

SRISAWAD FINANCE PLC

No. 82/2020
10 June 2020

FINANCIAL INSTITUTIONS

Company Rating: BBB+
Outlook: Stable

Last Review Date: 28/06/19

Company Rating History:

Date	Rating	Outlook/Alert
28/06/19	BBB+	Stable
10/07/18	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Srisawad Finance PLC (BFIT) at “BBB+” with a “stable” outlook. The rating mainly reflects its status as a core member of the Srisawad Corporation PLC (SAWAD) Group. The rating also reflects BFIT’s continuously improving market position, strong capital and earning assessment as well as adequate liquidity profile. The rating is, however, constrained by its sizeable exposure to risky property-related lending, weaker-than-peer asset quality, and moderate funding profile.

KEY RATING CONSIDERATIONS

A core subsidiary of SAWAD

BFIT is one of the core subsidiaries of the Srisawad Group, providing lending services for the Group’s clients in addition to other core subsidiaries e.g. Srisawad Power 2014 Co., Ltd. (S2014) and Fast Money Co., Ltd. (FM). As of March 2020, 49% of SAWAD’s consolidated loan portfolio was booked at BFIT. The company also generated 34% of SAWAD’s net profit in the first quarter of 2020 (1Q2020). As part of the Group’s restructuring plan implemented in 2017, after BFIT’s share acquisition by SAWAD, BFIT is focusing on slightly different market segments than S2014 and leverages S2014’s branch network to expand its client base and loan portfolio. In terms of financial supports, in addition to SAWAD’s capital injection of Bt5.9 billion in 2019, SAWAD also provides credit lines to BFIT which serve as an additional source of funds.

Pressure from exposure to property-related lending

BFIT’s rating is partly pressured by credit concentration risk and liquidity risk due to its relatively high exposure to property-backed lending. At the end of December 2019, loans collateralized by properties accounted for 36% of the company’s total loans outstanding of about Bt19 billion. The liquidity risk could arise due to the typically time-consuming process for asset foreclosure and liquidation for delinquent loans. At the same time credit concentration may lead to a sharp increase in non-performing loans (NPLs). Although the concentration risk is alleviated to a certain degree by the fact that BFIT focuses on smaller-sized property-backed loans (less than Bt10 million), high exposure to this segment is viewed negatively by TRIS Rating.

Strong capital and earning assessment

We expect the company’s very strong capital position and ongoing profitability to continue to support its rating over the next few years. At the end of March 2020, the company’s CET-1 ratio was 43.3%, an increase from 13.0% at the end of March 2019 following SAWAD’s capital injection of approximately Bt5.9 billion during 2019. The CET-1 ratio at around 40% indicates a very strong capital position, based on our benchmark.

Apart from the capital strength, its earning capabilities also underpin the rating. We expect the company’s return on average assets (ROAA) to hover around 6.0% despite some adverse impacts on its earnings from weaker economic conditions. This will be supported by strong loan spreads, thanks to stable loan yields, low funding costs, and improving operating costs. We expect BFIT’s operating costs to continue to decline due to cost savings by performing its own debt collection, which was previously serviced by S2014. At the end of March 2020, the company’s annualized ROAA improved to 7.0%, an increase from 4.0% in 2019 partly due to the recognition of interest

revenue from NPLs stipulated by the TFRS 9 standard. The improvement was also driven by lower funding costs as the company repaid its debt obligations owed to SAWAD after SAWAD's recapitalization in BFIT.

Moderate asset quality

We anticipate weaker asset quality as a result of economic disruptions caused by the coronavirus (COVID-19) pandemic. As a result, we expect the company's NPL (loans more than 90 days past due) ratio to increase but to remain below 7% over the next few years helped by its tightening of underwriting policies e.g. lower loan-to-value ratio to keep potential credit losses under control. As of March 2020, the company's NPL ratio increased to 6.3% from 5.6% in 2019, which was relatively high compared with peers in the industry.

In addition to the impact from the economic slowdown since 2019, the increase in NPLs during the first three months of 2020 was mainly due to the implementation of TFRS9 requiring NPLs to be classified based on customer accounts instead of loan accounts. As a result, NPLs take into account cross-defaults when clients default on one of their loan contracts. Secondly, the new accounting standard determines that NPLs should only be written off when it is proven that loan repayment cannot be made, causing the company to take longer time to write off its NPLs compared with the former accounting standard. In our view, deterioration of asset quality that is higher than expected could potentially put pressure on the company's risk profile over the medium-term.

An increase in NPLs in 1Q2020 also caused the company's NPL coverage ratio (allowance for impairment loss to NPLs) to fall to 56.3% at the end of March 2020 from 67.1% at the end of 2019. Nonetheless, we believe that the company will maintain its NPL coverage ratio at around 50%-70%, following the Group's management guideline.

