

# BSL LEASING CO., LTD.

No. 29/2018  
23 March 2018

## FINANCIAL INSTITUTIONS

Company Rating: BBB  
Outlook: Stable

### Company Rating History:

Date	Rating	Outlook/Alert
04/02/09	BBB	Stable

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## RATIONALE

TRIS Rating affirms the company rating of BSL Leasing Co., Ltd. (BSL) at “BBB”. The rating reflects the company’s experienced management team, acceptable risk management practices, and financial support from its major shareholders. However, these supporting factors are partly offset by the lack of an extensive network, which in turn exposes BSL to customer concentration risk. BSL’s short-term growth prospects have been constrained by intense competition. In addition, BSL’s profitability was pressured by higher credit costs, due to the asset quality deterioration of a major customer.

## KEY RATING CONSIDERATIONS

### High competition limits loan growth

Due to intense competition, BSL has gradually lost its market position in equipment financing leasing. Japanese lessors and leasing subsidiary lessors of other Thai banks used an aggressive pricing strategy to build their market shares. The size of BSL’s loan portfolio (only hire-purchase and financial leasing) slightly decreased by 1.6% in 2017 to Bt5,520 million, from Bt5,608 million in 2016. The expected economic growth in 2018 is an opportunity for BSL to expand its portfolio, but the intense competition will still be a major challenge.

### Exposure to customer concentration risk

BSL’s business is concentrated, as it operates only via its headquarters in the Bangkok Metropolitan Area (BMA). In addition, BSL is exposed to customer concentration risk, as the top 10 clients account for 30% of its loan portfolio as of December 2017. The concentration of BSL’s customers can have severe effects if any major customer has a problem, as has been the case since 2016.

### Deterioration in asset quality

Until 2016, BSL enjoyed good asset quality. The ratio of non-performing loans (NPLs or loans overdue for more than three months) to total loans was below 1% from 2013 to 2015. However, BSL’s asset quality somewhat deteriorated after a major customer group experienced problems in 2016, causing the ratio of non-performing loans to total loans to rise to 8.7% as of December 2016. Excluding the impact from this major customer, BSL’s asset quality remains good with a relatively low NPL ratio. The company’s business profile was not yet affected by this bad circumstance. After loan restructuring and tightened debt collection, the NPL ratio decreased to 4.3% at the end of 2017.

### Impact of deterioration of asset quality on net profit

BSL’s profitability dropped significantly in 2016. BSL’s net revenue (adjusted for net operating lease revenue) was Bt592 million in 2016 and Bt544 million in 2017, down from Bt633 million in 2015. BSL’s financial performance significantly declined in 2016 and 2017 due mainly to the deterioration of asset quality. The company had to set a huge provision expense of Bt319 million in 2016 and Bt294 million in 2017. As a result, net profit significantly dropped to Bt40 million and Bt37 million in 2016 and 2017, respectively.

The return on average assets (ROAA) ratio decreased to 0.5% in 2017. The return on average equity (ROAE) also dropped to 1.97% in 2017. Meanwhile, the ratio of operating expenses to total income increased from 14.8% in 2015 to 16.7% in 2016 and 18.9% in 2017.

BSL’s ability to manage residual risk of its leased assets will add to its non-

interest income. After the prices of used cars bottomed out in 2014, gains from the sale of expired assets picked up, rising to Bt30 million in 2017. The fierce competition will pose challenges as BSL strives to improve its financial performance with good asset quality.

#### **More diversified funding sources**

Bangkok Bank PLC (BBL) is a major shareholder of BSL. However, BSL does not rely heavily on borrowings from BBL. As of December 2017, borrowings from BBL amounted to only 2.4% of BSL's total liabilities. BSL has diversified its funding sources by borrowing from other financial institutions as well as raising funds through the capital market. BSL began issuing bills of exchange (B/E) in 2010, senior unsecured debentures in 2011, and issued six tranches of Shogun bonds valued at US\$120 million during 2012-2017.

BSL's available credit lines are sufficient to finance its current short-term liquidity gap. The steady cash flows BSL receives from customers' monthly installments give the company additional liquidity. BSL has secured a credit line from BBL, to use as a last resort if additional liquidity is needed.

