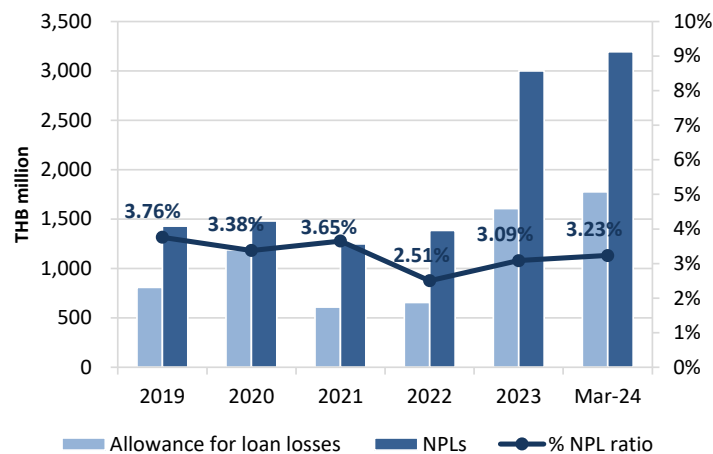
In 2Q23, SAWAD accomplished a 49% share buy back in FM. The transaction value is THB1.5 billion which is the same as the transaction cost two years ago. After the transaction, SAWAD holds 98% of FM.

Chart 1: Outstanding Loans



Source: SAWAD

Chart 2: Asset Quality



Source: SAWAD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2024	Year Ended 31 December			
		2023	2022	2021	2020
Total assets	114,613	111,465	69,482	49,967	52,007
Total loans	98,666	97,109	55,270	34,189	43,809
Allowance for expected credit loss	1,774	1,605	656	609	1,188
Short-term debts	38,122	36,915	17,664	9,777	11,044
Long-term debts	39,353	39,069	18,803	9,365	14,927
Shareholders' equity	32,491	31,197	29,005	26,975	24,070
Net interest income	3,806	13,478	7,918	6,065	7,266
Expected credit loss	486	1,763	78	(455)	321
Non-interest income	818	3,197	3,527	3,346	2,825
Operating expenses	2,492	8,282	5,442	3,476	3,787
Earnings before taxes	1,645	6,629	5,924	6,390	5,983
Net income	1,278	5,254	4,827	5,038	4,791

Unit: %

	Jan-Mar 2024	Year Ended 31 December			
		2023	2022	2021	2020
Profitability					
Net interest and dividend income/average assets	13.47	14.90	13.26	11.90	14.91
Non-interest income/average assets	2.89*	3.53	5.91	6.56	5.80
Operating expenses/total income	46.04*	43.73	44.23	34.07	34.45
Operating profit/average assets	5.82*	7.33	9.61	12.53	12.28
Earnings before taxes/average risk-weighted assets	4.64*	5.88	8.67	12.29	12.13
Return on average assets	4.52*	5.81	8.08	9.88	9.83
Return on average equity	16.05	17.45	17.24	19.74	21.65
Asset Quality					
Non-performing loans/total loans	3.23	3.09	2.51	3.65	3.38
Expected credit loss/average loans	1.99*	2.31	0.17	(1.17)	0.79
Allowance for expected credit loss/non-performing loans	55.60	53.54	47.37	48.76	80.25
Capitalization					
Risk-adjusted capital ratio	22.64	22.23	32.37	49.38	46.01
Debt/equity (times)	2.53	2.57	1.40	0.85	1.16
Funding and Liquidity					
Stable funding ratio	184.09	181.08	151.18	187.51	305.17
Liquidity coverage measure (times)	0.14	0.11	0.16	0.45	0.18
Short-term debts/total debts	46.42	45.99	43.64	42.52	39.53

* Annualized

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 7 September 2022

Srisawad Corporation PLC (SAWAD)

Company Rating:	BBB+
Issue Ratings:	
SAWAD248B: THB1,998 million guaranteed debentures due 2024	BBB+
SAWAD253A: THB657 million guaranteed debentures due 2025	BBB+
SAWAD253B: THB2,200 million guaranteed debentures due 2025	BBB+
SAWAD254A: THB4,113 million guaranteed debentures due 2025	BBB+
SAWAD256A: THB2,840 million guaranteed debentures due 2025	BBB+
SAWAD258A: THB2,882.6 million guaranteed debentures due 2025	BBB+
SAWAD259A: THB1,199.5 million guaranteed debentures due 2025	BBB+
SAWAD25DB: THB839.5 million guaranteed debentures due 2025	BBB+
SAWAD261A: THB1,999.5 million guaranteed debentures due 2026	BBB+
SAWAD265A: THB5,009.5 million guaranteed debentures due 2026	BBB+
SAWAD266A: THB1,343 million guaranteed debentures due 2026	BBB+
SAWAD269B: THB2,750.5 million guaranteed debentures due 2026	BBB+
SAWAD26NA: THB504.3 million guaranteed debentures due 2026	BBB+
SAWAD271A: THB2,002.5 million guaranteed debentures due 2027	BBB+
SAWAD275A: THB1,314.7 million guaranteed debentures due 2027	BBB+
SAWAD275B: THB647.2 million guaranteed debentures due 2027	BBB+
SAWAD279A: THB524.1 million guaranteed debentures due 2027	BBB+
SAWAD285A: THB2,844 million guaranteed debentures due 2028	BBB+
SAWAD289A: THB1,890.4 million guaranteed debentures due 2028	BBB+
SAWAD28NA: THB699.9 million guaranteed debentures due 2028	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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