Moderate funding profile and adequate liquidity assessment

The company's funding profile is moderate due to its small deposit franchise. Given its status as a finance company lacking a branch network, the majority of its deposit base is from high-net-worth customers. At the end of March 2020, over 90% of total deposits were term deposits. With the high cost of term deposits, the company's strategy is to rely more on borrowings from SAWAD, the parent company, as its funding source for portfolio expansion. Although its ratio of total deposits to total funding increased to 81.7% at the end of March 2020, from 46.0% at the end of March 2019, the decrease in borrowings was mainly due to its debt repayments to SAWAD following the company's recapitalization.

The company's liquidity is considered adequate as the company has available credit facilities mainly from SAWAD, which should help enhance its liquidity profile. At the end of March 2020, the company had credit lines totaling Bt1.7 billion, 88% from SAWAD and the remainder from a financial institution. The company's ability to raise deposits provides an additional funding channel. At the end of March 2020, the company's liquidity coverage ratio (LCR) stood at 291%, higher than the regulatory requirement of 100% by the Bank of Thailand (BOT).

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for BFIT's operations in 2020-2022 are as follows:

- Outstanding portfolio to grow by 11%-16%.
- Interest spread to maintain around 15%.
- NPL ratio to remain below 7%.
- NPL coverage ratio to maintain around 50%-60%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BFIT will maintain its status as a core subsidiary of SAWAD and continue to receive strong supports from its parent company.

RATING SENSITIVITIES

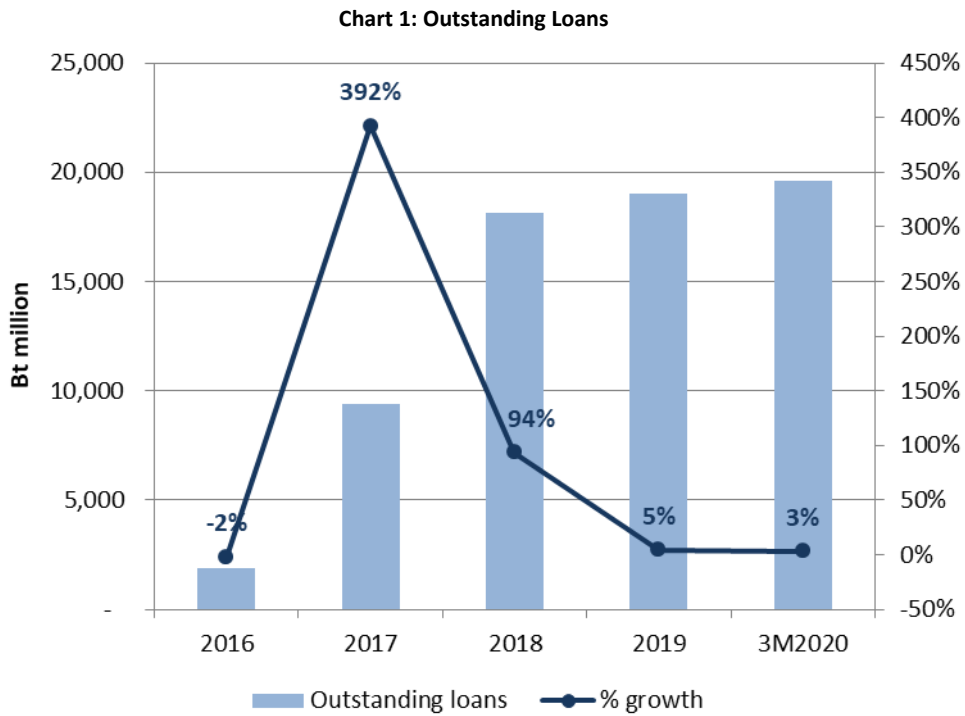
The rating and outlook of BFIT move in tandem with those of SAWAD's, given its status as a core subsidiary of SAWAD. The rating can also be downgraded if TRIS Rating perceives a weaker degree of support from SAWAD, or if there are any changes in BFIT's status relative to other subsidiaries or affiliates of SAWAD.