#### **Capital base remains strong**

BSL has a strong capital base. Low dividend payout ratios helped improve its capital base. Shareholders' equity has decreased to Bt1,858 million in 2017. The ratio of shareholders' equity to total assets decreased continuously, to 23% in 2017. This ratio is relatively strong, compared with peers. BSL has maintained a strong enough capital base to absorb downside risks. As of December 2017, the debt to equity ratio was maintained at 3.4 times, compared with 3.3 times in December 2016.

#### **RATING OUTLOOK**

The "stable" outlook is based on TRIS Rating's expectation that BSL will continue to obtain financial support from its major shareholders, while continuing to diversify its funding sources. The outlook also takes into account the expectation that the management team will maintain BSL's current market position, the capital base will remain strong enough to serve as a cushion against asset quality deterioration, and BSL will deliver financial performance in line with TRIS Rating's expectations.

#### **RATING SENSITIVITIES**

The rating and/or outlook of BSL could be revised downward if there is further deterioration in its loan quality and/or business profile. In addition, the rating and/or outlook of BSL could be revised should there be any changes in BSL's shareholder structure, especially if BSL became one of BBL's financial conglomerates under the consolidated supervision platform. In that case, BSL's rating could be enhanced by additional support from the BBL Group.

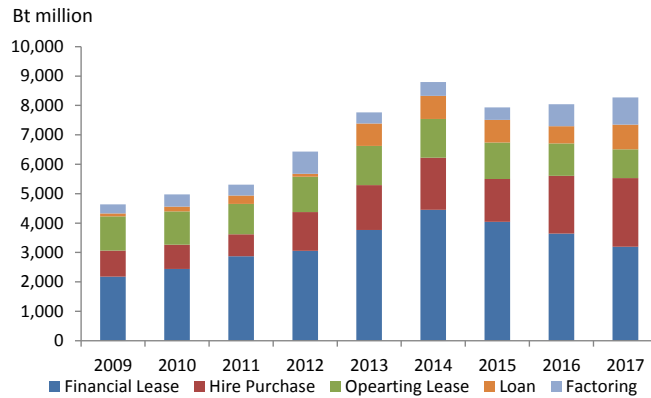
#### **COMPANY OVERVIEW**

BSL was established in 1985 as Bangkok Commercial Leasing Co., Ltd. through a 50:50 (joint venture) between BBL and Sumitomo Mitsui Banking Corporation (SMBC), a Japanese bank, and related companies. BSL was established to provide industrial equipment financing services and vehicle financing services under lease and hire purchase contracts. BSL entered the factoring business in 2004. Currently, BSL's major shareholders are BBL, holding a 35.88% stake, the SMBC Group (40%), and JA Mitsui Leasing, Ltd. (10%). Both BBL and the SMBC Group provide supports to BSL in terms of credit facilities and some level of business referrals. The Bank of Thailand (BOT) has given BBL formal approval to maintain its shareholding stake (35.88%) in BSL. Despite the approval, BSL and BBL must still comply with a regulation that limits the amount of money a commercial bank may lend to a related company.

As of December 2017, the largest portion (39%) of BSL's loan portfolio comprised financing leases. Hire purchase loans comprised 28% of the portfolio in 2017, while operating leases, factoring, and other loans were 12%, 11%, and 10%, respectively. In terms of assets for lease, industrial equipment constituted 40% of the total, followed by automobiles at 31% and others at 29%.

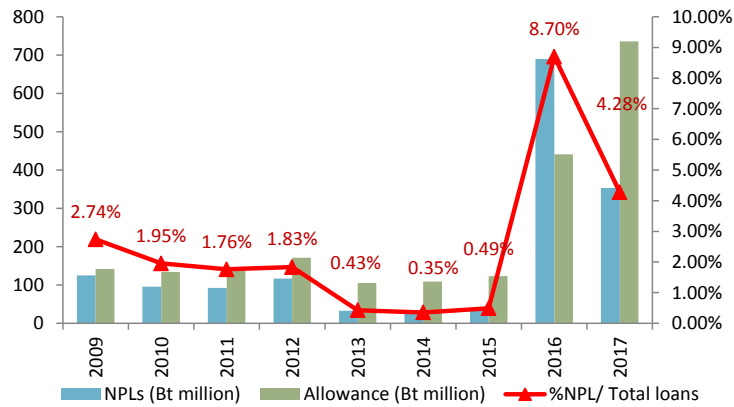
**KEY OPERATING PERFORMANCE**

**Chart 1: BSL's Outstanding Loans**



Source: BSL

**Chart 2: BSL's NPL Ratio**



Source: BSL

**Table 1: Shareholders of BSL**

Shareholders	Number of Shares	%
<b>Bangkok Bank PLC and affiliates</b>	<b>500,000</b>	<b>50.00</b>
Bangkok Bank PLC	358,750	35.88
Jatubhut Holding Co., Ltd.	113,000	11.30
Mr. Olarn Sereeniyom	13,000	1.30
Zinvasuwong Co., Ltd.	8,000	0.80
Ms Varittha Preechapanich	5,000	0.50
Mr. Pichan Tantayakul	2,250	0.23
<b>Sumitomo Mitsui Banking Corporation Group</b>	<b>400,000</b>	<b>40.00</b>
Sumitomo Mitsui Banking Corporation	100,000	10.00
SBCS Co., Ltd.	250,000	25.00
SMBC Management Service Co., Ltd.	50,000	5.00
<b>JA Mitsui Leasing, Ltd.</b>	<b>100,000</b>	<b>10.00</b>
<b>Total</b>	<b>1,000,000</b>	<b>100.00</b>

Source: BSL

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Bt million*

	----- Year Ended 31 December -----				
	2017 *	2016	2015	2014	2013
Total assets	8,160	7,988	8,106	9,008	8,175
Total loans (including net operating lease assets)	8,260	7,991	7,826	8,724	7,712
Allowance for doubtful accounts	736	441	123	109	105
Short-term borrowings	4,200	4,953	4,039	5,609	4,579
Long-term borrowings	1,656	699	1,718	1,141	1,628
Shareholders' equity	1,858	1,876	1,841	1,584	1,348
Total revenues	892	968	1,028	1,019	941
Net revenues **	544	592	633	606	542
Gain from sales of assets for lease	30	28	19	13	19
Operating expenses	107	102	96	93	99
Net income	37	40	264	242	201
Operating income before depreciation and amortization as % of revenues	(0.03)	5.43	76.59	81.63	79.07
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.91	3.08	4.39	3.99	3.83
Funds from operations/total debt (%)	5.63	6.52	10.84	9.23	7.88
Total debt/capitalization (%)	75.92	75.08	75.77	81.00	82.16

\* Unaudited financial statement

\*\* Net revenue = Net operating lease revenue + interest income from hire purchase, financial lease, factoring and other loans + gain from sales of assets for lease

*Unit: %*

	----- Year Ended 31 December -----				
	2017 *	2016	2015	2014	2013
<b>Profitability</b>					
Net interest income/average assets	8.27	9.23	9.16	8.78	9.12
Net interest income/total income	74.87	76.78	76.28	73.99	71.80
Operating expenses/total income**	18.85	16.68	14.82	14.97	17.44
Operating profit/average assets	(0.01)	0.16	3.85	3.52	3.39
Return on average assets	0.45	0.50	3.08	2.81	2.71
Return on average equity	1.97	2.18	15.40	16.49	16.05
<b>Asset Quality</b>					
Non-performing loans/total loans	4.28	8.70	0.71	0.40	0.63
Bad debts and doubtful accounts/total loans	3.56	4.02	0.19	(0.05)	(0.03)
Allowance for doubtful accounts/total loans	8.91	5.56	1.57	1.25	1.37
<b>Capitalization</b>					
Debt/equity (times)	3.39	3.26	3.40	4.69	5.07
Shareholders' equity/total assets	22.76	23.48	22.72	17.58	16.49
Shareholders' equity/total loans	22.49	23.65	23.53	18.15	17.48
<b>Liquidity</b>					
Short-term borrowings/total liabilities	66.63	81.04	64.48	75.55	67.08
Total loans/total assets	101.22	99.28	96.54	88.63	86.14
Total loans/short-term borrowings	196.67	160.11	193.74	142.34	153.77

\* Unaudited financial statement

\*\* Total income nets cost of operating

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**BSL Leasing Co., Ltd. (BSL)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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