COMPANY OVERVIEW

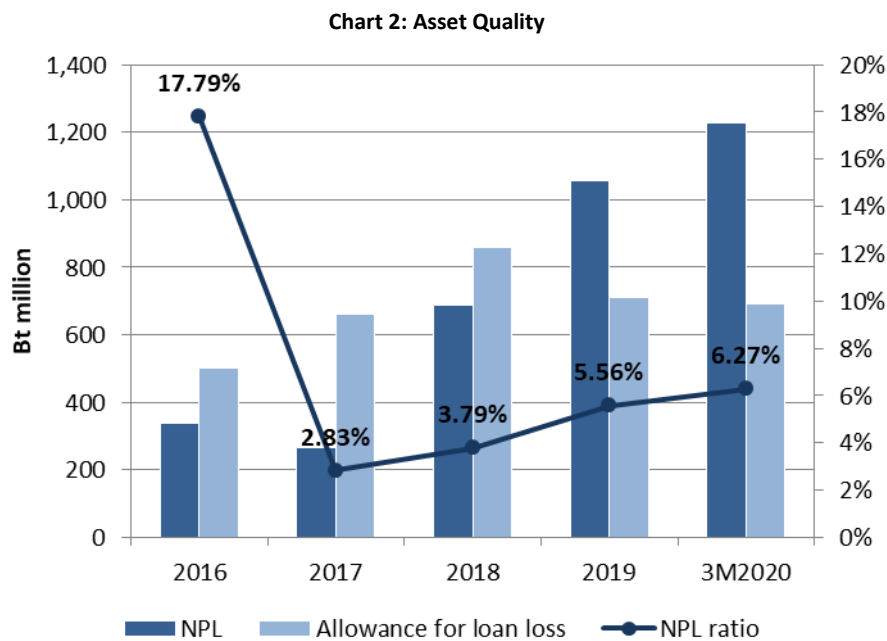
BFIT was established in 1972 as a finance company initially named Bangkok First Investment & Trust PLC. BFIT holds four finance licenses including business of finance for commerce, business of finance for development, business of finance for deposition and consumption, and business of finance for housing. The company also renders a business as a debenture holder representative and/or trustee. BFIT also offered corporate loans, of which the asset quality deteriorated.

In 2017, SAWAD became BFIT’s major shareholder, holding shares of 36.35%. SAWAD, as the non-operating holding company, filed documents to the BOT in order to form the financial conglomerate group. The filing is currently in the BOT’s consideration process. BFIT was renamed Srisawad Finance PLC in June 2017 and entered a new business: offering secured personal loans backed by customers’ vehicles under loan agreements. In 2019, SAWAD injected Bt5.9 billion and increased its shareholding in BFIT to 82.04% from 45% in 2018.

KEY OPERATING PERFORMANCE



Source: BFIT



Source: BFIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	Jan-Mar 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Total assets	21,906	20,699	19,677	11,294	5,593
Average assets	21,303	20,188	15,486	8,443	5,453
Investment in securities	181	180	195	401	2,489
Loans and receivables	19,582	19,004	18,172	9,372	1,904
Allowance for doubtful accounts	691	709	860	662	503
Deposits	6,727	6,348	7,274	6,068	3,381
Borrowings	1,506	2,006	8,506	2,506	6
Shareholders' equities	8,401	9,282	2,517	2,150	2,075
Average equities	8,842	5,900	2,333	2,112	2,029
Net interest income	824	2,634	1,760	496	175
Non-interest income	105	310	206	248	64
Total revenue	999	3,411	2,455	861	308
Operating expenses	392	1,840	1,297	308	97
Pre-provision operating profit (PPOP)	445	898	577	394	129
Impairment losses on loans and securities	73	87	200	160	0
Net income	372	811	377	235	129
Net fee and service income	63	214	145	12	7
Gains on investments	0	0	3	172	(3)

Unit: %

	Jan-Mar 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Earnings					
Return on average assets	6.98 *	4.02	2.44	2.78	2.36
Interest spread	15.06	12.68	12.09	7.42	4.73
Net interest margins	15.59 *	12.89	11.00	5.51	2.92
Net interest income/average assets	15.48 *	13.05	11.37	5.87	3.21
Non-interest income/average assets	1.97 *	1.53	1.33	2.94	1.17
Net fee and commission income/total revenue	6.26	6.27	5.89	1.41	2.43
Cost-to-income	39.18	53.96	52.84	35.77	31.60
Capitalization					
CET-1 ratio	43.29	45.16	13.33	22.80	46.31
Tier-1 ratio	43.29	45.16	13.33	22.80	46.31
BIS ratio	43.29	45.16	13.63	22.80	46.41
CET-1/BIS ratio	100.00	100.00	97.80	100.00	99.78
Asset Quality					
Credit costs	1.52	0.47	1.45	2.83	0.00
Non-performing loans/total loans	6.27	5.56	3.79	2.83	17.79
Non-performing assets/total assets	5.61	5.11	3.50	2.35	6.06
Allowance for loan losses/non-performing loans	56.27	67.05	124.96	249.41	148.57
Funding & Liquidity					
CASA/total deposits	2.53	1.50	5.56	1.12	2.20
Loan/total deposits	291.10	299.33	249.77	154.43	56.29
Deposits/total liabilities	49.81	55.60	42.39	66.36	96.11
Liquid assets/total deposits	29.57	27.26	26.84	40.30	122.93
Liquid assets/short-term liabilities	29.55	27.24	25.09	40.26	122.93

* Annualized

RELATED CRITERIA

- Banks Rating Methodology, 3 March 2020
- Group Rating Methodology, 10 July 2015

Srisawad Finance PLC (BFIT)

Company Rating:	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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